



# Blending WBIF Funds with PPP Infrastructure Projects

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Western Balkans  
Investment Framework **WBIF**

# PPP / PSP experience in the Western Balkans

- Legal and institutional framework by and large in place in most WBIF countries
- Some practical project experience in the region, mostly in energy and transport, but implementation capabilities are still patchy
- Practice most advanced in Croatia, some experience everywhere but need for pace setting projects
- Traditionally high casualty rate in the region (50%+), need for more effective project preparation

# Potential Project in the market: Belgrade Waste Treatment and Disposal PPP

- Project Rationale:
  - Bring muni waste practices in line with national and EU standards
  - Remedy major source of regional pollution (leachates from current dump flowing to the Danube)
  - Develop renewable energy production (heat and power)
  - Capture private sector skills, deliver affordable solution and minimise impact on public balance sheet
  - Create a landmark transaction for the national and regional PPP market

# Potential Project in the market: Belgrade Waste Treatment and Disposal PPP

- Project Background:
  - In line with both municipal and national waste strategies
  - Priority project supported by both Municipality and Government
  - City prepared to offer substantial contribution (land, capital works, risk sharing and purchase of service output)
  - Project team in place at the Municipality
  - Advisory team at work : IFC – Lead advisor and Financial advisor, Hogan Lovells – Lead Legal counsel, Fichtner – Technical advisor
  - Strong international interest at EOI and Initial Conference stages

# Potential Project in the market: Belgrade Waste Treatment and Disposal PPP

- **Project Scope:**

- Remediation and closure of the existing landfill, with stabilisation, capping and gas recovery
- Construction and operation of a new EU-standards landfill
- Construction and operation of a waste processing facility and a WtoE plant

- **Project Timetable:**

- Commercial close: H1 2016
- Commissioning: 2020

# Potential Project in the market: Belgrade Waste Treatment and Disposal PPP

- Key features:
  - DBFO structure
  - Long term contract: 20 to 30 years
  - Required capex: € 200-300 million (depending on final tech scope)
  - Multiple sources of revenue for project company: availability payments from Muni; heat and energy off-take; third-party clients.
  - Proposed risk sharing: Muni underwrites waste volume and waste calorific value risks (tbd); Operator assumes performance risks, all risks on off-take contracts and all risks on third-party business.
  - Subject to change.

# Potential Project in the market: Belgrade Waste Treatment and Disposal PPP

- Scope for blending:
  - Large capex and affordability concerns
  - Regional impact, renewable energy
  - Professional open process
- Blending challenges:
  - IFI participation?
  - Sizing and channelling the grant?
  - Payment against construction or operations?
  - Matching project time table: Muni unable to backstop the grant

# Case Study: Poznan WtoE

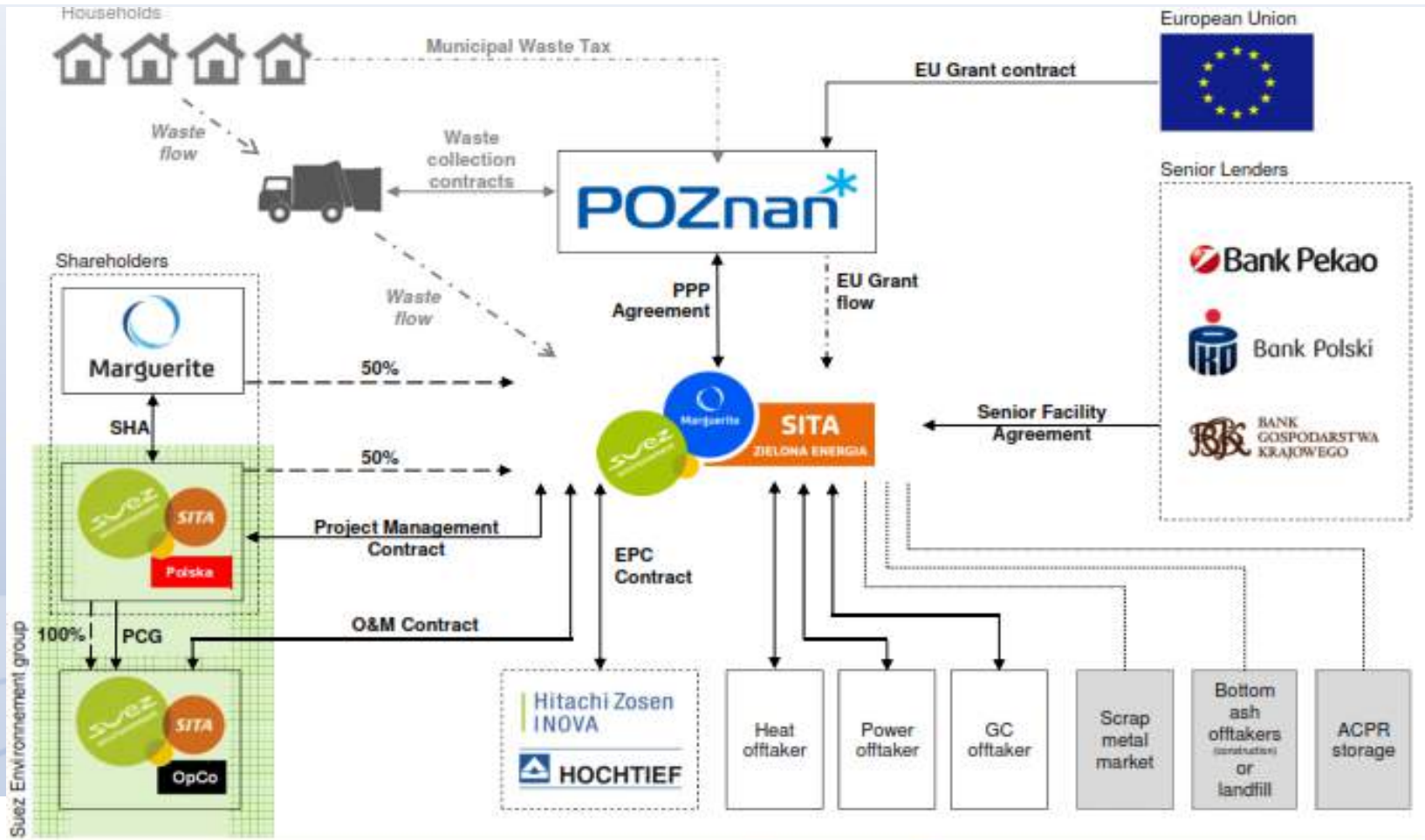
## Pilot project combining PPP & EU funds

- WtoE plant with 210,000 tonnes, 18 MW of electricity and 34 MW of thermal energy capacity for Poznan + 9 municipalities, greenfield
- 25-year operating period following construction
- Timetable:
  - Tender: 04/2011 (3 bidders + 2 withdrew before BAFO)
  - Commercial Close: 04/2013
  - Start of Construction: 05/2014 (2-year construction period)
- PLN 725 M (EUR 174 M) of CAPEX
- Consortium: Suez Environnement/Sita, Marguerite Fund
- Lenders: Bank Pekao, PKO Bank Polski, Bank Gospodarstwa Krajowego (PLN 900 M)



# Poznan WtoE: combining PPP & EU funds

## Project Structure (source: Marguerite Fund)



Customary contractual structure for a project of this nature

# Poznan WtoE: combining PPP & EU funds

## Risk Allocation (source: Marguerite Fund)

Risk	City	SPV
Update of EIA Report and building permit application		✓
Design documentation		✓
Construction delay and cost overruns		✓
Waste volume and calorific value risk	✓	
Waste throughput, heat and power output performance		✓
Heat, power and green certificates prices	✓	
Assumptions on recyclable metals and bottom ashes		✓
O&M costs overruns		✓
Financing (senior debt, subordinated debt, equity)		✓
EU Grant availability ( <i>cap</i> )	✓	✓
Exchange rate (EUR/PLN) variation between BAFO submission and start of construction	✓	
Interest rate variation between BAFO submission and hedging transaction entered at start of construction	✓	
Change in Law ( <i>cap</i> )	✓	✓
Force Majeure & Fait du Prince	✓	

The City managed to negotiate a balanced risk allocation allowing for project finance

# Poznan WtoE : Channelling the EU Grant

(source: Marguerite Fund)

According to the new waste law all costs of the waste management system (including capex) have to be covered by proceeds from the local waste tax.



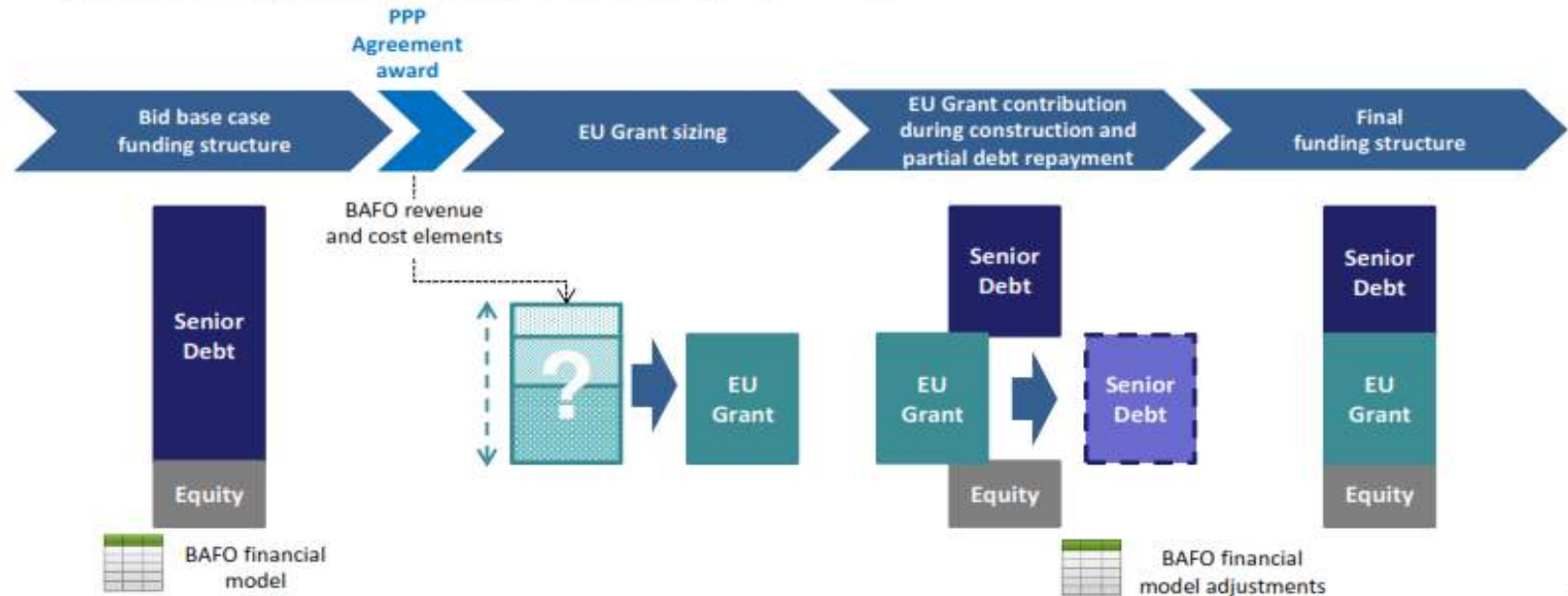
**EU grant important for the City to ensure affordability (lowest tax) of the Project to local tax-payers.**



- Precise date for EU Grant calculation (“funding gap method”) not available prior to bid submission and PPP Agreement award.
- Bidders need to fix the financing structure prior to bid submission.
- In a PPP, it is challenging for the City to set aside the grant amount regardless of the EU Grant availability.



- Bids to be prepared assuming no EU Grant for the Project.
- EU Grant to be calculated after PPP Agreement award.
- EU Grant to replace a portion of the Senior Debt.
- Private partner’s remuneration to be recalculated based on BAFO assumptions under a no better/no worse principle and using the BAFO financial model.



# Case Study Poznan WtoE: lessons for blending

- Grant application process:
  - Secure the process : firm up EU grant as soon as possible in parallel to tender process
  - Adapt payment deadlines (prevent automatic de-commitment)
- Promote partnership between public authorities and private partner for the management of EU funds:
  - Support of the private operator for the EU grants application
  - Clear rules for transfer of funds from the public authority (beneficiary of the funds) to the private operator
- Funding gap method : private sector IRR target may differ from recommended public IRR but subject to competitive bid



## Thank You

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