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# Italian PPPs: An Update

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Over the past decade the Italian Treasury has successfully carried out an extensive programme of privatisations, generating total proceeds of €122 billion. Even though Italy's level of public spending on infrastructure still lags behind that of its EU peers, deregulation in public utilities is well underway in sectors such as energy, water, solid waste and local mass transportation. In order to continue to meet the rigorous Maastricht criteria, the Italian Government has identified improvements to public spending planning and resource allocation as a policy priority. It is against this background that the need to increase private participation in infrastructure has emerged as an attractive 'first mover' option within a nascent EU market.

## Governmental policy milestones

The Italian Government is seeking to attract a greater level of private participation in the ownership and management of infrastructure projects that have historically been owned and managed by the public sector, reflected the series of Government white papers (DPEF):

- DPEF (2000 – 2003) states that “the involvement of the private sector in financing, building and operating infrastructure and public utility services is a priority and especially for southern Italy”
- DPEF (2002 – 2006) places a strong emphasis on infrastructure investment as a main driver of economic growth. It estimates the need for around €50 billion of investment over five years, 50 per cent of which is expected to come from the private sector.

The Government's most recent legislation is the draft bill presented to the Parliament in June 2002 – the so-called “Legge Obiettivo” – which is aimed at stimulating the growth

of the domestic Italian PPP market. It is based upon “strategic” infrastructure project as identified by both central and local governments. This legislation provides for:

- A fast track process to reduce the level of red tape. The entire cycle of identification, government approval, tender and award should last no more than 12-13 months
- Specification of the funding requirements to build and operate the ‘strategic’ projects. Once a ‘strategic’ project has been identified, it must be submitted for public funding well ahead of the annual Budget deadline.

The bill has been discussed in both the Chamber of Deputies and the Senate and was recently resubmitted to the Senate for final approval, which is expected by mid-November 2001. Once the bill becomes law, the Government has four months to identify and approve the first short-list of strategic projects and 24 months to fully implement the new law.

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## Legislative framework for PPPs

The legislative framework for PFI/PPPs is based primarily on Law n.109 – known as the ‘Merloni Law’ – which was introduced in 1994 and amended several times up to 1998. At the same time, the EU Directive on Public Works was adopted into Italian law and has since been reinforced by secondary legislation that came into force in June 2000. The Merloni Law outlines two main procedures to award concession contracts under a PPP framework:

- Article 19 envisages a public authority-led PPP initiative requiring technical, economic and financial feasibility studies to be conducted and preliminary designs of the project to be developed by the awarding authority; a regulated procedure for the bidding process is established and a preferred bidder is selected by public tender

- Article 37bis on the contrary, envisages a developer-led PPP initiative requiring feasibility analysis, preliminary design and guidelines for the concession contract to be prepared by the developer; a streamlined negotiated bidding process with the main players; once the awarding authority deems the project to be in the public interest a preferred bidder is then chosen through public tender.

However, several points emerge from the above provisions:

- Compared to other countries, the law places a greater emphasis on the ‘construction phase rather than on the operating phase of a project; the procedure is highly regulated and prescriptive and this sometimes hinders the effectiveness of negotiations; with greater importance being placed on the awarding authority. On balance these elements could make projects less attractive to the private sector
- The Law envisages a concession period of no longer than 30 years, with compensation to be paid to the concessionaire only on the condition that the provision of the related services are applied to regulated tariffs. However, sectors such as local transportation may require a longer duration of concession in order to fully recover their overall investment through tariffs
- The Law also states that compensation should not exceed 50 per cent of a project’s construction costs. In

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government accommodation projects (in sectors such as healthcare, social housing, and the prison service) where the concessionaire is paid directly by the public authority and there are no other sources of revenue, this may make such projects less attractive to the private operator.

However, in order to develop PPP projects, other procedures and contractual schemes already exist within the legislative framework. PPP financing techniques can also be developed through joint ventures between public and private entities, or specific contractual structures such as leasing. Specific regulation governing public utilities is also an important element of the overall framework. Water and waste, for example, are already subject to sector-specific laws such as Law 36/94 (Galli Law) and D.Lgs 152/97 (Ronchi Decree), which mandate the reorganisation of municipal services into concessions.

### UFP’s first year

The Unità tecnica Finanza di Progetto (UFP) was born in July 2000 bringing together a team of project finance specialists within the Italian Treasury and CIPE (Comitato Interministeriale per la Programmazione Economica). Its mission is to provide project- financing expertise to public administrations. Indeed, in the first twelve months of its existence (to June 2001), UFP assisted 51 administrations on a total of 67 projects, in varying stages of development, worth an estimated total of €9.1 billion. A breakdown of the 67 projects by industry

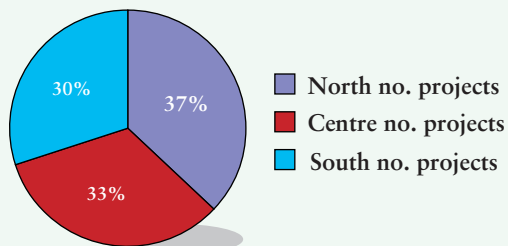
sector is provided in Figure 1.

Comparing the 2001 list of projects submitted to that of the previous year, a number of interesting points emerge. In 2000, the capital value of most of the 80 PPP projects submitted ranged from €10–30 million.<sup>1</sup> Certain high profile projects were submitted by the annual deadline of June 2001. The largest project was the Milano to Brescia motorway (€816 million). There were some other noteworthy projects including: hospitals with average investment value of €150 million; one water sewage system for an estimated investment of €200 million and one urban toll road valued at €150 million.

Looking at the Italian infrastructure market from a deal structure perspective, the main PPP schemes are BOT (Build, Operate and Transfer) and BLT (Built, Lease and Transfer). BOT schemes often rely on a public contribution in the form of a subsidy and/or a grant. Articles 37bis and 19 apply to projects that qualify for full investment recovery or to projects

Figure 1: June 2001 – June 2001: Projects submitted	
43%	Social Housing and Government
22%	Transportation
21%	Sports Centres
6%	Water
5%	National Heritage
3%	Environment
<b>Amount of Total Investment: €9.1bn</b>	

Figure 2: Geographical Breakdown of Projects

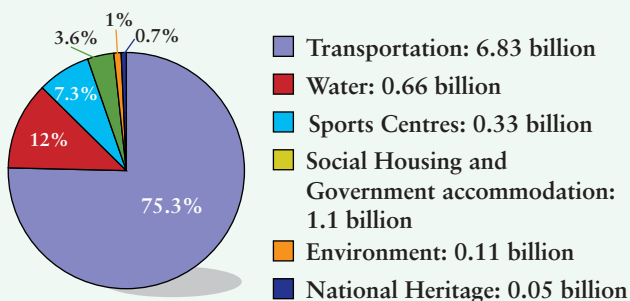


that require a public contribution due to social fares and/or specific operational and quality standards that must be met. Both procedures have been identified and developed in:

- **Environment** (waste-to-energy): advanced PPP schemes in waste-to-energy include plants in Napoli, Piacenza, Bologna, and Gioia Tauro, in which the total amount invested is approximately €1.1 billion. By the end of 2001, a public tender to award the concession for a new plant is about to be launched in Sicily
- **Water resources** (both water and waste water schemes): €200 million worth of waste water projects are underway in Campania, involving the upgrading of five water treatment plants. By the deadline of mid September 2001<sup>2</sup> three proposals had been submitted, including companies such as ACEA and SAUR. The awarding authority is now identifying a project promoter in order to launch the public tender to select the preferred bidder. Tender procedures are also moving forward in Latina and

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Figure 3: Breakdown of Projects by Industry Sector



Frosinone. As of 30 June 2001, six proposals had been submitted for the Frosinone concession, with bidders including Enel Spa, ACEA Spa, Impregilo Spa and Lyonnais des Eaux

- **Transport:** the concession contract for the €900 million revamping, maintenance and operation of the A25 and A24 motorways has been awarded to a consortium formed by Autostrade Spa and Toto Costruzioni Spa. As to the Milano – Brescia motorway project (€816 million) two proposals were submitted, one by Autostrade Spa and the other by the BRE.BE.MI consortium
- **Urban mobility:** the concession contract for the €52 million viale strozzi road scheme in florence (comprising an underpass and two associated car parks), has been signed by the consortium baldassini e tognozzi and scaf together with cassa di risparmio di firenze, banca toscana and monte dei paschi di siena. In addition, two proposals were submitted for the new €55 million florence car park facilities at le murate, campo di marte, le cure, parterre, piazza morgagni. Meanwhile one proposal has been submitted by the consortium grassetto and geodata for the €150 million project of an urban toll road from the port authority of ancona to the A1 motorway. Finally, an economic and financial feasibility study has been undertaken for a €1.5 billion project to enlarge the urban toll ring road of bologna and reroute the A1 motorway away from urban areas
- **Leisure and congress facilities:** the tender deadline for the €100 million EUR Congress Centre in Rome is 31 October 2001, while preferred bidder selection is underway for the €30 million Riccione Congress Centre on the Adriatic coast
- **Healthcare:** in this sector recent changes in the legislation have devolved greater power to manage services to the regions. Local healthcare authorities now act as private enterprises and have greater accountability in managing operating costs, as well as the financing of capital expenditure. The authorities face stringent borrowing limitations, but in some instances they are permitted to use their real estate assets as financial support to implement their capital expenditure programmes. The investment needs in hospitals are substantial: 38 per cent of the existing hospitals in the country were built before 1940, and 32 per cent between 1941 and 1970. Under a recent amendment to law 502/92, a renewed emphasis has been placed on updating and building new facilities with higher quality standards – such as the minimum area per patient

being raised from the current level of 70 m<sup>2</sup> to 120 m<sup>2</sup>. To date three proposals have been submitted for new hospitals in:

- ▶ *Mestre* (Venice) a €195 million project that involves the construction of a new hospital of 680 beds. Two proposals were submitted in June 2001 by the consortium Astaldi spa and Banca Profilo and the consortium Impregilo spa and Mediobanca. The proposals are currently under evaluation by the awarding authority
- ▶ *Brescia*, a €100 million project for the construction of new hospital beds with a Bovis lease proposal having been approved as being in the public interest. The public tender for selecting the preferred bidder should be launched by the end of 2001
- ▶ *Desenzano sul Garda*, a €100 million project for the construction of accommodation for elderly people (150 beds). Bovis lease has submitted a proposal with financing arranged by Crediop and Dexia; this is currently under evaluation.

## Conclusions

During its first year, UFP has supported a wide range of central and local administrations in the structuring and awarding of tenders for PPPs. This liaison role has been particularly important in assisting these administrations to allocate risks and solve financing issues. Although it is still early days, certain tentative conclusions can be drawn:

- Administrations have not yet fully implemented and understood the implications of the Law regulating public works in Italy, as demonstrated by the limited number of projects submitted and the timing required by the awarding authority to set-out new projects.
- Most of the requests for advice received by the UFP refer to the feasibility analysis stage (60 per cent of the number of projects advised). This shows the willingness of authorities to acquire the basic skills required to develop PPPs.

- UFP is working to improve the success rate of the administrations in managing PPP initiatives, thus reducing the negative impact and potential risks to the authorities that failure could imply.

Beyond specific project support, UFP also has a broader mandate to promote PPPs. In this context certain positive signs are visible:

- Regional Authorities have begun to perceive PPPs not only as a conduit for greater private sector funding, but also as a means to improve technical and management expertise
- Greater appetite from the private sector to adopt innovative design, building and management techniques for public infrastructure
- A greater number of bidders interested in participating and investing in PPP initiatives, due to the clear identification of high profile projects.

As a central consultative resource, UFP has been able to undertake sector studies that have been able to:

- Analyze sector-specific technical, administrative and financial characteristics
- Identify qualitative and quantitative market characteristics
- In certain cases, identify contractual structures that can be standardized
- Identify the local barriers to the development of PPPs.

Although project finance is becoming more widely used in public infrastructure, there are many more issues to be addressed and resolved. In the light of this, UFP will draw on international experience to develop best practices and endeavor to apply them to the Italian market, recommending when necessary legislative reforms aimed at facilitating the development of PPPs. **ij**

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<sup>1</sup>ANCE – OICE estimates, 2000

<sup>2</sup>This is because of the slightly different condition of environmentally sensitive sectors compared to the other sectors.

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