Financing road concessions in Europe

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Introduction

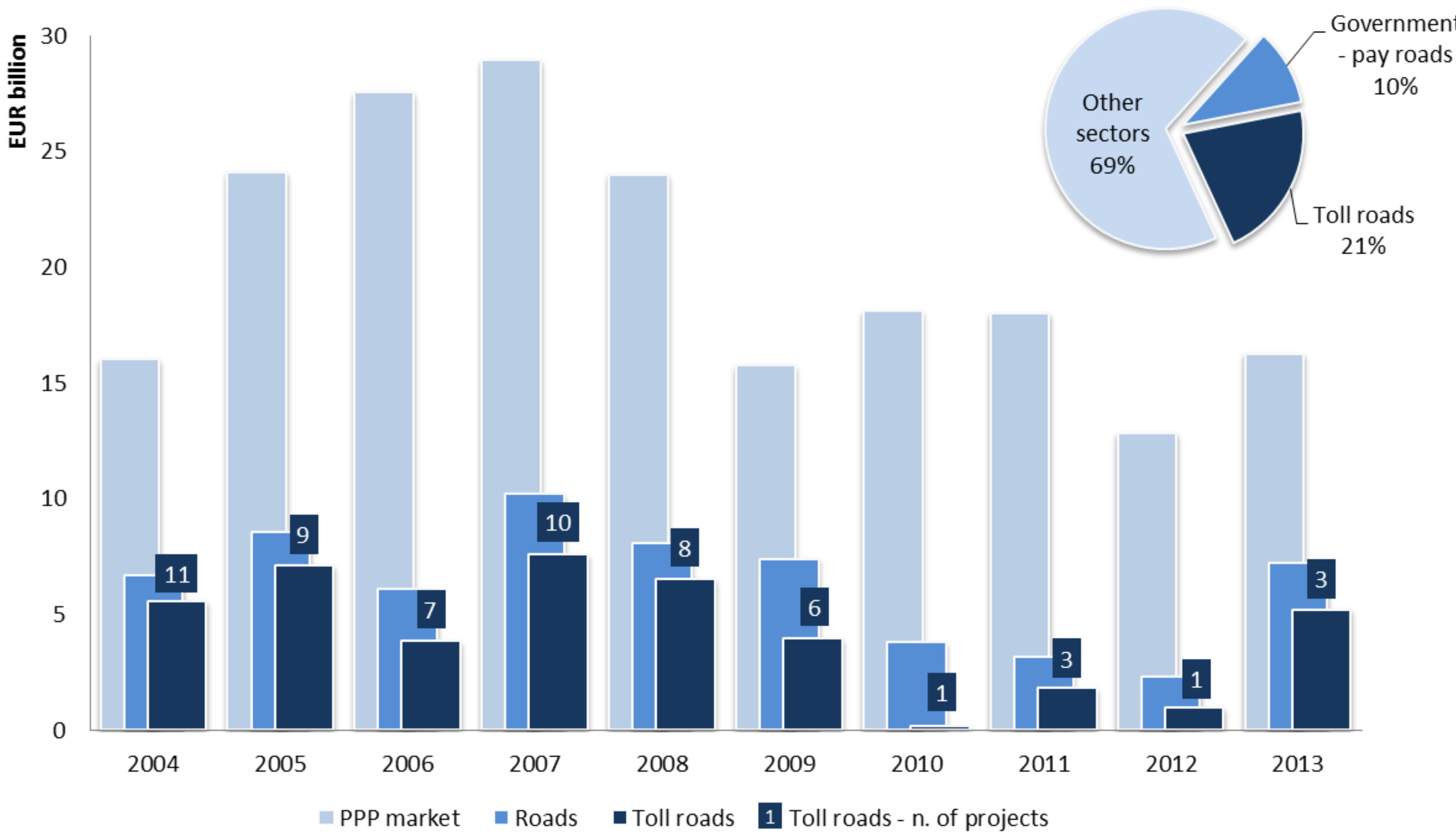
About EPEC

- Set up in 2008 as an initiative of EIB and European Commission
- A members' club bringing European PPP agencies together
- Build PPP capacity in the public sector across Europe

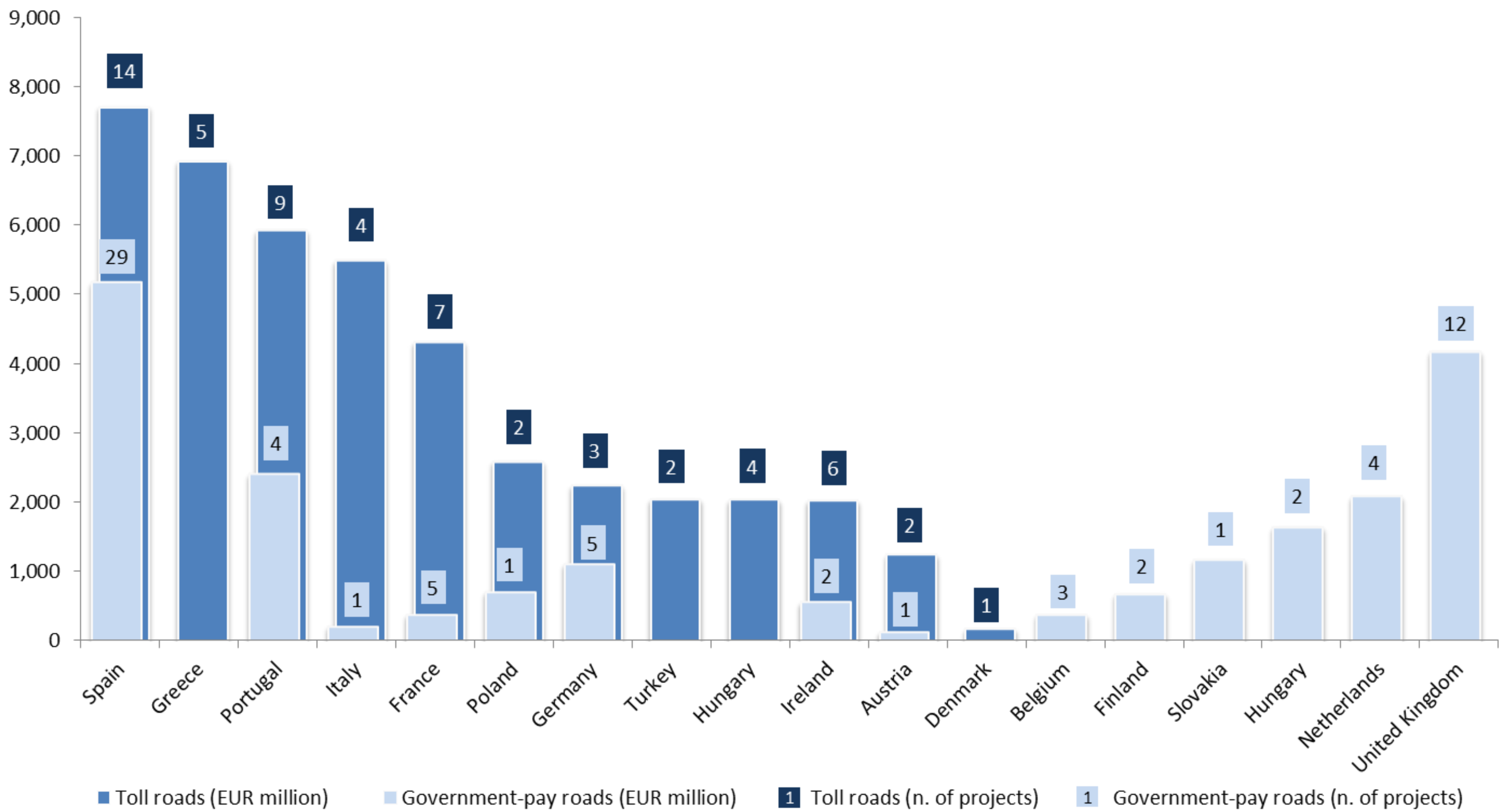
Warning on the data used

- Focus on Europe (including Turkey and Western Balkans)
- Greenfield projects that reached financial close (project finance)
- DBFO/DBFM type (both user-pay and government-pay)
- Data sourced from commercial databases, EIB and EPEC
- Data is far from perfect!

Toll road projects vs. the European PPP market



Country breakdown for road projects (last 10 years)



Key findings (1/2)

- Toll roads account for about 20% of the PPP market
- But, drop in volume and number of toll road projects since the onset of the financial crisis
- More recourse to government-pay schemes (availability-based or shadow tolls)
- Improvements since early 2013
- In Q1 2014, 3 road projects closed but all are availability-based
- High country concentration of toll road projects: Spain, Portugal, France, Ireland, Greece and Italy (toll road culture)
- Recent availability-based / shadow toll projects are mostly found in North West Europe (value for money drivers, policy choices)

Key findings (2/2)

- Most "toll road countries" have been severely affected by the financial, economic and sovereign crisis
- Many toll road projects have gone wrong… much more than in the PPP space
- Reasons vary but economic downturn and optimistic traffic/revenue projections are key factors
- Paradox: although toll road projects are more difficult to finance, there is pressure on governments to opt for these (budgetary constraints)

Traditional lenders: issues with greenfield toll roads

- Traffic risk: traffic projections, elasticities, optimism bias
- Regulatory environment: tariff setting mechanisms, stability through time
- Uncertainties regarding competing infrastructures
- Cost unpredictability (e.g. expropriation, extraordinary maintenance requirements)
- Debt/equity ratios often too aggressive
- Historical performance: the recent track record does not help lenders confidence
- Setting the above aside, banks have there own lending capacity constraints (e.g. Basle III)

New lenders: can they help?

- In 2013, almost 30% of the European PPP market involved institutional investors debt
- Several models (direct lending, project bonds, debt funds,…)
- There is appetite for very long-term debt and potentially construction risk
- But the declared focus of investors is on:
  - Availability-pay deals
  - Certain (mature) countries
  - Mixing greenfield and brownfield
- There are issues linked to procurement process in some countries

The future: what lenders are likely to ask for

- Regulatory clarity and protection
- Traffic and/or revenue and/or financial guarantees from governments
- Capital grants
- Generous contract termination provisions
- Support from sponsors (performance bonds, guarantees)
- This will have a major impact on governments:
  - Value for money of projects
  - Contingent liabilities for governments
  - Accounting and Eurostat treatment of the deals

Conclusion

- Recent softening of lending conditions over the last year: will this benefit the toll road sector?
- When commercial banks lend, financing is likely to be expensive, with tight conditions and for short maturities
- Institutional investors will need to be tested/convinced
- Some countries will find it more difficult than others
- Raising financing for greenfield toll roads is likely to remain a challenge for the years to come
- Relatively dry pipelines for transport PPPs

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