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

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
- (+) Growing awareness of EE benefits.
- (-) Underdeveloped ESCO market.
- (+) Political commitment to promote ESCO market.

#### Renewable Energy
- (+) 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.

#### Water and Sewage
- (+) Ongoing water reforms and regionalization of water operators.
- (-) Regional operators often disconnected from the needs of rural areas.

#### Waste
- (+) Ongoing waste reform focusing on collection and treatment plants.
- (-) Diverse stakeholders often lead to coordination and consistency problems.

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(+) = Positive factor
(-) = Negative factor
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

- 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;

### Market context - Opportunities

#### 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 SuperESCO
- 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
Key findings in the rural context for the set up of FIs

- 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

**Market context - Opportunities**

**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.