



TEN-T Info Day Cyprus

Public Private Partnerships: policy outlook and the Annual Call 2012: Support for PPPs

TEN-T Info Day Cyprus
5 December 2012

Policy Framework to address the infrastructure financing challenge

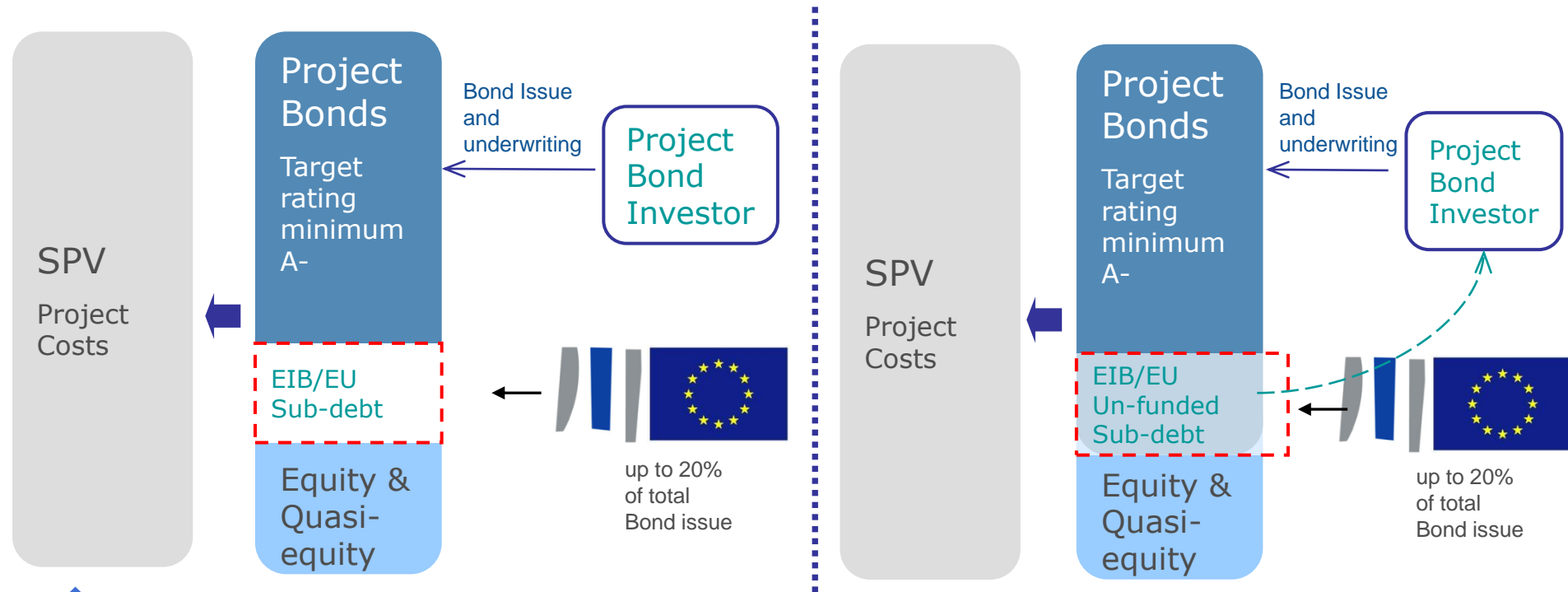
TEN-T to optimise EU-wide PPP projects pipeline and pave the way for the Connecting Europe Facility (CEF)

- **Capacity Building** of the Network of the National PPP units (e.g. *Planning Bureau of the Republic of Cyprus*) through the European Expertise Centre (EPEC)
 - **Loan Guarantee Instrument (LGTT)** jointly funded by EU and the EIB to mitigate traffic dependent risks & cash flows
Currently supporting 6 TEN-T investments worth EUR 11 bn
 - **Project Bond Instrument** pilot phase (2012-2016) being rolled out
 - **PPP project preparation grant funding**
- ⇒ The EIB delivers financing
- ⇒ The Agency can facilitate beneficiaries' access to EIB financing through TEN-T grants

Pilot Phase of Project Bond Initiative: private capital to deliver EU infrastructure priorities

- Implemented since **7 November 2012**, with signing of Cooperation Agreement between Commission and EIB
- the applications, **appraisal and pricing** of the individual projects done by **the EIB**
- EIB approvals until **31 December 2014**, financial close by end of 2016
- the PB credit enhancement is designed to improve the **credit quality** of senior debt of a project company **in order to issue project bonds**
- the **EIB provides a finance facility** to a project company in the form of a sub-ordinated loan and / or guarantee
- **target investment rating of at least A-**, a level expected to attract long term institutional investors (insurance companies and pension funds)
- **mitigates all types of project risks** (construction, operations, performance, traffic)
- Adaptable to **all types of PPP payment mechanisms**, including availability and user-pay

PBI: funded and un-funded debt



EIB/EU Sub-debt comes as a mezzanine, sub-ordinated loan – replacing part of the bond to increase its target rating



EIB/EU Unfunded Sub-debt guarantees part of the bond issued to improve the target rating

- Increases the amount of bonds to be issued
- Available during the whole lifetime of the project
- Can address the problem of cash shortfalls during the construction period
- EIB pays only when guarantee is called

2012 Annual Call Priority 3: Support for PPPs and innovative financial instruments

The objective of this priority is to support the screening and development of projects for suitability to be procured as PPPs and to exploit EU level financial instruments.

The expected result will be the creation of an EU level PPP project pipeline within the TEN-T that will:

- *Provide a clear signal to the private sector of the long term public sector commitment to PPP procurement*
- *Enhance the preparation of projects suitable for PPP procurement*
- *Ensure the effective and efficient use of EU funds*
- *Provide upstream support to projects, facilitating access to innovative financial instruments such as the EU project bond initiative (PBI) and LGTT*
- *Contribute to the success of the pilot phase of the project bond initiative to open the bond market as a source of long term finance for TEN-T projects*

Steady growth of EU level PPP project pipeline

- **Annual Call 2010 €7 million offered, 3 projects selected**
 - *2010-NL-93302-S – Implementation study to prepare PPP to improve maritime access to TEN-T at Amsterdam – Sea Lock*
- **Annual Call 2011 €15 million offered, 6 projects selected**
 - *2011-CZ-94064-S PPP for D3 motorway*
 - *2011-ES-94123-S PPP for intermodal logistics platform*
 - *2011-FR-94036-S PPP for CNM stations*
 - *2011-IT-94006-S PPP for Port of Venice*
 - *2011-IT-94030-S PPP for rail link at Malpensa*
 - *2011-NL-94111-S PPP for Beatrix locks and Lekkanaal*
- **Annual Call 2012 € 25 million offered**

Evolution towards stronger focus linkage to financial instruments

2012 Annual Call Priority 3 - Support for PPPs: feasibility to maturity

PPP screening: feasibility studies necessary for value for money assessment and preparation of business case:

- Market scan to identify private sector potential; Risk analysis and risk allocation
- Affordability – funding and financing models, including revenue generation studies, payment model options
- Identification of output requirements, preparation of public sector comparator
- Development of financial models based on robust cost estimates, current market pricing and quantitative risk assessment

PPP procurement: Mature project preparation phase, studies necessary to bring project to tender and to support procurement phase:

- Further technical studies to define preferred solution: output requirements and service quality standards
- Establishment of risk allocation, risk mitigation and pricing models
- Financial studies to identify optimal sources of financing, including capital markets solutions
- Preparation of draft PPP contract, including provisions to accommodate bond solutions
- Studies to support procurement phase, including development of shadow credit rating but not including bid evaluation

Opportunities available for projects selected under Priority 3

Screening of mature PPPs for pilot phase of PBI:

- **Procurement phase to be launched not later than mid-2014**
- **'Bond friendly' tender documentation**
- **Similar financial viability and political support as needed to attract bank finance**

Screening for feasibility of PPPs for the future

- **Develop robust value for money assessment**
- **Prepare PPP projects for Connecting Europe Facility**
- **Increased use of financial instruments at EU level**