Debt in a debt crisis

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Since completing the financing of its multi-billion Euro road programme in 2008, Greece's project market has been relatively quiet. Even putting aside Greece's debt crisis, for international banks the pickings are much slimmer than they once were in the country's PPP market, as the focus has, in the past couple of years, shifted away from large infrastructure deals, often worth over Eu1 billion, to smaller accommodation deals which are mostly less that Eu100 million in size.

Despite this, there are still four clear fronts of activity in Greek project finance: small accommodation PPPs; large infrastructure PPPs, where even if the volume isn't what it once was there are still a couple of projects in the pipeline; renewable energy and a wave of thermoelectric power projects.

While the PPP deals, which fall under the remit of a 2005 law for accommodation PPPs, are too small to excite international lending institutions, they offer margins of around 350bp over 25 years – comparable to three-to-five year corporate finance loans – making them good assets for Greek banks. Cumulatively, the pipeline amounts to Eu5.7 billion ($8.02 billion) spread out over 52 projects, though the election last year of a PASOK-led government and the current debt crisis mean that a substantial amount of what has already been approved is likely to be reappraised.

Nevertheless, "everyone is looking to expand their portfolios safely," says Spiros Venetsianos of EFG Eurobank Ergasias. "These deals are good for local banks as they allow that safe credit expansion."

In April 2009 the Eu25.4 million Hellenic Fire Stations PPP became the first, and so far only, accommodation project to reach financial close. Two more projects have a preferred bidder in place and are extremely close to financial close: the Eu65.6 million Korinthos and Trikala municipal headquarters PPP and the Eu73.8 million Piraeus Police Directorate PPP.

However, beyond these imminent projects things are now on hold as the new government lays out its priorities. Projects received approval at a rapid rate under the previous New Democracy government, but the momentum has come to a halt as the PASOK government goes through these with a fine comb. Not all of the delays are due to the change of government though – some of the deals were launched before they were sufficiently mature and have run into town planning and permitting problems.

In the broader fiscal context the government has outlined plans to cut the budget deficit from 12.7% to 8.7% of GDP this year, and to below 3% of GDP by 2012. With the ratings agencies downgrading the country's rating and the price of new debt soaring upwards for the government, new social infrastructure may eventually fall victim to austerity measures circumstances impose on Greece.

On or off balance sheet?

Though the situation is a rapidly evolving one, austerity measures are not so severe yet, and social infrastructure investment is far from the frontline in the current round of budget cuts. But a key cause of the crisis was the way past governments used dubious accounting practices to submit artificially low budget figures. Now committed to pursuing a more stringent application of Eurostat criteria, there is discussion about whether PPP deals should be considered on or off balance sheet. How this question is resolved is critical in determining the scale of Greece's future PPP programme.

"The new government needs to clarify its intentions on this and determine how quickly it will move on," says Leonidas Korres, former head of the Treasury's special PPP unit, who now works in the private sector. "This needs to happen next month or the one after, otherwise we will lose the momentum that was built up."

One change spawned by the new government has been the appointment of a new head at Greece's PPP unit – Nikos Matzoufos replaced Korres on 1 December 2009. Matzoufos is not a political appointee but came through an open competitive process and is highly qualified for the job, coming into the post from Grant Thornton where he worked in tandem with the government in a financial advisory capacity on several of the PPP projects tendered so far. His experience makes him a popular choice as there should be no steep learning curve.

Once the reappraisal has taken place, it is likely that the larger projects – such as the hospitals, prisons and port security – will go ahead. However, many of the projects that involve bundling together many buildings, such as government offices and some of the schools tenders, look likely to be cancelled. Some projects that have already launched have gone quiet, including a Eu124 million project for thirteen new police buildings distributed around the country, and a Eu71.1 million project for government offices in the prefectures of Fthiotida and Achaia. Four groups submitted final technical and financial offers for the latter deal in mid-2009, but the project could yet end up shelved.

The two projects that are at the preferred bidder stage are sufficiently advanced that they probably will go ahead, although the Kornithos and Trikala project has been ready to close for months and still hasn't. The project is sponsored by J&P Avax, with Unicredit and HSBC the MLAs providing the Eu55.9 million project debt. The Eu42 million senior tranche is reported to have a 25-year tenor with margins of 300bp pre-completion and 290-350bp during operation.

Large infrastructure

Away from the accommodation projects, most of the large-scale infrastructure projects were wrapped up 2008. However, there is one real toll project still in the pipeline – the Attiki Odos Athens ring road project, worth roughly Eu1 billion – and there is also the Eu1 billion Kastelli Airport project in Crete. The previous government tendered both these projects, but the new administration has gone back to the drawing board and will retender them.

Other than these, the only other notable project in the pipeline is a logistic centre near Athens for Greece's national rail company, OSE. This was originally tendered two years ago and cancelled, but may now be retendered as a Eu150 million project.

Launched in a hurry by the previous administration, the new government is looking to remedy some of the problems on Attiki Odos, focussing on the environmental impact and coming up with a new general plan. But these are technical aspects that won't affect the one-stage tender process already laid out. The tender documents – having grown out of the experience gained on previous real tolls – are described as good and no change to them is expected. Given the problem with debt capacity in the current lending climate, it is likely that the retendered project will be smaller than the Eu1.2 billion originally envisioned.

Similar issues surround the Eu1 billion Kastelli airport project in Crete. Originally this was tendered as a 35-year BOT contract to build an airport on the site of an old German military base, and a 24km road link. The government launched the tender in 2009 and was to provide Eu220 million of capex for the project while keeping a 55% stake. However, the project will now be retendered – as with Attiki Odos probably with the same documentation – pending a rethink on some of the environmental issues and the business concept. The rethink is deemed necessary if the airport is to avoid the fate of the Thessaloniki Tunnel, and a key expansion of the project scope is to include the provision of navigational equipment. Bidding groups have already formed up for the project around Vinci/Aktor, JNP/Bouygues, Hochtief, Michaniki and GEK Terna.

Project cancellations

The problem for these deals is the poor lending climate, as well as the high bidding costs that result from the interminable nature of Greece's tendering process. As one London-based banker put it, "When there are so many places where there is stuff going on, why do it in Greece where it is so challenging?"

The cancellation of the Eu472 million Thessaloniki Tunnel looks bad, but this is mostly down to the project's symbolic status as the first of six big real toll projects tendered by the Ministry of Public Works to reach financial close, in late 2007. Being a tunnel rather than a straightforward road, the project was too anomalous to be representative of the programme as a whole, however, and the problem that led to its cancellation revolved around the inclusion of tunnel boring machines.

An archaeological committee decided that two buildings that were to be demolished should be preserved, and consequently tunnel-boring machines were needed, meaning an increase in the project's cost. The previous minister, not wanting to be accused of corruption in favouring the contractor – especially as the original bid by Thermaiki Odos, the sponsor, had been low – made the decision to retender the project rather than renegotiate the price.

"From a technocratic point of view I think it was worth advancing with the project and renegotiating the costs with the banks and sponsor rather than going through a whole new tendering process and paying all the fees again," says Venetsianos. "But perhaps that's why I wouldn't make a good politician."

The scenario might not prove as bad for Greek project finance as it looks. Bankers involved in the deal hope that the arbitration procedure will provide a final, irrevocable decision in the next two or three months, after which they expect to get their money back regardless of whether the sponsor or the state is found at fault. The case will be a test of the contractual robustness of Greece's PPP deals, and if the test is passed it could perversely serve to reassure lenders.

Retendering the project does not seem to be a priority right now. Work is progressing on Thessaloniki's metro project – once planned as a project financing, but eventually carried out as a public procurement – and the tunnel's future may depend on what impact the metro has on the city's congestion.

Energy and renewables

On the power front, a wave of thermoelectric power projects are expected to either close or come to market soon, starting with the 430MW Heron CCGT in Thiva, sponsored by GEK Terna and GDF Suez. If successful, the project will likely pave the road for two or three more to follow.

The Eu235 million project has been in the pipeline for several years, and in June 2009 Heron received a Eu140 million two-year bridge loan from lead arrangers Eurobank and Piraeus Bank. Construction will be completed in May 2010. The full financing is expected to close in the next few weeks, provided that the lenders – Eurobank, Piraeus Bank, Emporiki Bank and Fortis Bank – get their credit committees to approve the deal. The amount of project debt is Eu164.5 million, split into three tranches including cash sweep mechanisms, with a 70:30 debt-equity split. As there is no offtake market in Greece the project carries pure merchant risk, the main challenge for the deal.

There are two other CCGT deals known to be in the pipeline. One is a 420MW plant in Thisvi, in Viotia prefecture – a 50:50 joint venture between Edison and Hellenic Petroleum, with BNP Paribas thought to be the financial advisor. The other project involves the development of two CCGT plants with a total 880MW capacity at the site of the existing Halyvourgiki IPP in Elefsina. The new entity will be 51% owned by Halyvourgiki and 49% owned by the Greece's state-owned Public Power Corporation.

If Heron goes through this will help others by providing a financing template. Conditions are similar on all the projects – all involve power plants of around 400MW, carry merchant risk and use the same GE 9FB turbines.

Greece's renewables sector is seeing wind and photovoltaic projects closing at a slow but steady rate, but these projects are small and unspectacular. Greece is committed to generating 25% of its energy through renewables by 2016 – up from around 9% at present. If it is to have any chance of meeting this ambitious target, the government needs to simplify the permitting process. Currently up to 19 permits are required to operate a plant, an arduous process that explains why Greece lags behind most of Europe in this sector.