INNOVATIVE FINANCING
FOR LOCAL ACTION PLANS
Recipe four
INNOVATIVE FINANCING FOR LOCAL ACTION PLANS

The occasion: ESIMEC cities are in the process of implementing their Local Action Plans (LAPs) and one of the challenges they face is securing resources. At the same time, the traditional grants culture is gradually changing and a variety of new financing mechanisms are being developed and introduced. Sustained austerity within public finances means that cities need to think differently about how to fund their activities. This is in part driven by a need to do more with less but is also in recognition of the fact that a grants culture can create dependency whereas other more innovative financing methods may lead to greater and more sustainable impact.

Linked to this, cities want to be able to develop longer term approaches to sustainable urban development. Short term projects, which are reliant on grants from external bodies, often lack the coherence required to deliver long term strategies like those included in URBACT Local Action Plans. The situation is mirrored at an EU level with financial instruments being a key feature of the new Cohesion Policy programmes for 2014-2020. Clearly cities will not be replacing their current funding strategies completely. Rather they are starting to look at new and different ways of funding their programmes which complement and add value to the more traditional methods.

“Looking at the socio-economic impact, it has been interesting to observe how the organisations that have used alternative finance have generally performed well after fundraising, with the majority of them reporting increases in employment, volunteering, turnover or profit”. (Understanding Alternative Finance’, NESTA and University of Cambridge, 2014)

So, what are the key ingredients that cities need to consider innovative finance methods so that they can resource their local action plans?

Key ingredients for innovative financing of local action plans:
Do you and your partners have the following ingredients in your food cupboard? If so, you are well on the way to being able to develop a new approach to financing the local action plans and strategies which are being delivered in your city.

Here is a list of ingredients to help you prepare your mixture and ensure that the funding of your local action plan is cooked to perfection and can be ready to contribute to your cities’ smart, sustainable and inclusive growth.

Ingredients to add to your shopping list

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<tr>
<th>Ingredient</th>
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<tbody>
<tr>
<td>Clarity about the specific actions and projects for which funding is sought</td>
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<tr>
<td>Shared understanding about the type and scale of financial and non financial resources required to deliver the various actions</td>
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<td>Clear picture of the human resources available from stakeholder organisations</td>
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<td>Capacity and preparedness at city level to explore new financing methods</td>
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<tr>
<td>Awareness and understanding of the different forms of finance available including crowdfunding, peer to peer models, timebanks, local exchange trading systems, financial instruments, public-private partnerships, city challenges, social clauses in public procurement, microfinance and more</td>
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<td>Access to resources, information, intelligence and expertise to turn ideas on innovative financing into reality</td>
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<td>Understanding of regulatory, monitoring and compliance requirements and capacity to meet them</td>
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<td>Dialogue and exchanges with others who are using new funding methods to learn from their experiences</td>
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<td>Ability to effectively couple new funding sources with more traditional models</td>
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Utensils: So now you are clear about the ingredients, what utensils do you need to blend them together and effectively consider new and different ways of financing your Local Action Plan. What new financing arrangements may be applicable in your city?

INNOVATIVE APPROACHES TO EXISTING FUNDING SOURCES

There are many reasons to explore new and different funding mechanisms but it is also important to ensure that cities are getting most value out of existing programmes. European programmes feature financial instruments more and more and it is a good idea to look at whether, and how, these are being used in your city. For example, you may be able to develop an Urban Development Fund or use Community Led Local Development or Integrated Territorial Investments. To find out more have a look at the Operational Programmes which cover your city and talk to your Managing Authorities.

EXPLORATION OF NEW FINANCIAL METHODS

Set out below are just a few of the new forms of finance which may be relevant when exploring funding for local projects and activities. Cities need to take a long term approach to fund raising. There is no quick fix. Raising money takes time but often reaps rewards way beyond the money itself.

So, some of the options you might like to explore include:

A) FINANCIAL INSTRUMENTS

Financial instruments aim to recycle funds over the long term and thereby to mobilise additional public or private investments. They tend to target projects with potential economic viability such as investment in start ups or small companies, urban infrastructure, heritage or cultural sites, redevelopment of brownfield sites, creation of new commercial floor space, university buildings, renewable energy and energy efficiency improvements.

They provide support for investments by way of loans, guarantees, equity and other risk-bearing mechanisms, possibly combined with technical support, interest rate subsidies or guarantee fee subsidies within the same operation.

B) PUBLIC-PRIVATE-PARTNERSHIPS

PPPs are medium or long term contracts between the public and private sector for delivery of a public service or infrastructure project. The main innovation is that the public sector defines what it wishes to achieve and the private sector is given some freedom to come up with how it will meet this expectation. In addition, some of the risk in terms of delivery is transferred from the public sector to the private sector. This method fits between traditional procurement and full privatisation of services or works.

C) SOCIAL IMPACT BONDS

In some ways Social Impact Bonds are like PPP for non capital projects in the field of social inclusion. No actual bonds change hands. Rather there is a contract between a provider of services and the public sector in which a commitment is made to pay for improved social outcomes that result in public sector savings. Payment is usually only made when outcomes actually meet public sector expectations, often years after the service is actually delivered.

D) SOCIAL CLAUSES IN PUBLIC PROCUREMENT

Over recent years there have been developments in the interpretation of the policy and legal frameworks surrounding public procurement that have made it possible to consider incorporating community and social benefit into public contracts. The insertion of ‘social clauses’ can enable cities to stipulate that contractors employ certain vulnerable groups in delivering works or services thereby increasing employment potential.

E) CROWDFUNDING

Crowdfunding is where a project is financed by raising funds from a large number of people, typically via the internet. There are 3 main types of crowdfunding:

- Equity based crowdfunding - the sale of a stake in a business to a number of investors in return for investment
- Loan based crowdfunding - funds are borrowed from lots of people online rather than from a bank
- Rewards based crowdfunding - individuals donate towards a specific project with the expectation of receiving a tangible (non-financial) reward or product at a later date in exchange for their contribution

As well as raising funds, this approach also helps to validate an idea or project and generates enthusiasm amongst the ‘crowd’ creating valuable advocates and project champions.

STATEGIC, LONG TERM APPROACH

Fund raising is not a short term project. It is something that needs to be carefully considered, scrupulously planned and executed with precision. There is sometimes a temptation to go for early wins as stakeholders can be impressed by successful applications for funding. However any tendency to dash for cash is best avoided. The best fund raising plans are clear about what funds are needed for from the outset and have resources coming on-stream in a timely and coherent way that facilitates an integrated approach to delivery.

MODELS OF CROWDFUNDING

- PEER-TO-PEER (P2P) BUSINESS LENDING
- INVOICE TRADING
- COMMUNITY SHARES
- REWARD-BASED CROWDFUNDING
- EQUITY-BASED CROWDFUNDING
- PENSION-LED FUNDING
- DEBT-BASED SECURITIES

PEER-TO-PEER (P2P) BUSINESS LENDING

Debt-based transactions between individuals and existing businesses which are mostly SMEs with many individual lenders contributing to any one loan.

INVOICE TRADING

Firms sell their invoices at a discount to a pool of individual or institutional investors in order to receive funds immediately rather than waiting for invoices to be paid.

COMMUNITY SHARES

The term community shares refers to withdrawals of share capital; a form of share capital unique to co-operative and community benefit society legislation. This type of share capital can only be issued by co-operative societies, community benefit societies and charitable community benefit societies.

REWARD-BASED CROWDFUNDING

Individuals donate towards a specific project with the expectation of receiving a tangible (but non-financial) reward or product at a later date in exchange for their contribution.

DONATION BASED CROWDFUNDING

Individuals donate small amounts to meet the larger funding aim of a specific charitable project while receiving no financial or material return in exchange.

EQUITY-BASED CROWDFUNDING

Sale of a stake in a business to a number of investors in return for investment, predominantly used by early-stage firms.

PEER-TO-PEER (P2P) CONSUMER LENDING

Individuals using an online platform to borrow from a number of individual lenders each lending a small amount; most are unsecured personal loans.

PENSION-LED FUNDING

Mainly allows SME owners/directors to use their accumulated pension funds in order to invest in their own businesses. Intellectual properties are often used as collateral.

DEBT-BASED SECURITIES

Lenders receive a non-collateralised debt obligation typically paid back over an extended period of time. Similar in structure to purchasing a bond but with different rights and obligations.

Extract from ‘Understanding Alternative Finance’, NESTA and Cambridge University, 2014
imperative. Several stakeholders believe that the model provided by the Key Fund is transferable outside the region, and the example it sets, of nurturing social enterprise with a mixture of grants and loans, is one that should inspire a spectrum of instruments to promote financial inclusion.

**Workshop Schools, Cadiz, Spain**

Located in the south of Spain, with a (shrinking) population of around 120,000 Cadiz has one of the highest levels of youth unemployment in the EU with more than half of its young people out of work. One of the projects which has helped both the city economy and its young people in recent years is called Workshop Schools which was funded by the Region of Andalucia. Municipalities, not for profit organisations and public bodies are asked to propose public projects which can be used as paid on-the-job training and work experience programmes. Most of the projects are in sectors where there is evidence of high demand for skills by employers and the focus is on the sustainable economy. What results is a win-win situation where public projects are developed, jobs are created and young people gain invaluable skills and experience. Since 2010, at regional level, 1900 jobs have been created (project managers, trainers, support staff, etc). Over 8000 young people have benefited of which at least 30% have gone on to sustainable jobs in their host employers. 58 ‘workshop schools’ were established and projects completed.

**Crowdfunder UK**

Crowdfunder - as the name suggests - is a crowd funding platform which aims to help people turn their ideas into a reality. A good example of their work is the Leeds Bread Coop which successfully raised £8,690 from 114 backers to buy a bread that would be at the heart of their co-operative bakery. The founders had been turned down by high street banks and were able to use the money raised through crowdfunding to give other investors confidence.

It is also possible to develop a crowdfunding platform at city level (or at another geographical level). This would bring together different funders and city stakeholders to create a dedicated platform. A good example is Crowdfund Cornwall which has raised more than €0.5m to fund over 50 successful projects in the county.

**ADIE**

ADIE is a large and successful microfinance operation which lends to unemployed people and those unable to obtain a bank loan to help them to set up in business. They have had support from mainstream ESF and from EQUAL. They have stuck to their mission of helping entrepreneurs, but also developed specialist business support, accounting, insurance and marketing services under EQUAL. ADIE has an extensive network across France with 130 regional offices and 1,708 volunteers involved mainly in business development services.

**JESSICA in The Hague**

In response to the need for increased investment in integrated urban development in the face of diminished public resources, the Hague decided to use the EU JESSICA financial instrument (Joint European Support for Sustainable Investment in City Areas) to develop two Urban Development Funds. The first revolving fund invests in retail space and the other focuses on investments for improving and expanding district heating and cooling networks from renewable sources. Tackling state aid, regulation, governance and technical assistance challenges, the Hague has been able to invest in projects which have revenue generating potential but not enough to attract commercial investment.

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1Taken from Urban Development in the EU: 50 Projects supported by the ERDF during the 2007-2013 Period, AEIDL
2Taken from ‘Innovative financing and delivery mechanisms for tackling long term unemployment’, Peter Ramsden, 2013.
Takeaway menu:

- When developing a Local Action Plan, try and consider new and different forms of funding alongside traditional (grant) programmes.
- Start with a clear idea of what you want to deliver, what resources you already have access to, what you need additional funding for, how much funding you need and when you need it.
- There are lots of examples of cities raising money in innovative ways for both large and small scale projects. It is useful to learn from others.
- Don’t forget that contributions of human resources through staff time from city stakeholders are invaluable when preparing a budget for delivering a Local Action Plan.
- Be prepared to think outside the box and consider innovative financing but make sure you keep it simple and manageable.
- Consider using a funding grid where different potential sources of funding and the pros and cons of each are considered systematically in turn.
- Develop a fund raising plan which clearly shows when you will source funding, where from, how and who will lead and work on different elements.
- Treat the exercise like a jigsaw puzzle - the different pieces have to fit together to make a full picture.
- Remember that often the real work starts when funding is secured - make sure you think about all aspects of monitoring, evaluation, governance and regulatory requirements.
- Try and avoid a ‘dash for cash’; Be strategic and proactive rather than reacting to calls for proposals.
- Choose your partners carefully. Remember you will have to work closely with them over a long period of time.

Cook’s tip:

“Community crowdfunding platforms are an exciting and empowering tool for local communities. They bring together lots of different stakeholders that want to make things happen in their community and to turn their ideas into reality.”

Graeme Roy, Marketing Manager, Crowdfunder.

Takeaways:

- www.thekeyfund.co.uk
- www.crowdfunders.co.uk
- www.adieconnect.org
- www.urbact.eu/csieurope

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