PPP and the Consequences of the Financial Crisis
- Financing capacity
- Future perspectives

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Background

- Impact of the crisis on bank liquidity and balance sheets severely affected the PPP market

- 120 PPP/PFI transactions reaching financial close in 2009 for a value estimated at €15.8 billion;

- Approximately 40% decrease in transaction value vis a vis 2008;

- A sharp reduction in average deal size.
Government analysis and response

A banking liquidity problem?

- Co-lending implemented in the UK, through the Treasury Infrastructure Funding Unit (TIFU). Used once (Manchester Waste), but effective market moderator
- Funding facilities in place in France and Germany: first French education projects (Paris VII, Sorbonne) closed in July 2009

A banking capital allocation problem?

- Debt guarantees:
  - in place in France,
  - announced in Portugal and Spain
- Underpinning:
  - in place in France (Cession de créances) and Germany (Forfeiting).
  - Ad-hoc usage in other markets (M25, Polish A2…)
- Indirect guarantees on specific projects, e.g.:
  - Sub-sovereign guarantee in La Réunion,
  - Loan Guarantee for Ten-T projects (LGT), EIB / European Commission instrument covering traffic ramp-up risk, in Portugal (IP4 and Baixo Alentejo) and Germany (A5)
  - Refinancing guarantee in Belgium (Brabo I tram project)
European PPP market has outperformed wider project finance market

- The global project finance market has fallen 45% overall
- In Europe, Middle East & Africa region, the project finance market dropped by 55%. (Source: Project Finance International 2009);

However,
- Many large banks have reduced PPP activity;
- Others have withdrawn from the market.
Amounts subscribed by top lenders have dropped...

**Europe Yearly Top 12 Mandated Arrangers for Infrastructure Deals 2007-2009 ($M)**

<table>
<thead>
<tr>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Caixa Geral de Depositos</td>
<td>1211</td>
<td>2031</td>
</tr>
<tr>
<td>Barclays</td>
<td>1825</td>
<td>2209</td>
</tr>
<tr>
<td>BBVA</td>
<td>745</td>
<td>2033</td>
</tr>
<tr>
<td>Lloyds TSB</td>
<td>630</td>
<td>1792</td>
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<td>Grupo Santander</td>
<td>627</td>
<td>1459</td>
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<td>Nationwide</td>
<td>624</td>
<td>1411</td>
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<td>SMEC</td>
<td>521</td>
<td>1088</td>
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<td>Nord B</td>
<td>513</td>
<td>992</td>
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<tr>
<td>Caisses d'Epargne</td>
<td>509</td>
<td>954</td>
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<tr>
<td>Royal Bank of Scotland</td>
<td>503</td>
<td>536</td>
</tr>
<tr>
<td>Dexia Group</td>
<td>424</td>
<td>919</td>
</tr>
<tr>
<td>Caixa Madrid</td>
<td>403</td>
<td>797</td>
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**Source:** Infrastructure Journal Online
... and some mainstays of the market have withdrawn.

Source: Infrastructure Journal Online
Financing PPPs in post crisis environment – fewer opportunities..
… or reduced bank capacity?

- Individual “tickets” are smaller
  - a typical “club deal” participation in an infrastructure deal up to € 50 million in 2009;
  - pre-crisis a large bank final take, after syndication of € 100 million common.

- Post preferred bidder book building necessary in a number of deals to complete the banking club

- Co-lending initiatives by the public sector

- Focus of banks on their home markets
<table>
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<th>Deals Banks</th>
<th>UK</th>
<th>FR</th>
<th>PT</th>
<th>ES</th>
<th>DE</th>
<th>NL</th>
<th>BL</th>
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The banks said: ‘There’s no place like home!’

Commercial bank engagement in PPP Jan. to Nov. 2009
Looking to the future

• Unprecedented investment needs
  • TENs and other infrastructure
  • Climate change
  • Energy
• Increased public sector indebtedness places new emphasis on PPP
• But challenges:
  • The loss of lending capacity
  • Banks’ funding costs remain above pre-crisis levels
  • Credit committees demand more due diligence
  • Tighter banking regulations and prudent ratios
  • Less appetite for very long term lending

Availability of funding may become a real bottleneck for deal flows envisaged in most European countries.
Capital markets for PPP finance … the positives

- Banks increasingly aware that they will not be able to supply all the funding needs for PPPs;
- Long term, stable cash flows (particularly if index linked) from infrastructure investments remain the ideal ‘fit’ for institutional investors;
- Procurers, governments and sponsors are concerned that the deal flow could slow down due to lack of funding;
- Private sector players are keen on reviving the market. Many are already working on creative ideas, such as mezzanine funds or debt funds.
... and the challenges (with a solution?)

- Commercial banks still see capital markets as competitors;
- Institutional investors have other opportunities, which appear simpler and often present a better risk reward/ratio;
- Sponsors, are generally more comfortable with banks (over which they can exert a much stronger commercial control) and fear the “uncertainties” associated with capital markets;
- Procureurs, are often not familiar with capital market and not always prepared to change their habits to fit the specific requirements of capital markets investors.

→ Public sector as a catalyst?

- Adjusting the procurement processes toward easier integration of capital market solutions?
- Requiring ‘capital market friendly’ bids?
- Encouraging the IFIs and promotional banks to develop capital market options?
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