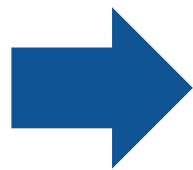




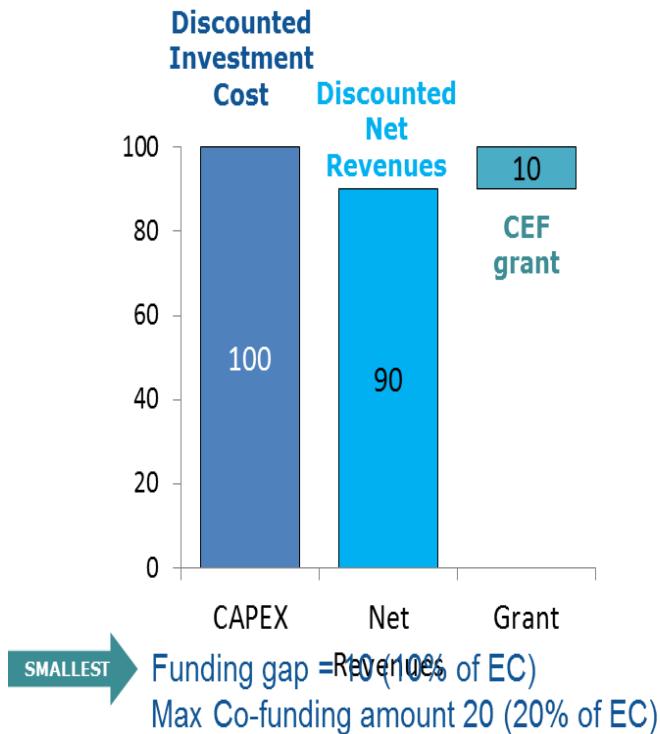
Assessment of the Financial Readiness

CEF Blending Info Day – 27 February 2017

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CBA : how much?

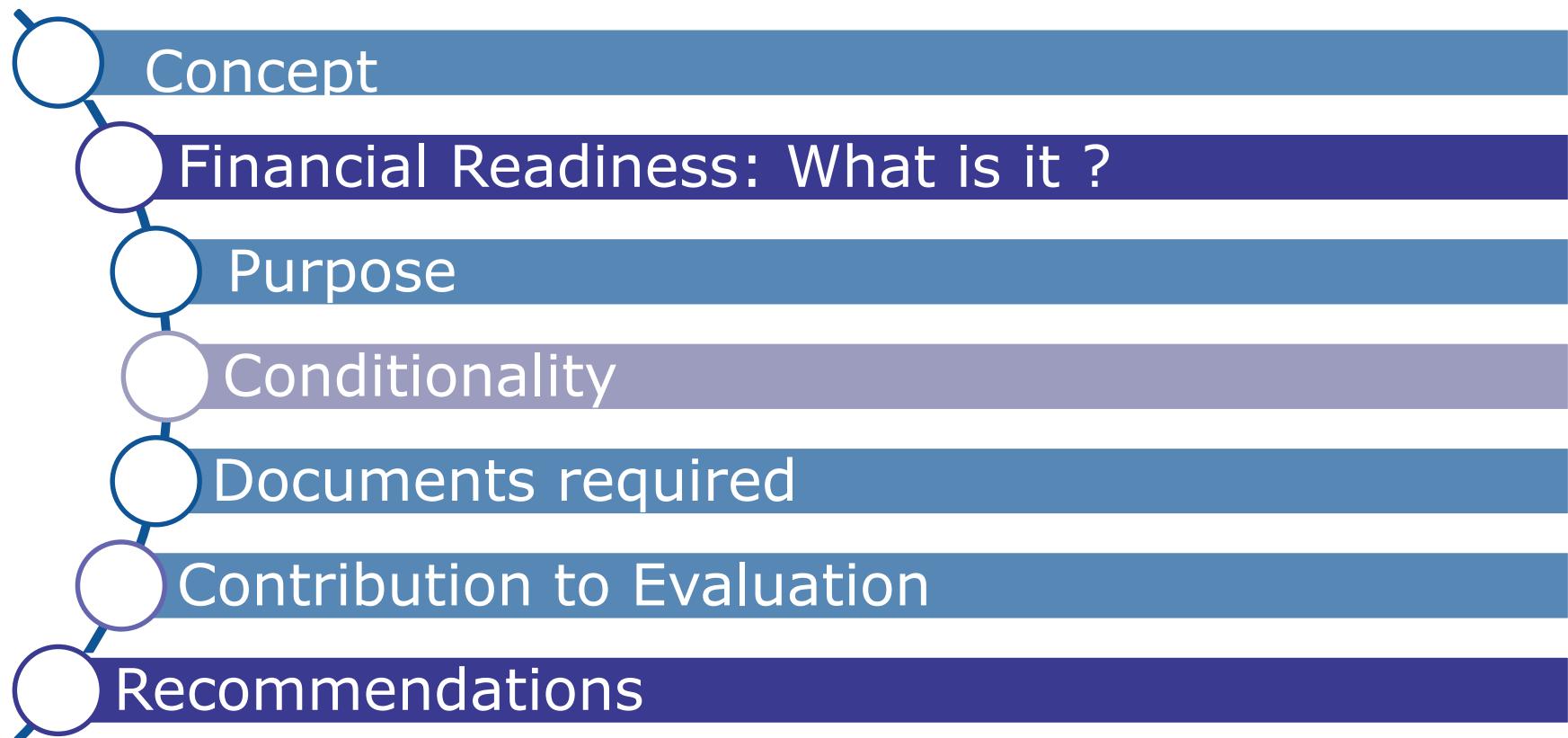


Financial Readiness Assessment:



*Is project properly structured to receive finance from public or private financial institutions

Presentation overview



Rationale

Extracts from the Commission Implementing Decision:



"difficulty in the transport sectorto **attract additional resources from private investors** and to **ensure that economically sound projects become financially viable**"



"it is appropriate to support projects with an EU grant thus **bridging the projects' funding gap** and (*whenever possible*) **attracting private finance**"

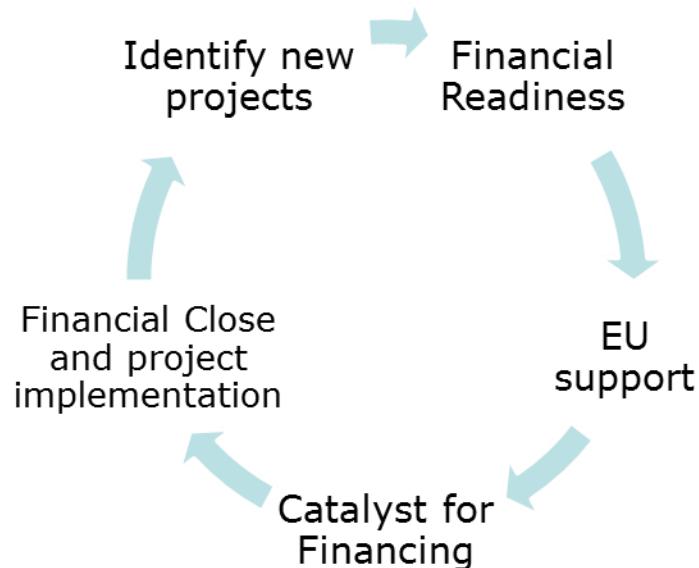


"the objective is to **enable a coordinated selection and award process** for projects receiving EU grants **combined** with financing**in order to maximise the leverage of private sector involvement** and capital in the delivery of projects."

Concept



Assessment of Financial Readiness is the first stage of the assessment of a project proposal's capacity to **attract finance from public and private finance institutions** and is **part of a coordinated project selection process**



Financial readiness: what is it...



Capacity of a project to solicit and secure financing within a certain timeframe, by demonstrating that all aspects a financial institution would expect to review to come to a positive assessment, 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

PPP/concession and other projects: differentiated underlying questions



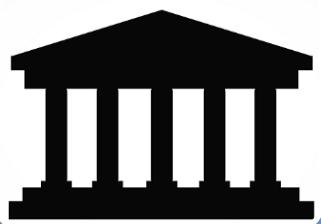
For **PPP & Concessions**: has the public authority verified all the areas /items recommended to ensure a successful procurement ?



For all other transactions (so called '**General Case**'):
would the promoter be able to approach financial institution(s) for obtaining a financing, and if such request is accepted, could the financial close occur in a timely manner?

Financial readiness: Evaluation

To assess **during the proposal evaluation**, the project's **capacity** to meet **two sets of conditions** related to the future **availability of a financing** from public or private financial institution(s), that will be **verified after the signing of a grant agreement**:



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.



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



Conditionality for payment of Grant: first condition

A - Nature of involvement of Financial Institution: 2 possible 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. For all other Projects: EFSI Investment Committee/EIB Board approval

For clarity:

- 1) EIB involvement in financial close is not a requirement for grant disbursement
- 2) Project promoters may seek financing also for activities beyond the scope of the Actions



Conditionality for payment of Grant: 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 a time to grant (signature within 9 months after call deadline) promoters should reach full financial close (i.e. based on a signed Finance Agreement(s)) **within 21 months from submission**

For complex cases (e.g. PPP/Concession): signature of grants may take **longer than 9 months**

Documents required

Assessment consists of a review of 3 sets of information:



Application Form part E: Information provided by applicants (+financial institution to review Application Form E.)



Letter of Support: Applicants are required to provide a letter of support from one (or several) financial institution(s) following the template provided



If the financial institutions are performing (or have already completed) the due diligence on the project, a summary statement should be provided

Distinction in the Financial Readiness assessment: PPP/Concession versus General Case (other projects):

- **different templates** of **Letter of Support** to be used
- **Different questions** to be answered **in Form E** (E1 and E2)



General Case – Form E.1

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:
 1. The Sector
 2. Management and corporate governance
 3. Financial aspects
 4. List of supporting documents: supporting documents (analysis, surveys, contract,..) not required, but listed



General Case – Form E.1 – Examples of information required

1. Business plan (sector, commercial proposition)
2. Governance
3. Financial strategy, capital structure, operating costs, financing plan
4. Risks assessment
5. Financial Models (scenarios...)
6. Timetable/milestones to Financial Close



General Case – Letter of Support

Letter of Support: shall demonstrate that the timetable allows for a Financial Close within 12 months after grant agreement.

Information to be included:

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



General Case – Letter of Support (Cont)

Further evidence for financial readiness that may be provided (on a voluntary basis):

- 1. Description of the relationship between the Institution and applicants/borrower/sponsors*
- 2. Track record of the borrower on the type of transaction contemplated with a relevant geographic and sectorial focus.*
- 3. Major milestones expected to closing, status on critical information required to be finalized*
- 4. Composition of the team established within the Institution(s) (and contact info) dedicated to the project.*
- 5. Nature and key parameters of financing proposed, underlying principles and major assumptions, key risks and related mitigants, including uncertainty on cash flows.*



PPP/Concession – Form E.2

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)



PPP/Concession – Form E.2 – Examples of information required

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



PPP/Concession - Letter of Support

Letter of Support: provides evidence that the preparation phase of the project has been completed, and that the PPP/concession, when procured, may proceed successfully to financial close.

1. Evidence shall take the form of a timetable (stage of approval, conditions) and foreseen date of Financial Close, and conditions
2. Unless the degree of advancement permits (i.e. PPP/concession beyond early stage), items like identity of Borrower, level of financing may not be known and are not required.
3. **Note:** for early stage PPP/concession, letter of support may be issued by a financial advisor.



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 | <ul style="list-style-type: none">• FORM E.1 focus on Financial Readiness to financial close+• Letter of Support, issued by a financial institution informs on readiness to provide financing (e.g. equity/loan/guarantees) | |
| PPP/ CONCESSION | <ul style="list-style-type: none">• FORM E.2 focus on Financial Readiness to procure +• Letter of Support (may be issued by Financial Advisor) +¹⁹• For 'complex' projects, 9 months 'Time to Grant' may be extended | |



Financial readiness and CEF project proposal evaluation

The assessment of Financial Readiness is part of the proposal evaluation process, as for the evaluation of the CBA, but with the following specificities:



Financial Readiness will be assessed by specific independent specialised experts contracted by INEA.



Experts will focus on the analysis of the Letter of Support and information contained in Form E, but will have access to the full application, including the CBA



Financial readiness assessment taken into account during the CEF proposal evaluation :

1. *for scoring of "Maturity" criterion by external experts*
2. *for the final selection of project by the Commission*



Recommendations - Form E

Focus on information enabling the experts to assess the reliability of the timetable:

1. Provide information in a condensed and straight to the point manner: comply with the indication of length (12 pages max for information on project/promoter + 12 pages for Financial Readiness).
2. Check consistency with information contained in other Forms, other information shared with Financial institutions and supporting documents (such as analysis from third party advisors, contract, even if not provided).
3. All applications are treated on the merits of the underlying project alone: e.g. being a AAA rated applicant might help for demonstrating financial readiness (assuming guarantee from the applicant), but complete and qualitative information remains a requirement



Recommendations - Letter of Support

Applicant engagements with its financial partner(s) issuing the letter of support:

1. Make sure that the financial institution understands the process, the objectives and importance of the Letter of Support (including optional parts)
2. Provide qualitative information demonstrating the financial institution's involvement, as supporting evidence of readiness:
 - Information that is factual, concrete, that maybe supported/verified
 - Track record is not enough, evidence of in-depth assessment and familiarity with the project better underpins proposed timetable
 - Disclaimers for financial institutions are customary and should allow financial institutions to qualify their assessment



General recommendations

1. Start early in the process
2. Use EIB/Hub: EIB/Hub may provide assistance for structuring the financing and guide you on EIB internal process.
3. Use the FAQ web link



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Look for INEA!

Thank you!