



Exploring the opportunities for financial instruments in rural infrastructure – Main findings from analysis in 5 EU Member States

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Exploring the opportunities for financial instruments in rural infrastructure

The study was conducted on behalf of the European Commission-DG AGRI, between May 2020 and July 2021



Scope { **Five countries:** Bulgaria, Romania, Poland, Croatia and Spain
Four sectors: Water and sewage, Waste, Energy Efficiency and Renewable Energy

Methodology { **Extensive desk research**
More than 120 targeted interviews

Building blocks { **Demand side analysis:** Private and public project promoters
Supply side: Commercial banks, NPIs
Sector analysis: Challenges and opportunities
Key findings and recommendations on the use of FIs



Rural infrastructure projects:

Challenges and opportunities



Horizontal findings mainly related to rural municipalities

Challenges

- Limited experience and capacity in project preparation and implementation.
- Regulatory restrictions on the borrowing capacity and the use of public property as collateral.
- Size of projects and risk profiles of promoters not attractive for financiers

Opportunities

- Increased awareness and willingness to engage in relevant projects – The presence of NPIs is important for FIs
- “Off-balance sheet” solutions such as PPP structures or EPC/ESCO model for EE, are being developed.
- Expressed interest of banks to invest in such projects, particularly in the presence of a financial instrument combined with grants.

Energy Efficiency	Renewable Energy	Water and Sewage	Waste
<ul style="list-style-type: none">(+) Growing awareness of EE benefits.(-) Underdeveloped ESCO market.(+) Political commitment to promote ESCO market.	<ul style="list-style-type: none">(+) Strong interest and growth in the RE market.(-) RE projects are located in rural areas but not for the benefit of local communities.(+) Liberalization of energy markets.	<ul style="list-style-type: none">(+) Ongoing water reforms and regionalization of water operators.(-) Regional operators often disconnected from the needs of rural areas.	<ul style="list-style-type: none">(+) Ongoing waste reform focusing on collection and treatment plants.(-) Diverse stakeholders often lead to coordination and consistency problems.

Recommendations

for financial instruments in rural infrastructure



Creating the right incentives and market conditions

Clustering of municipalities and stakeholder coordination:

- Following existing examples of ITIs and LAGs, would allow the scaling up of project pipeline and mature infra projects that would serve a wider functional area
- Ad hoc stakeholder cooperation to address regional/local specificities

Addressing debt limitations for municipalities:

- Promoting private sector involvement through EPC and PPP models to mitigate impact on public finances
- Special treatment of green projects in rural areas

Technical support and grant combination:

- TA grants will be extensively needed to support project promoters and financiers
- Investment grants will continue to play a strong role, but FI and capital rebates will help unlock co-financing

Sector specific recommendations

Energy Efficiency and Renewable Energy:

- Highest potential for the use of FIs – strong interest/awareness from the demand and supply side
- FIs should be considered at national/regional level to achieve critical mass of projects
- Supporting the development of ESCO markets and bundling of projects is essential – liberalisation of energy markets
- Due to the complexity of the projects (capital intensive – upfront costs) FIs should allow for long tenure loans with grace periods through high intensity guarantees

Water and sewage:

- Growing potential for the use of FIs – mainly focusing on regional level infrastructure projects
- Water operators need to be supported with TA and FIs to help them to co-finance available high intensity grants

Waste:

- Limited potential for the use of FIs – mainly focusing on regional level infrastructure projects

POLAND

Key findings in the rural context for the set up of FIs



Market context - Opportunities

- Strong experience in FIs targeting municipalities;
- NPIs such as BGK and NFOSiGW have experience in rural investments;
- Gradual evolution of PPP market;
- Strong growth of RE market and positive regulatory landscape.

FI applicability per sector

1) Energy Efficiency:

Strong applicability

EE in public buildings and street lighting

2) Renewable Energy:

Strong applicability

RE plants and energy storage facilities, especially in the field of photovoltaics but also waste-to-Energy through biogas/biomass

3) Water and Sewage:

More limited but can be explored

Water treatment plants capturing wider areas, and local water solutions for remote areas

4) Waste:

More limited but can be explored:

Development of separation and treatment facilities accommodating rural municipalities within a functional area



Potential FI

Rural Infrastructure fund

- Implemented by NPIs through intermediations with commercial banks
- The fund would target projects with a focus on the identified project types in all sectors
- Financing products would be loan-to-loan guarantees or risk sharing loans exceeding 15 years with long grace periods
- Beneficiaries would include municipalities, municipal companies, utility companies, SPVs, ESCOs

CROATIA

Key findings in the rural context for the set up of FIs



Market context - Opportunities

- EE and EU funded projects (including FIs) are excluded from legal debt ceilings;
- Relevant stakeholders have experience in FIs, specifically in EE and RE;
- Strong growth of RE market is expected due to new measures launched

FI applicability per sector

1) Energy Efficiency:

Strong applicability

EE in public buildings and street lighting

2) Renewable Energy:

Strong applicability

RE plants and energy storage facilities, especially in the field of photovoltaics but also waste-to-Energy through biogas/biomass.

Potential for RE prosumer projects in the Croatian islands.

3) Water and Sewage:

Limited applicability with growing potential

Water treatment plants capturing wider areas, and local water solutions for remote areas

4) Waste:

Limited applicability

Development of separation and treatment facilities accommodating rural municipalities within a functional area

Potential FI

EE and RE FI

- Implemented through intermediation with commercial banks, HBOR could play a leading role
- The fund would target projects with a focus on the identified project types in all sectors
- Financing products would be loan-to-loan guarantees or risk sharing loans exceeding 15 years with long grace periods
- Beneficiaries would include municipalities, municipal companies, SPVs, ESCOs
- There is a potential to also target the water sector-further feasibility work required



Bulgaria

Key findings in the rural context for the set up of FIs



Market context - Opportunities

- Experience in implementing FIs in diverse sectors including for municipalities; Positive experience with JESSICA
- Despite delayed in energy market liberalization and weak ESCO market, there is growing interest in RE and EE projects
- Existing FI in water sector could be used as reference;

FI applicability per sector

1) Energy Efficiency:

Identified opportunities

EE in public buildings and street lighting

2) Renewable Energy:

Identified opportunities

RE plants and energy storage facilities, especially in the field of photovoltaics but also waste-to-Energy through biogas/biomass

3) Water and Sewage:

Building on the existing experience

Current development of project pipeline include network improvements and treatment plants. Local solutions should also be considered

4) Waste:

More limited but can be explored:

Clusters of municipalities promoting special installations for preliminary treatment, separation and composting of waste

Potential FI

EE and RE FI

- National or regional instrument covering both urban and rural.
- Consider creating a public-private ESCO
- The FI would target projects with a focus on the identified project types in all sectors
- Financing products would be loan-to-loan guarantees exceeding 15 years with long grace periods
- Beneficiaries would include municipalities, municipal companies, and SPVs in PPP projects

ROMANIA

Key findings in the rural context for the set up of FIs



Market context - Opportunities

- Plans for a National Fund for Energy Efficiency to implement FIs
- Potential creation of a Super ESCO
- Electricity liberalisation planned for 2021
- Steady growth in RE market
- Experience in municipalities working together

FI applicability per sector

1) Energy Efficiency:

Potential applicability

EE in public buildings and street lighting

2) Renewable Energy:

Potential applicability

RE plants and energy storage facilities.
Opportunities in wind, solar, small-hydropower, geothermal and biomass/biogas projects

3) Water and Sewage:

Limited applicability

Water treatment plants capturing wider areas, and local water solutions for remote areas

4) Waste:

Limited applicability

Development of separation and treatment facilities accommodating rural municipalities within a functional area



Potential FI

EE and RE FI

- Lack of dedicated and experienced NPIs
- Active involvement of IFIs such as the EIB would be necessary
- National FI that targets both rural and urban municipalities
- Financing products would be loan-to-loan guarantees or risk sharing loans exceeding 15 years with long grace periods
- Beneficiaries would include municipalities, municipal companies, SPVs, ESCOs

SPAIN

Key findings in the rural context for the set up of FIs



Market context - Opportunities

- Strong experience in FIs in various investment sectors, including rural-specific FIs
- Provincial councils and municipal associations allow for economies of scale
- Mature ESCO and RE markets
- RE projects are highly bankable – potential for combination with other sectors

FI applicability per sector

1) Renewable Energy:

Strong applicability

PV panels, biogas/biomass and RE measures complementing investment projects in other sectors (i.e. water, waste, mobility etc.)

2) Energy Efficiency:

Strong applicability

EE in public buildings and street lighting

3) Water and Sewage:

Potential applicability subject to combination with other sectors

Reduction of water leakages and improvement of sewage facilities

4) Waste:

Potential applicability subject to combination with other sectors

Installation of biological waste treatment facilities and local waste facilities for recycling as well as digitalization of waste treatment facilities

Potential FI

Cross-sectoral FI

- National FI supporting projects under all four sectors
- The FI could be implemented in cooperation with the EIB and/or ICO.
- Financing products would be loan-to-loan guarantees or risk sharing loans exceeding 15 years with long grace periods
- Beneficiaries would include rural municipalities, municipal associations, provincial councils, utility companies, SPVs, ESCOs, RE developers etc.



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