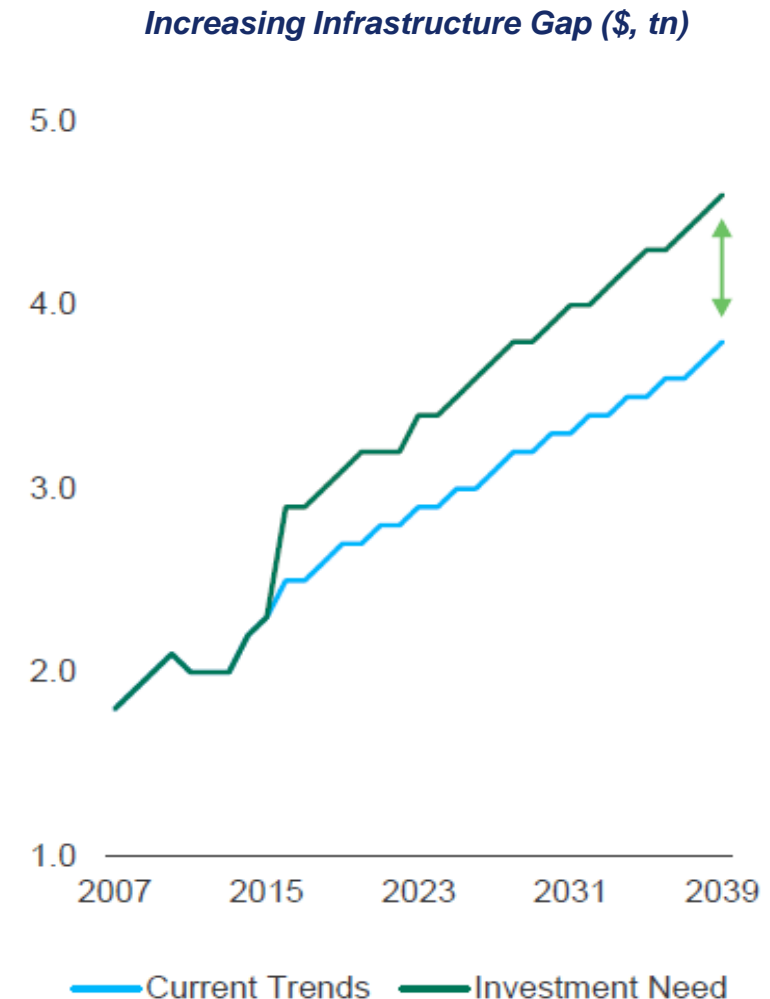


New PPP

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10-10-2023

Infrastructural «Funding Gap» at the global level

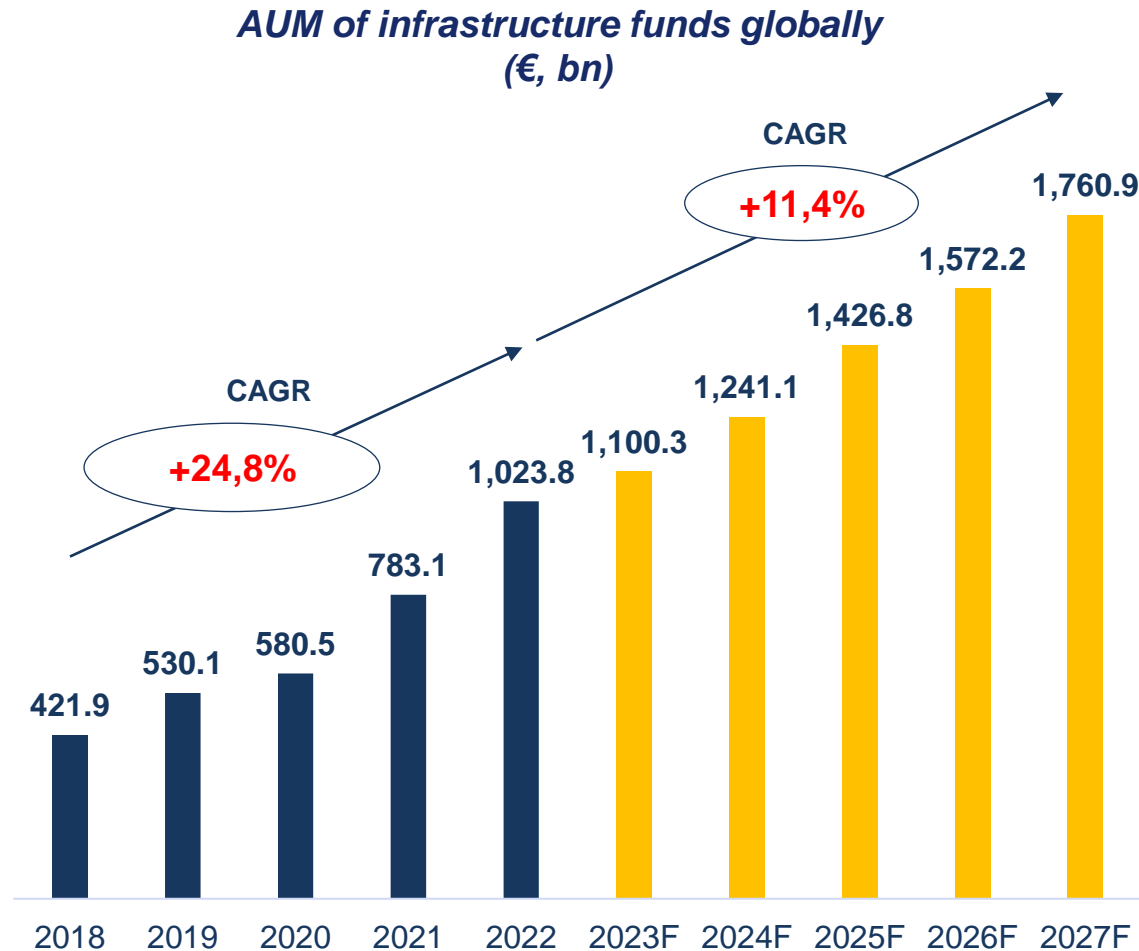
- The high investment and maintenance costs of infrastructure assets represent a heavy burden on increasingly stressed government budgets.
- Data reported by the Global Infrastructure Outlook report an estimated **funding gap** (gap between the volume of investment needed and that currently available) in infrastructure assets of **\$15 tn.**
- But:
 - With the Next Generation EU in Europe, €750 bln has been allocated, of which 191.5 bln has been granted to Italy.



Private finance takes on an increasingly central role

- The difficulty on the public sector side in having the financial resources to meet existing and future demand for infrastructure, coupled with the complexity of investing available public capital, has led governments to find new ways to make investments.
- There is a need to foster cooperation with the private sector, given that a significant portion of infrastructure assets around the world are already in private hands.
- The nature and extent of private sector involvement varies significantly among different infrastructure sectors, and can range from PPP models based on long-term contractual arrangements to full privatization, whereby private firms operate an asset permanently and independently in competition with other private or, in some cases, public sector parties.

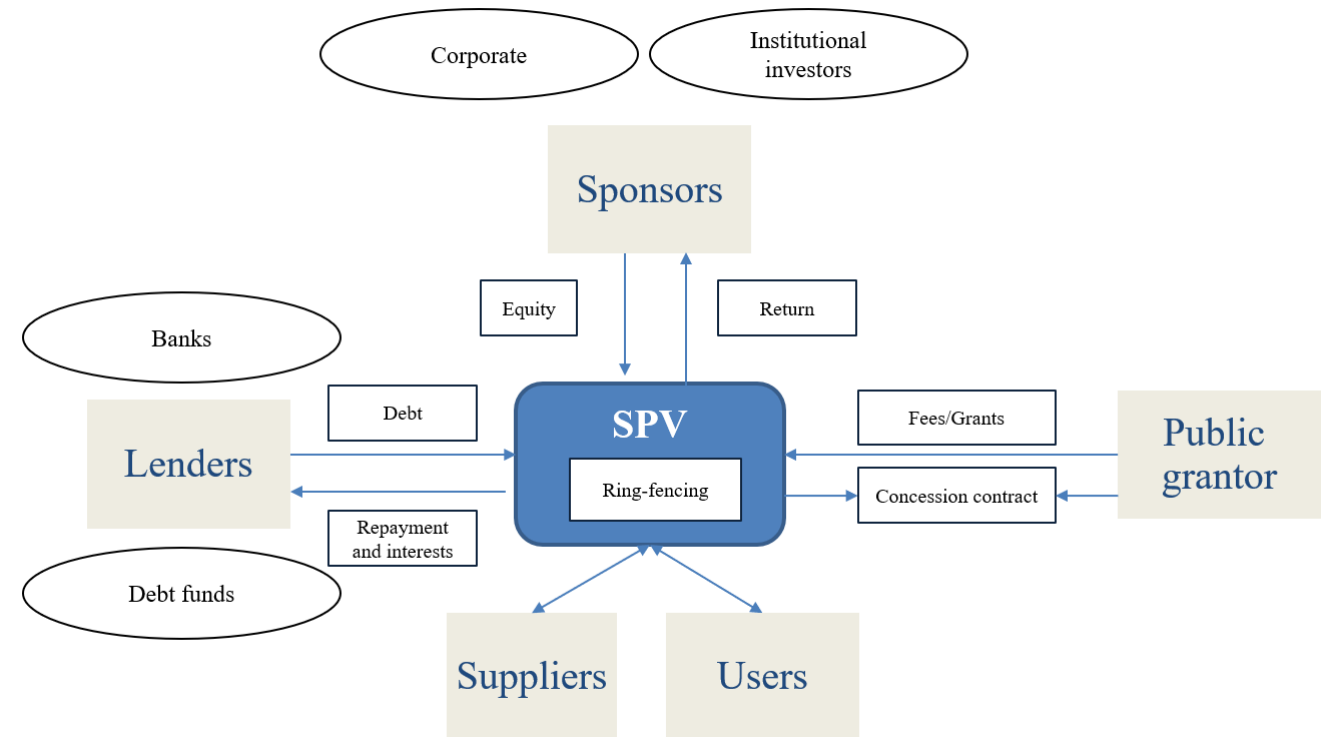
Private capital available for infrastructure is steadily growing



- The ExSUF Observatory identified **189 GPs active in infrastructure investments in Europe** with assets in portfolio (as of 12/31/2022).
- The focus sectors are renewable energy, transportation, and telecommunications.
- *These sectors are characterised by active, proactive, and well-capitalized companies.*

PPP as a cooperation tool for public and private sector

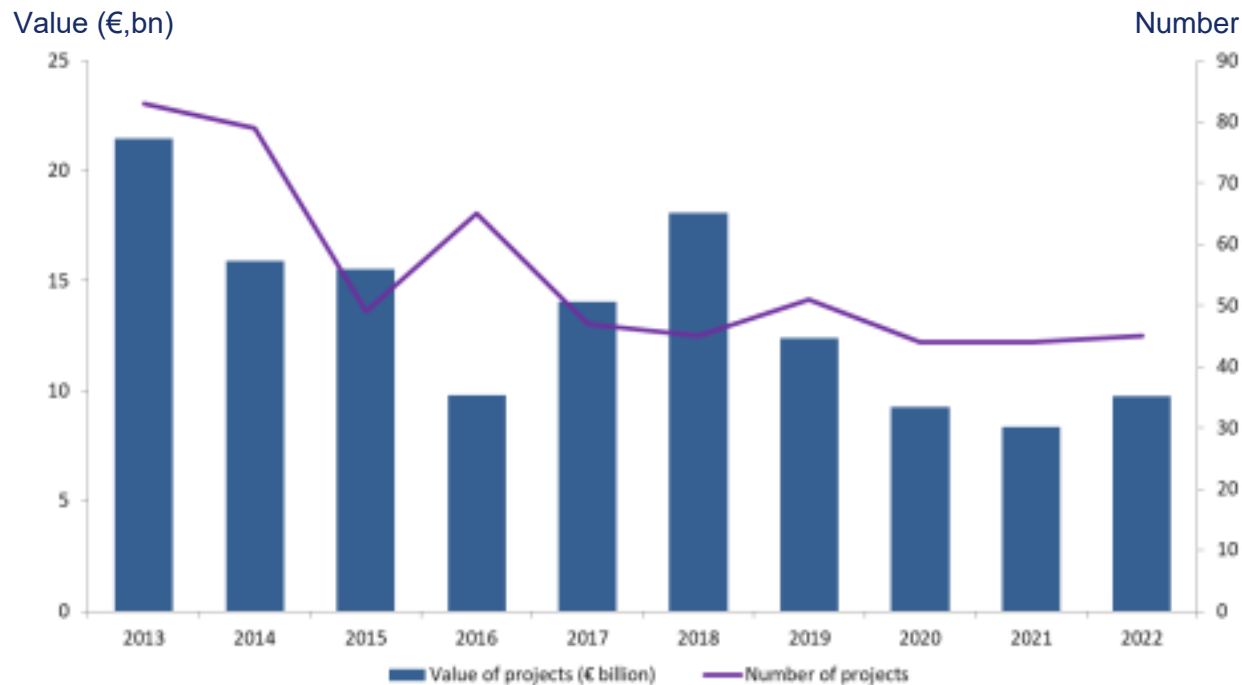
- Long-term contract between public entity and one or more private partners to achieve a result of public interest.
- Involves the transfer of some project risks to the private sector (construction, management, and financing) and is based on the optimal sharing of project risk between the parties: the private party is responsible for implementing and managing the project, while the public party is responsible for defining the objectives and verifying their implementation.
- Implies the use of private financing (usually in the form of Project Finance).
- Must offer better Value for Money to the public sector than alternative forms of contracting (e.g., procurement).
- Follows rather complex and articulated schemes, requiring specific expertise from all counterparts.



The PPP market in Europe shows small numbers of large projects

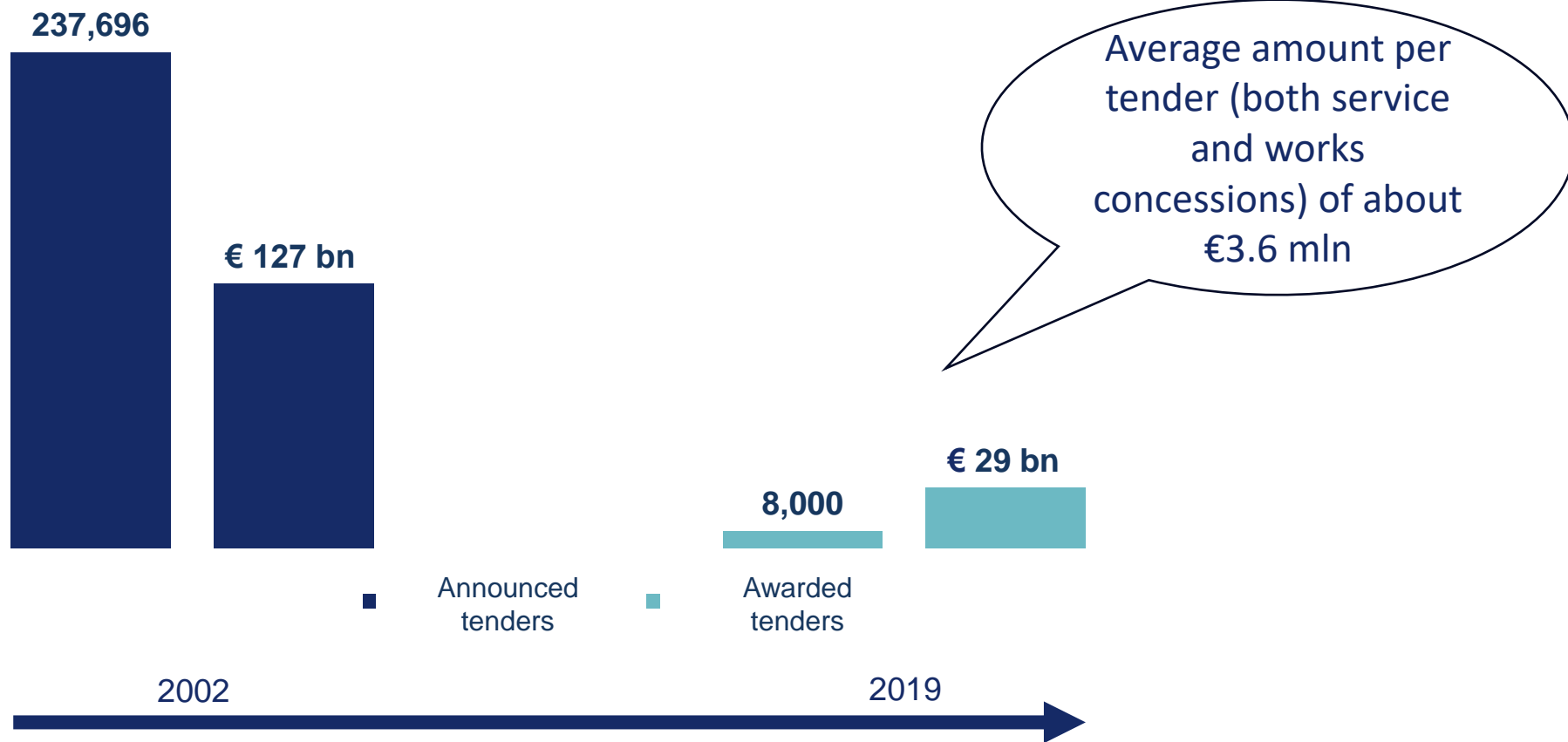
- EPEC data analyze only PPP transactions with a transaction value of at least €10 bn.
- The aggregate value of the 45 PPP transactions recorded in Europe in 2022 is €9.8 bn with an increase of 17% over 2021 (€8.4 bn).

Time trends in the European PPP market by value and number of projects (2013-2022)



Few projects of significant amounts

PPP tenders announced and awarded in Italy (2002-2019)



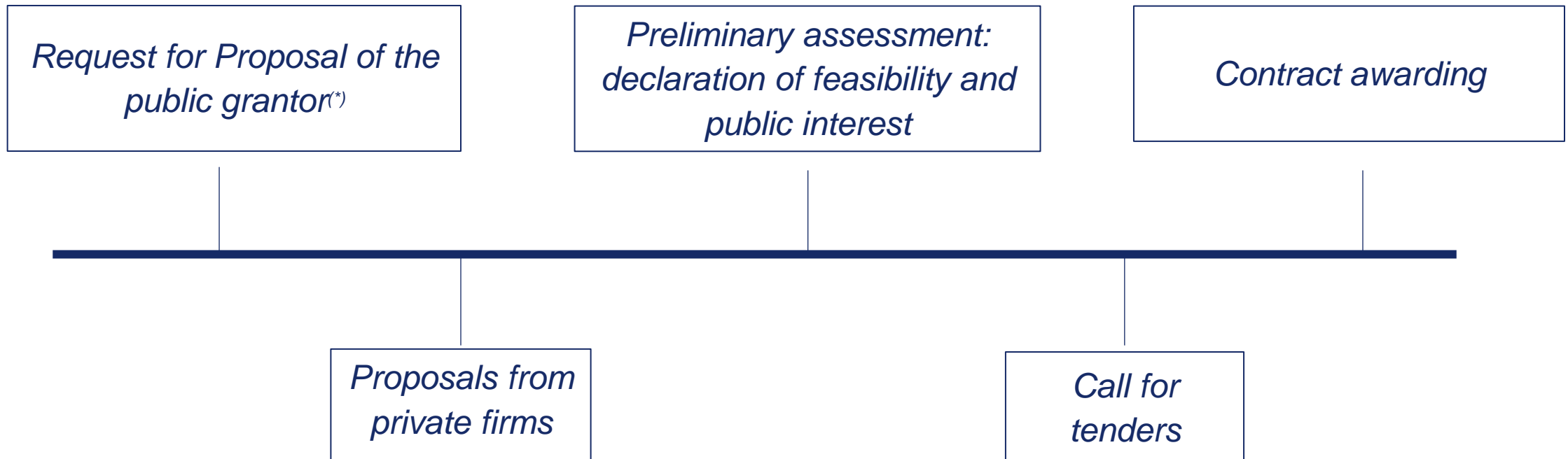
The PPP market: gap between supply and demand

- In Europe and Italy there is a great need for projects for less than 10 million euros, and also for microprojects and public works spread widely across the territory.
- European infrastructure funds tend to prefer to allocate resources only to large projects.
- It is important to distinguish between greenfield, brownfield and yellowfield projects.
- The ExSUF observatory shows that, on average, more than 50 percent of infrastructure funds consider both brownfield and greenfield projects in their investment strategy.

ExSUF report: towards a new PPP model

- The new Italian Public Contracts Code, which recently came into force, makes a distinction between a PPP activated by the exclusive initiative of the granting entity, and "project finance"
- In recent months the Centre has been conducting a research aimed at delving into the opportunities offered by the reform and analyzing any critical aspects that may be holding back the full spread of the instrument.
- The Centre's researchers interviewed individuals working for the parties involved in a PPP project (industrial operators, lenders, contracting stations, consultants), focusing in particular on private initiative schemes.

Stages of a PPP project by private initiative



(*) Not mandatory

Public grantors can officially solicitate private actors

The possibility for the public grantor to prepare a **notice of Request for Proposal** containing the main technical and risk allocation requirements to solicit private operators to take the lead in PPP initiatives is enshrined.

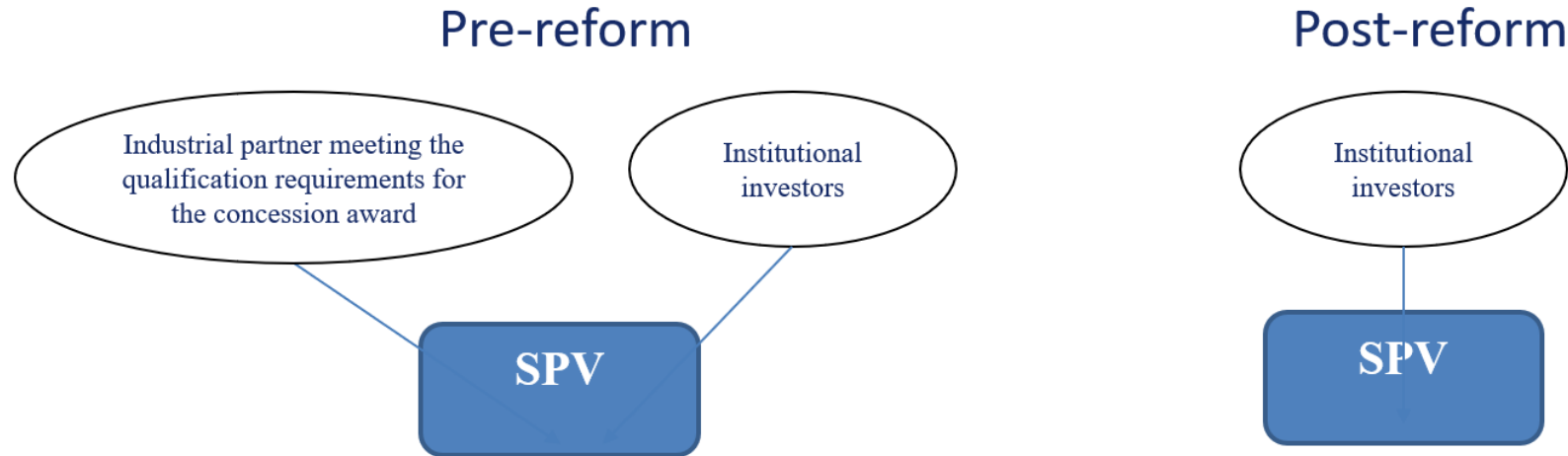
ADVANTAGES

- Prior request for proposal incentivizes private party to invest on preparation of project documentation.
- Tender documentation can be produced by the private party (less burden on the public grantor).

DISADVANTAGES

- Possible receipt for the public grantor of several projects that are not easily comparable → specialized skills of the public grantor are needed to assess their public utility.
- Responsibility of the private party to prepare projects that do not change pivotal principles of the notice.

New: submission of proposals by financial entities without preliminary technical requirements



- No consortium required at the proposal stage (it will have to be made up only at the time of participation in the bidding process).
- Structuring of the governance of the future SPV - special purpose vehicle - (economically and time-consuming) is thus deferred to a stage when the investor has at least the declaration of public utility and, therefore, the right of first refusal.
- At the bidding stage, a chain of subcontractors can be defined who have the qualification requirements, without having to include them in the governance of the SPV, but as mere suppliers of work (impact on returns per SPV).

The public grantor always assumes a key role

- Some lines of action to speed up the processes of public grantors and contribute to the spread of PPP are highlighted:
 - Central purchasing bodies acting as consultants to public grantors
 - a public control room to address skills gaps
 - a proactive and confident approach toward "buy" logic abandoning "make" logic
 - education and awareness programs ~~for the tool~~
 - adoption of reward mechanisms
 - sharing of success stories and standardization of procedures
 - need to effectively circumscribe responsibilities for individual officials

The role of institutional investors

- Need for structured GPs who have the appropriate skills (both at engineering and administrative level) in preparing PPP proposals and with the ability to adequately assess risks, limiting the use of external consultants also with a view to maximizing their own objective performance.
- Ability to submit proposals independently, aimed at securing the right of first refusal.
- Critical element is to have a commercial capacity in order to identify the real needs of contracting stations → crucial is the collaboration with industrial entities having these characteristics, facilitated by the simplified governance introduced. The financial entity can play the role of investor and the industrial entity take on the role of builder or technology partner/project manager (construction suppliers).

Some relevant issues

- Certainty of implementation of projects: tenders often have a long duration and imply uncertainty about the actual timing of award, including due to possible appeals, elements that are ill-suited to the typical deployment needs of institutional investors.
- Size of projects → basket of projects, risk diversification.
- Risk/return profile of PPP projects (particularly for user pays PPPs, which involve demand risk).
- Operators with "critical mass" to have adequate specialization in a technical market such as PPP.

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