



Action Plan – City of Prague

Part I – General information

Project: FINERPOL

Partner organisation: City of Prague

Country: Czech Republic

NUTS2 region: Prague

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Part II – Policy context

The Action Plan aims to impact: Investment for Growth and Jobs program
 European Territorial Cooperation program
 Other regional development policy instrument

Name of the policy instrument addressed: **Operational Programme Prague - Growth Pole of the Czech Republic (OP PGP)** in the cohesion policy for the 2014 – 2020 period, priority axis 1: Enhancement of research, technological development and innovation; specific objective 1.2., activity 1.2.3. Development of innovative companies in their initial life cycle


FINERPOL
Interreg Europe



European Union
European Regional
Development Fund



Part III – Details of the actions envisaged

Background

In the exchange of experience City of Prague learnt lessons from other partners, how they deal with energy efficiency projects and how they might be supported via financial instruments (FIs).

The Spanish partner from Extremadura region presented theoretical approaches and excellent practical examples on combining different sources of funding in order to achieve the implementation of large scale projects. The most important and interesting part of the best practice was combining EFSI funds with ESI funds and private investments in multi-source funding schemes.

The Estonian and Polish partners provided an excellent insight in investing in public buildings in Central and Eastern European specific conditions, with focus on residential housing while combining various financial sources including FIs. The project participants were also able to see practical technical solutions suited for cold-weather climate. Regarding technical solutions, the combination of savings and the use of renewable sources was particularly inspiring.

During all of the study visits, the systems of local and/or regional partnership and participation were presented, which is something very important for all managing authorities. Seeing efficient ways of involving experts, academics, private sector, NGOs, citizens and other key stakeholders significantly helped to shape and improve processes within Prague OP. The good practices presented in Interregional events throughout the whole FINERPOL project have become one of the key moments influencing the FIs implementation in OP PGP. Among most inspiring practices we can name the experiences of Regional Operational Programme (ROP) for Pomorskie Region (presented during the 6th Interregional meeting in Poland) which started with implementing FIs in the previous programming period (2007-2013) and continues in the current programming period (2014-2020).

Its priority axis 1. Knowledge Commercialisation (seed capital and inno-loans) with 39 million euros of ROP contribution) and priority axis 2. Enterprises ((micro-) loans & guarantees for SMEs) with 54 million euros of ROP contribution provided as FIs within BGK (Bank Gospodarstwa Krajowego) serves as an excellent example because of the similar aiming to OP PGP's priority axis 1 Enhancement of research, technological development and innovation; specific objective 1.2., activity 1.2.3. Development of innovative companies in their initial life cycle.

The Board of Pomorskie Region has signed an agreement with BGK with a value of over PLN 408 million. It regards BGK's activation of repayable support for companies for development of innovative activities, including scientific and research operations, and to strengthening their competitiveness. The support provided by Financial Intermediaries selected by BGK will include loans, guarantees and capital contributions. Support of at least 2 thousand entrepreneurs will be an effect of the project's implementation, and further ones will obtain financial resources from funds returned. The Board of Pomorskie Region has also signed an agreement with the European Investment Bank (EIB) with a value of over PLN 284 million. These funds are allocated for repayable support of investments concerning thermal modernisation of residential buildings and generation of energy from renewable sources. The EIB will select financial intermediaries which, in turn, will offer loans to final recipients - e.g. to local self-governments, entrepreneurs, housing associations or housing cooperatives.

Both agreements of Pomorskie Region (with BGK and EIB) show good practices for OP PGP of how FIs can be managed in similar fields of support because OP PGP is also aiming at innovative companies and energy efficiency, in fields where FIs can be financially viable.

Also in previous programming period, the Pomorskie region was very active in FIs implementation. The BGK managed Urban Development Fund in Pomorskie (Poland), with a budget of EUR 60 million ERDF co-funded financial instrument implemented under the Pomorskie ROP 2007-2013. Financial instruments facilitating sustainable growth and renewal of region's urban and metropolitan areas were



introduced in mid-term review of the ROP implementation, beside the grant system. The instruments support urban projects that are financially viable, partially focused on renewable energy and energy efficiency. The scheme of this fund suits well as an example of OP PGP which also aims at urban projects in the City of Prague and provides both grants and newly tries to shift the focus on implementing financial instruments for supporting projects that are financially viable.

Most common example of a good practice overall in the exchange of experience was based on EPC (energy performance contracting) method. The basic principle of this method is active funding of energy saving measures (installation of technology, renovation, etc.). Investment is repaid by the achieved savings (after implementation of these measures). For the whole project there is just one sole supplier or a group of suppliers (energy service companies / ESCOs, financial companies) that take most of the financial and technical risks. Continuous achieving of energy savings as well as operating costs reduction are guaranteed within the contract covering also the measures after failure to achieve guaranteed savings (ESCO risk). The EPC method is generally suitable for objects where energy consumption can be reduced and where it is the need to reconstruct the energy system.

In the Czech Republic, the EPC method is provided on a commercial basis and the need for the involvement of the City of Prague as public authority via financial instruments was not identified as no substantial market failure can be seen in this area. The EPC method, which might be useful for priority axis 2 "Sustainable mobility and energy savings", specific objective 2.1, proved not to be suitable as City of Prague is a small NUTS 2 region and relatively small absorption capacity of the region together with long repayment period of the energy projects and current setup of the OP are not allowing immediate launch of any FI of this kind. So the updated ex-ante analysis as an output of the FINERPOL project did not recommend to focus on the field of EPC method via financial instruments in OP PGP.

The updated ex-ante analysis considered also a tailor-made equity FI. With regard to the availability of appropriate investment mechanisms and applicable legislation, the emergence of capital tailored-made FIs was not recommended. The analysis anticipated that companies in the initial development stages can use a common loan FI together with established SMEs. Therefore, this Action plan is focused on development of innovative companies in their initial life cycle, operating in the field of energy efficiency and renewable energy sources. The exchange of experience in FINERPOL project was very useful in general, as City of Prague could see that financial instruments in energy efficiency projects work very well due to their potential for repayment via energy savings. The conditions in current legislation and OP PGP shift the focus of financial instruments on loans for companies in early stage life cycle, operating in the field of energy efficiency as possible beneficiaries of FIs. Thanks to FINERPOL project, FIs gained priority in an attempt to put more weight for this kind of support for young companies.



Action

The action plan is based on the chosen implementation variants, i.e., the establishment of the preferential loan financial instrument within the Czech Moravian Guarantee and Development Bank (ČMZRB). In the framework of the action plan are designed following these steps:

No.	Step
1	<p>Acceptance of the updated ex-ante assessment</p> <ul style="list-style-type: none"> Managing Authority (MA) to accept an updated version of the preliminary assessment of the FI in the Operational Programme Prague – Growth Pole of the Czech Republic (OP PGP).
2	<p>The submission of an updated ex-ante analysis to the Monitoring Committee</p> <ul style="list-style-type: none"> In accordance with the requirements of the General Regulation, the preliminary assessment of the FI must be presented to the Monitoring Committee, whose task is to monitor the implementation of the programme. In this case, it is recommended with regard to the next step to submit also the updated assessment.
3	<p>MA decision about implementing proposed FI</p> <ul style="list-style-type: none"> MA decides whether the results of the ex-ante assessment implements entirety.
4	<p>Criteria for selection of operations approval by the Monitoring committee</p> <ul style="list-style-type: none"> The Monitoring Committee must assess and approves the selection criteria; on their basis the FI manager will be selected.
5	<p>The publication of the ex-ante assessment update</p> <ul style="list-style-type: none"> After the acceptance of the ex-ante assessment update is recommended to publish a summary of the findings and conclusions.
6	<p>Clarifying the possibilities for cooperation with ČMZRB</p> <ul style="list-style-type: none"> Cooperation on the basis of the exception for national development financial institutions through the amendment of the General Regulation ("Omnibus regulation") as soon as this amendment will be approved and ČMZRB will comply with the approved regulation. <p>Alternatively</p> <ul style="list-style-type: none"> Resolve questions of the possibilities of using administrative/horizontal cooperation according to par. 12 of Act No. 134/2016 Coll., on public procurement, which is in line with point 3.6.2. Commission communication to the 2016/C 276/01, on the basis of which the OP could entrust ČMZRB.
7	<p>Procedural and administration settings of the FI</p> <ul style="list-style-type: none"> Administrative capacity setup—definition of roles and responsibilities for staff, including the creation of a methodological manual for MA containing procedures and activities in relation to activities associated with the FI, including training (FI operational manual) Determination of the extent of monitoring at the level of the FI Manager and the final beneficiaries.
8	<p>The preparation and conclusion of the Funding agreement</p> <ul style="list-style-type: none"> The leadership of the HMP must approve the terms of the Funding agreement, including Investment strategy submitted by ČMZRB. Consultation with the representatives of the Ministry for Regional Development – National coordination authority (MMR-NOK), payment and certification body and the Implementation of financial instruments department on Ministry of finance.



No.	Step
	<ul style="list-style-type: none"> ■ The conclusion of the Funding agreement.
9	<p>The publicity and promotion of the FI</p> <ul style="list-style-type: none"> ■ Preparation of the communication and information measures aimed to the promotion of the FI proposed within the framework of OP PGP for the purpose of strengthening the absorption capacity.
10	<p>Publishing of Calls for proposals</p>
-	<p>Notification of the State aid scheme (subject to the FI implementation scheme)</p> <ul style="list-style-type: none"> ■ In the case the FI may violate any terms defined by the General block exemption regulation (GBER), such financial instrument is necessary to notify to EC. ■ Setting the terms of FN in contravention of the GBER presents a risk, which can significantly increase the time of the proposed implementation of the FI (process of notification could be time consuming).
-	<p>Continuous monitoring of legislation and guidelines</p> <ul style="list-style-type: none"> ■ Monitoring of legislative and methodological development at the level of the EC and their possibility to be reflected in the action plan for the implementation of the FI.

A detailed description of the action plan:

The preparatory phase

Step	Activities	Responsibilities	Timing
1. Acceptance of the updated ex-ante assessment	<ul style="list-style-type: none"> ■ MA accepts an updated version of the preliminary assessment of the FI in the Operational Programme Prague – Growth Pole of the Czech Republic 	Managing authority OP PGP	2Q 2018
2. The submission of an updated ex-ante analysis to the Monitoring Committee	<ul style="list-style-type: none"> ■ MC approves the selection criteria for operations, for this reason it is recommended to present the updated version to the MC. 	Managing authority OP PGP	Next MC meeting
3. MA decision about implementing proposed FI	<ul style="list-style-type: none"> ■ MA decides whether the results of the ex-ante assessment will be implemented entirely. 	Managing authority OP PGP	After the acceptance of the updated ex-ante assessment
4. Criteria for selection of operations approval by the Monitoring committee	<ul style="list-style-type: none"> ■ MA prepares material for the MC with the design of criteria for the selection of operations. ■ The Monitoring Committee must assess and approve the selection criteria, on the basis of which the FI manager will be selected. 	Managing authority OP PGP Monitoring committee OP PGP	Next MC meeting
5. The publication of the ex-ante assessment update	<ul style="list-style-type: none"> ■ MA publishes a summary of the findings and conclusions appropriately. 	Managing authority OP PGP	After the acceptance of the updated ex-ante assessment



The phase of design and approval of the Funding agreement

<p>6. Clarifying the possibilities for cooperation with ČMZRB</p>	<ul style="list-style-type: none"> ■ MA prepares legal assessment and approves the cooperation on the basis of the exception for national development financial institutions through the amendment of the General Regulation (so called "Omnibus regulation"). 	<p>Managing authority OP PGP ČMZRB</p>	<p>After the approval of the amendment of the General Regulation</p>
<p>7. Procedural and administration settings of the FI</p>	<ul style="list-style-type: none"> ■ MA prepares a procedural and administration capacity — the definition of roles and responsibilities for staff, including the creation of a methodological manual of procedures and activities in relation to duties associated with the FN, including training (FI operational manual) ■ MA provides extend of monitoring at the level of the FI and final beneficiaries. 	<p>Managing authority OP PGP in cooperation with ČMZRB</p>	<p>After the approval of the cooperation with ČMZRB</p>
<p>8. The preparation and conclusion of the Funding agreement</p>	<ul style="list-style-type: none"> ■ ČMZRB prepares a draft Funding agreement (FA), including the Investment strategy ■ MA consults the draft FA with representatives of the MMR-NOK, payment and certification body and the Implementation of financial instruments Department on Ministry of finance. ■ Leadership of the HMP approves the FA. ■ MA approves the FA. 	<p>Managing authority OP PGP in cooperation with ČMZRB</p>	<p>After the approval of the cooperation with ČMZRB</p>

The realisation phase

<p>9. The publicity and promotion of the FI</p>	<ul style="list-style-type: none"> ■ MA and ČMZRB prepare and implement communication and information measures aimed at the promotion of the FI. 	<p>Managing authority OP PGP in cooperation with ČMZRB</p>	<p>After the approval of the Funding agreement</p>
<p>10. Publishing of Calls for proposals</p>	<ul style="list-style-type: none"> ■ MA and ČMZRB prepare and publish the call for proposals for the granting of preferential loans. 	<p>Managing authority OP PGP in cooperation with ČMZRB</p>	<p>After the approval of the Funding agreement</p>



Time schedule:

	2018 2Q	2018 3Q	2018 4Q	2019 1Q	2019 2Q	2019 3Q	2019 4Q
Acceptance of the updated ex-ante assessment							
The submission of an updated ex-ante analysis to the Monitoring Committee							
MA decision about implementing proposed FI							
Criteria for selection of operations approval by the Monitoring committee							
The publication of the ex-ante assessment update							
Clarifying the possibilities for cooperation with ČMZRБ			*1				
Procedural and administration settings of the FI							
The preparation and conclusion of the Funding agreement							
The publicity and promotion of the FI							
Publishing of Calls for proposals							

*1 – Subject to approval of the amendment of the General Regulation in the 2 quarter of 2018

The preparatory phase

The phase of design and approval of the Funding agreement

The realisation phase



Specifications of specific financial instruments in the field of energy efficiency and renewable energy sources (according to the outputs of the updated Ex-ante analysis)

From perspective of financial instrument form is possible to consider both venture capital and preferential loan financial instruments.

The key factor of limitation for further financial instrument is geographical distribution, as the businesses outside of Prague are excluded from the scope.

The in-stand publicly owned venture capital vehicle is not available in the Czech Republic at the moment, and previously discussed "NIF" option (state owned National Innovation Fund) is not at the table recently, there is no suitable investment mechanism, which can be used for immediate investments within Prague programme.

For that reason is recommended to setup a single Fund within the Czech Moravian Guarantee and Development Bank (ČMZRB), which will be focused on preferential loans with total allocation of 520mio CZK.

Due to expected narrow market niche of energy efficiency and renewable sources, this domain will be included as "horizontal" topic. Can be expected that on the basis of future Funding agreement the target number of companies will be set and the fund manager will be responsible for the fulfilment. Management fee bonus could be useful incentives to do so.

Financial Instrument specs:

FI Goals	<p>The aim of the financial instrument is:</p> <ul style="list-style-type: none"> a) to increase a supply of available funding for the implementation of the projects carried out in the territory of the city of Prague based on the utilisation of research results, for the purposes of the manufacturing menu products and (or) the provision of services b) to increase a supply of available funding for the implementation of the projects carried out in the territory of the city of Prague by the innovative entrepreneurs with a short business history. c) to increase a supply of available funding for the projects in the area of energy efficiency and renewable energy.
Definitions and criteria for eligible projects	The final beneficiary can be innovative entrepreneurs (SMEs) in the early periods of their life cycle or established SMEs.
Form of support	Preferential loans at a reduced interest rate, longer maturities, a longer grace period of the principal or loans with a financial contribution.
The amount of aid	Preferential loan is provided to the max. 90% of the eligible expenses of the project, at least 1 million. Up to CZK 10 million. CZK. The average amount of the supported project is estimated at 7 to 10 mill. CZK
The key parameters of the support	Preferential loans should be provided along with a commercial loans private lending institutions and the co-financing of the final beneficiary. The share of commercial credit is recommended at the level 25-50%.
The expected allocation	For the FI is recommended to allocate resources in volume of 520 million. CZK



The possibilities of the future investments from repaid financial resources

Due to the length of the duration of the loan financial instrument is not possible at this time to establish conditions for the reinvestment of those resources. The exit policy should be established at the latest one year before the anticipated final repayment of the contribution from the operational programme.

Set up the key performance indicators of the development and success of the financial instrument.

For the need of certification of expenditures of the operational programme is crucial to invest the entire amount of a financial instrument before the year 2024, when no longer the resources of the operational programme can be invested. Therefore, a key indicator is designed as the total volume of funds paid out to final recipients. For reasons of safety it is recommended to decompose the investment volume in the years and ensure the fulfilment of the target. This KPI should be linked to the performance component of the management fee.

As a horizontal, the number of innovative companies operating in the field of energy efficiency and renewable energy sources is also a KPI. In the case of this indicator will be monitored during the final fulfilment of the payment of the total amount of resources in FI.

Proposal of the monitoring indicators

Monitoring indicators
Planned OP allocation of FI
Allocation OP committed in funding agreement
Public and Private co-financing committed in funding agreement
Volume of FI funds
Allocation OP effectively paid to FI
Public and Private co-financing effectively paid to the FI
Total loan amount committed in contracts signed with final recipients
OP contributions invested in final recipients
Private funds raised
Total investment volume
Total number of final recipients supported
Total number of final recipients supported in field of EE and renewable sources
Share of OP contribution invested

Financial instrument monitoring plan

In general, MA is responsible for the management, monitoring and control of the implementation of the FI. MA must submit a special report on operations involving the use of financial instruments such as the annex to the annual report on implementation (article 46 of the General Regulation). MA is therefore obliged to ensure that reporting requirements are complied with. These requirements reflect the Funding agreement.

Monitoring and reporting on the level of MA

The content of the required reporting is provided in the article. 46 para. 2 of the General Regulation. MA is obliged to conduct the periodical report on the implementation of the financial instrument for the EK. Guideline for the monitoring introduced for this report the name of the "annual report on the implementation of financial instruments". Annual report is processed once a year, in electronic form.

Monitoring of the financial instrument contains, in particular, quantitative data based on the loan agreements. The structure of data is shown in the previous chapter. Monitoring can be supplemented by more qualitative data according to the needs of the managing authority

Structure of the reports varies according to the year in which it is presented. More comprehensive reports will be presented in the years 2019 to 2024. These more comprehensive reports also include the progress made in the creation of the anticipated leverage effect of investments made by FI. We emphasize here the leverage achieved in comparison with the expected leverage effect of a preliminary assessment phase. Both values should be compared to assess how the FI meets its objectives.

The obligations of the subjects in relation to the monitoring

Subject	Extend of the monitoring	Information tools and sources
Managing Authority	<ul style="list-style-type: none"> ■ The Annual report on the implementation of the financial instruments ■ The Final report on the implementation of financial instruments 	<ul style="list-style-type: none"> ■ Monitoring system ■ Draft annual reports and final reports ■ On-site visit and inspection
FI Manager	<ul style="list-style-type: none"> ■ Report on the implementation of the FI (quarterly/annual) 	<ul style="list-style-type: none"> ■ Funding Agreement ■ On-site visit and inspection
Final beneficiary	<ul style="list-style-type: none"> ■ Information about credit lines ■ Additional information according to the credit agreement 	<ul style="list-style-type: none"> ■ Internal documents ■ Loan agreement

The recommended contents of the report on the implementation of the FN (qualitative part)

Chapter	Information
Introduction and key messages	FI manager summarizing the key activities carried out and the main challenges facing FI during the reporting period
Information about changes	The manager will describe the systemic changes that have, or are expected to have an impact on the investment strategy of the FI and the identification/selection/implementation of the projects
Promotion and communication	The manager shall describe the performed activities, detailed information on the objectives and scope of each activity (e.g., website development, conferences and other promotions). In particular, in the case of events will provide detail for each of the events, such as the date and place of the meeting, the participants, and evidence of, any material relating to events, such as invitations, presentation, etc.
Information regarding internal activities of the FI	Information about the meetings of the Investment Committee of the FI or any similar body in the framework of the FI, including the main points of the meetings and the main decisions taken, or any other key information about the relevant internal activities.
Problems identified and the corrective measures	Manager informs about issues and problems in areas such as identification of projects for co-financing and other activities planned under the/investment policy/Quarterly progress reports.
Audit/controlling and monitoring activities	Information on all audits, inspections, monitoring carried out by the FI or any other authorised organisations and the main findings of the audit, recommendations, identified irregularities, measures taken by the FI manager.

Development of a plan of dissemination and marketing support of the financial instrument

MA should ensure adequate awareness about upcoming FI, their principles and goals. The aim is to encourage a sufficient absorption capacity to be started realization of the FI. Communication and information measures can therefore focus in particular on the following areas:

- Informing about the change the form of the provision of support from the grant funding to repayment form and formation of the different approach of the final beneficiaries to prepare project proposals. The projects have been prepared, in particular, to suppress the profit in the operational phase, which would affect the amount of allocated funding. In the future, however, when financial instrument is use the projects have to be developed as a financially viable (revenue-generating projects).
- Informing final beneficiaries about the specific terms and conditions of aid granted in the form of financial instruments (including the parameters) so that the final beneficiaries could incorporate it into their decision making.

Build awareness and information about upcoming FI is good to link with the promotion and publicity of the Programme itself. Emphasis should be placed on understanding the main principles of the FI, their difference from existing forms of support and their benefits. As part of this promotion and awareness should be hold the formal events (e.g. Conference), as well as less formal meetings (round tables, workshops, etc.), which enable you to learn when discuss it with potential final beneficiaries and the other relevant actors.

The communication plan in relation to the action plan:

Step	Communication activity
Acceptance of the updated ex-ante assessment	<ul style="list-style-type: none"> ■ Internal workshops in the framework of relevant departments of the managing authority, the presentation of changes and the introduction of the FI ■ Presentation to the Leadership of the city and other key actors
The submission of an updated ex-ante analysis to the Monitoring Committee	<ul style="list-style-type: none"> ■ Presentation to the Monitoring Committee
MA decision about implementing proposed FI	<ul style="list-style-type: none"> ■ Informing of the key players about the decisions taken
Criteria for selection of operations approval by the Monitoring committee	<ul style="list-style-type: none"> ■ Informing of the key players about the decisions taken
The publication of the ex-ante assessment update	<ul style="list-style-type: none"> ■ Publication on the Web site of the program ■ Emailing newsletter (if applicable)
Clarifying the possibilities for cooperation with ČMZRB	<ul style="list-style-type: none"> ■ Informing of the key players about the decisions taken



Step	Communication activity
Procedural and administration settings of the FI	<ul style="list-style-type: none"> ■ Internal workshops in the framework of relevant departments of the managing authority, the presentation of changes and the introduction of the FI ■ Presentation to the Leadership of the city and other key actors
The preparation and conclusion of the Funding agreement	<ul style="list-style-type: none"> ■ Publication on the Web site of the program ■ Emailing newsletter (if applicable) ■ Presentation to the Leadership of the city and other key actors
The publicity and promotion of the FI	<ul style="list-style-type: none"> ■ Preparation of presentation material that describes the functioning of FI to the general public ■ Publications on the Web site of the program ■ Emailing newsletter (if applicable)
Publishing of Calls for proposals	<ul style="list-style-type: none"> ■ Publications on the Web site of the program ■ Emailing newsletter (if applicable) ■ Presentations and workshops for potential final beneficiaries ■ Advisory and consultancy support to the individual potential final beneficiaries

Date: 1.10.2018



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