Impact investing for PPPs: The case-study of Treviso Hospital (Italy)

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**Sustainable finance**: (1) to improve the contribution of finance to sustainable and inclusive growth as well as the mitigation of climate change; (2) to strengthen financial stability by incorporating environmental, social and governance (ESG) factors into investment decision-making.

The European Fund for Strategic Investments (EFSI) has already generated over €250 billion in investment. In 2017, almost one third of funds were channelled into energy, environment and resource efficiency, as well as social infrastructure.
Impact Investments: generate positive social and environmental benefits alongside financial returns

Impact Investment is expected to grow from USD 135 billion worldwide in 2016 to USD 307 billion in 2020, with a CAGR of 17.3%. Europe leads with a 54% market share whereas North America’s share is approximately 38%.

Among emerging economies, India will be the first to reach 10 billion investment by 2022. South America and Africa will grow with a CAGR of more than 30% over the next 5 years.
Impact Investing

• No standardisation of practice
• Fragmentation of approaches
• Lack of rigorous aggregate analyses for comparing different impacts
• Efforts underway to define and comprehend potential and actual impacts
• Investors have different risk-return expectations
• Few funds larger than USD 500 million in assets under management
• Synthesis or multiple indicators?

EXAMPLE:
JESSICA portfolio (single metrics and multiplier effect)
The case-study of Treviso hospital (Italy)
PPP for the hospital of Treviso

- Regional Authority opted for PFI to access capital & expertise of private sector (after ex-ante assessment)
- PFI to design, finance, build and manage the hospital: provincial hub with 1000 beds, serving 1m people community, 21 years concession
- Restructuring & extension buildings; technological upgrade facilities & equipment; management of (non medical) services
- Public tender in 2011; won by consortium led by Lendlease (Finanza e Progetti); financial closing in July 2017
- €250m PFI total value; 80m to be raised in the market
Objectives of the private sector (Lendlease)

- To test transformative potential of impact investing in PPP projects:
  - Access to patient capital (better lending conditions)
  - New partnership with public sector i.e. Shared Value
  - Higher reputation within local community
  - Access to and retention of talents
PFI for Treviso Hospital: the opportunity

• Impact investing retrofitted in the PFI
  – concession contract already awarded, but not yet signed (2016)
  – Lending conditions by banks known (UniCredit)

• Impact investing conditions
  – Space: 40m (50% 80m) available for impact investing initiative
  – Objective: discount on the cost of capital (compared to UniCredit)
  – Commitment: 100% savings to invested in the community i.e. impact investing initiatives
  – PlusValue assisted Lendlease
Final costs of borrowing by Lendlease/Finanza e Progetti

<table>
<thead>
<tr>
<th>PFI Lenders</th>
<th>Commitment (€m)</th>
<th>Margins (bps)</th>
<th>Value generated for impact investing initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>UniCredit</td>
<td>27</td>
<td>230</td>
<td>0</td>
</tr>
<tr>
<td>Intesa Sanpaolo</td>
<td>24</td>
<td>230</td>
<td>0</td>
</tr>
<tr>
<td>EIB</td>
<td>29</td>
<td>140</td>
<td>€1.8m</td>
</tr>
<tr>
<td></td>
<td>80</td>
<td>90</td>
<td>€1.8m</td>
</tr>
</tbody>
</table>
Realised savings for impact investing

• **Actual result**: European Investment Bank financed €29m at below market interest rate
  – The difference between market interest rate and EIB’s cost is €1.8m committed to capitalise a new impact investing vehicle

  Lifetime interest expense of €29m bank loan at market rate = 2.3%

  Lifetime interest expense of €29m bank loan at below market EIB rate = 1.4%

  €1.8m impact investing vehicle
Actual Corporate Structure – impact investing

Diagram description:
- **Finanza e Progetti (FeP)** and other industrial partners
- **SPV Ospedal Grando (OG)**
- **EIB PFI Lender**
- **Social Impact Vehicle: Ospedal Grando Impact Investing (OGII)**
- **Social Impact Certificator**
- **Equity and Debt to Social Enterprises**

Key relationships:
- Equity Injections / Dividends
- Social Impact Distributions paid directly to OGII
- Debt Financing/Service
- Social Impact Certification Reporting
- Monitoring of investment compliance with the approved policy
- FeP as sole shareholder
- Equity Injections / Dividends
Results

• Discount on capital against commitment to reinvest savings for impact investing initiatives
• Creation 1.8m Impact investing Fund (OGII)
• Impact investing = Corporate venture capital + impact
• New legal and organisational solutions for lenders (EIB) and private sector (Lendlease)
• Alignment mission main project (PPP for hospital) with impact investing (new services in health)
• Investment policy validated by lenders (in the PFI contract)
• Impact assessment certified independently
Conclusions & recommendations (1)

• Success:
  – Treviso case: reference to include impact investing in PPPs (not a model yet)
  – Pivotal role of EIB in developing & validating innovation
  – Impact investing at large scale from scratch
  – Impact easy to communicate
  – Limitations/complications of Social Impact Bonds overcome

• Failure:
  – Public sector engagement (Regione Veneto)
  – Failure in access to EIB data
Conclusions & recommendations (2)

• Potential developments:
  – Further simplification corporate structure (reduced time & costs)
  – Social/project bond for local community & stakeholders participation (good investment in infrastructure for the community)
  – Participation commercial banks (role for EIB)
  – Bridge fund to bring savings forward for investment
  – Impact assessment (from ad hoc to standard)
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