

Market Update

Review of the European PPP Market in 2016

Headlines

- 69 PPP transactions reached financial close for an aggregate value of EUR 12 billion
- In number terms, the market increased by 41% compared to 2015
- In value terms, the market decreased by 22% compared to 2015
- The most active market was the UK (by value and number of projects)
- 10 countries closed at least one PPP project
- Transport was the largest sector in value terms, whilst the education sector recorded the highest number of projects
- Over 80% of the transactions closed were government-pay PPPs



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Data Collection and Methodology

The data used in this publication are EPEC's own aggregation of information collected from a variety of sources, in particular Dealogic ProjectWare, InfraNews, Infrastructure Journal and Inspiratia, cross-checked, where appropriate, against the EIB's own project files. The list of PPP projects forming the dataset has been reviewed, where possible, by EPEC members. Project data contained in this publication may be subject to future revisions due to the late availability of information or corrections to previously reported values. The data and the findings of this publication should therefore be treated with appropriate caution.

This publication covers:

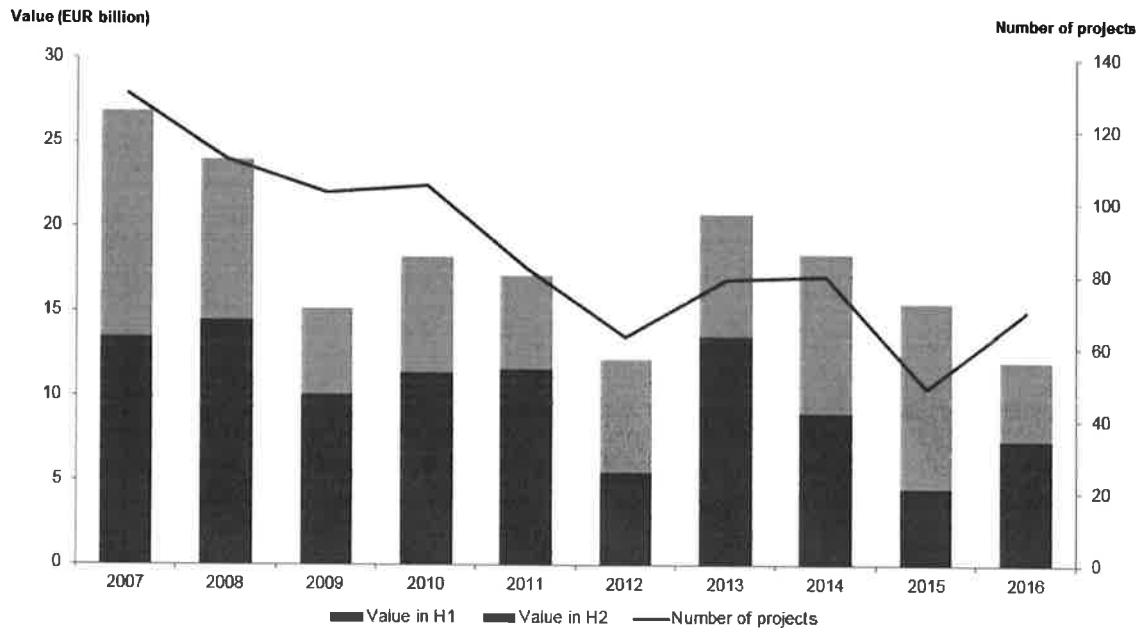
- transactions in EU-28 countries as well as Turkey and countries of the Western Balkans region (i.e. Albania, Bosnia-Herzegovina, FYROM, Kosovo, Montenegro and Serbia);
- transactions structured as design-build-finance-operate (DBFO) or design-build-finance-maintain (DBFM) or concession arrangements which feature a construction element, the provision of a public service and genuine risk sharing between the public and the private sector;
- transactions financed through 'project financing' and that reached financial close in the relevant period; and
- transactions of a value (see definition below) of at least EUR 10 million.

The project values quoted in this publication refer to the external financing requirements for projects at the time of financial close (i.e. the sum of debt and equity) and exclude public capital contributions. Readers should note that the external financing requirement of a project can be significantly different to its capital investment cost (the latter being difficult to obtain on a consistent basis).

1. OVERVIEW

- In 2016, the aggregate value of PPP transactions that reached financial close in the European market¹ totalled EUR 12 billion, a 22% decrease from 2015 (EUR 15.6 billion).

Figure 1: European PPP Market 2007-2016 by Value and Number of Projects



- **69 PPP transactions** reached financial close, compared to 49 in 2015.
- The **average transaction size decreased** to EUR 174 million (EUR 319 million in 2015).
- **Six large transactions² closed**, compared to five in 2015. Their aggregate value amounted to EUR 4.7 billion, representing 42% of the total market value. The large transactions reaching financial close in 2016 were:³
 - The Military Flying Training Phase II – Fixed Wing package (EUR 1.45 billion) in the UK;
 - The D4/R7 motorway (EUR 998 million) in Slovakia;
 - The Nord-Pas-de-Calais broadband network (EUR 606 million) in France;
 - The A6 Wiesloch-Rauenberg to Weinsberg motorway (EUR 600 million) in Germany;
 - The A355 motorway (EUR 560 million) in France; and

¹ Defined as EU-28, countries of the Western Balkans and Turkey.

² Defined as deals of EUR 500 million or more in value.

³ More detail is available in Annex 1.

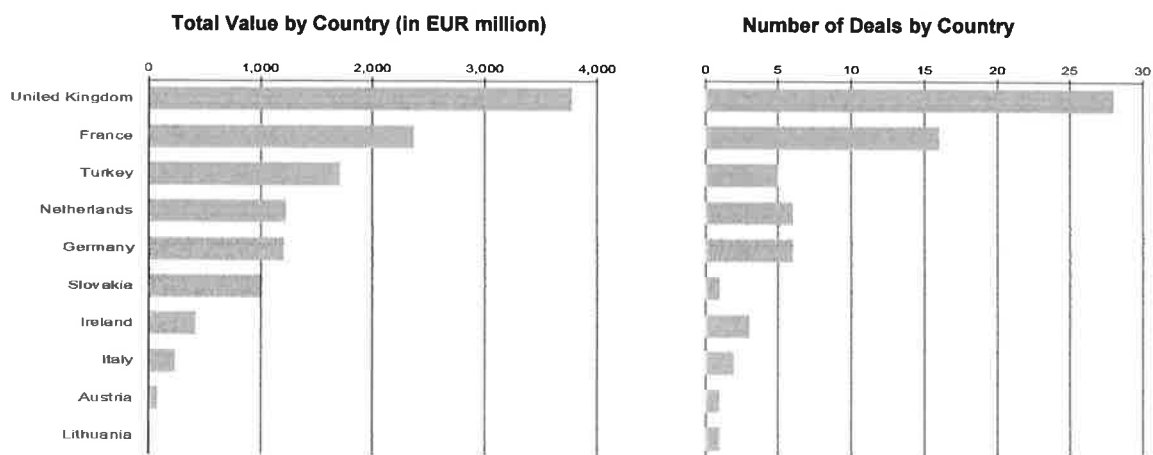
- The A94 Pastetten-Heldenstein motorway (EUR 500 million) in Germany.

Over **80%** of the transactions closed were **government-pay PPPs** (mostly based on availability payments).⁴

2. COUNTRY BREAKDOWN

- As Figure 2 shows, the **United Kingdom was the largest PPP market in Europe, both in terms of value, with a total of EUR 3.8 billion (EUR 2.4 billion in 2015), and in terms of number of projects, with 28 deals closed (15 in 2015).**

Figure 2: Country Breakdown by Value and Number of Transactions in 2016



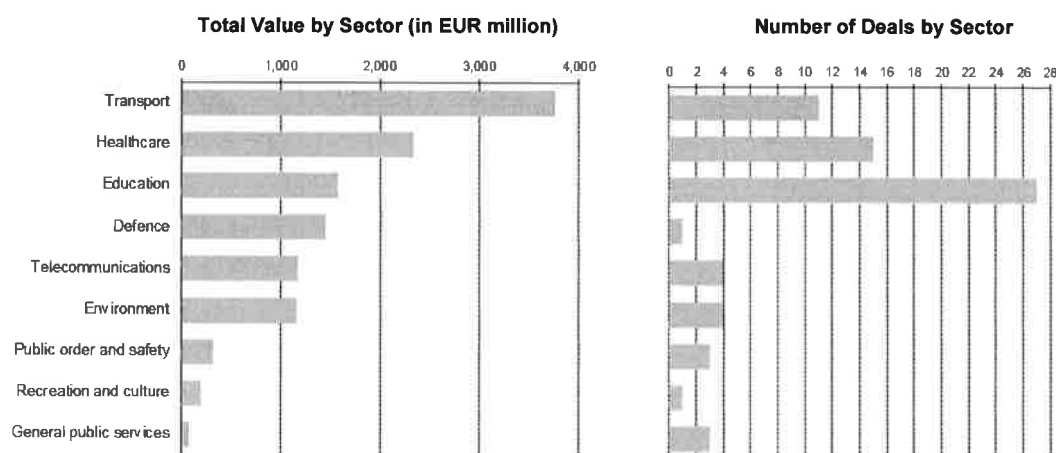
- **France was the second largest PPP market both in terms of value, with a total of EUR 2.4 billion, and in terms of number of projects, with 16 deals closed.** Two large transactions (the Nord-Pas-de-Calais broadband network and the A355 motorway) accounted for almost half of the French PPP market.
- Seven countries closed at least two deals (compared to 10 countries in 2014) and **10 countries closed at least one PPP transaction (12 in 2015).** **Slovakia** closed a PPP deal for the first time since 2009.
- Overall, as shown in Annex 2, the **United Kingdom and France** led the PPP market in Europe over the **past five years.**

⁴ PPPs under which 'government' (whether central, regional or local) pays the private partner for the services provided.

3. SECTOR BREAKDOWN

- As shown in Figure 3, in 2016 the **transport sector** remained the largest in value terms with over EUR 3.7 billion worth of transactions. 11 transactions closed in the sector. 2016 represented its lowest value and number of projects in over 10 years.⁵
- **Education** was the most active sector in terms of number of deals with 27 projects closed and an aggregate value of EUR 1.6 billion, thus achieving its best performance since 2010.
- In the **healthcare sector**, whilst the number of projects that reached financial close increased to 15, the aggregate value contracted significantly to EUR 2.3 billion.
- Four projects closed in the **telecommunications** sector for an aggregate value of EUR 1.2 billion. All four are for broadband networks in France.
- The **defence sector** recorded its first closing in three years (the UK's Military Flying Training Phase II – Fixed Wing package).
- The **environment sector** saw a steep increase in value terms (from EUR 374 million in 2015 to EUR 1.2 billion in 2016) as a result of a number of large waste treatment deals in the UK.

Figure 3: Sector Breakdown by Value and Number of Transactions in 2016



4. FINANCING⁶

- **Out of the total of 69 transactions, 17** (compared to 20 in 2015) involved the provision of debt by institutional investors (e.g. insurance companies, pension funds) through a variety of financing models. Overall, institutional investors lent **around EUR 1 billion** (EUR 1.2 billion in 2015) to European PPPs at **long maturities** (on average 24 years, with a maximum of 27 years).

⁵ More detail on the evolution of PPP market in the transport, healthcare and education sectors over the last five years can be found in Annex 3

⁶ As the availability and quality of data on financing terms is limited in places, the information provided in this section should be treated with caution.

- Six countries closed transactions involving institutional investors' debt: **France, Germany, Ireland, the Netherlands, Turkey and the UK** (compared to eight countries in 2015).
- The role of the **EU, national governments and public financial institutions** (domestic or supranational) remained significant in 2016, for example:
 - The **D4/R7** motorway was the first transaction in Slovakia benefitting from the support of the European Fund for Strategic Investments (EFSI);
 - The EIB financed eight PPPs for a lending volume of EUR 1.2 billion;⁷ and
 - A number of domestic and other international financial institutions (e.g. the European Bank for Reconstruction and Development) were involved in the financing of large PPPs (e.g. several health projects in Turkey).
- The **average tenor of commercial bank senior debt**⁸ increased to **24 years** in 2016 (22 years in 2015). In EPEC's data sample, the longest commercial bank debt tenor was 33 years. Among these loans, 57% had a tenor **exceeding 25 years** (compared to 60% in 2015). Annex 4 shows that significant country differences in commercial bank loan tenors remain. The **longest tenors** were observed in **the UK, Slovakia and the Netherlands**.

5. NOTEWORTHY TRANSACTIONS

The following noteworthy PPP projects reached financial close in the second-half of 2016:⁹

- The **Alsace, Moselle, Nord-Pas-de-Calais and Seine-et-Marne** broadband network projects reached financial close in France as part of its PPP programme for high-speed internet. These schemes involve the design, building, financing, operation, maintenance and commercialisation of publicly-owned fibre broadband networks in low-density areas, not covered by commercial operators.
- The **Elazig, Eskisehir, Izmir Bayrakli, Kocaeli and Konya Karatay** integrated health campus projects reached financial close in Turkey as part of its health PPP programme. These schemes involve the design, building, financing and maintenance of integrated health campuses encompassing health facilities, R&D units, high technology centers, social living areas, institute of medical sciences, and broad recreation sites.
- The **A6 motorway** between the town of Wiesloch/Rauenberg and the Weinsberg junction (EUR 600 million) in Germany was co-financed by the EIB and qualified for EFSI support.

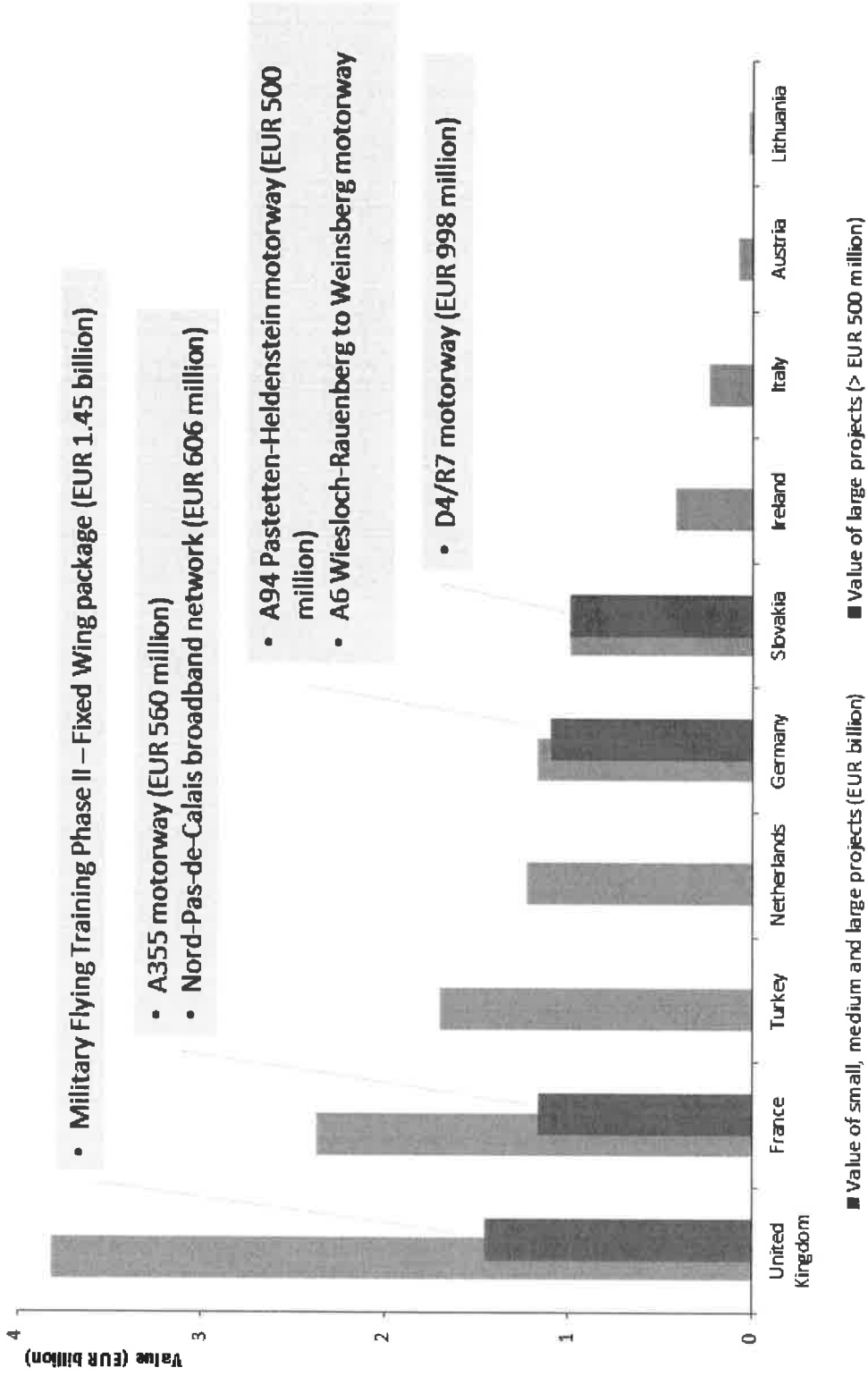
⁷ Regular updates of the list of PPPs financed by the European Investment Bank are available at: www.eib.org/epec/library/index.htm

⁸ Non-weighted average calculated on projects for which the maturity data was available.

⁹ For the first half of 2016, see: www.eib.org/epec/resources/publications/epec_market_update_2016_h1_en

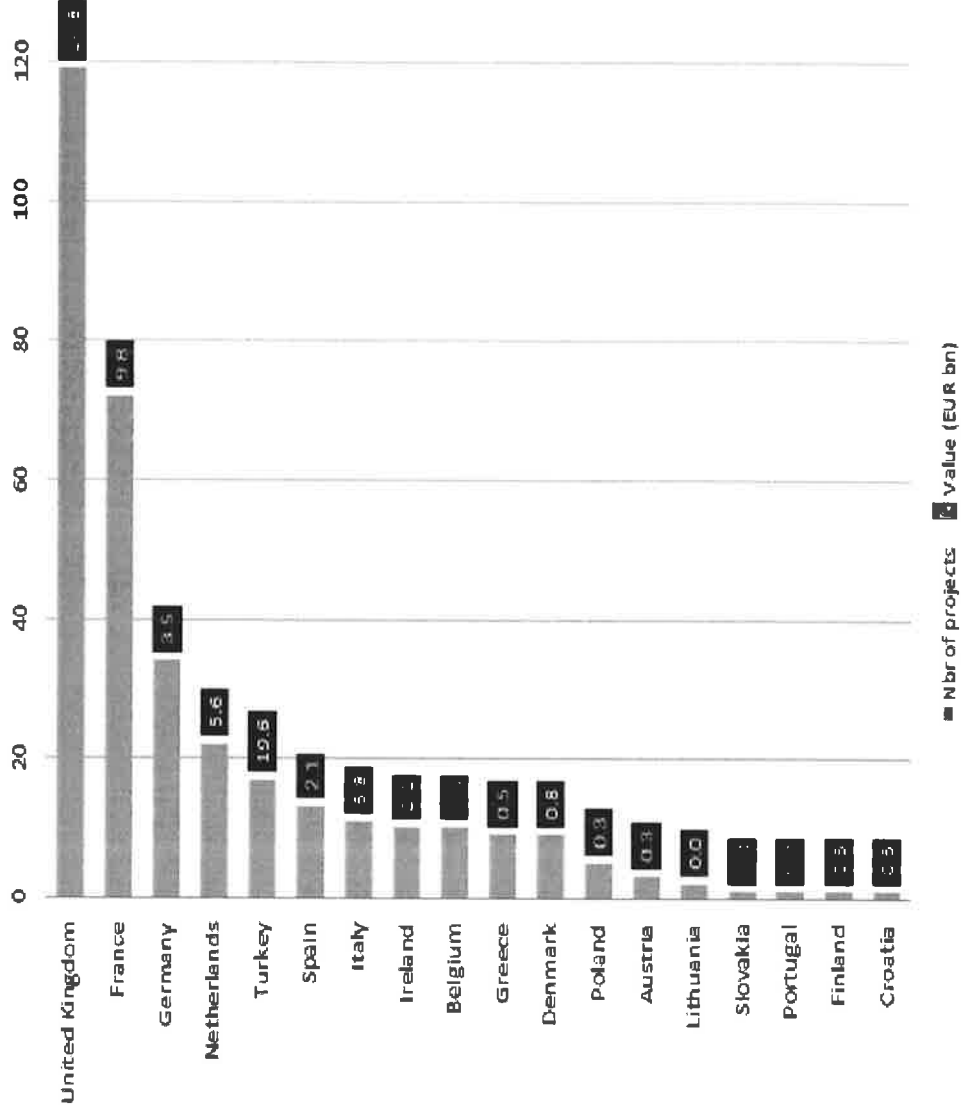
Annex 1

Location of large projects in 2016 (EUR 500 million or more)



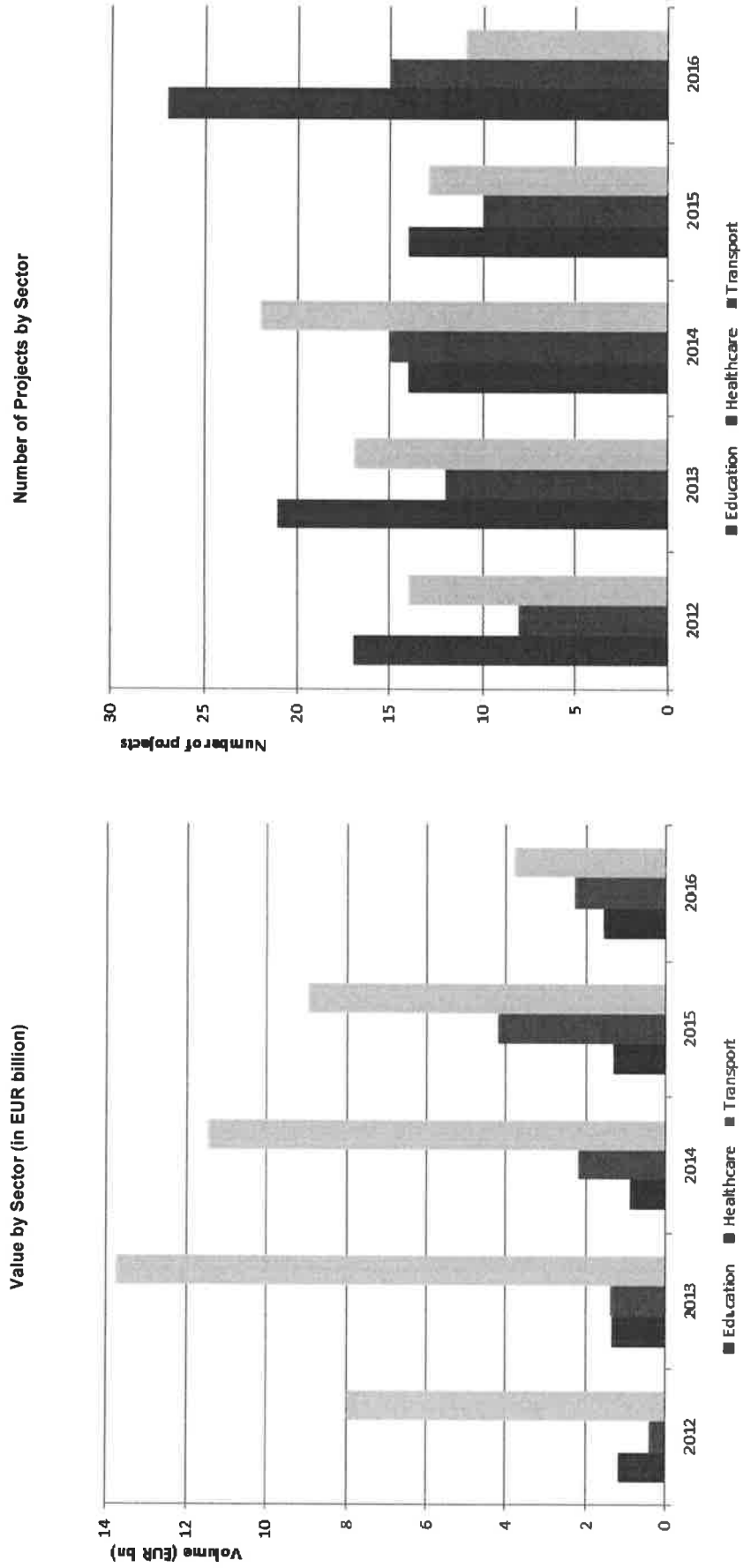
Annex 2

The European PPP market by country over the period 2012-2016



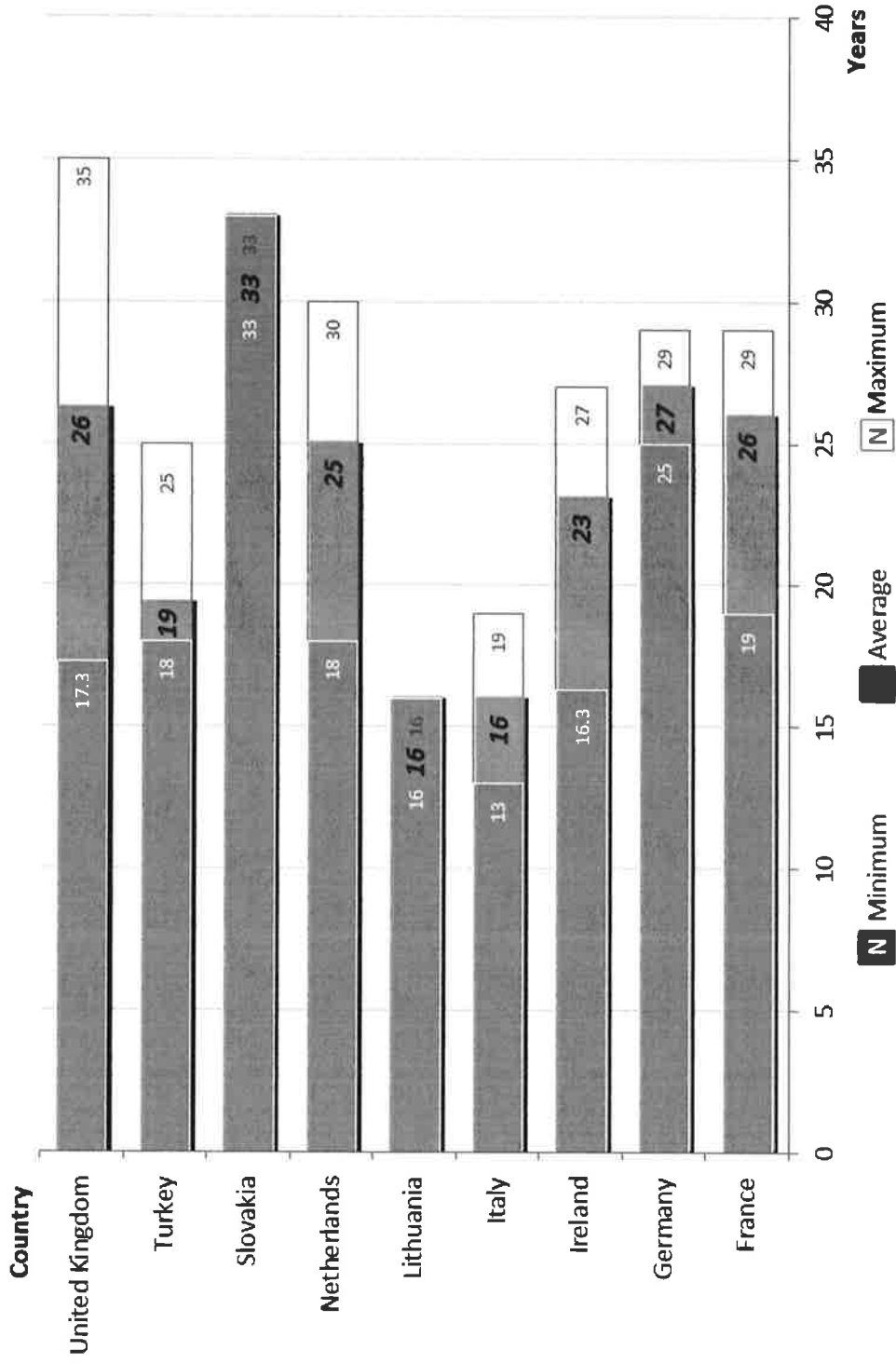
Annex 3

Evolution of the main PPP sectors over the period 2012-2016



Annex 4

Loan maturities of senior commercial bank debt by country in 2016





**European
Investment
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European PPP Expertise Centre

EPEC Secretariat

☎ +352 4379-22022

☎ +352 4379-65499

✉ epec@eib.org

www.eib.org/epec

Information Desk

☎ +352 4379-22000

☎ +352 4379-62000

✉ info@eib.org

European Investment Bank

98-100, boulevard Konrad Adenauer

L-2950 Luxembourg

☎ +352 4379-1

☎ +352 437704

www.eib.org