



advancing with ESIF financial instruments



Stocktaking study on financial instruments by sector

Progress to date, market needs and implications for financial instruments

The use of financial instruments in the 'Information and Communication Technologies infrastructure' sector

Synthesis





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To reach the European Union's (EU) ambitious targets to deliver ultra-fast broadband access of at least 100 Megabits *per second* (Mbps) to all households¹ and 5G (Fifth Generation) mobile network connectivity to all urban areas by 2025², **investments in Information and Communication Technologies (ICT) infrastructure** needs to be increased. These objectives require a **total investment of EUR 155 billion** from private and public sources **until 2025**³. Countries with the highest investment needs are France, Italy and Germany⁴.

1. ESIF investments and the use of financial instruments

A total of almost **EUR 6.9 billion of ERDF investments has been planned to support ICT infrastructure investments** during the 2014-2020 programming period across the EU. The largest planned allocations of ERDF to ICT infrastructure are in **Italy** (EUR 1 444 million), **Poland** (EUR 1 025 million), and **France** (EUR 680 million); three countries that due to their size and their large rural population have high investment needs.

Two Member States (MSs) have decided to set up financial instruments for ICT infrastructure and, as of end of 2017, EUR 299.3 million have been allocated to financial instruments. This represents 7.9% of the total eligible cost for the ICT sector across all MSs. **Poland** has devoted EUR 281.3 million (29.5% of eligible costs) and **Hungary** EUR 18.1 million (6.0%). In both countries the instruments are providing loans.

2. Market opportunities

By 2025, an estimated EUR 155 billion of investment is needed to reach the targets for deploying ultra-fast broadband and 5G. Most of the investment is expected to be made by the private sector and to a lesser degree by the public sector. In order to raise the necessary financing, financial instruments are needed to make the investments bankable, ESIF financial instruments can play an important role in this.

The largest investment needs are in the **fixed broadband** network. As of 2018, 21% of households still did not have fast broadband (more than 30 Mbps) coverage and 45% had no ultra-fast broadband coverage⁵. Rural areas have even a coverage gap for fast broadband of 53%, as investment cost per household are about 80% higher than in urban areas. In these rural areas, public intervention is necessary to make the broadband network economically viable and affordable for households.

Additional investment is also needed in **mobile internet infrastructure**. With the deployment of 5G, there is an increased need of investment in the mobile network and the underlying fibre network.

1 European Commission, Communication. 'Digital Agenda for Europe'. COM (2010) 245, 2010.

2 European Commission, Communication - Connectivity for a Competitive Digital Single Market - Towards a European Gigabit Society, COM(2016) 587, 2016.

3 Analysys Mason, *Costing the new potential connectivity needs*, SMART 2015/0068, 2016.

4 World Economic Forum, *The Global Competitiveness Report*, 2018.

5 EC, *Digital Economy and Society Index Report 2018 – Connectivity*, 2018.



Financial instruments can help bridge the investment gap between current deployment and the EU targets. Thanks to their **leverage effect**, they can attract private financiers and contribute to the annual additional EUR 155 billion ICT infrastructure spending needed to reach the EU's 2025 targets. During the 2021-2027 programming period, more ERDF-supported financial instruments (especially providing long-term debt) would facilitate investment in ICT infrastructure.

3. Barriers

The main challenges for the development of ERDF-supported financial instruments financing ICT infrastructure are:

- **Limitations from State aid rules.** State aid under the sector-specific rules limits aid to areas where there is no broadband provider in place. This limits the use of investment grants to making projects economically viable, but also does not allow the use of aid through financial instruments to make such projects bankable or to support new entrants in the market.
- **Limited pipeline of investment-ready projects.** According to stakeholders, the number of investment-ready projects in the 'ICT infrastructure sector' is limited. Most projects are financed through corporate finance by major broadband operators leaving little scope for financial instruments.
- **Limited number of specialised private investors and financial intermediaries.** The involvement of sectoral experts, including fund managers and/or financial intermediaries, is key to develop a mature pipeline of projects. Very few banks, equity or debt funds have developed the necessary sectoral expertise to invest into ICT infrastructure.

4. Potential for the use of financial instruments for ICT infrastructure

The role of financial instruments depends very much on the structure of the market and the applicable State aid rules. The financing needs in countries that roll out investments through large scale project finance structures are very different from the financing needs in countries where connections to broadband are typically provided by small and medium sized local operators. In both cases **financial instruments can catalyse additional private sector investment**, through the provision of long-term debt, guarantees or equity investments. In that context, financial instruments may be used to provide:

- **Loans for households and SMEs for the last mile connection.** Micro-loans with preferential conditions dedicated to households and Small and Medium-sized Enterprises (SMEs) could boost an upgrade of in-house broadband infrastructures. This mechanism could incentivise the demand for broadband services. This financial instrument should be designed in parallel with demand stimulating measures, such as vouchers and/or investment grant schemes.
- **Credit enhancement.** Guarantees or subordinated debt financial instruments can be used to secure long-term loans at favourable conditions, especially during the high risk ramp-up period. Depending on State aid rules, these products either need to be priced at market terms or may offer more favourable conditions in areas where State aid is permitted.

- **Dedicated small loans for ICT infrastructure.** In countries, such as Poland and Hungary, where there are many SME-sized network operators, small loans or guarantees can be provided. Due to the long repayment period and the uncertainty in the uptake of the network, the loans provided to network operations should offer longer grace periods and longer maturities than standard loans for SMEs. In that context, loans within the *de-minimis* threshold can address the financing needs of small operators in all areas.
- **Loans combined with grants.** In areas of high investment cost per household, loans combined with grants can help to make projects economically viable and bankable at the same time. Loans can also be used to cover costs that are not eligible for grants, such as servers, working capital or Value Added Tax (VAT) of the investment. An additional scope for loans combined with grants are micro-loans to households or SMEs to pay for the cost of connection to the broadband network and the necessary investment in the premises of the final recipient.

5. Key enabling factors for the use of financial instruments

Market stakeholders reported during interviews, focus groups and a survey that key enabling factors that may facilitate the deployment of ERDF-supported financial instruments in the sector include:

5.1 Developing awareness about financial instruments among managing authorities

The opportunity should be used to draw on the experience developed with the two existing financial instruments, and similar successful schemes (without ERDF), to promote the use of financial instruments for ICT infrastructure.

5.2 Adjusting the ticket size to the market needs

To boost the uptake of new technologies and to support smaller operators, it becomes important to adjust the offer of products to the needs of smaller promoters. A reduction of the ticket size is one approach to increase broadband coverage.

5.3 Financing infrastructure investment using project finance schemes

The French experience with Public-Private Partnership (PPP) models shows that large-scale projects can be realised also in rural areas. This would allow for financial instruments to provide equity or loans alongside private investors or provide credit enhancement.



5.4 Designing financial instrument-friendly Operational Programmes

Financial instruments require a sufficient pipeline of investable projects and attract financial intermediaries to implement them. To avoid multiple Funding Agreements and contributions from multiple Priority Axes, it is advisable to concentrate contributions to financial instruments within the Operational Programmes (OPs). This will also simplify the governance and the monitoring of the financial instruments. It is also advisable to differentiate eligibility criteria for grants, which need to be stricter, and those for financial instruments, with broader eligibility criteria. This approach would facilitate the use of financial instruments and grants in a complementary way.

5.5 Financing interventions using project finance schemes

Often broadband investments are sponsored by telecom operators who are active in certain territories. The ability to invest, using corporate finance significantly decreases in the case of new promoters in the market willing to extend their activities to new regions. A good practice used by private sector promoters consists of delivering this type of project using project financing schemes. A PPP model can also be used in case of joint interventions of the public and private sector entities.

5.6 Developing demand incentives schemes

Incentives such as subscription vouchers for households or grants for the upgrade of installations on the premises of SMEs can reduce the barrier to subscribe to (ultra)fast broadband services.

The EU needs to undertake significant additional investment to reach its ICT infrastructure targets set for 2025. Depending on the market structure, financial instruments addressing the ICT infrastructure investment gap can either provide long-term debt or guarantee products to large infrastructure projects, or SME-type financing to small and medium-sized operators. Barriers to ICT infrastructure financing are mainly the uncertainty of demand of final users and restrictions in the applicable State aid rule(s). Financial instruments may be part of the solution, when providing risk coverage or incentives in the uptake of services. Barriers to the development of such ERDF-supported financial instruments however also exist. In this context, key enabling factors for a better uptake of ERDF-supported financial instruments in the ICT infrastructure sector are: combining financial instruments with grants, addressing the needs of small and medium-sized network operators, and designing financial instrument friendly OPs.

