Financial Readiness Application Form part E and Letter of Support

CEF Blending Call

Athens June 23rd 2017

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Rationale of Blending Call

For projects utilising private finance, support through debt financing and risk-sharing may not always be sufficient for the projects needed to complete the trans-European transport network.

A targeted grant in these cases would enable the financial case to be established

Blending, in the context of this Call, is the use of CEF grants in projects utilising private finance, or with finance from NPBs/EIB.

The European Fund for Strategic Investments (EFSI) should be used whenever possible in order to maximise the leverage of private sector involvement.

Financial readiness: what is it…

Capacity of a project to solicit and secure financing within a certain timeframe, by demonstrating that all items a financial institution would expect to review, are/will be available within this timeframe

Not an assessment of the bankability of the project - which may only be carried out by capital or bank market players

Underlying questions

For **PPP & Concession**: has the public authority verified all the areas /items recommended to ensure a successful procurement ?

For all other transactions (so called **'General Case'**): would the promoter be able to deliver a full credit application to a financial institution, and if accepted, could the financial close occur subsequently ?

Purpose

The **Purpose of the Financial Readiness assessment** is to estimate on an ex-ante basis, i.e. **during the evaluation process**, the project's **capacity** to meet 2 sets of **conditions** both related to the **availability of a financing** from a financial institution, that should be verified **on an ex-post basis**:

First condition relates to the form and nature of the involvement from a financial institution to support the financing (equity, loan, guarantee) of the project.

clarity, the project considered for financing may expand beyond scope of the actions.

Second condition relates to the time for the project to reach Financial Close.

Conditionality: First condition

A - Nature of involvement of Financial Institution: 2 situations

1. Only for projects:

   - Aiming at removing **bottlenecks,**
   - Actions with **cross-border** impact, or
   - Actions in **Cohesion** Member States:

➡ Signature of a finance agreement required with either National Promotional Banks or EIB or at least one private sector investor - for at least the value of the CEF grant.

2. All other Projects: *A*pproval by EFSI Investment Committee + EIB Board.

For clarity: EIB involvement in financial close is not a requirement for grant disbursement

Conditionality: Second condition

B - Timing of the Financial Close: **Deadline** for full Financial Close shall be **12 months** from the date of signature of Grant Agreement.

- Assuming time to grant (signature within 9 months) promoters should reach full financial close (i.e based on a signed Finance Agreement) **within 21 months from submission**
- Flexibility, in exceptional cases due to complexity (e.g. PPP/Concession) as grant signature may take longer than 9 months.

Call evaluation process

Month 6 | Month 10 | Month 12

OPEN CALL // 2020

Evaluation/selection and grant award

Call launched

Submission of grant proposals
- **July 14 2017**
- **November 30 2017**

Submission deadline for first milestone

Eligibility (INEA)
Administrative check on documentation requirements

External evaluation
***Economic and financial CBA**, technical assessment,*
***financial readiness**, selection/award criteria, etc.*

Internal evaluation (MOVE/other DGs)

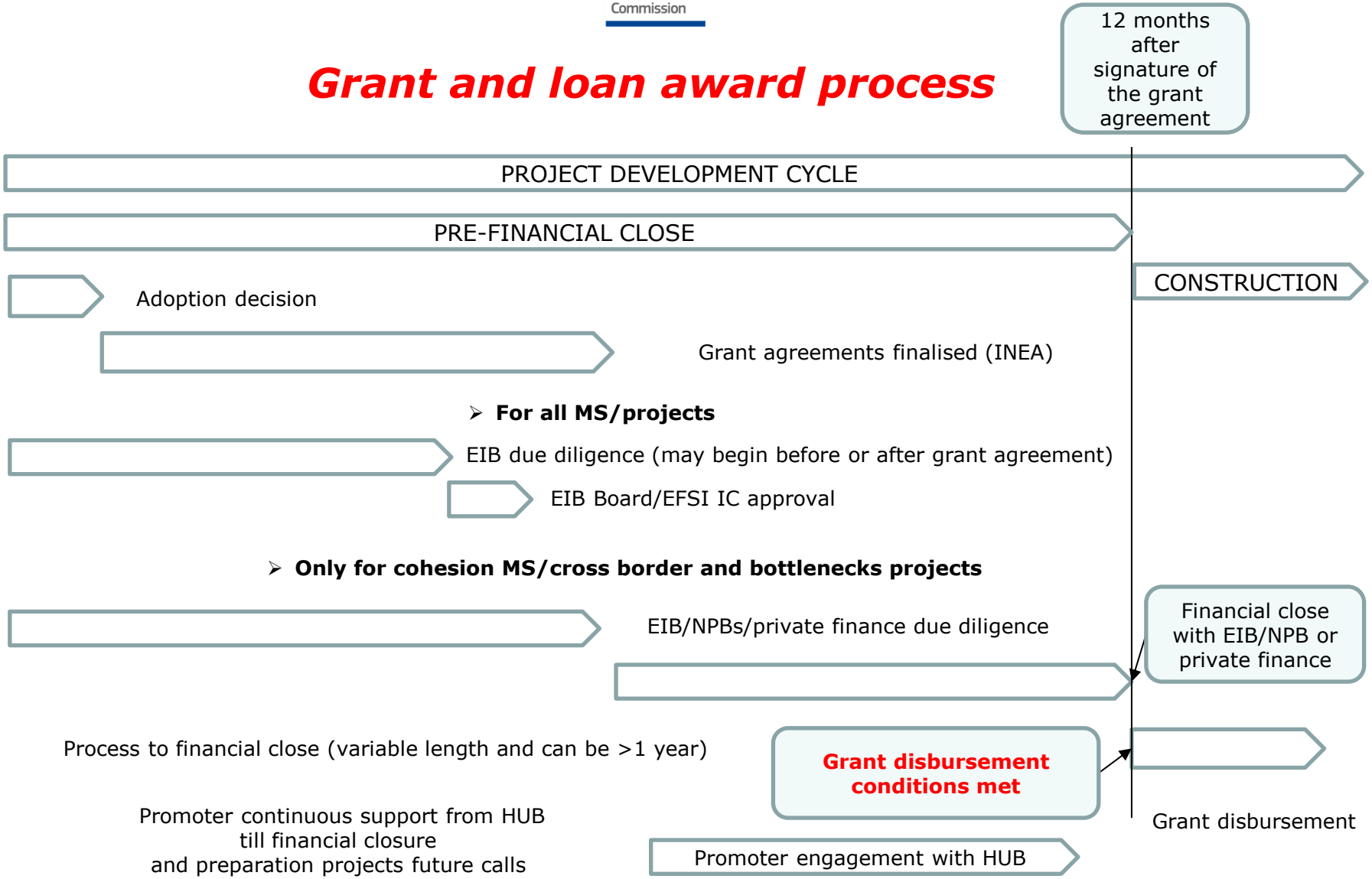
Financial readiness assessment
from public or private financial institutions

ISC/CEF Com./Adoption Decision

Promoter engagement with HUB/EIB/Banks

Promoter continuous support from HUB till financial closure and preparation projects future calls

Grant and loan award process



Financial Readiness in a nutshell

	Projects removing bottleneck, cross-border impact, in Cohesion countries	Other Projects
Ex-post conditionality	Finance agreement (=> value of grant) with EIB/NPB/ one or more Private investor + Financial close within 12 Mo following signature of grant	Approval by EFSI + EIB (with or without EIB subsequent financing) + Financial close within 12 Mo following signature of grant
GENERAL CASE	• FORM E.1 focus on Financial Readiness to financial close+ • Letter of Support, issued by a financial institution with capacity to provide financing (e.g. equity/loan/guarantees)	
PPP/ CONCESSION	• FORM E.2 focus on financial Readiness to procure + • Letter of Support (maybe issued by Financial Advisor) + • As for 'complex' projects, by exception, 9 months standard 'Time to Grant' may be derogated	

Submission of applications
Application Forms

Part A

Main characteristics of the proposal

Part B

Administrative information

NEW
PART E
&
Letter of Support

Part C

Information on compliance with EU law

Part D

Technical and financial information

Form E.1 – General Case

Subject to confidentiality, the applicant is required to provide information on:

1. The project (information additional if the scope of project includes activities that are beyond the scope of the Actions)
2. Maturity of the project
3. Borrowing entity (if different from the applicant)
4. Financial readiness as regards:
   - The Sector
   - Management and corporate governance
   - Financial aspects
   - List of supporting documents: supporting documents (analysis, surveys, contract,..) not required, but listed

Form E.1 – General Case
Examples of information required under the Financial Readiness section

- Business plan (sector, commercial proposition)
- Governance
- Financial strategy, capital structure, operating costs, financing plan
- Risks assessment
- Financial Models (scenarios…)
- Timetable/milestones to Financial Close

Form E.2 - PPP/Concession

Subject to confidentiality, the applicant is required to provide information on:

1. the project (information additional if the scope of project seeking financing beyond the scope of the Actions for which a grant is sought)
2. Maturity of the project
3. Borrowing entity (if different from /if already known)
4. Financial readiness (including list of supporting documents)

Form E.2 – PPP/Concession
Examples of information required under the Financial Readiness section

- Suitability of procurement form (e.g. Value for Money, affordability, stakeholders support)
- Permits and approval
- Market appetite
- Governance
- Risks assessment.
- Key contractual terms (outputs, payment mechanism...) and modelling
- Details of the activities/timetable for preparing/procuring the contract

Letter of Support – General Case

Letter of Support: drawing on the information provided by the Applicant in Application Form E.1, shall demonstrate that the timetable allows for a Financial Close within 12 months after grant agreement.

Information to be included:

- Identity of the Borrower (if not the same as the applicant)
- Brief project description
- Type & Level of financing that the institution(s) could provide, and conditions
- Stage of approval and expected timetable and foreseen date of financial close and conditions
- Financial capacity and business plan of the grant applicant, grant beneficiary and borrowing entity as appropriate and conditions

Supporting document summarized and listed in form E.1

Letter of Support – PPP/Concession

Letter of Support: drawing on the information provided by the Applicant in Application Form E.2, shall provide evidence that the preparation phase of the project has been completed, and that the PPP/concession, when procured, may proceed successfully to financial close.

Information to be included:

- Identity of the Borrower (if not the same as the applicant)
- Brief project description
- Stage of approval and expected timetable and foreseen date of financial close and conditions

Supporting document summarized and listed in form E.2

Cost-benefit analysis in the context of the CEF T 2017 Blending Call

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How is it used?

- Additional evidence of socio-economic performance (impact criterion) – Economic analysis

- To identify cases of potential overfunding – Financial analysis

CBA: What does it mean in practice?

- A CBA is required for all proposals
  (with sectorial exceptions for pure compliance driven Projects – e.g. pure ERTMS, pure SESAR)

- Specific CBA assessment introduced in overall project proposal evaluations since the CEF 2015 call

- Specific CBA assessment by dedicated external CBA experts separately from the rest of the external evaluation

CBA: How is it used?

Complementary input for the evaluation of the "Impact" criterion

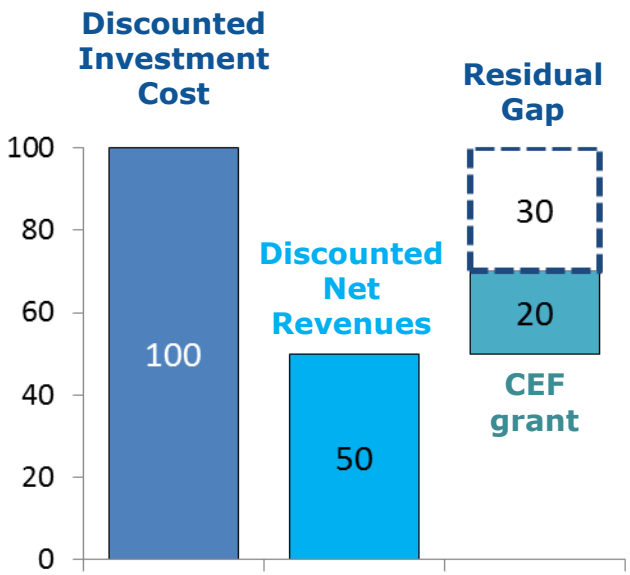
- CBA experts prepare a separate CBA Assessment Report
- Findings of CBA Assessment Report taken into consideration by the external experts for the evaluation and scoring of the "Impact" criterion

Application of the funding gap

Different modulation than in classic calls

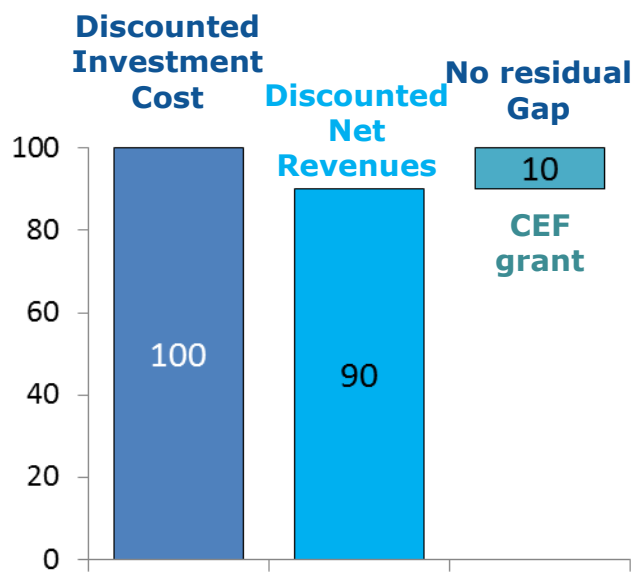
- The funding gap is the part of the (discounted) investment costs that are not covered by the (discounted) net revenues generated by the project
- In the context of this call the "modulated EU co-funding amount" is the lowest of the following values: **"funding gap amount"** or **"maximum co funding amount**".

Modulation in practice



SMALLEST

Funding gap = 50 (50% of EC)
Max Co-funding amount 20 (20% of EC)



SMALLEST

Funding gap = 10 (10% of EC)
Max Co-funding amount 20 (20% of EC)

For simplicity in this example
Eligible costs (EC) = discounted investment costs

Sensitivity analysis

- Projects shall demonstrate that their economic case is robust to downside scenarios

- To do so the performance indicators of the economic analysis shall be recalculated on the basis of the following scenarios:

- Increases of 25% on construction costs
- Delays to project completion of 6, 12 and 24 months
- Increases of 25% on annual operating costs over the reference period

Public-Private Partnerships

Financial analysis

- A **consolidated analysis** of the costs and revenues covering both the granting and operating entities of the Project should be carried out in order to calculate the overall investment profitability.

Availability payments

Affordability analysis

- For PPPs using availability payment schemes, such payment mechanisms should **not** be **considered as revenues**.
- For Projects based on availability payments the EU co-funding requested shall be justified through an **"affordability" analysis**.

Potential pitfalls…

Drawing upon lessons learned from previous calls

- CBA should be part of the project **preparation process** to improve projects (and not be treated solely as an obligation)
- The **scope** of the CBA cover the whole Project **including** also the **activities beyond the Action** for which the promoter is **seeking EU finance**
- Assumptions used for the CBA (and in particular the financial analysis) should be **consistent** with those of the **Business Plan** (Application Form part E)
- **Cost savings are to be considered as revenues:** unless transferred to users by a reduction of fares or compensated by an equal reduction in the operating subsidy, **cost savings affect the funding gap!**

European Commission

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Look for INEA!

Thank you!