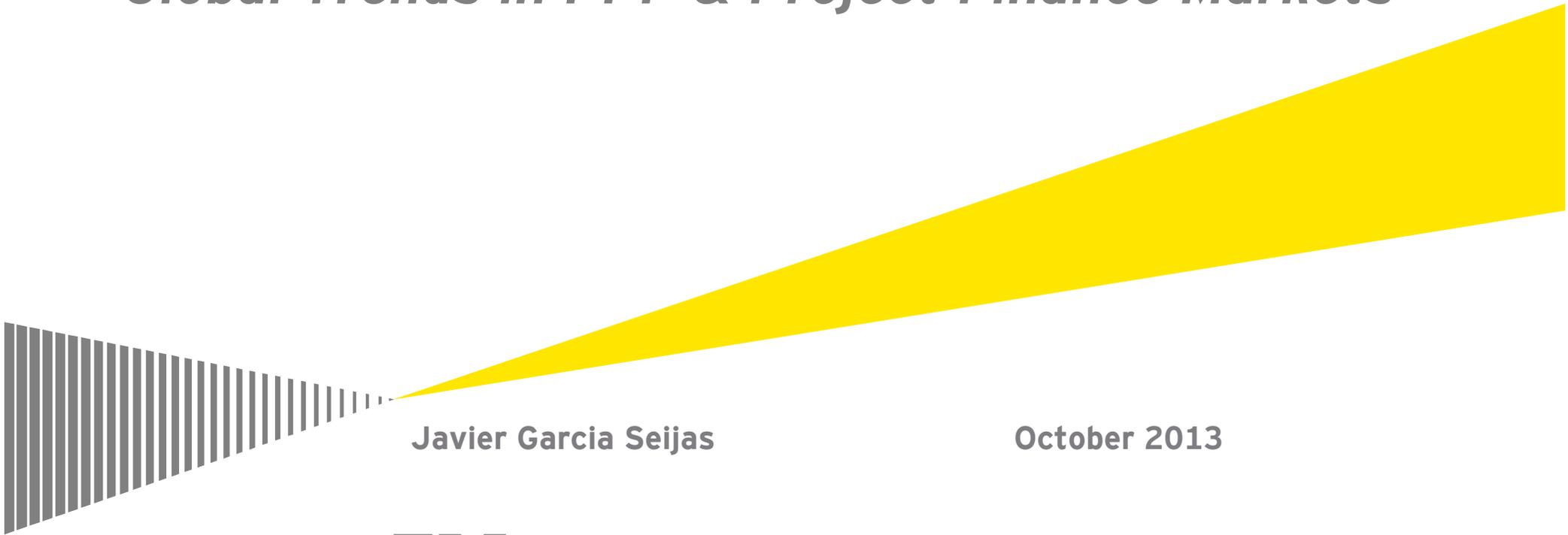


# *Global Trends in PPP & Project Finance Markets*



**Javier Garcia Seijas**

**October 2013**



# Introduction

---

**1**

## PPP's Before Financial Crisis:

PPP's until August  
2007

- **Increasing use of PPP Model.**
- **Broad type of projects:** Highways, railways, airports, water utilities, desalination plants, urban transport, social services and healthcare projects...
- **Simple tender structure:** Concession agreements signed by public administrations.
- **Main players:** Developers **subsidiaries of construction companies** (accompanied in some cases by operators of each sector), **private banks** (or saving banks) as funders, **monolines insurance companies**...
- **Absence of investment funds** and minor participation of **multilateral agencies (MLA's)** or **public European institutions** (excluding funds and subsidies).
- **Security** required for the financing were **progressively reduced**. From the required in the 70's and 80's to the almost residual in the year 2007.

## The impact of the Financial Crash :

### Credit Crunch

- **Strong decrease** in the number of tenders and volume of investment amount.
- For the first time in many years some tenders are not finally awarded, number of players dramatically reduced, or tenders awarded are cancelled.
- **Relevant problems for the financing.** Lack of funds for invest & financing. Very restrictive conditions.
- **Bankruptcy and disappearance of the monoline insurance companies.**
- **Strong decrease in toll revenues**, due to traffic decrease. Severe problems for recently built highways, because in addition to that they have high financial expenses during that first stage.
- The result is a search for **new financing formulas and sources of income:** Availability Payment, eurovignette, fuel taxes...
- **Public Administration actions:**
  - √ Direct investment in infrastructures, capital injections.
  - √ Legislative changes.
  - √ Increase the security to achieve the financing vs Consolidation criteria Eurostat.

## Current PPP market situation:

### 3P Current trends

- Gradual increase of PPP tenders, from a **new point of view**. Success in the tender and financing in many countries (Canada, USA, UK, Netherlands, France).
- The typology of the projects suffer a slight change towards **infrastructures with a higher demand or social need**: Equipments, smart cities, commercial railway, roads with toll collection agreement and performance indicators etc...
- Progressive decrease of the required guarantees, but not to low levels prior to the crisis. **Increase of the profitability required** to achieve successful projects.
- **Decrease in the unitary investment amount**, because of financing restrictions, and the presence of budget restrictions: budget availability and impact in deficit.
- **Change in market players**:
  - √ Reluctance or **shortage of capital** from construction subsidiaries companies, higher availability of pure concession companies.
  - √ Appearance of **investment funds**. No longer existence of monoline insurance companies nor syndicated loans.
  - √ **Strong presence of public agents**: MLA's (capital funds or debt financing, EIB, ICO, Marguerite), subsidies (TEN-T).

# Introduction

## Terms and Conditions of Financing Prior / After the Crisis.

➤ The following chart summarize the main changes related to PPP financing in Spain due to the financial crisis

CONCEPT	PRIOR	AFTER
Investment amount (MM_EUR)	100-1,000	20-500
Project profitability	5-8%	10-14%
Source of income	Preference for Demand	Preference for Availability with no credit risk
Equity	10-20%	20-25%
Term of financing	Long-term financing	Soft mini perm
Debt spread	50-100 pb	250-350
DSCR	1.10-1,25	1.25-1.50
Tail	3-5 years	6-8 years
Security	Project Finance	Project Finance / Corporate

## Ideas for the debate

---

# 2

- ▶ 2.1 Project Bonds - Debt providers -New players
- ▶ 2.2 Risk allocation optimization /Eurostat
- ▶ 2.3 Cost of preparation / Social economic impact/  
value for money
- ▶ 2.4 Pipeline / Projects
- ▶ 2.5 Secondary Markets

## Debt Providers New players

Will PPP's in Europe be financed by Bonds ?

Will Debt Funds have a relevant role in financing PPP's?

## Risk allocation optimization /Eurostat

Are Public administrations using PPP's just as a tool to invest out of balance?

If they follow the SEC 95 rules to invest out of balance....Do they optimize Risk allocation ?

## Cost of preparation / Value for Money

Do public administrations analyze detailly value for money and cost- benefit studies before tendering a PPP?

Are PPP's a expensive procurement for bidders ?

## Pipeline / Projects

Which are the countries with a hottest pipeline ?

## Secondary Markets

Will the activity in the secondary markets increase ? Will we see more often Infra Funds buying assets from Corporates ? Asset by asset or investing in Concession Companies ?