

Support to the implementation of the just transition in the czech republic

Deliverable 7: Final Report

Technical Support Instrument

Supporting reforms in 27 Member States



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The purpose of this report is to summarize and document the key elements that are found during the life of the project and discussed during the project-end review meeting. The goal is to capture the overall stakeholder satisfaction, perform an overall evaluation of the project experience, and document lessons learned, best practices and offer post project recommendations.

1. Summary of the activities carried out during the implementation of the project

The National Development Bank of the Czech Republic (NRB), beneficiary of this TSI support project, requested support to develop a pipeline of projects to be financed under InvestEU and design tailor-made financial products to serve the specific needs of companies in the just transition regions. In addition, the NRB requested support to improve its own capacities to assess the quality, ESG impact and risks of the submitted project proposals.

Primarily, the project sought to bridge the gap on the demand side, where consultations with project promoters revealed limited experience with financial instruments and insufficient awareness of the InvestEU program. Consequently, there was a need to develop a pipeline of projects to support the just transition of Czech coal regions, addressing varying investment needs across regions and enhancing project maturity and readiness.

On the supply side, the project targeted enhancing the NRB's capacity to screen and implement infrastructure and industrial projects. This included improving risk assessment methodologies tailored to long-term financing needs and adhering to Sustainable Proofing guidance and climate/environmental tracking requirements mandated under InvestEU. The NRB aimed to strengthen its sustainability proofing capabilities, building on existing green financing initiatives, to encompass a broader range of projects beyond SMEs and encompass infrastructure financing. Additionally, the project was seeking to develop an ESG strategy to assess and manage ESG impacts and risks associated with green investment projects, aligning with InvestEU's sustainability objectives. Overall, the project endeavoured to equip the NRB with the necessary tools and capacities to effectively support the Just Transition of Czech coal regions and align with InvestEU's sustainability and environmental objectives.

Despite the NRB's current status as not yet being an implementing partner of InvestEU, the project has laid the groundwork for future participation. The NRB intends to apply for this role in August 2024, aiming to become actively involved in leveraging InvestEU funds to support the just transition in Czech coal regions. Upon successful application and subsequent participation, the NRB plans to submit requests for financing for at least ten projects per region under the InvestEU Sustainable Infrastructure and Social Investments and Skills windows in the regions of Moravian-Silesian, Ústí nad Labem, and Karlovy Vary. This proactive approach demonstrates the NRB's commitment to facilitating sustainable development and transitioning towards carbon neutrality, albeit the outcomes are contingent on future developments and successful application processes.

Key deliverables:

Deliverable 2: Diagnostic report including a market research and the identification of projects potentially eligible to be supported from the Just Transition Scheme in the three just transition regions

This deliverable aimed to enhance the NRB's understanding of the opportunities and challenges present in the Moravian-Silesian, Ústí nad Labem, and Karlovy Vary regions regarding infrastructure financing, particularly in sustainable and social infrastructure. Through comprehensive market research, the contractor identified existing market failures, investment gaps, and potential for infrastructure financing within these regions. The research also highlighted financial and non-financial

barriers hindering project funding, proposing actionable strategies for the NRB to overcome these obstacles.

Additionally, the deliverable involved engaging stakeholders such as regional chambers of commerce, development agencies, and innovation centers to gather insights and identify concrete project proposals eligible for InvestEU Just Transition Scheme support. The outcome was the identification of a list of potential eligible projects ranging between ten and twenty per region, carefully detailed with information on sector activity, project activities, risk levels, financing volumes, and timelines. Furthermore, in cases where projects were considered non-viable, the deliverable facilitated the identification of alternative financing sources and provided advisory support to strengthen project proposals. Overall, the deliverable culminated in a diagnostic report summarizing research findings and key conclusions, empowering the NRB with valuable insights to inform its strategic decision-making and project pipeline development.

The identified need for investment in the Just Transition regions, spanning Sustainable Infrastructure and Social Investment and Skills, underscores the imperative to facilitate the transition from traditional economic activities while supporting social cohesion. These regions face common challenges including economic stagnation, heavy reliance on the fuel-energy complex, low entrepreneurial activity, limited research and development, structural unemployment, educational deficiencies, and pockets of social exclusion. Despite these shared challenges, variations in initial regional conditions impact the transition potential, with disparities observed in project management and governmental support across the Moravian-Silesian, Ústí nad Labem, and Karlovy Vary Regions.

From an initial pool of 200 eligible projects, 81 were identified as potentially suitable for support under the Pillar II of the Just Transition Mechanism (JTM). However, the preference for subsidy support over refundable financing instruments among project promoters presents a limitation, alongside concerns regarding the disclosure of confidential business information. Thematic areas with high potential for NRB financial instrument utilization were evaluated based on criteria such as private equity mobilization, existing reference projects, project identification, and transitional needs assessment, providing a strategic framework for future project selection and implementation.

Deliverable 3: Report on the financing and investment products and schemes needed to finance projects under the InvestEU Just Transition Scheme

The value of this deliverable lies in its ability to tailor financing and investment products to meet the specific needs of projects identified in Deliverable 2 while ensuring compliance with the InvestEU regulations and state aid rules. By defining the type of operation and financial products for each identified project, it provides clarity on the most suitable funding mechanisms, whether direct or indirect, for optimal project support. Additionally, the proposal of financial products for the Sustainable Infrastructure and Social Investments and Skills windows, along with expected financial volumes, enables the NRB to align its offerings with InvestEU requirements and market demands.

Through interviews with regions, municipalities, and local stakeholders, opportunities for co-financing and co-investment are identified, facilitating collaboration and leveraging additional resources to maximize project impact. Furthermore, the support provided to the NRB in completing standardized product fiche templates ensures consistency and transparency in the presentation of financial products to the European Commission, streamlining the application process for InvestEU funding. Overall, this deliverable plays a crucial role in translating project identification into actionable financing strategies, thereby advancing the objectives of the Just Transition Mechanism and promoting sustainable development in the target regions.

The Deliverable 3 offers a comprehensive proposal for two financial products tailored to the Sustainable Infrastructure and Social Investment and Skills windows of the InvestEU Fund. Drawing on previous foreign experiences and stakeholder insights, the document outlines key considerations for the development of these financial products, emphasizing alignment with EU policy objectives,

particularly in addressing climate and social goals. It discusses state aid compliance, risk assessment, and allocation principles across policy areas, underscoring the need for coordination among stakeholders.

Deliverable 4: Communication plan and implementation of the awareness raising activities on the NRB's financing opportunities

This deliverable aims to enhance demand-side engagement for project financing offered by the NRB within the Just Transition Regions, leveraging the InvestEU Fund guarantee. It encompasses several key actions, including compiling a Stakeholder Database, drafting a Communication and Engagement Plan, preparing supporting materials, and conducting participatory workshops in each JT Region.

The Stakeholder Database facilitates targeted communication efforts by compiling key contacts at regional authorities and promoter levels. The Communication and Engagement Plan outlines tailored strategies for each JT Region, aiming to raise awareness and facilitate dialogue on financing opportunities, including the Just Transition Scheme. Supporting materials such as factsheets and model messages were developed to bolster communication efforts, alongside organizing specialized workshops to disseminate vital information and foster collaboration among stakeholders.

Deliverable 5: New digital tool to screen investment projects

This deliverable provided the NRB with a robust risk management tool, specifically a new rating model for project finance, enhancing its ability to differentiate between viable and non-viable projects based on their probability of default (PD). The tool assists the NRB in assessing project finance deals and calculating their PD, thereby improving internal risk management practices. It's important to note that while the tool won't be utilized for regulatory capital calculation, it complies with relevant banking regulations such as the Capital Requirements Regulation and European Banking Authority Guidelines.

The deliverable progressed through three main phases: preparatory, development, and final phases. In the preparatory phase, a general concept of the rating model was drafted in collaboration with the NRB, and a dataset was prepared for model development and calibration. This phase also included a workshop to align on the model's direction. The development phase involved ensuring model development, calibration, and validation, culminating in the creation of a model prototype in MS Excel, along with drafting documentation. The final phase focused on finalizing the model prototype and documentation, organizing workshops for NRB users, and providing support for the model's implementation.

Overall, this deliverable effectively equipped the NRB with a tailored risk management tool, enhancing its capacity to evaluate project finance deals and mitigate potential risks, thereby contributing to the bank's operational efficiency and risk management practices.

Deliverable 6: Tailor-made guidelines and training on applying InvestEU sustainable proofing guidance and environmental and climate tracking and assessment of five infrastructure projects

This deliverable provided the NRB with comprehensive guidelines for assessing ESG risks and impacts of infrastructure projects, thereby enhancing its capacity to evaluate projects through an ESG lens. The delivery encompassed several key tasks aimed at developing a robust impact assessment methodology aligned with InvestEU requirements.

Firstly, the consultant conducted a thorough review of the NRB's existing ESG risk framework to understand the current landscape. Subsequently, a methodology was developed to assess ESG risks and impacts, taking into account InvestEU guidelines and criteria such as the EU Taxonomy technical

screening criteria and Do No Significant Harm generic criteria. This methodology was tailored to reflect the specific project types expected to be submitted under the InvestEU second call.

Furthermore, the deliverable included the preparation of model impact assessments for five projects, selected in collaboration with the NRB. These assessments followed the logic of Pillar 5 of the Scoreboard, encompassing economic and growth impact, employment impact, and sustainability impact. The NRB was supported throughout the assessment process, ensuring the effective implementation of the methodology.

Additionally, a training and capacity-building workshop was organized to present the results of the assessment and enhance the NRB staff's knowledge of ESG principles. This workshop provided valuable insights and equipped the NRB team with the necessary skills to apply the newly developed methodology effectively.

Overall, the delivery of this deliverable significantly strengthened the NRB's ability to evaluate infrastructure projects from an ESG perspective, aligning with InvestEU requirements and fostering sustainable project development practices.

2. Challenges encountered and the way they were overcome

InvestEU 2nd call for implementing partners delay

During the project implementation, a notable challenge arose due to the delay in the publication of the InvestEU 2nd call for implementing partners. Originally scheduled for the first half of 2023, the publication date was postponed until October 2023. Consequently, this delay necessitated amendments to Deliverable 3, Deliverable 4, and Deliverable 6 of the project.

Despite the unexpected shift in timelines, the consultants and NRB team swiftly adapted to the changes, ensuring that the necessary adjustments were made to accommodate the new schedule. The amendments involved revising the processes and approaches outlined in the affected deliverables to align with the updated timeline. Importantly, these modifications did not have any adverse effects on the final deliverables, demonstrating the project team's resilience and ability to overcome challenges effectively. Overall, while the delay presented a hurdle, it was successfully managed, and the project continued to progress smoothly towards its objectives.

Competition from other grant programs and financial instruments and other technical assistances

Another significant challenge encountered during the project implementation was the competition from grant programs, financial instruments, and technical assistance initiatives. The landscape of available funding sources and support programs presented hurdles for the NRB products based on the InvestEU guarantee. Project promoters showed a preference for programs offering more favorable financing terms such as grants and subsidies, making it challenging to attract interest in the NRB's Pillar II offerings.

Furthermore, the availability of technical assistance from other programs posed obstacles to the delivery of this project. Limited availability of regional administration resources hindered the implementation of the project, affecting the coordination and execution of activities. Despite these challenges, the project team worked diligently to navigate the competitive environment and maximize the effectiveness of the technical assistance provided. Efforts were made to highlight the unique benefits and opportunities offered by the NRB's products, despite the prevailing competition from alternative funding sources and support initiatives.

3. Results of the monitoring indicators for the implementation of the project

List of indicators set in the Inception Report:

1	Timing of deliverables submission	Deliverables submitted on time in line with the project timeline	90%
2	Adequacy of evaluation, scoping and recommendations provided	Deliverables accepted with no critical comments	95%
3	Extent of support to stakeholders and project promoters	Number of interviews/meetings with stakeholders in the regions and project promoters	80
4	Adequacy of support to project promoters	Number projects identified (10 per each JT region), with the best effort ambition of 50	30
5	Trainings and capacity building with NRB	Number of training events organized	5
6	Trainings and capacity building with Regions	Number of training events organized	5
7	Feedback from participants of trainings/workshops	Excellent and very good feedback of participants of trainings/workshops	85%
8	Adequate supply of personnel	Number of team resources replaced at the NRB or DG request	<5%

Result of monitoring indicators

1	Timing of deliverables submission	100 %	All deliverables were submitted in line with project timeline despite the fact that the project timeline had to be amended because of external factors
2	Adequacy of evaluation, scoping and recommendations provided	100 %	Deliverables were accepted with no critical comments
3	Extent of support to stakeholders and project promoters	80+	Over 200 projects were identified and various meetings with regional representatives were held
4	Adequacy of support to project promoters	30+	Number of 81 projects were identified as potentially suitable for support under the Pillar II
5	Trainings and capacity building with NRB	5+	Training events were organized to support Deliverable 5 and Deliverable 6
6	Trainings and capacity building with Regions	5+	Number of participatory meetings were organized in regions; limited information given by InvestEU 2nd call for implementing partners delay
7	Feedback from participants of trainings/workshops	85%+	Excellent and very good feedback of participants of trainings/workshops
8	Adequate supply of personnel	0	Number of team resources replaced at the NRB or DG request

4. Lessons learned and relevant recommendations

Lesson learned #1

Area: Delivery

Challenge: Delays in the InvestEU 2nd call for implementing partners disrupted project timelines and deliverables, necessitating amendments to several key deliverables.

Description: The original timeline for the InvestEU 2nd call publication was expected in the first half of 2023 but was delayed until October 2023, impacting Deliverables 3, 4, and 6.

Solution: Proactive monitoring of external factors such as funding program timelines and regulations can help anticipate potential delays. Establishing contingency plans and flexible project structures can mitigate the impact of unexpected delays on project delivery.

Lesson learned #2

Area: Research

Challenge: Limited availability of regional administration and stakeholders hampered data collection and stakeholder engagement efforts, affecting the quality and comprehensiveness of research outputs.

Description: Challenges in accessing data and engaging with stakeholders hindered the market research and project identification processes outlined in Deliverable 2.

Solution: Prioritize building strong relationships with regional authorities and stakeholders early in the project planning phase. Develop strategies to incentivize participation and overcome logistical barriers, such as offering remote or flexible engagement options. Leveraging existing networks and partnerships can also facilitate data collection and stakeholder outreach efforts.

Lesson learned #3

Area: Communication & Coordination

Challenge: Competition from other grant programs and financial instruments led to low market appetite for NRB products based on the InvestEU guarantee, impacting awareness and uptake among project promoters.

Description: Project promoters prioritized grant-based financing options over refundable financing instruments, leading to challenges in promoting NRB products and engaging stakeholders effectively.

Solution: Tailor communication strategies to emphasize the unique value proposition of NRB products, highlighting benefits such as long-term sustainability and flexibility. Provide targeted education and outreach initiatives to raise awareness of the advantages of refundable financing options and address misconceptions about risk and eligibility criteria. Collaborate with regional partners and industry associations to amplify messaging and reach a broader audience of potential beneficiaries.

Recommendations

Based on the challenges and achievements observed during the project delivery, several recommendations can be made to enhance future initiatives:

Streamline Communication and Coordination: Improve communication channels and coordination mechanisms between stakeholders, including the NRB, regional authorities, project promoters, and external consultants. This will facilitate smoother project implementation and ensure alignment with stakeholder needs and expectations.

Enhance Awareness and Education: Invest in comprehensive awareness-raising activities to educate project promoters and regional authorities about the benefits and opportunities offered by the NRB's financial products and the InvestEU scheme. This includes workshops, training sessions, and tailored communication strategies to increase understanding and engagement.

Adapt to Market Dynamics: Recognize and respond to market dynamics, including competition from other grant programs and financial instruments. Develop strategies to differentiate NRB offerings and emphasize their unique value proposition, particularly in terms of long-term sustainability and impact.

Flexibility in Response to Changes: Maintain flexibility in project planning and execution to adapt to unexpected challenges and changes in the external environment. Anticipate delays or modifications in funding programs and adjust project timelines and deliverables accordingly.

Collaboration and Partnership: Foster collaboration and partnership with relevant stakeholders, including government agencies, regional development organizations, and international partners. Leverage synergies and resources to maximize the impact of technical assistance initiatives and support the just transition in target regions.

5. Conclusions of the Final Event

Final event was held on April 18th 2024 and it was organized by PricewaterhouseCoopers alongside with NRB and DG REFORM. Participants of the meeting were key persons from the NRB, DG REFORM, DG REGIO, Ministry of Regional Development, Ministry of Environment and Just Transition Regions. The main part of the final event was a presentation by members of PricewaterhouseCoopers delivery team with discussion among all participants. All the deliverables of the project had gone through acceptance procedure before the final event and there were no new comments to them. DG REFORM and NRB expressed their satisfaction with realization of the project and quality of deliverables.

Annexes

Annex 1: Presentation of project, deliverables, and results

Annex 2: Factsheet with the main takeaways from the project

Annex 3: Communication material



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