Supporting rural infrastructure and Smart Villages development

DISCLAIMER

This *fi-compass* publication describes an initiative promoted by the European Commission Directorate General for Agriculture and Rural Development (DG AGRI) in collaboration with the European Investment Bank Group (EIB Group).

The objective is to encourage European Agricultural Fund for Rural Development (EAFRD) managing authorities to assess their needs for financing rural infrastructure and to pay special attention to the possible role of EAFRD financial instruments to supplement EAFRD grants or to be used in combination with EIB financing for rural infrastructure.

The document is informative and it does not represent the official position of either the European Commission, EIB Group or any of their services.

Glossary and definitions

Expression	Explanation
DG AGRI	Directorate General for Agriculture and Rural Development
CAP	Common Agricultural Policy
CEF	Connecting Europe Facility
EAFRD	European Agricultural Fund for Rural Development
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
EIF	European Investment Fund
ESI Funds	European Structural and Investment Funds
JESSICA	Joint European Support for Sustainable Investment in City Areas
LAGs	Local Action Groups
LEADER programme	European Union initiative to support rural development projects initiated at the local level in order to revitalise rural areas and create jobs
MBIL	Multiple Beneficiary Intermediated Loans
PPP	Public-Private Partnership
RDP	Rural Development Programme
SMEs	Small and medium-sized enterprises

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FOREWORD

Phil Hogan
Commissioner for Agriculture and Rural Development
European Commission

'The Commission is committed to reinforcing support for rural communities and local authorities that wish to develop Smart Villages through capacity building, investments, innovation support, networking as well as through the provision of innovative financing tools for improving skills, services and infrastructure.'

Communication on the Future of Food and Farming

Andrew McDowell
Vice President,
European Investment Bank

'The financing of infrastructure, including in rural areas, is a key priority for the European Investment Bank. Several EU rural areas are still facing disadvantages in terms of access to services, digital divide, and demographic trends. Therefore, there remains a need for robust public support in rural infrastructure, in a time of constrained public budgets. Through this pilot initiative with DG AGRI, EIB advisory services -under fi-compass- are ready to support managing authorities to develop and set up EAFRD financial instruments - combining EAFRD resources, technical assistance and EIB lending – focusing on small villages and on infrastructure in rural areas.'

INTRODUCTION

Many European rural areas are locked into a 'circle of decline' by two mutually reinforcing trends, firstly a shortage of jobs and sustainable business activity and secondly, inadequate and declining services. This is often due to the low development or insufficient maintenance of infrastructure facilities. These situations trigger growing demands for financing of modern, efficient and environmentally friendly local infrastructure to help people living in rural areas and attract newcomers and new businesses.

At the same time, current discussions on the next European Union (EU) budget and on the Common Agricultural Policy (CAP) and EAFRD budget point to the importance of looking at all options to ensure adequate financing for rural infrastructure. In this context, this Initiative to support rural infrastructure and small villages development aims to promote a new approach to financing rural infrastructure under the EAFRD. This is through technical assistance advice and preparatory work from the DG AGRI and EIB (fi-compass) for the benefit of EAFRD managing authorities willing to attract additional private resources.

The use of innovative financial instruments and their efficient combination with grants or EIB financing could prove pivotal in boosting investment levels in rural Europe and ensure the sustainability of rural infrastructure financing in the medium to long-term. It could help the development of Smart Village concepts across the whole EU and respond to local needs by involving local partnerships.

As part of this overall approach to encourage the use of financial instruments co-funded by European Structural and Investment (ESI) Funds, a pan-European study on the infrastructure needs of rural areas is expected to be carried out by the EIB in the coming months to shed light on potential financial gaps in rural infrastructure.


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1. THE INITIATIVE AT A GLANCE

Why this Initiative?

Financial instruments for infrastructure have become increasingly important in recent years. There are successful examples under different ESI Funds or centrally managed EU policies such as the Cohesion policy, the European Fund for Strategic Investment (EFSI), InvestEU and the Connecting Europe Facility (CEF). The absence of any financial instrument for infrastructure investments under EAFRD programmes creates the need for this initiative aiming at encouraging EAFRD managing authorities to also look at this option.

For whom?

The Initiative is open to all EAFRD managing authorities and can involve national or local stakeholders whose participation may add value to discussions and processes.

Is it obligatory for a managing authority to take part?

No, it is a voluntary choice.

What is the main outcome that a managing authority could expect?

The purpose of the assistance is to familiarise EAFRD managing authorities with the use of financial instruments to support infrastructure projects. Depending on the needs of the managing authorities, outcomes could be roadmaps, concrete planning and advice on how to organise the ex-ante assessment process. This would include its content or recommendations on the structure of a future financial instrument as well as analyses of business cases supported by existing financial instruments. The next step of carrying out specific national or regional ex-ante assessments is outside the scope of this Initiative.

How will it work?

The managing authority signals its interest in the Initiative to DG AGRI, for example by letter or e-mail. DG AGRI and the EIB (*fi-compass*) will then schedule a video-conference with the managing authority to clarify the intentions and scope of the assistance. DG AGRI and the EIB will then cooperate to deliver the service through face-to-face meetings and/or one or two workshops, at the managing authority, in Brussels, or in Luxembourg.

What will the managing authority have to do during this process?

As a recipient of the advisory support, the managing authority is expected to propose topics for discussion based on their needs and vision for future rural infrastructure financing. Some meetings may take place at the premises of the managing authorities.

How long will it take?

Depending on the intentions and planning of the managing authority and based on the capacity of the *fi-compass* advisory platform, between two and four months could be expected for finalising a case. However, this could be longer for more complex cases or when exploring innovative financial instruments.

In what language will the assistance be delivered?

English remains the main language for delivery of the assistance. Other languages may be possible, but translation into the local language is to be organised by the managing authority.

Will all EAFRD managing authorities be assisted?

Coverage of the cases will depend on available budgets under the EAFRD stream of the fi compass work programmes.

Does the Initiative relate to the current or next programming period?

It relates to both. At the same time, the need for a sound ex-ante assessment in this new area for EAFRD financial instruments may increase the time spent in preparing implementation, which needs to be taken into account for any potential roadmap.

How much does such participation cost?

The assistance is delivered to managing authorities free of charge. Managing authorities only cover the cost of their staff, including any travel to Brussels or Luxembourg, as well as costs for hosting meetings at their premises and for any simultaneous translation required.

Is it obligatory for the managing authority to set up a financial instrument for infrastructure after taking part in the Initiative?

No. However, the managing authority should carry out an ex-ante assessment where a financial gap is discovered or financing conditions are sub-optimal.

Does the managing authority need to report on the assistance?

No, this will not be needed. EIB (*fi-compass*) may ask for feedback from managing authorities to improve future assistance.

2. THE POLICY BACKGROUND

2.1. Why are we offering this?

The last two programming periods have shown that local needs and demands for financing are high and exceed the available EU budget for rural municipalities in the form of grants.

The use of financial instruments in an environment of restricted public budgets, especially at regional and local levels with limited EAFRD support, is crucial. This may radically change the way rural infrastructure is financed. Financial instruments are an efficient delivery mechanism for financing profit-generating or cost-saving activities, which can ensure a flow of resources back to investors.

2.2. Smart Villages and rural infrastructure

The emerging concept of Smart Villages offers opportunities that build on existing strengths and assets in rural communities. Smart Villages are based on strategies which could be very local (focusing on a single village or municipality) or regional (covering several villages). Strategies must reflect the appropriate technological, economic and social options available and could include new markets for the bio-economy, services and healthcare. Although Smart Village strategies cover different activities and targets, the enhancement of local infrastructure is usually seen as a key driver. In this context financing and long-term economic sustainability are a key element of any such process.

One aim for CAP post 2020 proposed by the Commission is to inspire policy-makers to consider Smart Villages when preparing and targeting interventions while also using financial resources and delivery mechanisms, including financial instruments, that maximise economic, social, and environmental potential. **This Pilot Technical Assistance Initiative should help to prepare the ground for enhancing and using opportunities in rural areas to make them more attractive places to work and live**.

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2.3. What types of infrastructure are suitable for support under EAFRD financial instruments?

The focus of the Initiative is on infrastructure covered by the current Measure 7 'Basic services and village renewal in rural areas' under the EAFRD or Intervention for 'Investments' in future CAP Strategic Plans. The EAFRD offers a wide scope of investment possibilities for rural infrastructure, including economic development, energy, social, healthcare and education. Financial instruments, however, cannot support infrastructure projects that do not generate revenue or save costs, which in turn enable the final recipient to repay the financing. Integrated projects combining profitable with non-profitable elements could also be supported, subject to individual evaluation of the business plans.

Broadband in rural development

Digital technologies include for example information and communication technologies (ICT), the exploitation of big data or innovations related to the use of the Internet of Things. They act as a levy that could enable smart villages to become more agile, make better use of their resources and improve the attractiveness of rural areas and the quality of life of rural residents.

In the period 2014-2020, broadband in rural development received a substantial support from the EAFRD with planned allocations going beyond EUR 1 billion. It followed a period of extensive policy and technical dialogues on the Digital Agenda for Europe. In addition, and contrary to the past, investments in broadband are now channelled through a one-stop-shop process grouping financing from various EU sources, including the EAFRD.

At present, Connecting Europe Facility is the known EU-level thematic financial instrument addressing broadband investments. For more information, please check 'The Action Plan for Rural Broadband'.

Broadband and ICT remain crucial areas of intervention to improve the quality of life in rural areas and the competitiveness of rural territories. They are a primary element for most forthcoming 'smart' initiatives, however attention has to be given to other rural development infrastructure, where technologies could also play a role such as:

- Smart investments in transport and mobility solutions;
- Efficient and eco-friendly waste collection and treatment;
- Cost-saving public water irrigation systems/infrastructure, purification and supply;
- Energy efficiency (primarily in public buildings, lighting, storage facilities, etc.);
- Renewable energy production (primarily biomass, wind and solar) and distribution (district networks, underground electrical conduits, etc.);
- Smart investments in basic services and related infrastructure (e.g. cultural & leisure centres, medical points, etc.);
- Rural tourism infrastructure;
- Short supply chains, including new market outlets for the bio-economy; and
- Forestry infrastructure.

EAFRD Financial instruments for rural infrastructure could also cover projects with a positive impact on the climate, environment or bio-economy. These can be the result of cooperation between local governments, rural SMEs, farmers and cooperatives. Such projects can provide significant added-value for the territory, since they could create a local bio-economy strategy, including the transfer of know-how to individual farmers. They can achieve economies of scale needed for an economically viable business case. Their size does not really matter as small-scale projects can be bundled into a group for targeted financing.

Examples of EAFRD support for infrastructure in the bio-economy:

- Bio-economy projects resulting from cooperation between local government, rural SMEs and farmers (see 'Miscanthus' project: a smart solution to fight erosion and promote renewable energy production); a cooperation project with the municipality of Gembloux, Belgium.
- Bio-economy projects, for example bringing an additional activity to a core farming business (i.e. producing a non-Annex I product out of waste or residue streams of the biomass produced).
- Financing small bio-economy projects creating high added-value as cooperation projects carried out by a group of primary producers (e.g. 'Integrated Biomass *Trade and Logistics Centres*' that involves vertical integration with substantial economic benefits for primary producers and rural or mountain areas).
- Cooperation projects implemented at the level of primary producer cooperatives. The added value of such projects is very high, since they create a bioeconomy strategy for farmers or foresters at the cooperative level, including the transfer of know-how to individual farmers.

Source: DG AGRI bio-economy report 2017 - https://ec.europa.eu/agriculture/sites/agriculture/files/bioeconomy/pdf/2018-09-20-workshop-report_en.pdf

3. THE ECONOMIC BACKGROUND

3.1. The decline of infrastructure investment in the EU

The infrastructure investment gap in the EU has increased in recent years, due to a substantial decline in public investment following the financial crisis that started in 2008. Although specific data for rural areas are not available, this backlog of infrastructure investment can be assumed to be higher in these areas than in urban territories.

For example across the EU, sub-national investment expenditure for infrastructure declined in recent years much more than the expenditure at a central level. Small to medium infrastructure serving local communities (e.g. municipalities) are more likely to be negatively affected by this decline. Fiscal constraints in many EU Member States may continue in the near future.

3.2. The role of private investors

For the reasons outlined above, attracting private capital in rural territories becomes a key factor to tackle investment gaps, alongside EU financing. Private investors also require business plans that show financial viability ('profitability') for projects. New investors also change the investment climate.

Infrastructure as an asset class has specific economic characteristics including:

- High barriers to entry;
- Economies of scale (e.g. high fixed, low variable costs);
- Inelastic demand for services (providing contractual power to the owner/manager of the infrastructure);
- Low operating costs, high target operating margins; and
- Longer economic lives.

These elements often imply **attractive financial characteristics for investors focusing on long-term stable returns**, in particular institutional investors, for the:

- Attractive returns;
- Low sensitivity to economy fluctuations and market volatility;
- Low correlation of returns with other asset classes;
- Long term, stable and predictable cash flows;
- Good inflation hedge;
- Natural fit with long-lasting, often inflation-linked pension liabilities;
- Low default rates; and
- Socially responsible investing.

3.3. The challenges to attract private investors

Some characteristics may prevent private investors from considering an investment in infrastructure. For example, infrastructure projects are complex and time consuming to plan, procure and build. Information asymmetry and difficulties in assessing the risk (including political risk) may also be significant in many cases.

Such projects require substantial resources upfront, but generate a revenue stream only in the operational phase (which may mean only after several years). **For this reason, public support is very often used to stimulate private investor participation.**

EU funds to support infrastructure investment

Given the importance of infrastructure investment for the long-term economic performance, EU policy also might provide grant or financial instrument support such as:

- The **CEF** is a key EU funding instrument developed specifically to direct investment into European transport, energy and digital infrastructure to address missing links and bottlenecks.

  The CEF Regulation sets out rules for granting EU financial support to Priority Projects of common interest and to programme supporting measures. It also defines maximum EU co-financing funding rates per type of project and per transport mode. The budget for the instrument is EUR 30.4 billion (EUR 22.4 billion for transport, EUR 4.7 billion for energy, and EUR 0.3 billion for telecom).

  CEF financial support can be provided in the form of grants and as contributions to financial instruments.
- **EFSI** was created to stimulate investment in the EU-28 that boosts economic growth and employment. In operational terms, EFSI aims to: (a) support investments in infrastructure and innovation and (b) increase access to finance for SMEs (up to 250 employees) and Mid-cap companies (up to 3 000 employees).

  These two objectives are reflected in EFSI's two Investment Windows; the Infrastructure and Innovation Window and the SME Window. EFSI (prior to its extension at the end of 2017) included an EUR 16 billion guarantee to the EIB Group from the EU budget and an EUR 5 billion capital contribution from the EIB.
- EFSI support can be delivered through financial instruments, also in combination with resources from other EU Funds (e.g. ESI Funds).
- Finally the **five ESI Funds**, jointly managed by the Commission and Member States, address infrastructure through a range of channels.

Although the situation varies across the EU, and some peri-urban rural areas benefit substantially from general urban development, such as better infrastructure connections, the reality in most rural parts of the EU is that **attracting private resources to finance infrastructure implies additional challenges**:

- Projects in rural areas are often small. The number of potential users could be limited due to outmigration or low population density. This leads to fewer economies of scale and lower revenues from operating the facilities, with consequent reduced profitability. In some cases, this can be corrected through improved rural-urban links for key/integrated infrastructure (e.g. energy, or water).
- Smaller projects are less likely to attract the attention and funding from large private and institutional investors. Grouping them into bundles could correct this deficiency.
- Technical capacity is more likely to be a constraint in rural areas, for both public authorities and private project promoters. Therefore, it needs to be supported.
- A lack of specific information on infrastructure investment performance in rural areas may increase the risk perception of private investors. Ex-ante assessments focusing on a specific type of infrastructure and/or regional needs may be necessary.

4. THE ROLE OF FINANCIAL INSTRUMENTS AND EAFRD

4.1. How can EAFRD financial instruments help?

EAFRD financial instruments can be essential to unlock private capital to finance infrastructure projects in rural areas, addressing market failures from, for example, information asymmetry. A proper use of national and EAFRD resources can in particular:

- Enable project pooling/aggregation, providing private investors with the necessary critical mass and risk diversification to attract at least part of their funding;
- Increase awareness and build capacity in both public authorities and private project promoters;
- Reduce risk and/or improve project 'bankability' (e.g. with guarantees or in combination with grants or interest rate subsidies), providing the necessary incentives to attract private investment in rural infrastructure.

In the 2014-2020 programming period, **EAFRD grant support for infrastructure is estimated to account for around 10% of overall EAFRD investment support**. The largest share of this is earmarked for the development of basic services and infrastructure in rural areas. However, no general or thematic financial instruments have yet been developed for financing rural infrastructure. This sharply contrasts with other shared management policies, such as Cohesion policy, where financial instruments have operated for more than two programming periods.

4.2. Other advantages of financial instruments

In addition to unlocking private capital contributions to policy objectives, financial instruments offer other advantages to EAFRD managing authorities. For example, their revolving nature means resources can potentially be reused several times, with a substantial reduction in the need for public funding in the longer run. Revolving financing can also potentially improve planning and financial discipline for project promoters.

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4.3. What is the role of the National Promotional Institutions (NPIs)?

NPIs can play diverse roles in the context of financial instruments. Depending on managing authority decisions, NPIs may invest in a financial instrument from their own resources. NPIs could also be appointed as fund managers, or provide advice to the managing authority. The managing authority may invite NPI representatives to participate in meetings under the Initiative.

4.4. The EIB contribution to EU rural infrastructure investments

Financing infrastructure, including in rural areas, is a key priority for the EIB which can:

- Directly invest in large infrastructure projects (with loans of at least EUR 50 million) promoted by a public entity, private company or Special Purpose Vehicle, including for Public Private Partnerships (PPPs). In addition to loans, the EIB can also provide guarantees or equity.
- Finance smaller infrastructure projects, normally through an intermediate structure, where an intermediary or promoter implements several infrastructure projects compliant with pre-agreed eligibility criteria and objectives.

The EIB can also support the use of EAFRD financial instruments by:

- Directly investing in financial instruments, increasing their leverage and impact;
- Providing skilled expertise in managing financial instruments; and
- Providing advice to assess the rationale and feasibility of financial instruments, designing the instrument to meet specific market conditions.

Trento Public Infrastructure Framework Loan (Italy)

An interesting example of EIB lending addressing small infrastructure projects is the Trento Public Infrastructure Framework Loan in Italy aimed at financing multi-sector investment schemes.

These include the renovation and rehabilitation of municipal, provincial and other public facilities and infrastructure included in the Development Programme of the Province of Trento (i.e. the Project promoter).

An EIB loan (EUR 174 million, up to 20 years maturity) accounts for 48% of the framework loan investments (EUR 361 million). It was provided through the financial arm of the Province of Trento - the Cassa del Trentino. 393 projects in multiple municipalities were financed by 2018, of which 225 have been already completed. The average project size was around EUR 1 million.

Sectors involved – projects

Transport: New stations for public transport (buses, hydrogen technology), upgrading rail tracks, newly constructed or upgraded existing bus maintenance centres, parking, global video surveillance and control system, upgraded rolling stock (both trains and buses) and cycling paths.

Urban infrastructure: Rehabilitation and renovation of historical buildings, museums, historical centres, as well as public spaces (parks), fair halls and congress centres.

Infrastructure for public services: Public buildings used for public services – town halls, civil protection and other public institutions.

Construction of small **hydroelectric power plant** with a capacity of 1,941 kW

Project promoter: Municipality of Dimaro-Folgarida, Italy (ca 2,204 inhabitants)
Project total amount: UR 7.7 million (excluding VAT)
Operating period: 26 years
Annual total revenues: EUR 1.4 million

Transport: Environmental infrastructure: Upgrade of infrastructure related to drinking and waste water, solid waste and energy distribution (electrification).

Education: Reconstruction and extension of schools and other training facilities, as well as sport facilities.

Social care: Reconstruction and renewal of social care facilities for the elderly, youth and people with limited mobility.

Information technology: A newly-constructed ICT centre for the Province and extension of the broadband network infrastructure.

Rural tourism infrastructure: Restructuring mountain trails and investment in construction of an alpine information point in Trentino's part of the Dolomites.

Restructuring mountain trails along First World War ruins ('Herta Miller Haus')

Project promoter: Municipality of Telve, Italy (< 2,000 inhabitants)
Project total: EUR 40 000

Construction of an alpine trail information point in the Val di Non

Project promoter: Municipality of Sanzeno, Italy (< 1,000 inhabitants)
Project total: EUR 79 000

Restructuring mountain trails in Val del Sarca ('Rino Pisetta')

Project promoter: Municipality of Vezzano, Italy (< 2,100 inhabitants)
Project total: EUR 82 000

BELFIUS Smart Cities operation in Belgium: is another example of EIB Intermediated financing for local infrastructures which is described in the box below.

BELFIUS SMART CITIES

A multi-scheme operation in Belgium including investments in urban renewal and development, social and affordable housing, energy efficiency, renewable energy, sustainable transport, water, solid waste and ICT.

Key financial information

- Intermediated framework loan. EIB funds: EUR 200 million; BELFIUS own funds: EUR 200 million.
- All schemes are expected to be economically viable and are appraised according to their cost-effectiveness and ability to meet objectives and targets.
- Sub-projects are included in the budget and strategic plans of local and/or regional governments.

Project objectives and expected results

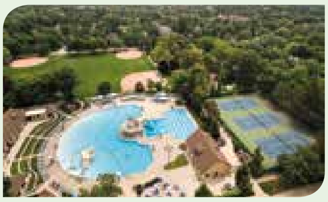
- Innovative and integrated investments contributing to Smart Cities, Circular Economy and Climate Action Enabling sustainable growth.
- Improved quality of life.
- Improved quality of environment.
- Enhanced conditions for businesses.

Borrower

Belfius is the recipient bank of the EIB loan. Belfius on-lends to local, regional or inter-communal public authorities, public service companies, organisations and ESCOs (matching EIB funds with own resources).
To date, some 1 million inhabitants have benefited from investments under the Smart City Belfius facility.
More than 30 projects worth some EUR 282 million have been successfully completed across the Belgian territory covering urban regeneration, energy efficiency, and sustainable mobility.

Projects examples

Heer-sur-Meuse (<6 000 inhabitants): transformation of a dangerous crossroad into a communal square with modern street furniture and LED lighting.



Dour (<17 000 inhabitants): first organic swimming pond in Belgium, as part of transforming the disused Belvédère site into a unique recreational and sports centre, focused on swimming and tennis, relaxation and education about the environment. Combined with grants.

Sint-Amands (<8 000 inhabitants): transformation of former shoe factory in Sint-Amands, closed in 2011, into a sustainable multipurpose community centre for citizens and local associations.

5. DELIVERY AND CONTRIBUTIONS FROM LOCAL ACTION GROUPS (LAGs)

For infrastructure serving local communities, municipalities often play a key role in promoting investment and can be regarded as the main target group for financial instrument support. Other companies or bodies can be project promoters for rural infrastructure such as central or local public bodies including specialised agencies and private enterprises. In some cases, ad hoc entities or Special Purpose Vehicles, are set up to facilitate investment in infrastructure projects involving public and private capital.

LAGs can contribute to an integrated policy approach to promote local infrastructure. They already contribute to local infrastructure planning with their Local Development Strategies and can also be involved in selecting projects to be granted financial support. Their strategies are based on a participatory approach, with the active involvement of civil society and local social and economic partners. LAGs can be involved in financial instruments used to deliver EAFRD support, both in strategic planning and in selecting projects. For example, financial instrument support can be targeted to infrastructure projects selected by LAGs.

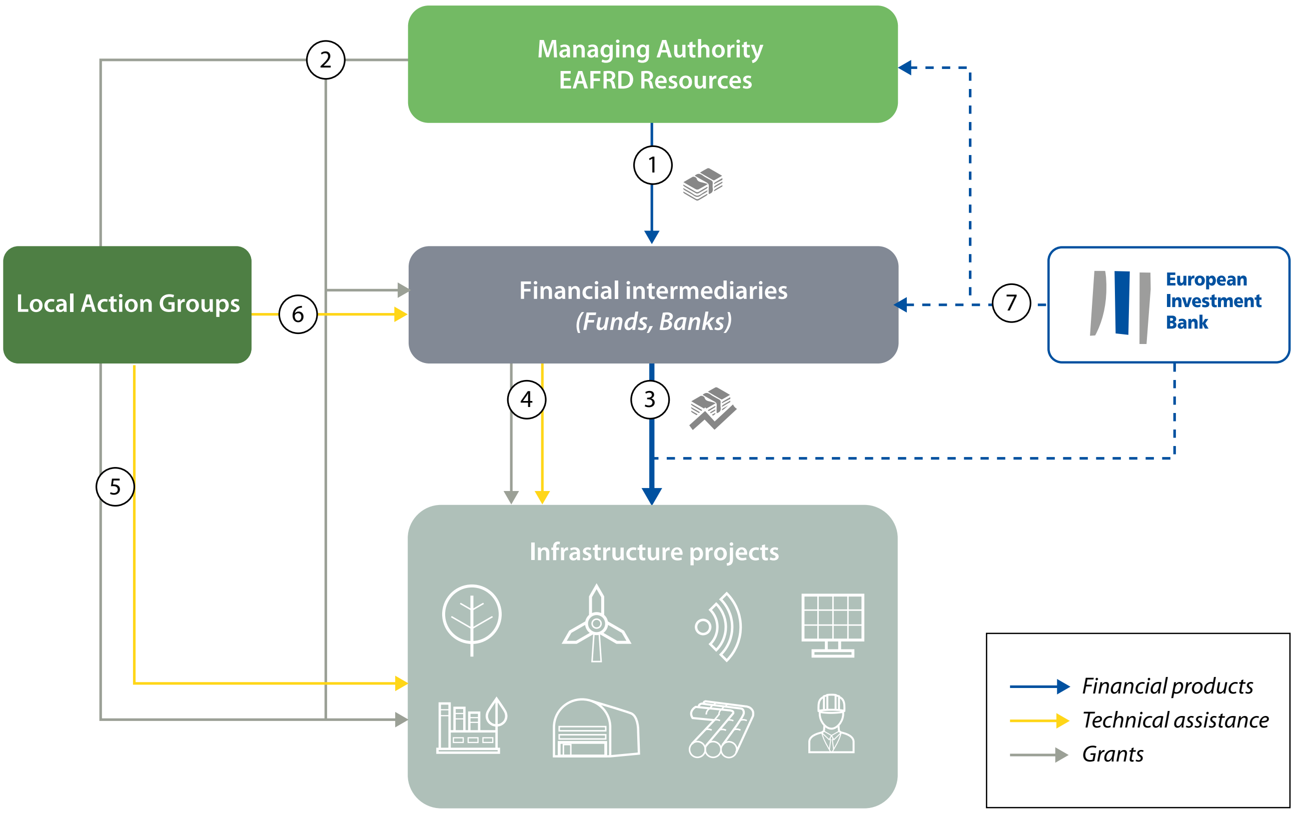
LAGs cannot take financial responsibility as they are not financial companies and do not have a legal status. So, they cannot directly act as project promoters and cannot be recipients of financial instrument support, but could drive active local participation in any financing or support and channel information to local investors.

6. AN INTEGRATED POLICY APPROACH TO FOSTER RURAL INFRASTRUCTURE

Figure 1 below shows how the above-mentioned elements can be combined in an integrated approach:

- EAFRD grants can be combined with financial instruments to provide increased public support for the project.
- The EIB can contribute to setting-up and managing an EAFRD financial instrument and provide financial resources to increase the firepower of the financial instrument or to be combined separately at project level; and
- LAGs can support an integrated approach, ensuring bottom-up contributions to the development of local infrastructure development plans.

Figure 1: Integrated policy approach to foster rural infrastructure, including Local Action Groups (LAGs)



EARFD Managing Authorities

- select the financial intermediaries which will implement the financial instrument and transfers them the EAFRD resources (1).
- might provide grants to the projects alongside the financial instrument, either directly or through the Local Action Groups or the financial intermediaries (if financial instrument and grants are within a single operation) (2).

Financial intermediaries

- implement the financial instrument and contribute to it by matching EAFRD resources with own financing; select the projects and disburse them the financial produts (3).
- under certain circumstances, they can bundle the financial products with technical assistance and/or EAFRD grants (4).

Local Action Groups can use EAFRD resources

- by channelling grants to projects and/or delivering technical assistance to them (5).
- by delivering technical assistance to the financial intermediaries, e.g. building the pipeline (scouting for eligible projects and/or appraising projects (6).

The **EIB** might

- provide finance at the level of the Managing Authority or financial intermediaries (7) or at project level (8).

TECHNICAL ANNEX - A POSSIBLE FINANCING MODEL FOR RURAL INFRASTRUCTURE

Infrastructure financing can follow two main models, depending on the size and creditworthiness of the projects:

- **Direct financing:** Large projects are normally financed on a stand-alone basis (i.e. project finance). Individual assessment of financing terms and project viability is based on the creditworthiness of the project. Such projects usually generate some degree of revenue or cost savings that can be used to repay financial instrument support on a stand-alone basis. The most suitable financial instruments for such projects are loan funds or loan funds combined with equity.
- **Intermediate financing:** Smaller projects, with insufficient creditworthiness or scale to be financed on a stand-alone basis can be financed by a financial intermediary, which builds a portfolio of projects based on agreed criteria. The most suitable financial instruments for such an approach are loan or guarantee funds.

Although infrastructure in rural areas can include large infrastructure project assets (for example in renewable energy, waste treatment, broadband or irrigation networks), facilities in rural areas supported by the EAFRD tend to be smaller than those in urban areas. This implies that 'intermediate financing' model could be more suitable for an EAFRD instrument, although this would depend on local conditions, the financial instrument scope and the type of infrastructure investment. For these, EAFRD grants are advisable in combination with the financial instrument, especially in the first years of implementation when there is a risk of low profitability. These can form part of a single operation in the 2021-2027 programming period and can greatly facilitate the work of financial intermediaries, project promoters and managing authorities.

What could an EAFRD financial instrument for infrastructure look like?

In the absence of EAFRD specific experiences, some ERDF JESSICA funds established in the 2007-2013 programming period and continued as urban financial instruments in the current period, could be a source of inspiration for EAFRD managing authorities.

What is JESSICA?

The Joint European Support for Sustainable Investment in City Areas (JESSICA) was a policy initiative of the EC, developed jointly with the EIB and in collaboration with the Council of Europe Development Bank. It was launched in 2006 to promote the use of financial instruments in support of sustainable urban development.

According to the eligibility rules of ESIF and Operational Programmes providing financial support to JESSICA initiatives around Europe, projects typically covered infrastructure, including transport, water/waste water, energy, energy efficiency, heritage or cultural sites for tourism or other sustainable uses, requalification of brownfield sites with site clearance and decontamination, office space for SMEs, IT and/or R&D sectors and university buildings, such as medical, biotech and other specialised facilities.

ESIF contributions were allocated to urban development or energy efficiency funds investing in public-private partnerships or other projects included in an integrated plan for sustainable development. Urban development funds provided equity, loans and/or guarantees that, owing to their revolving nature, could promote the sustainability and impact of EU and national public money. At project level, combinations with non-repayable financial support, including grant schemes, were often used to mitigate project risks and attract private capital.

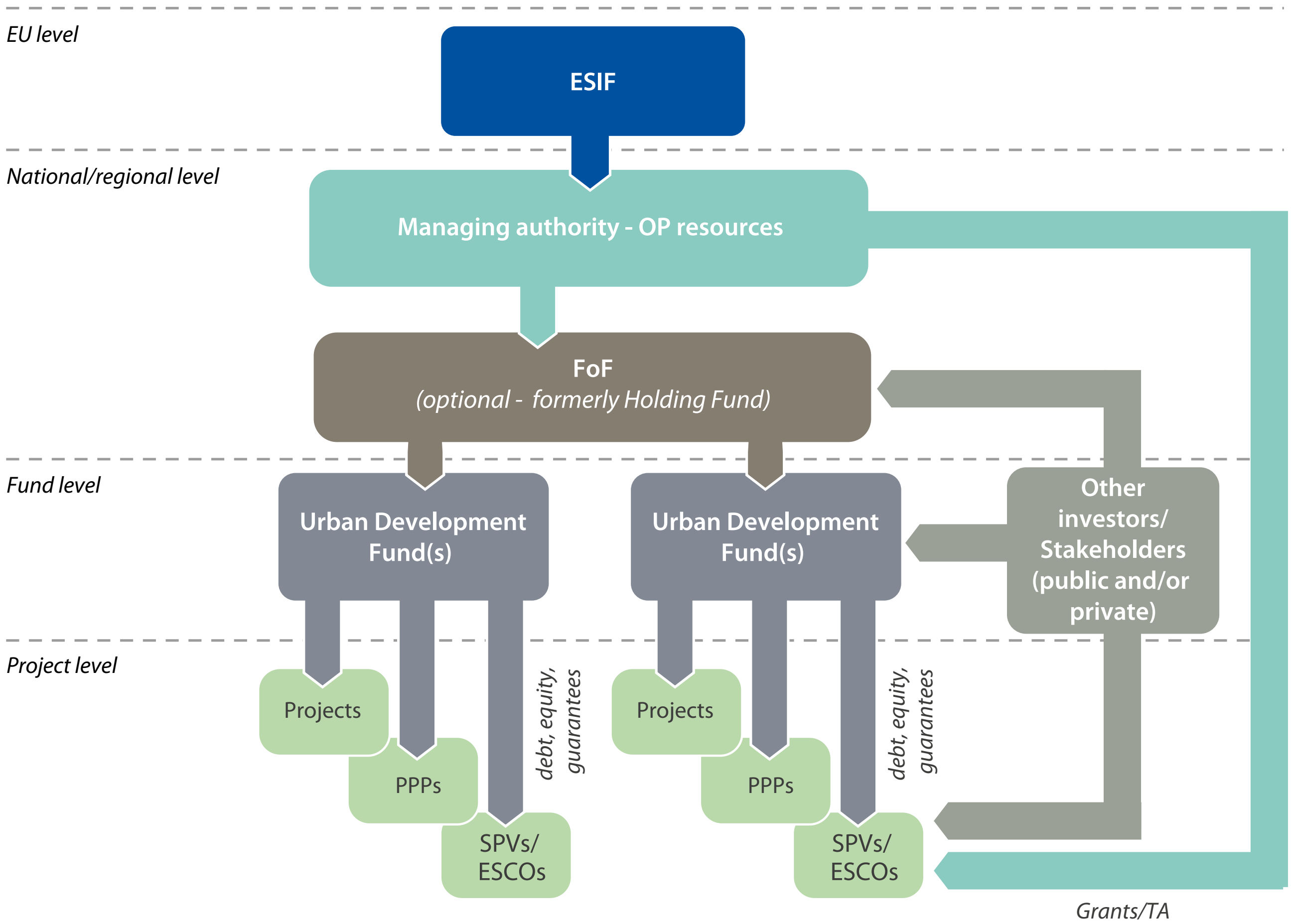
The JESSICA initiative showed the potential to attract financial intermediaries with knowledge of the specific territories, which could also provide expertise and technical support, as well as private financial resources. Financial intermediaries who take ownership of the initiative at the local level also help with communication, awareness raising and building a pipeline of investable projects.

Although the JESSICA initiative was dedicated to the development of urban projects, some of these financial instruments (see box below) have shown a successful deployment of the JESSICA 'model' to a pool of smaller municipalities that, according to their size and geographical position, may have been just as easily classified as rural municipalities.

Therefore, an EAFRD financial instrument inspired by the JESSICA model could include the following key characteristics:

- **Planning:** infrastructure investments should be based on local plans, to ensure synergies and integration with different interventions. A key role in planning can be played by municipalities and other local bodies. As illustrated earlier, LAGs can also provide an important contribution. Infrastructure investment linked to Smart Village initiatives should be included in the strategic documents.
- **Flexibility:** the fund should target a wide range of different sized infrastructure projects proposed by different project promoters including municipalities, private organisations and PPPs. Specific assessment may be needed beforehand to determine the correct scale of intervention.
- **Technical Support:** the instrument should support local infrastructure not only with financial resources, but also by addressing knowledge gaps of local authorities and project promoters. These financial instruments operate typically through financial intermediaries, which contribute additional resources and technical expertise. Financial intermediaries normally help to identify and develop a pipeline of projects and, in some cases, provide technical assistance and support to project promoters. In some cases, this support is provided by a separate, but complementary, body or agency.

Figure 2: Typical JESSICA financial instrument delivery structures



JESSICA SARDINIA

JESSICA Sardinia was a financial instrument in the 2007 to 2013 programming period. EIB manages the Holding Fund (fund of funds) which oversees two Urban Development Funds, one devoted to urban regeneration and another to energy efficiency. The funds are managed by specialised financial intermediaries with a solid local presence, enabling the deployment of JESSICA support to projects in Sardinia.

JESSICA Sardinia is financed by ERDF resources.

21 local authorities are the largest **final recipient** of the Fund, although JESSICA Sardinia could also be delivered through PPP.

Banks and special purpose entities act as **financial intermediaries** and appraise the projects.

Key financial information

- Established in 2011 with ERDF resources of some EUR 80 million; with co-financing at financial intermediary level possible.
- Investments in urban regeneration projects and energy efficiency or renewable energy projects promoted by the public sector and PPPs.
- EUR 200 million total investments.
- Full disbursement by June 2016.
- 37 projects financed.

The portfolio included both niche operations (projects of about EUR 90 000, mostly in small villages) and major infrastructure projects (e.g. a gas network).

Strong partnership (intermediary bank and their advisors) aimed at scouting projects across the territory and creating a pipeline of feasible projects.

Biogas plant serving the town of Ozieri (12 000 inhabitants). More than 2 000 MWh per year; CO_2 emission reduction of more than 1 000 tonnes per year.

Project promoter: Chilivani Ambiente S.p.A. (public-private special purpose entity)
Project total amount: EUR 4.8 million
Loan/equity investment by the financial instrument:
EUR 0.9 million

Renovation of a municipal building, transformed into a commercial activity (restaurant) managed by young local entrepreneurs selected via public procurement.

Project promoter: Municipality of Borutta (ca. 300 inhabitants)
Project total amount: EUR 265 000
Loan/equity investment by the financial instrument:
EUR 251 000

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