Università Commerciale Luigi Bocconi

European Investment Bank The EU bank

# Why Should Managing Authorities And Financial Intermediaries Shift To Blending Instruments?

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# Our Team

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# Executive Summary

We started our analysis by figuring out what the ESIF, the European Structural and Investment Fund, does have to do with blending mechanisms and how we could use this existing fund to address the investment gap. Responsible for funneling more than half of the EU budget to Member States, there was little doubt to us that ESIF could be a key enabler to diffuse blending tools.

We quickly realized that the success of blending mechanisms in Europe would not depend on the available resources from the ESIF's side. The answer was to be found at a more regional and local level for the case of ESIF's biggest fund, that is, EBRD. Indeed, we noticed that Managing Authorities and Financial Intermediaries are more likely to ask European institutions for a grants-only financing rather than trough more complex instrument such as blending. Therefore, our focus shifted to these stakeholders and we tried to understand why they should resort to blending instruments rather than grants and what potential barriers could be encountered during their implementation at a project level.

Our analysis led us to the following conclusions: the mismatch between public and private resources is driven by two bottlenecks: a grant-based culture as well as a great lack of public and private competence/awareness about available instruments. Indeed, few stakeholders involved in blending mechanisms have the specific and required skills to face the complexity that is linked to the use of blending instruments.

In order to solve this challenging and complex issue we decided to advocate for a more decentralized approach through the creation of One-Stop-Shops, for EBRD's projects. They would be the mean through which local authorities can internalize know-how (learning while doing) and, at the same time, standardize procedures and share best practices in order rise efficiency.
While this idea seems to go "against the current" as "InvestEU" is planning more centralization for 2021-2027, we believe that proximity with final recipients is key to address the mismatch of knowledge and financial resources. By tackling this issue first and making the general public more aware of the offering in terms of blending at a supra-national level, Europe would be able to unlock investments in both a sustainable and profitable way.

# Agenda

1. European Structural and Investment Funds (ESIF) Overview
2. EU's Macroeconomic Trends: An On-Going Need For Sustainable Investments
3. Blending Mechanisms in Europe: Definition, Rationale and ESIF's Role
4. Implementation-related issues: ESIF (ERDF) Empirical Analysis
5. Policy Recommendations

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# ESIF Constitutes A Major Step Forward In The EU's Support To Growth

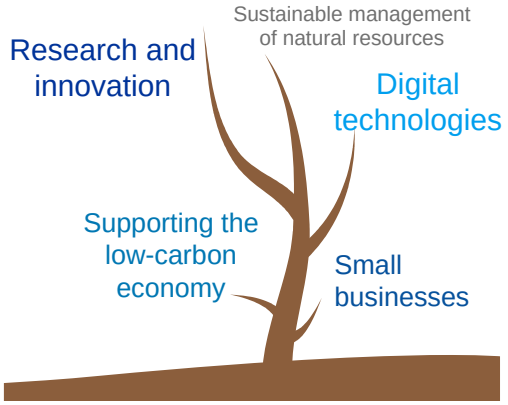
## Funds of the Fund

Composed of 5 funds, jointly managed by the European Commission and EU countries.

- ✓ **European Regional Development Fund (ERDF)**
- ✓ **European Social Fund (ESF)**
- ✓ **Cohesion Fund (CF)**
- ✓ **European Agricultural Fund For Rural Development (EAFRD)**
- ✓ **European Maritime And Fisheries Fund (EMFF)**

## Field of Action

The purpose of all these funds is to invest in **job creation** and a **sustainable and healthy European economy and environment**




**>50%**

EU funding channeled through ESIF

**€645Bn**

ESIF budget for 2014-2020

**11**

ESIF objectives within "Europe 2020 Strategy"

**28**

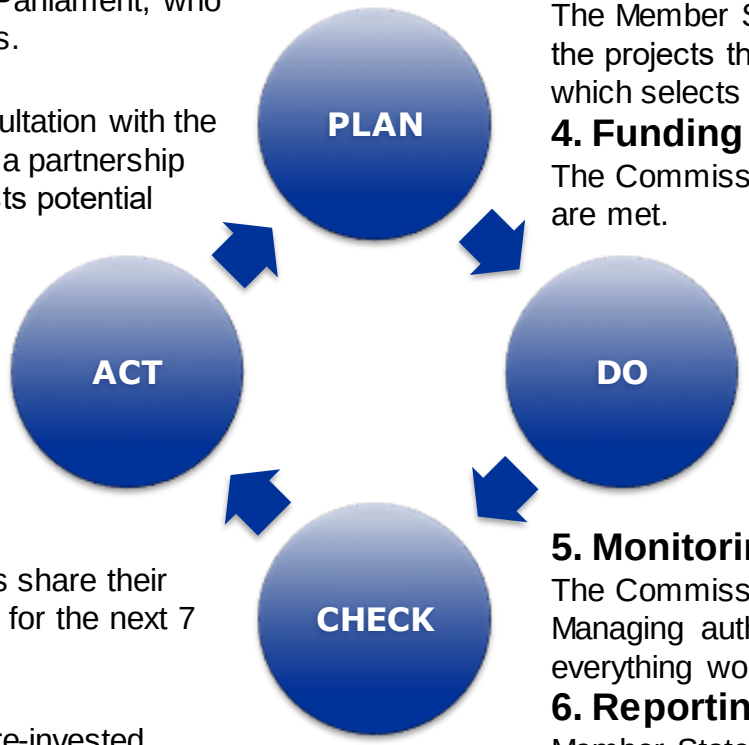
EU countries benefit from the ESIF funding

# ESIF, A “Four Step” Approach!

**Budget & Rules**
**Principles & Priorities**

### 1. Budget & Rules
Are adopted by the European council & Parliament, who agree on common and fund specific rules.

### 2. Principles & Priorities
Are chosen by the EU countries, in consultation with the Commission. Each Member State drafts a partnership agreement, the country’s strategy and lists potential projects.




### 3. Implementation
The Member States and their Regions implement the projects through the country’s Managing Authority, which selects and evaluates them.

### 4. Funding
The Commission delivers the funds once all conditions are met.

**Implementation**
**Funding**

**Sharing of Best Practices**
**Revolving Nature**

### 5. Monitoring
The Commission monitors the implementation. The Managing authorities do the same to make sure everything works as planned.

### 6. Reporting
Member States emit yearly reports

### 7. Best practices
The Commission and the Member States share their experiences and take these into account for the next 7 years long policy framework.

### 8. Revolving Nature of the Fund
Repaid Financial Instruments are being re-invested.

**Monitoring**
**Reporting**

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# Slow Recovery After The Financial Crisis: The Investment Gaps In Europe Are Still There

## Infrastructure

**investment is**

**75%**

of the **pre-crisis level**

## Technique

**43%**

of **municipalities** with poor infrastructure say **technical capacity is a major obstacle**

## Environment

EU investment **in climate change mitigation is**

**1.3%**

of **GDP,** down from **1.6%** in 2016

## Institutions

In regions with **high quality institutions ,**

**firm are 3x** more likely to **innovate &**

**9x** more likely to **introduce a patent**

## Innovation

**8%**

of **EU firms are leading innovators vs**

**16%** of **US firms**

## Human Capital

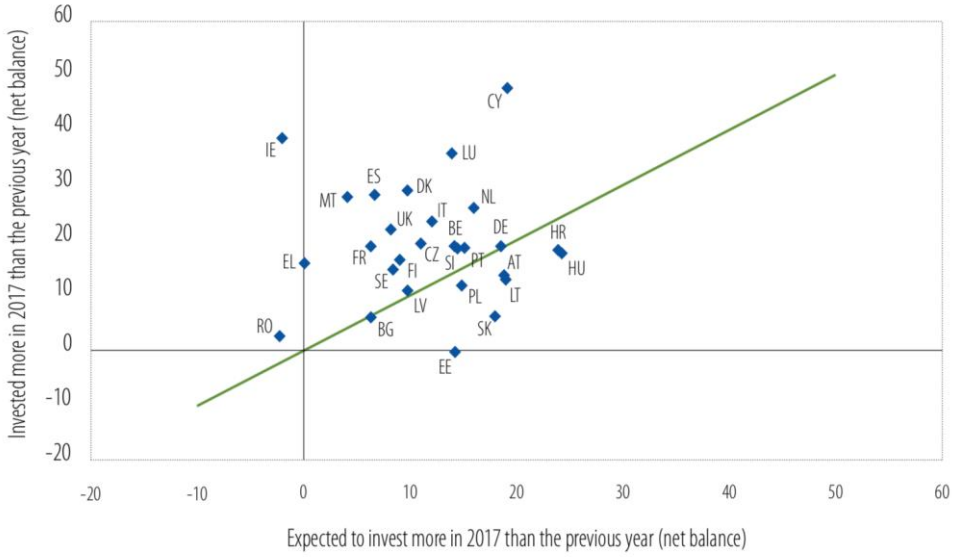
**77%**

of EU firms say **lack of staff with the right skills is a barrier to investment**

# Private Companies Are Willing To Invest But Public Investments Are Not Going *Pari-Passu*

## Corporate Investments

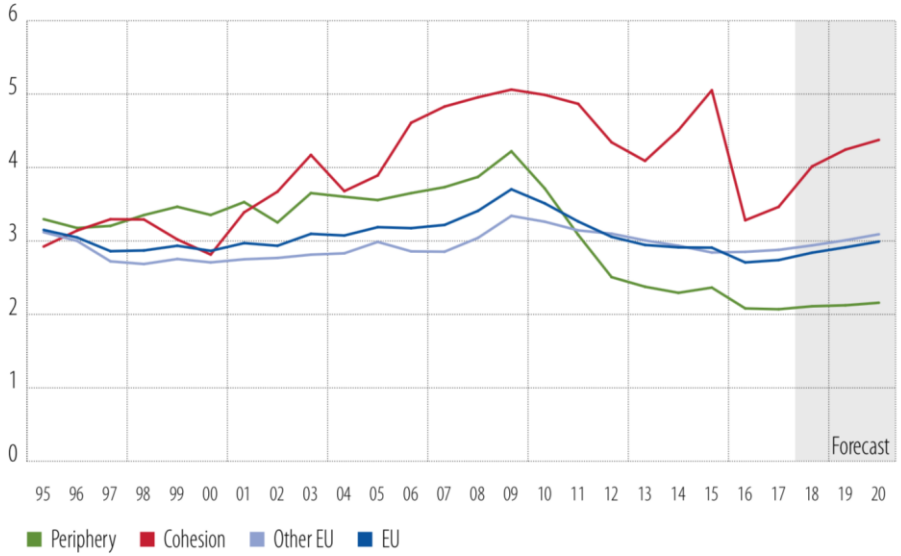
**Correlation of expected vs realised investment** (%)




*Source:* *EIBIS 17 and EIBIS 18.*

## "Economic" Investments by Government

**Gross fixed capital formation of the general government** (% of GDP)

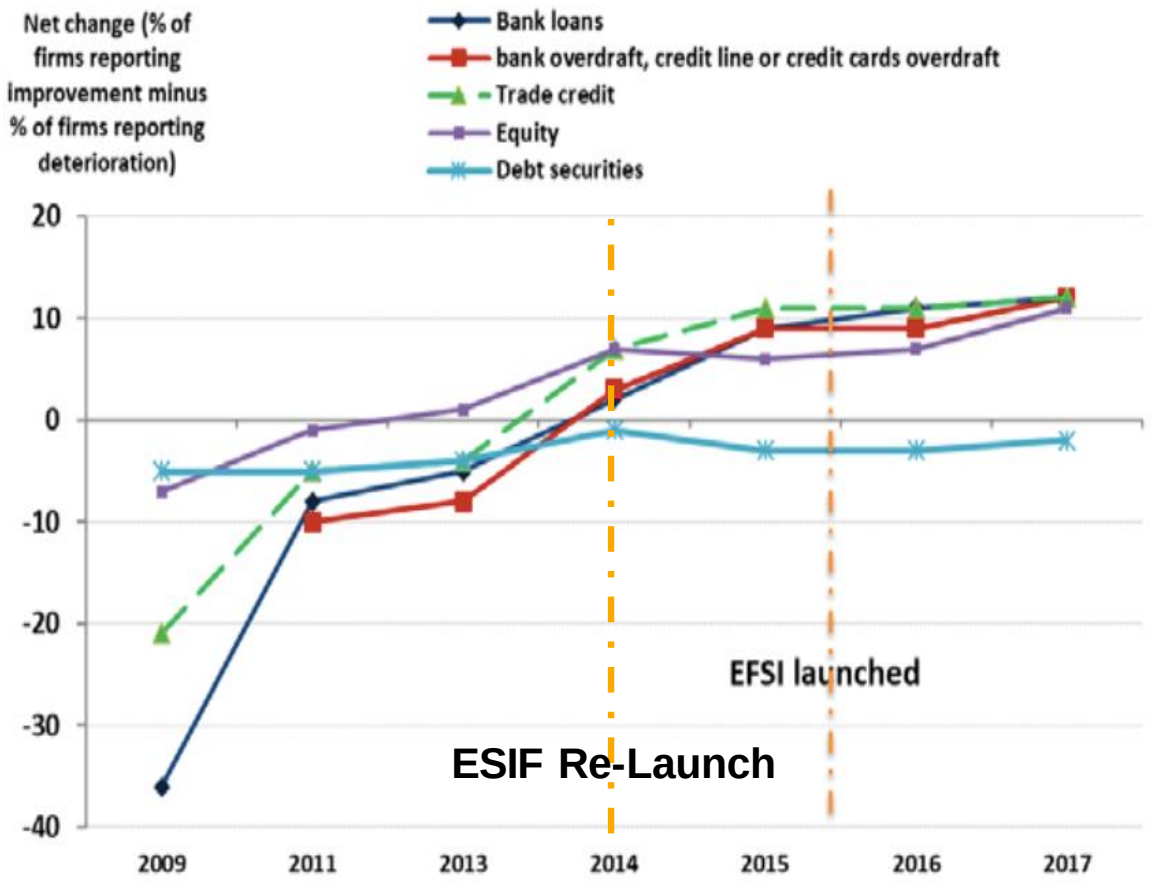



*Source:* *AMECO. Autumn 2018 forecast, European Commission.*

Private companies are showing growing interest in catching up with investments after the crisis. Yet, the government is not picking up at the same pace, especially in the periphery

# While ESIF Was Re-Launched To Facilitate External Financing, Full Potential Has Not Been Reached Yet

Change in the availability of external financing for SMEs in the EU-28 (2009-2017)




## Comments

- After 2009 crisis all types of external financing face a shortage in their availability
- The problem was caused by a deadlock in credit market and a low level of trust as well
- ESIF was launched in order to solve these two issues and, in fact, it was successful
- However, pre-crisis levels are yet too far from actual levels
- What are the reasons to this slow recovery path?

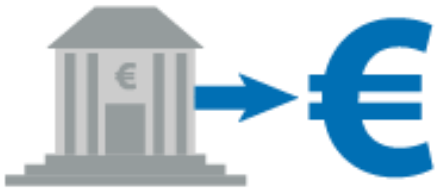
# The Traditional "Grant-Based" Financing Model Could Be An Explanation Of These Investment Gaps

## What Are The Issues With Grants ?

- x Don't stimulate co-investment ("financial additionality")
- x Generate moral hazard and adverse-selection
- x "One Time Spending" instrument
- x Can lead to political interferences/ selection gap
- x Use scarce resources (public budget)
- x Don't incentivize companies to do better

## What Are The Solutions?

**TRADITIONAL MODEL**

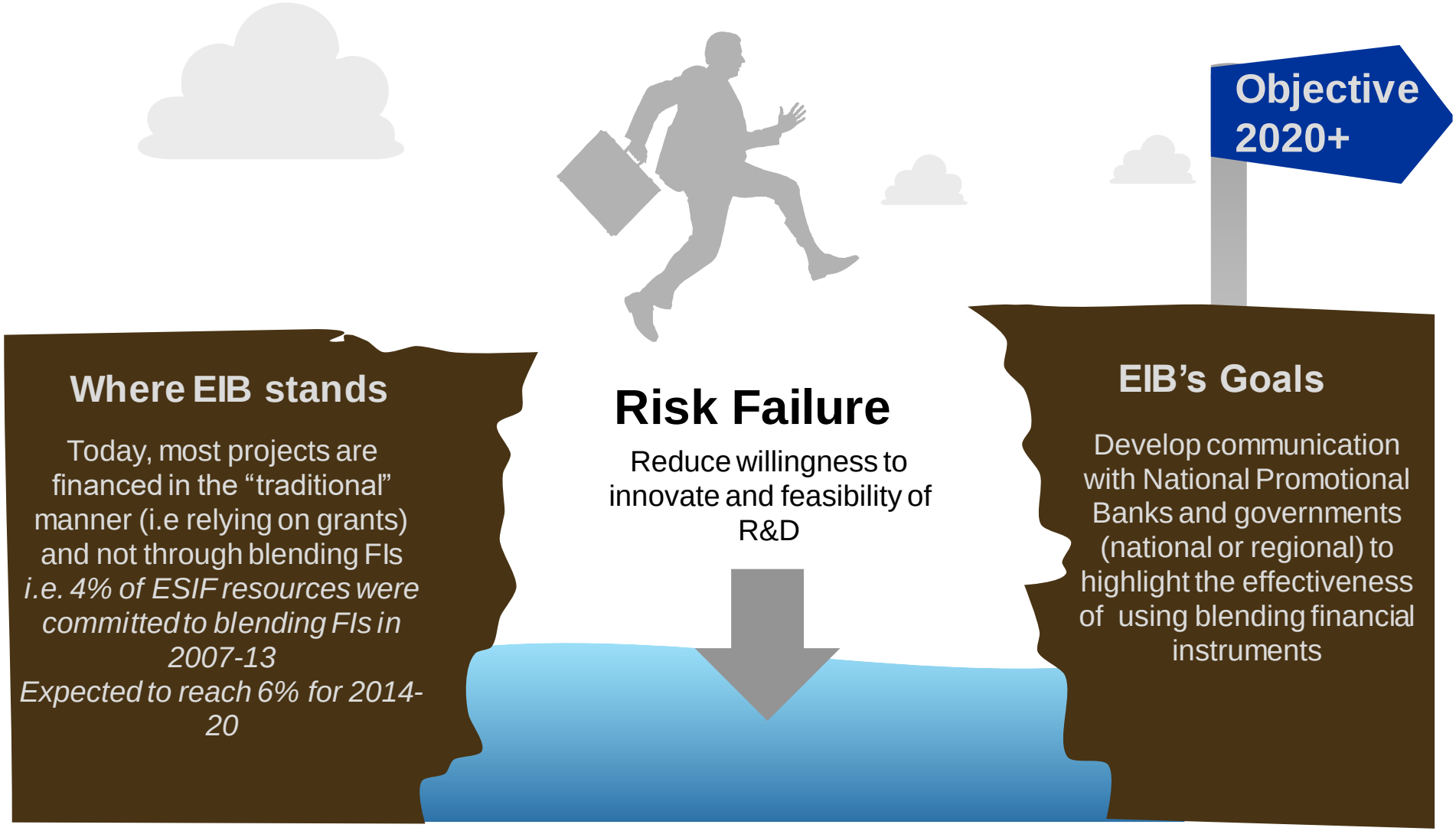


*Based On Grants*

**SUSTAINABLE MODEL**

*Based On Financial Instruments (Loans, Guarantees, Equity)*

# EIB Should Raise Awareness To Managing Authorities And Local Financial Intermediaries To Shift From A Grant Financing Model To Blending



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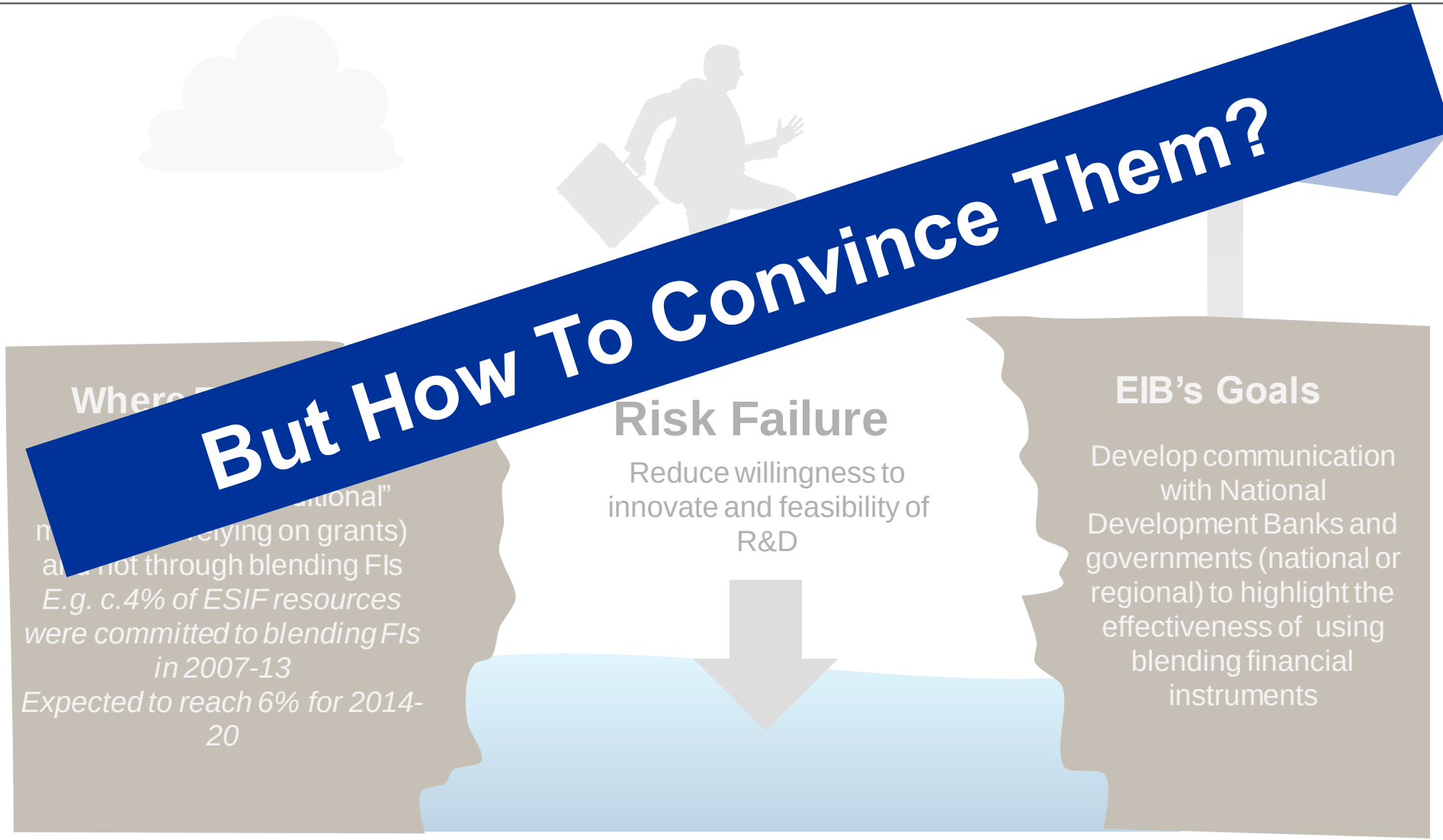

# ESIF Can Plough Through Its Toolbox To Fill These Gaps And Promote Sustainable Investments

## ESIF's Toolbox

- **Lending:** about 90% of its total financial commitment
- **Blending:** allowing clients to combine EIB financing with additional investment.
  - Loans
  - Guarantees
  - Equity
- **Advising:** maximizing value for money.

According to the field of intervention, ESIF provides the above services through different instruments.

These instruments are financed by different means:

- by EIB and European Commission themselves with the creation of EIF;
- by partnership with other international Development banks;
- by partnership with National Development Banks.

In particular, the use of blended products has been increasing in recent years for their flexible features and its main advantage: Leverage effect of guarantees in mobilize private capitals.

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# Blending Loans And Grants: To Blend Or Not To Blend?

## 1 Debt Blending

| Type of Blending | Description |
|---|---|

- Structure similar to a commercial loan; however, it includes an element of public support

- Features of this blending instrument:
  - Interest rates lower than the market´s(not always)
  - Longer repayment periods
  - Reduced collateral requirements

- Advantages:
  - Easier to manage
  - Preserve the equity of the borrower

- Disadvantages:
  - Since it is a funded product, it requires more resources than an unfunded product
  - Limited additional benefits, such as expertise from investors
  - Hard to estimate probability of default
  - Usually, no know-how transfer

# Blending Guarantees And Grants: To Blend Or Not To Blend?

## 2 Guarantee Blending

| Type of Blending | Description |
|---|---|

- Commitment to assume, partially or entirely, the responsibility of a third party´s debt. As with regular guarantees, it is only triggered when the loan defaults

- Features of this blending instrument:
  - Interest rates lower than the market´s
  - Reduced collateral requirements
  - Overall, lower risk premium

- Advantages:
  - High leverage effect
  - Preserve the equity of the borrower

- Disadvantages:
  - Lack of liquidity for the lender
  - Challenging to estimate the appropriate cap for the guarantee
  - Usually, no know-how transfer

# Blending Equity And Grants: To Blend Or Not To Blend?

## 3 Equity Blending

| Type of Blending | Description |
|---|---|

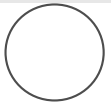
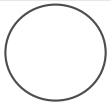
- Grant combined with an equity investment in a company; i.e., provision of capital in exchange for a stake of the company

- Features of this blending instrument:
  - Investors may assume control of the company
  - Access to a wide network, via PE and VC investors
  - Two approaches: Direct or Indirect

- Advantages:
  - Potential for higher returns
  - Active role of the investor, i.e., expertise sharing

- Disadvantages:
  - Insolvency risk of all capital invested
  - Higher complexity when compared to loans and guarantees, leading to higher costs
  - Limited to long-term financing

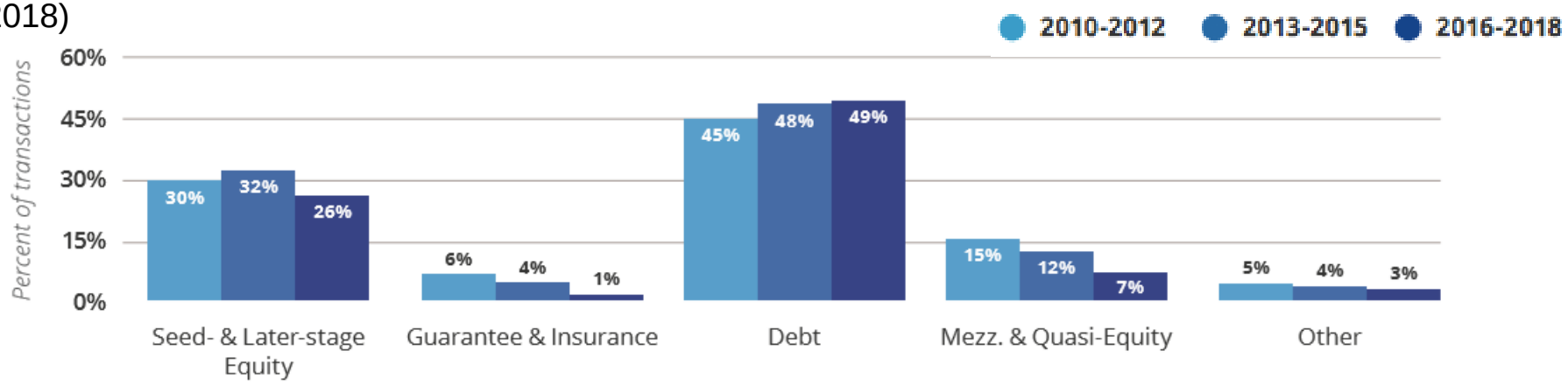
# Since There Is Not A “One-Size-Fits-All Situation”, It Is Interesting To Compare The Different Features Of Blending Instruments

| | Debt | Guarantee | Equity |
|---|---|---|---|
| Financial Support | | | |
| Leverage Effect | | | |
| Potential Return | | | |
| Long-term Investment | | | |
| Insolvency Risk | | | |
| Know-how Exchange | | | |
| Complexity | | | |
| Shared Control of the Company |  |  | |

**Legend** Not relevant Highly relevant

# EIB Is Stepping Up Effort To Increase The Use Of Blended Mechanisms

Investment Instruments Deployed By Blended Finance Vehicles (2010-2018)




*" The EU should leverage more private resources and capacities through blending mechanisms that can* ***crowd-in additional private and public financing****"*

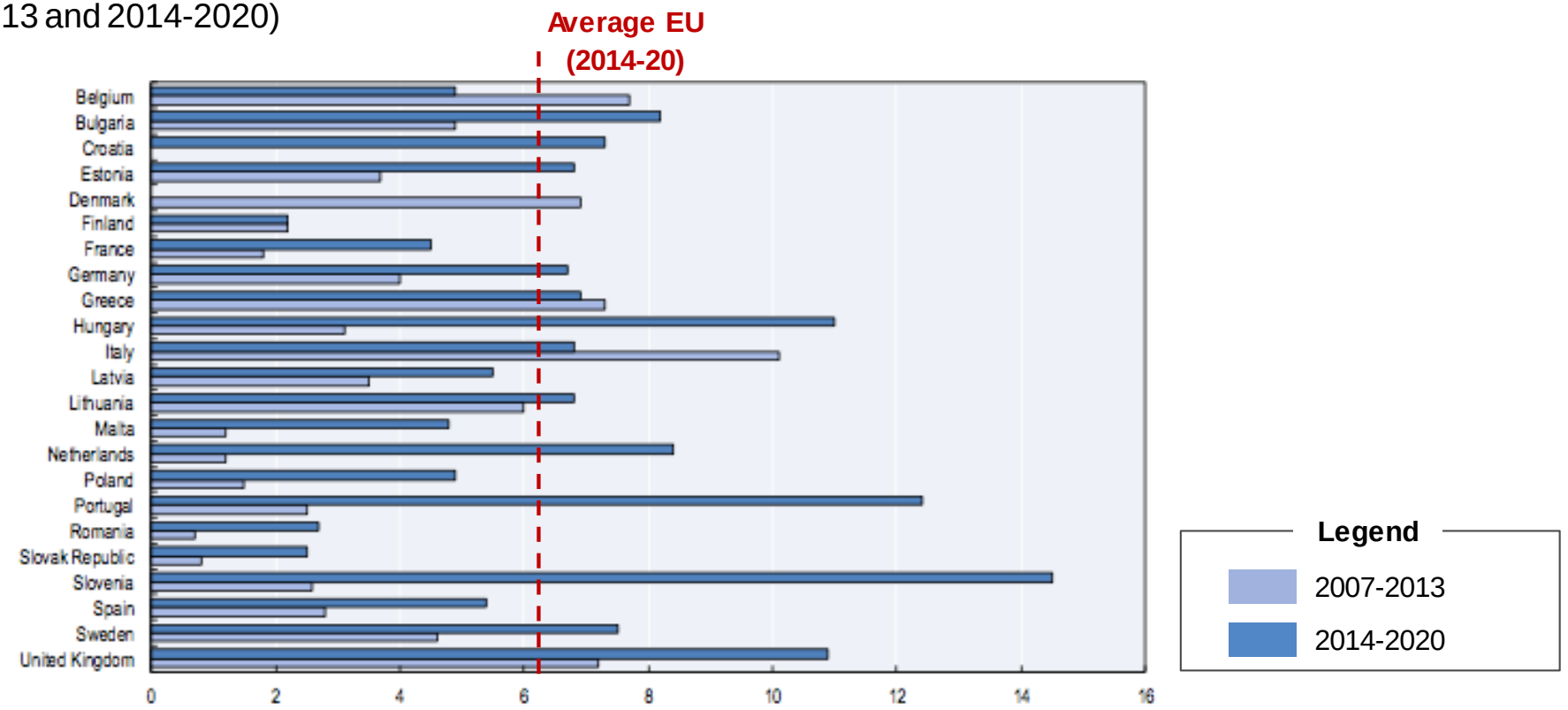
*European Commission Communication, July 2012*

## Key Takeaways

- Debt blending represents the highest proportion of investments. Moreover, it is the only instrument that has faced steady growth in the last years
- Equity blending represents a considerable proportion of investments; however, it does not present a stable growth trend
- Guarantees represent the lowest proportion of investment. Moreover, their relevance vis-à-vis other instruments has severely decreased in the past years

# Yet, ESIF Is Expected To Use Only ~ 6% Of Its Resources For Blending Financial Instruments In 2014-2020

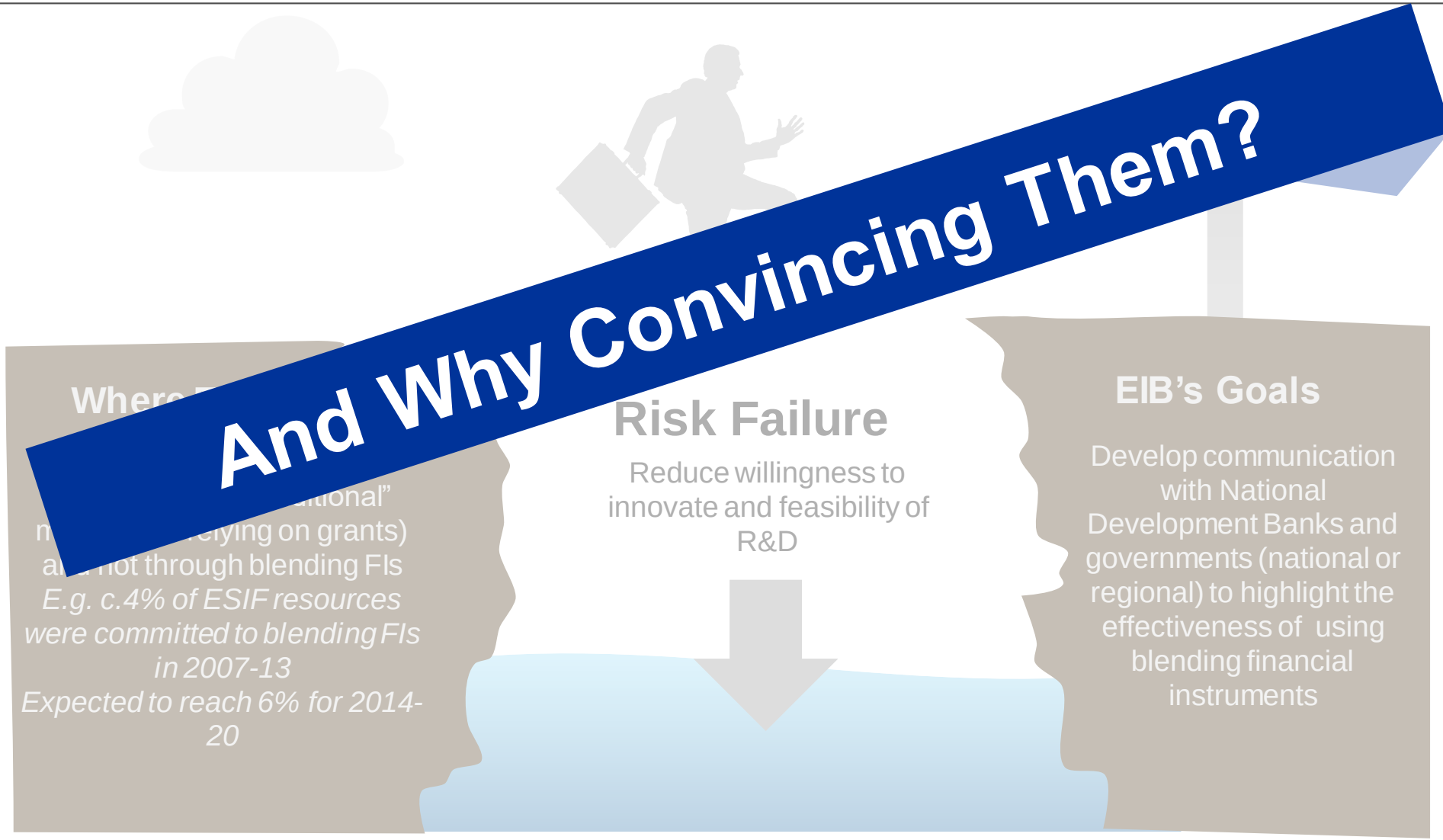
Planned operational program commitments in selected EU countries to financial instruments, as % of OP commitments
(2007-2013 and 2014-2020)




*Source:* Authors' calculations from European Commission (2016); and OP data available at: https://cohesiondata.ec.europa.eu.

The number of projects supported by blending instruments is going up (4% in 2007-13 vs. 6% in 2014-20 on average), providing an interesting snapshot of intent from Managing Authorities. Yet, this gradual shift needs to be treated „case by case".

# EIB Should Raise Awareness To Managing Authorities And Local Financial Intermediaries To Shift From A Grant Financing Model To Blending



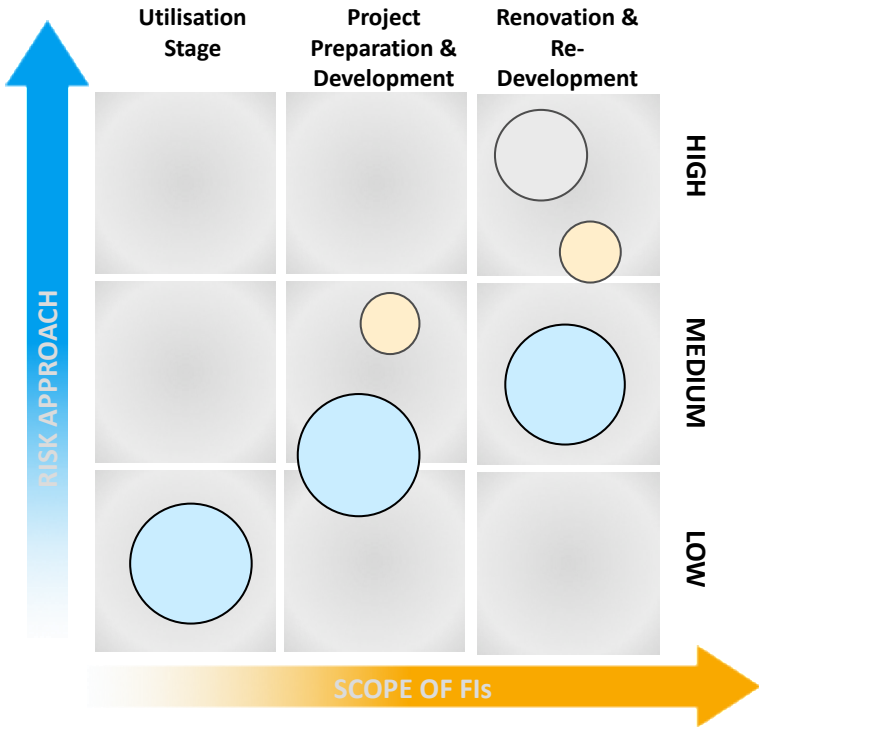
# Financial Instruments Co-Financed By ESIF Could Address The Investment Gaps

Pros of Blending FIs

- **Revolving nature of funds**: Once an investment has been repaid, it gets re-invested, along with the interest. This means that over time, the funds will grow exponentially
- **Leverage effect**: By enabling a project, you create a chain reaction, as these projects themselves will have to get resources and skill from someone else, and so on. In this manner, by injecting a small input, you get a big impact
- **Expertise**: Skills, experience and advice are provided by the ESIF in order to enable projects to reach their goals in an optimal way
- **Incentives to be engaged**: As the projects have to repay their financing, they must prove that they are more financially sound then grant-financed projects, introducing more discipline into the project
- **Risk-sharing allocation:** The ESIF lends its credibility to projects so they may be more attractive. Financial instruments make risk allocation more efficient and shared
- **More efficient use of scarce public resources**: Financial instruments grant more efficiency, therefore putting available resources to better use

Financial instruments are more sustainable than grants as funds are repaid, they can improve project quality and make a more cost-effective use of public funds.

# ESIF Tailors The Use Of Blending Instruments Based On Each Stage Of The Project




## Comments

Considering that the x and y axis correspond, respectively, to the scope and the risk of the projects:

- Loans represent the biggest share of financial instruments dedicated to low and medium risk projects. Moreover, they are used across all spectrum of project stage
- Guarantees represent a smaller proportion of the ESIF budget; however, they are an important instrument for medium and high risk projects
- Equity, mezzanine and quasi-equity represent the biggest proportion of the ESIF budget dedicated to high risk projects. Furthermore, these instruments are used mainly in the renovation and re-development phase

The choice of FIs will depend on the scope of FIs as well as the acceptable level of risk, reward and ownership

# Blended Products Appear To Be A Response To The Need To Increase The Volume Of Development Financing In Europe

European Commission Communication, July 2012

*"The EU should leverage more private resources and capacities through blending mechanisms that can crowd-in additional private and public financing: i) **create a private sector window** within the regional blending mechanisms, ii) make greater use of **risk-sharing mechanisms** such as guarantees that can unlock investments and iii) promote investments through instruments that entail improved **risk management** and **equity participation** in structured funds".*

**Strategic Rationale**

- Resolve specific strategic challenges in Europe (e.g. market failures, public goods etc.)
- Deliver better quality projects in terms of relevance, efficiency and effectiveness

**Economic Rationale**

- Mobilise more financing/ crowd-in
- Unlock investments (e.g. though risk-sharing agreements)
- Boost financial resources of low-/middle-income countries

**Political Rationale**

- Expand EU "sphere of policy influence" and footprint in global development assistance

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# Case Studies: Success Stories Of Blended Instruments Supported *JESSICA I and II for Energy Efficiency in Lithuania*

## 1 Debt Blending

### Overview

**Country**: Lithuania
**Date of the Program**: 2007-2020
**Instrument type**: Debt blending (3% fixed interest rate with maturity 20 years)

**Total Investment Amount**: €1.3Bn
**Contribution EIB**: €325M (as of March 2018)
**Sectors**: Energy Efficiency in Housing

**Description**

24,000 multi-apartment blocks needed to be renovated, requiring a massive financial resources. ESIF through JESSICA I and II for respectively 2007-13 and 2014-20 periods supported the project

**Challenges**

- Most buildings are privately owned (majority vote)
- Homeowners often lacked the experience or financial capacity
- No incentives to improve energy efficiency (heating cost compensation)

**Target Mission**

- ✓ Energy Efficiency / Low-carbon emissions
- ✓ Social improvement (lower fuel poverty, better health conditions and inclusion)

**Blending Mechanism**

Combination of both capital grants, technical support and soft loans via a single delivery structure (JESSICA fund) – inspiring the "Renovation Loan off the shelf" instrument..

**Leverage**

Possibility to attract private investments through establishment of a risk sharing fund, the Leveraged Fund (first-loss portfolio guarantees, leverage effect 1:5) .

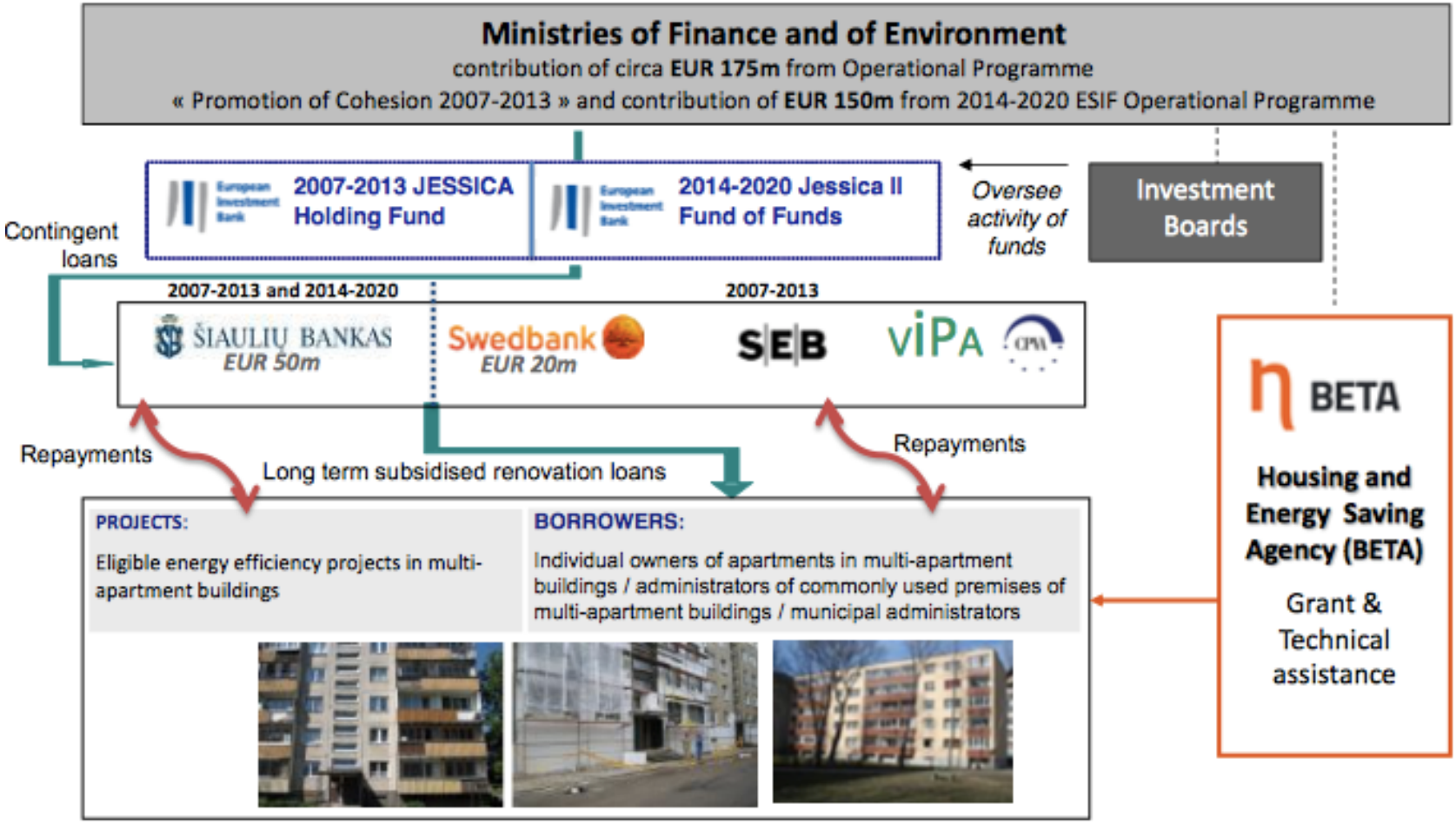
*«Financial instruments like the JESSICA fund allow us to achieve a **multiplier effect** on public funds by **attracting private resources**»*
*Finance Minister Rimantas Šadžius*

**Results**

About c.850 buildings have been finished and c.220 undergoing works. Achieved energy savings of 67% on average.

# Success Stories Of Blended Instruments Supported
## *JESSICA I and II for Energy Efficiency in Lithuania*

### 1 Debt Blending



# Key Takeaways

## 1 Debt Blending

### Main Challenges

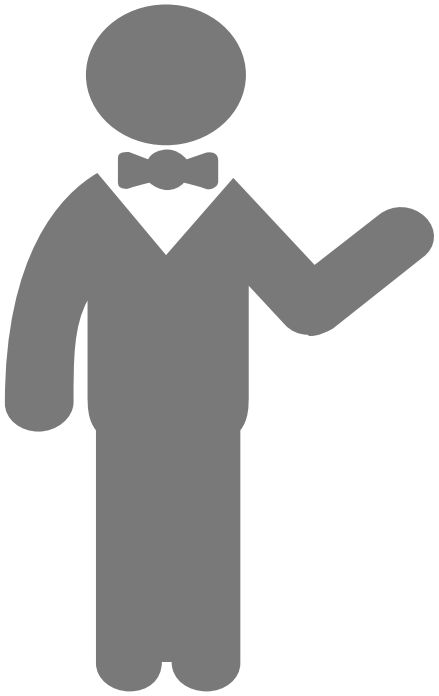
- Relatively **tight timetable** and challenging deployment deadlines.
- **Access to loans**: in multi-apartment buildings, renovation works will only be carried out if everybody in the building has access to a loan. This may require aggregation of credit risk by lending to housing associations/administrators rather than to individual apartment owners
- **Information/ Clarity**: talking to homeowners who do not know what is a subsidy scheme or a renovation programme

### Key Success Factors

- Demand driven projects – **ex ante analysis** is important
- **Appropriate governance** structure (e.g. responsibilities clearly identified between fund of funds, EIB, Government and financial intermediaries such as Siauliu Bakas)
- Get a «good» fund manager (i.e. respecting timeline, exchanging knowledge…)
- Flexible investment strategy
- **Technical support facility** to prepare projects
- **Alignment** of grant funding resources

# Policy Suggestions

## 1 Debt Blending



- Continue to work on governance issues, for instance by increasing the transfer of responsibilities from institutions to local communities. Indeed, ESIF should leverage the positive correlation between governance and financial performance(Orlitzky, M et al., 2003) to increase the scope of its investments
- Create first a strong network among all stakeholders to ensure the sharing of best practices. ESIF should favor an ongoing dialogue between local communities, regional governments and financial intermediaries to foster transparency and reduce moral hazard
- Establish Q&A sessions to better tailor the specific demands of local actors. Live discussions, results press conferences or ESIF website should all be opportunities to get a better understanding of EIB's offerings

Blending FIs using loans are the most promising tools to relaunch investment and crowd in private investors. EIB should continue its efforts to promote such a tool and improve governance issues

# Success Stories Of Blended Instruments Across The Globe
## *ESF Guarantee Fund For Social Inclusion, Marche region, Italy(2010-2015)*

**2** Guarantee Blending

**Overview**

**Country**: Italy
**Date of the Program**: 2010-2015
**Instrument type**: Guarantee blending
**Total Investment Amount**: €3.8M

**Contribution ESF**: €1.5M
**Managing Authority**: Marche Region- European Policies Unit (€2.3 M)
**Sectors**: Improve financing for self-employment and start-ups

**Description**

The region was facing a huge unemployment rate in the manufacturing sector. In particular, those who suffered most from the crisis were the young and women.

**Target Mission**

- ✓ Reduce the cost of debt for SME's
- ✓ Help unemployed and non-bankable individuals to start new businesses by sharing credit risk
- ✓ Particular attention toward women and the young

**Blending Mechanism**

**Direct Guarantee:** up to 50% of defaults of F-int loans

**Financial Intermediary**

Banca Delle Marche S.p.A. who have raised a €16.4 M Portfolio of Loans(annual interest rate of 3,2%; Maturuty 6 years)

**Leverage**

(€16.4 M/ € 1.5 M)= **10.9**

**Results**

**867** SMEs benefited from the scheme, **2.200** new jobs (8.8% of unemployed) and 70% of recipients were women

# Key Takeaways

## 2 Guarantee Blending

### Main Challenges

- **Lack of political will** and "grant dependency" culture of local stakeholders
- Need of a moratorium on already existing loans and a suspension of repayment to **avoid bankruptcy of recipients** before the start of the program
- **Complex procedure** (delegated to third party) to select final recipients delayed the process with negative implications for on-going projects
- Huge numbers of **applications were rejected** by the Financial Intermediary. However, the absorption rate was 100%

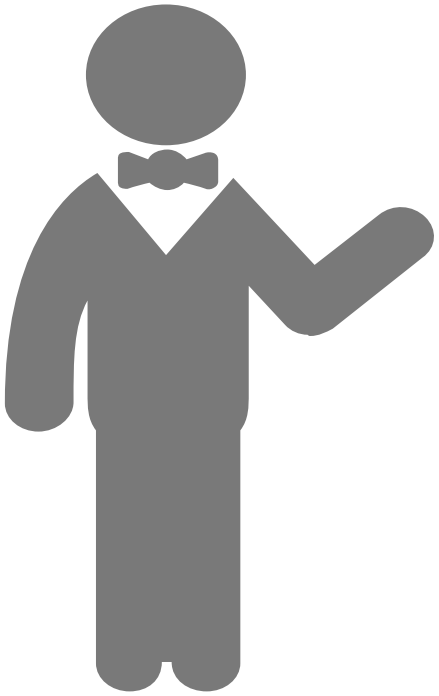
### Key Success Factors

- Relying on **effective promotion**, **knowledge of the local business environment** and the **widespread presence** of the financial intermediary (Banca Delle Marche S.p.A.).
- Promotion is a key factor, especially because when integrated with ESF technical support (**business tutor assigned to each applicant**).
- The network of promotional info points across the region provided support for applications. Thus, it helps to decrease searching time and costs.
- Local administrative bodies are needed to provided a valuable contribution **to raise awareness** of the initiative

# Policy Suggestions

## 2 Guarantee Blending

*Econometric analysis of 174,107 loans to SMEs in Italy, the Benelux and the Nordic countries (Denmark, Finland, Norway and Sweden)*.*



- Provide guaranteed loans to projects that respect certain criteria:
  - Small and young beneficiaries
  - Operating in the service sector (with respect to manufacture firms), independently from the industry

- Establish a **common practice for the evaluation** of applications **at National Level** is strongly encouraged

- Maximize the **stakeholders' involvement.** This practice helps in measuring the investment gap and to tailor FIs for each case maximizing value for money.

Economic environment does not affect directly the effectiveness of the instrument. However, they affect the profile of beneficiaries that differ from region to region

*Average Treatment Effect of guaranteed loans following the methodology of the Econometric Study of EIF (2019)

# Case Studies: Success Stories Of Blended Instruments Supported
## *JEREMIE Acceleration and Seed Instrument in Bulgaria*

### 3 Equity Blending

**Overview**

**Country**: Bulgaria
**Date of the Programme**: 2011-2015
**Instrument type**: Equity and quasi-equity; Loans & Guarantees

**Total Investment Amount**: €21.21M
**Contribution EIB**: €21M (€ 17.85M from ERDF)
**Sectors**: SME Support

**Description**

- **Two funds managers**: Eleven & LAUNCHub
- Equity and quasi-equity products in combination with non-financial support

**Challenges**

- Fullfuil a **financing gap** of €110M for SMEs, which were relying on their own financing
- Development of the **business angel** segment and the legislative framework

**Target Mission**

- ✓ Provide **acceleration and seed funding** combined with incubator services and mentoring
- ✓ Investment strategy focused on **SMEs** at very early development stages

**Blending Mechanism**

Combination of funding from the European Regional Development Fund (ERDF), the national public and private investors

**Leverage**

**1.2** (initial) / **2.3** (considering follow-up investments)

**Results**

- Invested in 180 SMEs
- Supported 600 jobs
- Over 20% of supported companies have reported strong revenue growth
- Follow-up investment: €20 million in external funding

# Key Takeaways

## 3 Equity Blending

### Main Challenges

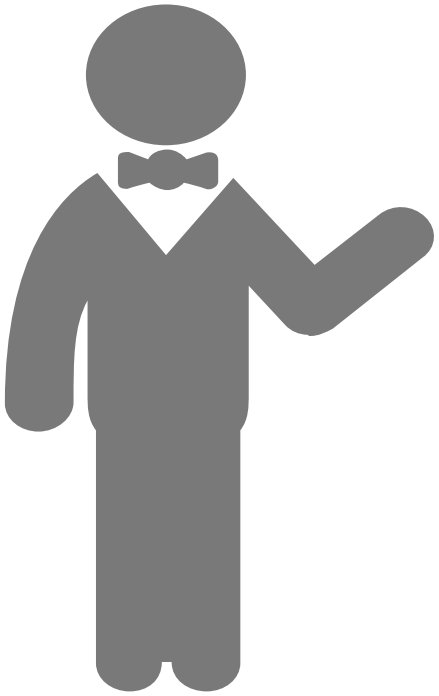
- **Managing costs and fees**, since experts and managers are involved in a wide range of activities, such as:
  - ✓ Mentorship
  - ✓ Participation in decision-making at every stage of the project
  - ✓ Other management related activities (legal, accounting and financial advice)
- **Attracting private investment** in the Bulgarian context, in which angel investments were still underdeveloped

### Key Success Factors

- Instrument **design** and international **openness**
  - ✓ Combining equity financing with quality mentorship
- Presence of the **EIF** and other **strategic partners**, such as Google and Cisco
  - ✓ Enabling not only a better exchange of information between mentors and entrepreneurs, but also creating more trust between both parties
  - ✓ Attracting additional investments (€ 20 M)

# Policy Suggestions

## 3 Equity Blending



- Create a more **economically viable mentorship structure**, considering that in the current one:
  - Fund managers are paid based on an annual management fee (in this case, 3%)
  - Mentors work in a pro bono basis (not common in other cases)

- Use previous success cases to **attract more private investment** in the initial phase of the fund; hence, **increasing the leverage ratio** and/or decreasing public investment

- Establish a network platform in order to exchange relevant information provided by experts among all related funds

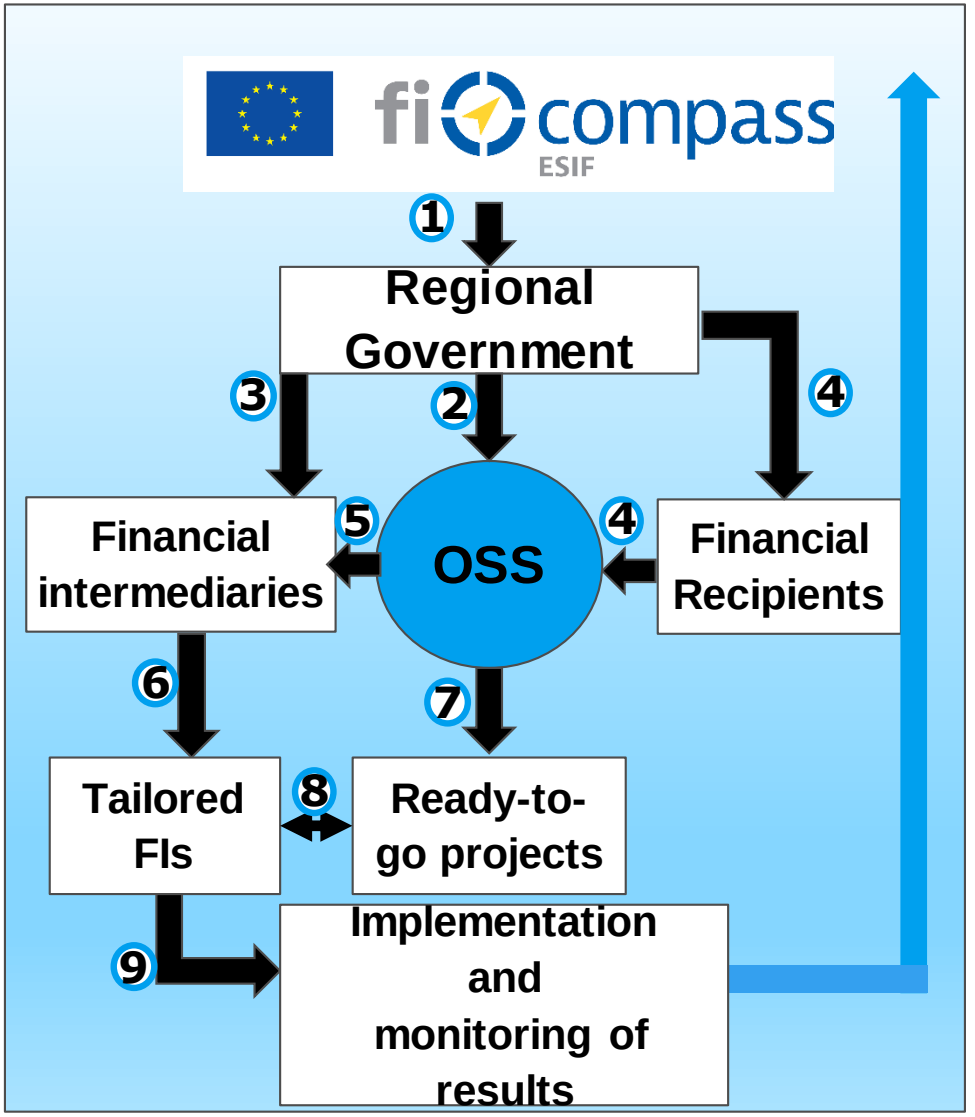
Even though equity blending is not as representative as the other FIs, it is highly used to finance SMEs. That being said, these issues should be addressed in order to deliver a better product to the market.

# Agenda

1. European Structural and Investment Funds (ESIF) Overview
2. EU's Macroeconomic Trends: An On-Going Need For Sustainable Investments
3. Blending Mechanisms in Europe: Definition, Rationale and ESIF's Role
4. Implementation-related issues: ESIF (ERDF) Empirical Analysis
5. Policy Recommendations

# A One-Stop-Shop For Everyone To Tackle Project Implementation's Issues In A Cross-Sectional Way

1. Fi-compass provide **expertise** and **knowledge** through **guides** and **training courses** in attempt to **standardize the processes**
2. Managing Authority **gives** physical, human and network **resources**
3. **MA** and the **OSS** select a **portfolio of Financial Intermediaries** tailored on past experiences and regional needs
4. **FRs** receive tailored information on their projects + technical assistance
5. **OSS** vehicles projects toward the most appropriate Financial Intermediary
6. **Financial Intermediary** provides tailored FIs
7. **OSS** drives the applicant through the ex-ante assessment phase in order to make the project acceptable
8. Bankable but risky projects are financed through FIs
9. **MA, OSS** and **Financial Intermediary** monitor the implementation phase and then collect information on issues and key factor in successful cases

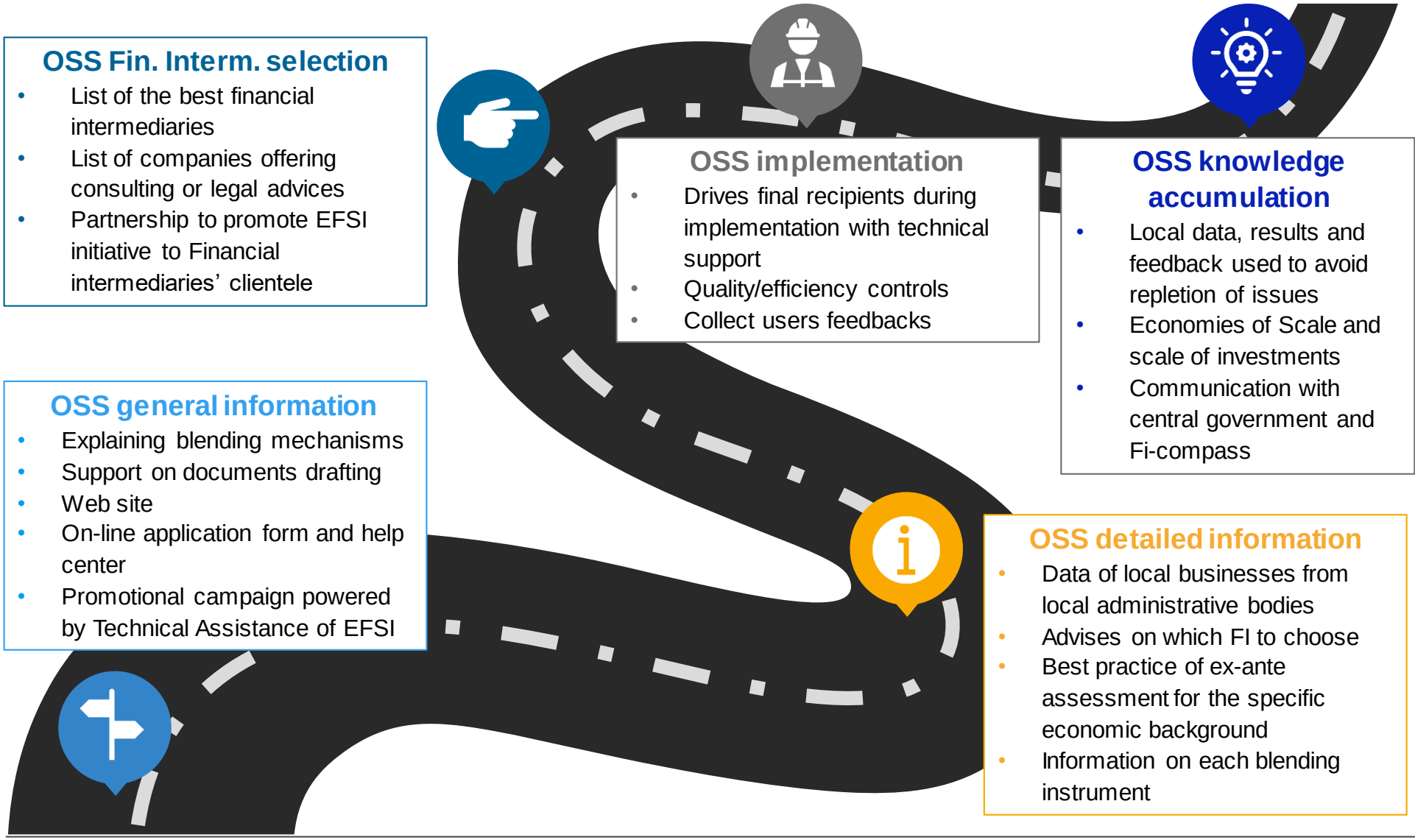


# How OSS Addresses The Main Challenges Of Project Implementation

| Issues Observed | Stakeholders | What The OSS Would Do… |
|---|---|---|
| Lack of awareness from General Public/FRs on the ESIF's offering at regional and European level | **Financial Recipients, MA and OSS** | - Set up a **PR and advertising campaign** at the MA's level to raise the profile of promote operations (e.g. TV advertising for JESSICA in Lithuania)<br>- Establish a friendly web site to schedule tailored meetings |
| Lack of knowledge and expertise on ESIF's processes/ requirements | **MA, Financial Intermediary and OSS** | - Gather/Manage all **data on final recipients** with the help of local entities (e.g. Chambers of Commerce)<br>- **Accumulation of expertise** at local level to boost efficiency |
| | **Fi-Compass and OSS** | - Provide **guides, toolbox and training courses** to its employees in collaboration with Fi-Compass to improve implementation and evaluation skills |
| High administrative burden linked to Partnership Agreements and ex-ante assessments | **OSS and Financial Intermediary** | - **Standardize procedures and legislation** (in continuation with the World Bank initiative in public procurement sector), hence reducing costs and time for the selection process<br>- Introduce **electronized tools and agendas** (e-Health, e-Infra, etc.) into main procedure regulations |

A "hands-on" approach to understand the roots of each problem can have a positive snowball impact on the implementation and success of long-term financing solutions

# Inside The OSS: A Powerful Tool Acting From Awareness To Follow-Up



## OSS Fin. Interm. selection

- List of the best financial intermediaries
- List of companies offering consulting or legal advices
- Partnership to promote EFSI initiative to Financial intermediaries' clientele

## OSS implementation

- Drives final recipients during implementation with technical support
- Quality/efficiency controls
- Collect users feedbacks

## OSS knowledge accumulation

- Local data, results and feedback used to avoid repletion of issues
- Economies of Scale and scale of investments
- Communication with central government and Fi-compass

## OSS general information

- Explaining blending mechanisms
- Support on documents drafting
- Web site
- On-line application form and help center
- Promotional campaign powered by Technical Assistance of EFSI

## OSS detailed information

- Data of local businesses from local administrative bodies
- Advises on which FI to choose
- Best practice of ex-ante assessment for the specific economic background
- Information on each blending instrument

# Having OSS Operating At All Municipal And Regional Offices Would Lead To A "Win-Win" Situation From A Cost-analysis Perspective

| Challenges | Stakeholders | Our Recommendations | Cost Hurdle? |
|---|---|---|---|
| Adequate financial expertise | **Fi-compass** | This task is already done by Fi-compass, so does not generate extra costs. Extra budget is needed for **training courses** | |
| Lack of reliable local data | **MA** and **local administrative authorities** | Local administrative authorities already share data on SMEs and self-employed people with MA and Financial Intermediary. Efforts should be put to **gather data from other stakeholders** (e.g. homeowners for energy efficiency) | |
| Physical resources to set-up the OSS | **Regional Government** | Almost every regional government already have regional representation office at EU level and in the territory | |
| Financial resources for the OSS's daily operations | **MA** and **local administrative authorities** | By establishing small fees on the support provided (e.g. a ticket to buy to access the service), the business model would both generate money for the department and regulate the number of demands | |

All in all, establishing OSS will generate an organizational change, requiring new capabilities, human/financial resources. However, the scalability of the project at a European level is such that it would lead to a more effective and efficient management of financing, benefiting to all stakeholders

# Conclusions

Throughout this paper we managed to better understand the underlying mechanisms of blending instruments and the issues they are currently facing to be fully operational in Europe.

Our analysis of the macro-economic context led us to wonder the following: while the word is nowadays awash in financial capital, why aren't we investing more in infrastructure and other strategic sectors? The financing gap is still to be filled with private and public capital. How can we attract the latest without hampering too much the market mechanisms? One key answer can be found in the use of innovative tools such as blending financial instruments.

Blending instruments offer various advantages at both a macro and micro level, ranging from a leverage effect to a better project efficiency. Yet, they represent only 6% of the current ESIF budget allocation. An explanation to this situation is the attrition cost generated by asymmetric information between demand and supply of financial capital among the different stakeholders, from the average citizen to the supranational financial institutions.

The "miracle solution" does not exist. Indeed, complexity is such when dealing with so many stakeholders in different jurisdictions that it seems hard – not to say impossible – to find the "fit-for-all" solution. Yet, through the suggested creation of a "One-Stop-Shop" established at a local level, we intend to provide some food-for-thoughts to solve the current issues that we found in the literature. The main idea is to facilitate communication and awareness through advisory services targeting local communities. While, today, the European Investment Advisory Hub (EIAH - the second pillar of the Juncker Plan) - and Fi-compass already provide support, advisory services and technical assistance to the authorities that manage structural funds, we believe that such initiatives should go one step further and address the unmet needs of the General Public/ local authorities. Much has already been done by European institutions to gather forces at a national level. We should leverage those skills to communicate with the "average citizen" on the broad toolbox and assistance EIB can provide. Blending instruments represent a real technical treasure to relaunch investments in Europe, so we had better not waste it.

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