PPPs and Infrastructure Project Financing: an European perspective

Riga
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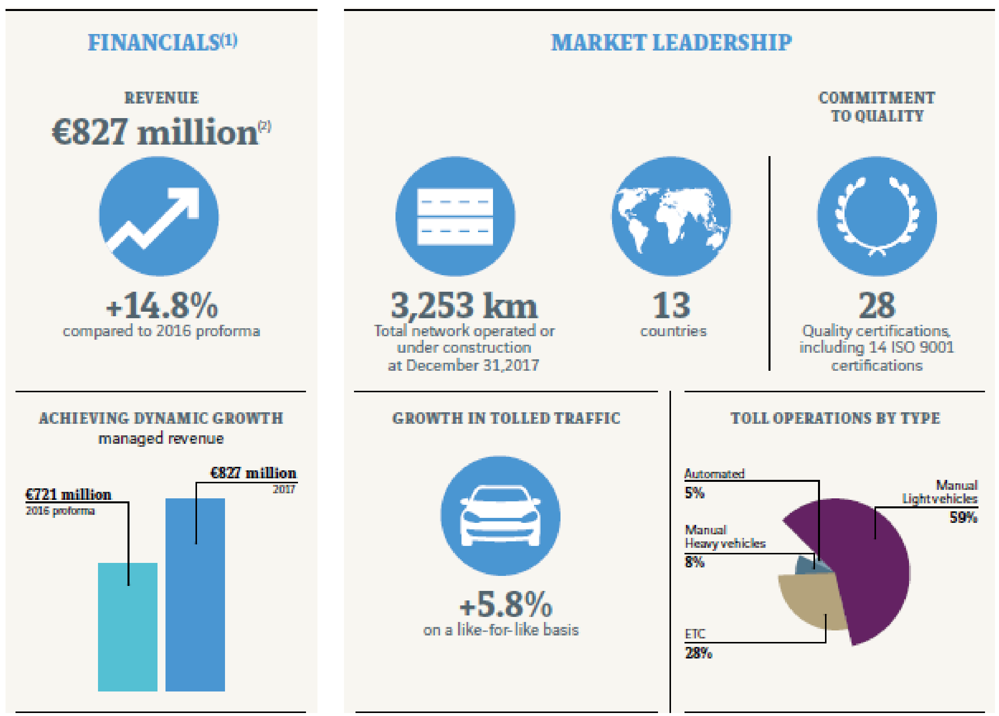
VINCI Highways

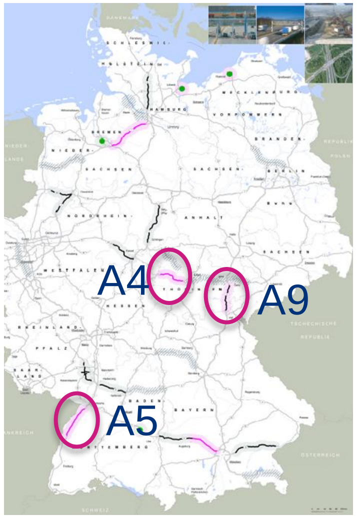
VINCI Highways

- **VINCI Highways heads an international network of 24 motorways, bridge and tunnel concessions in 13 countries.**
- Building on the Group's traditional expertise, VINCI Highways designs, builds, operates and maintains road, bridge and tunnel infrastructure.
- Its teams forge long-term partnerships with its customers / concession grantors to meet the specific user expectations in each country with respect to safety, convenience and services. Throughout all phases of their projects, they closely coordinate their work with their stakeholders.



The German example and the A-model

- The A5 highway
  - Concession (only trucks pay fees)
  - Financing, enlargement, operation & maintenance of a 60km highway
  - 30-year contract
  - Around 70% debt – 30% equity ; no subsidy
- The A4 highway
  - Concession (only trucks pay fees)
  - Financing, construction, operation, maintenance of a 45km highway
  - 30-year contract
  - Around 10% of subsidies
  - Open to traffic 1 year in advance
- The A9 highway
  - First DBFOM availability model in Germany
  - 46,5 km of dual carriageway
  - O&M includes extensive winter maintenance
  - Strong winter conditions with frequent and heavy snowfalls (from October to April, with lowest temperate of -17° C)
  - Construction of depots for salt (capacity: 3,400t) and sodium chloride (capacity: 160,000 L)
  - Supply of equipment and machineries
    - 4 3-axle trucks of 8m3 + 3,000L NaCl capacity
    - 1 2-axle truck of 4m3 + 1,500L NaCl capacity



R1 Expressway, Slovakia

- PPP project in central Slovakia includes design, construction, financing, operation and maintenance of sections of R1 expressway and bypass
  - One of the first large transportation PPPs to close in central Europe, totaling 52 km, along with 81 bridges totaling 13 km
  - Achieving Financial Close in challenging financial markets with a financial close in 2009 with 12 commercial banks, a multilateral institution and a 15% over-subscription
  - Accelerated schedule - project opened to traffic in 26 months
  - Main section completed in 2011, bypass opened in 2012
  - First safety program in Slovakia
  - Traffic averages 13,300 vehicles per day
  - Refinancing of the project on October 2013
  - 32-year concession agreement through 2041

Rion-Antirion bridge, Greece

- Technical prowess
  - Multi-span cable stayed bridge; 2,252 meters' continuous and fully suspended deck ; foundations lay on a seabed that reaches 65 meters of depth ; resistance to earthquakes with a magnitude up to 6,5 of the Richter scale are possible.
- The socio-economic impact
  - "The effects of the Project change the revenue and work conditions of the adjacent areas and the conditions of social exclusion, thus releasing new development forces […] the analysis documents the fact that the Bridge will play an larger role in the development, as an axis linking Greece to Europe, the Mediterranean and the Middle East. […] the total influence on the national economy was near to 1.5 billion Euros." [Univ. of Patras, 2006]
- Maintaining the socio-economic acceptability
  - Regular events with associations, environmentalists, schools
  - Bridge not only for traffic, but also as a link between all the stakeholders / citizens / actors of the ecosystem

- One contractual characteristic of the project: variable duration of the contract, ie. stops when IRR = 12.5%

= A way to share value

- Turbulence due to the crisis: loss of value of the project, due to severe traffic decrease

Why PPPs?

Benefits and implications for the public authority

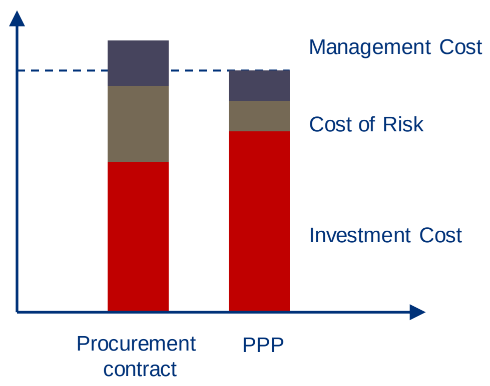
Objectives

- On-time, on-budget delivery
- The public sector has a clear view of the cost of risks retained and transferred
- Long term maintenance issues are dealt with from the start
- Introduction of private sector expertise and innovation

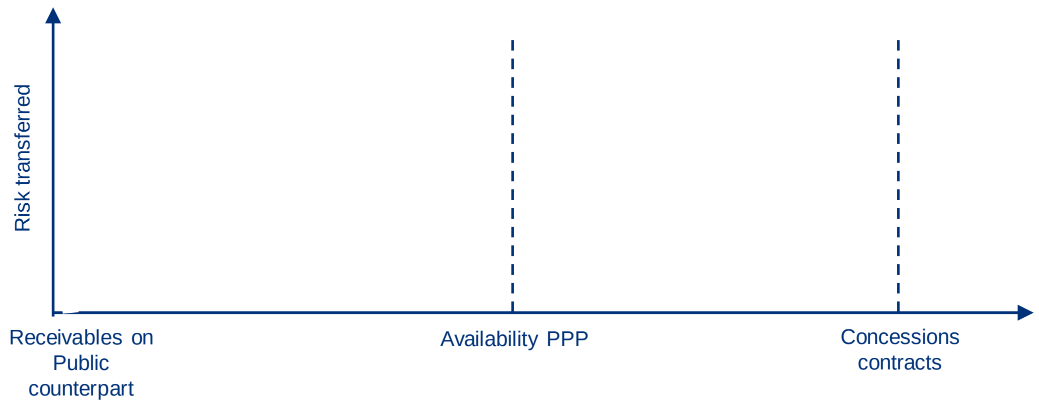
Implications

- Change in procurement process
- Development of core requirement (output specifications)
- Detailed analysis of project risks

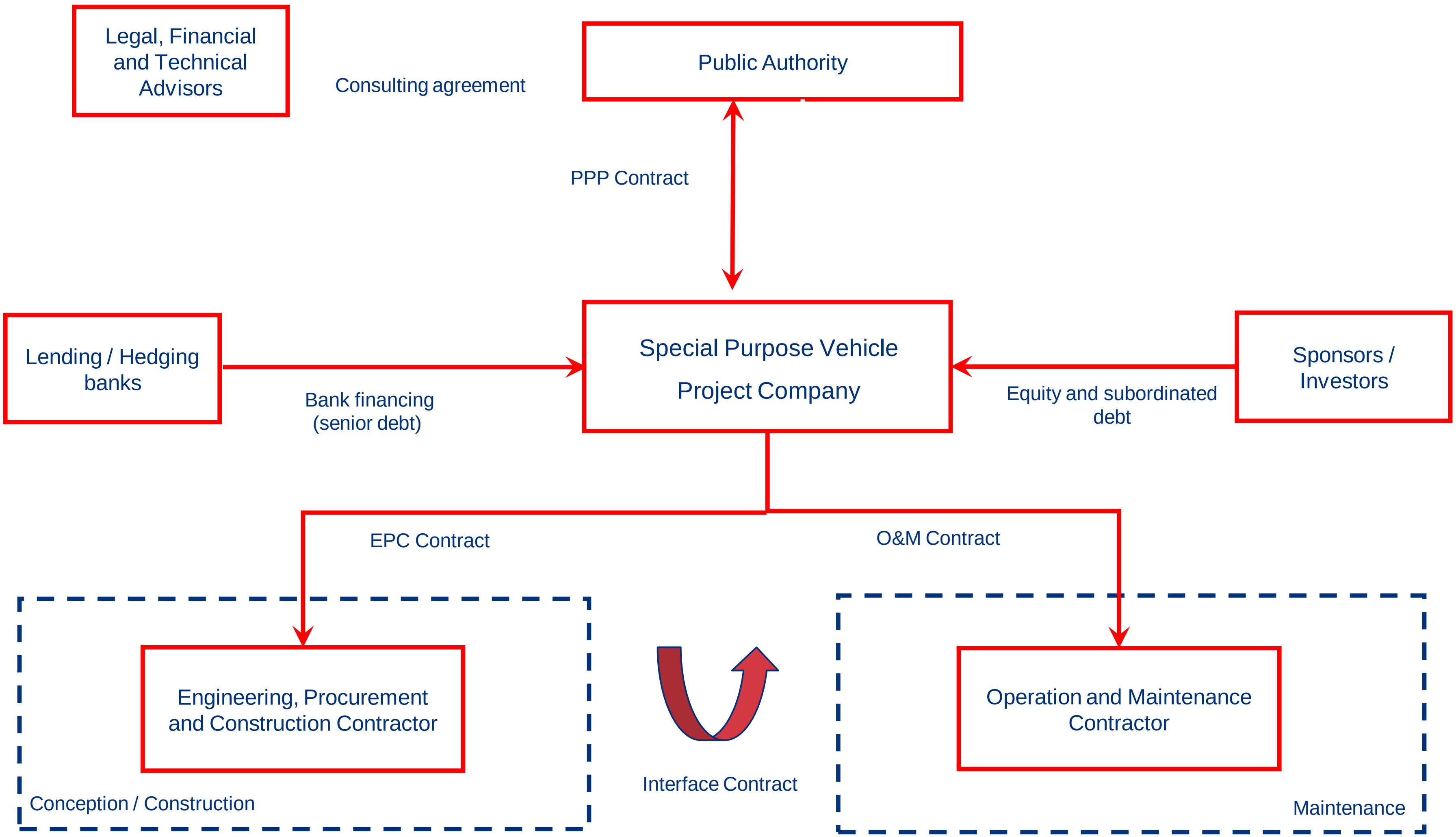
Cost savings



Risk externalization from the public to the private sector



PPP contractual structure

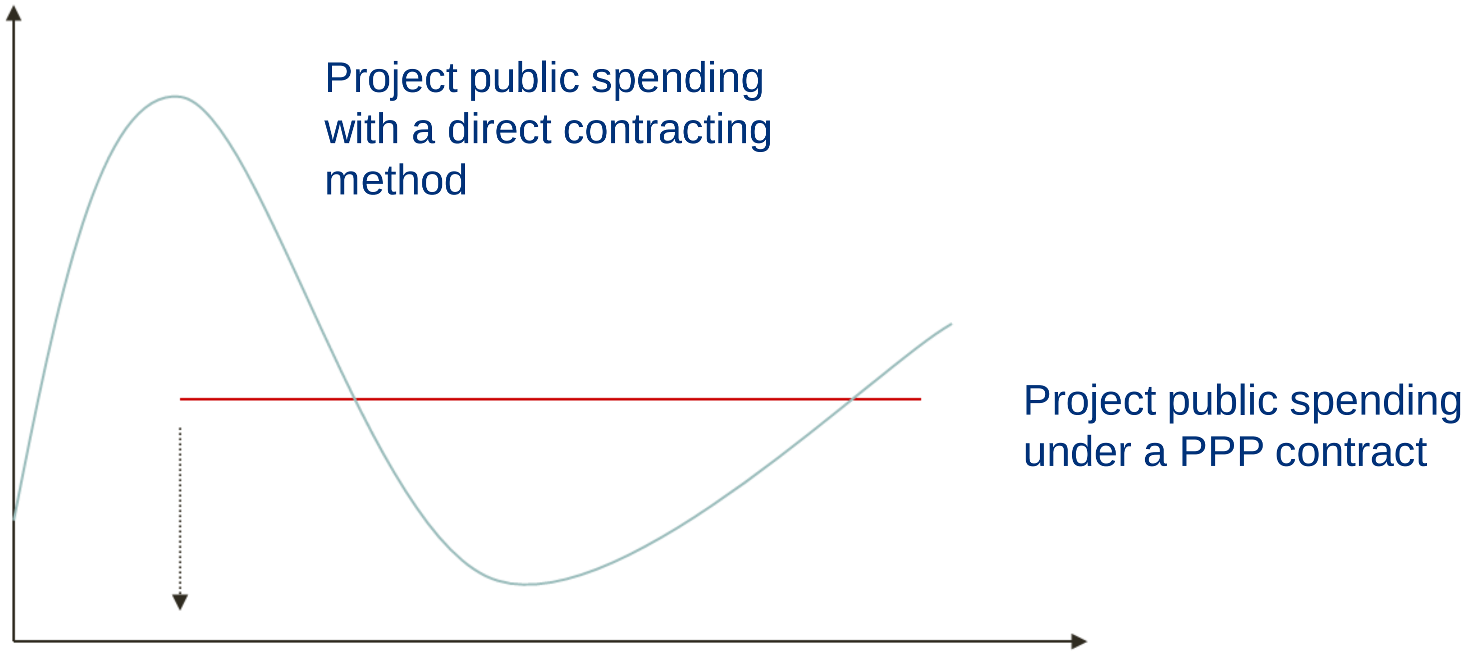


Advantages of PPP contracts

- A competitive dialogue between international companies leading to an optimal response to public client requirements and final users' expectations
- Fixed price contract
- Output-based contract with an obligation to reach a set or target indicators (KPIs): quality, time, performance, etc
  - Incentive to respect time schedule
    - Delays = users cannot use the infrastructure
    - No availability payment made + Penalties
  - Incentive to remain within the budget
    - In case of cost overruns, availability payments are not adjusted
- Global contract
  - Incentive to anticipate operation issues and minimize operation costs from project design
  - Incentive to plan and secure funds for asset maintenance; No hidden maintenance costs over the contract duration
  - *European Investment Bank report on procurement method cost comparison, 2009*
    - Construction costs: higher for PPP than traditional contracting
    - Overall project costs: lower for PPP than traditional contracting

Public spending profile

PPP contracts permit to reduce and smooth public spending over the contract duration



Advantages of PPP contracts

- Each partner is focused on the tasks it best masters
  - Public party
    - Long-term strategy and vision
    - Project planning
    - Project procurement and selection of project implementing entities
    - Performance control
  - Private party
    - Optimization and innovation through international competition and fixed price contract incentives
    - Project management and interface risk management during project design, implementation and operation
    - Specialized teams on each project phase: bid, financing, construction, operation
- Long term contract, and long term relationship with project stakeholders
  - The private party commits to territorial and social development objectives
  - The private party has interest in ensuring proejct sustainability and reducing project ecological footprint and planning for social & environmental impact mitigation and reduction
- One-stop service for the public authority
  - Only one procurement tender to manage and only one contract to supervise

Success conditions of a PPP contract

- Socio-economic viability has to be demonstrated before chosing procurement method
  - Socio-enconomic benefits ≠ Financial profitability
  - A PPP will not make a project economically viable
- The public authority shall delegate public services while keeping control on the private party performance
- A suitable risk distribution among public and private parties
- Legal contract conditions reflecting operational contract conditions and constraints

European perspective

Concessions and PPPs: a resilient investment scheme

- The concession/PPP model has proved resilient to develop and maintain the European motorway network
- Example:
  - The concession model allowed developing the French motorway at an unprecedented pace
  - Between 1970 and 1995, 5,500 km of motorways have been constructed in France representing on average 220 km per year.
  - Capacity to absorb economic downturns and continue investment, in particular the oil crisis in the 1970s and the financial crisis which started in 2007
- Fertile ground to always innovate and offer better and tailored services to road users, as their expectations evolve
- Private operators which invest money in infrastructure projects and assume construction and operating risks require a stable regulatory and legal framework with harmonized administrative conditions at the European Union level

Juncker Plan

- Background: loan and equity money is avaiable on the market, what is lacking is public subsidies and European grants
- Objective: foster investment in Europe infrastructure to boost growth
- Expectations:
  - Pipeline of infrastructure projects
  - Guarantees to mitigate traffic / volume risks
  - Stronger capacity in Member States to better prepare PPP projects
- PPP fit with the Juncker Plan
  - Combination of public sector's and private partners' strengths
  - Optimisation of the use of available funds through leverage
  - Fit for complex projects such as large infrastructure projects
- Results:
  - Several projects have the Juncker Plan label and have benefited from EIB support
  - Only one highway project with traffic risk as benefited from the Juncker Plan guarantee: the refinancing of A355 in France

Reform of European Directive

- Directive 2014/23/UE already contains dispositions which promote a more efficient legal and regulatory framework to administrate and amend concession contracts.
- Clarifying EUROSTAT procedures and rules could increase predictability and enable Member States to accelerate the project preparation and tendering phase.
- The “user-pay” principle or the concession scheme is a rather new idea in Europe, and can be a solution for two reasons
  - In several countries with established transport networks, the greatest issue is the renewal of ageing infrastructure. PPP and concession schemes are valuable tools to enhance and modernize existing roads, as public authorities find difficult to mobilize credits to maintain motorways
  - There is no intrinsic reason to limit the concession principle to long distance road sections: we should also focus on how concessions could be implemented for urban mobility, co-modality and the development of collective transports on road.
- Combining EU funds and the Juncker Plan’s financial instruments for motorway projects will push the implementation of the “user–pay” principle, allowing Member States to keep resources for other transport modes and to implement these projects with limited use of public debt.

Conclusion

- Build a project pipeline
- Attract experienced players on first PPP projects
  - Set quality standards
  - Train the local capacity around PPP
- Factor in the European expertise and support

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