



CLUSTER EVALUATION

Case study II: Hungary Transport Sustainable Infrastructure Operations in Advanced Transition Countries



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SUMMARY

The ABI of Transport in Hungary in the period 2011-2019 amounted to over €150 million. This represented 73% of SIG ABI in the country. There were three Transport operations approved by the Board of Directors in that period, all of them sub-operations of the Regional Framework for development of a Secondary market for maturing Infrastructure PPPs.

Neither the rationale nor the objectives of the framework and the sub-operations related to specific countries; they were related to the development of the secondary PPP market in the whole region. The specific transition needs or market gaps that prevented the development of the secondary market in the region were not analysed. Hungary sub-operations largely echoed the rationalisation of the framework and do not specifically discuss market considerations in the country.

All three sub-operations in Hungary were relevant to the framework's objective. The projects did not intend to address the particular transition gaps in Hungary. Hungarian M6 sub-operations were in line with the direction of the 2011 country strategy, while the last sub-operation fell out of the narrower scope of 2016 strategy. The framework and its sub-operations were in line with the relevant Transport strategy priorities.

The expectations of EBRD additionality on the secondary PPP market in the region at the framework level appear exaggerated with the benefit of the hindsight, given the ultimate underutilisation of the framework. However, there is evidence that in the sub-operations that materialised the Bank did bring additional value, including attracting institutional investors.

The results expectations rested on the cumulative effect of a critical mass of sub-operations within the framework and were aimed at the regional level. Consequently, transition benchmarks were developed for and monitored at the framework level. Tools for systematic reporting of transition performance of frameworks were however lacking.

Hungary represented the biggest share of the investment which materialised under the regional framework and was the only country with multiple projects. The regional framework overall underperformed expectations in terms of number of projects (six signed vs. benchmark of seven at the level of framework) and total investment volume (€314m vs. framework headroom €650m). One contributing factor to this underutilisation was the reliance of the initial pipeline for the framework on sub-operations in Turkey, where contextual developments later prevented wider activity. Operations in Hungary were the only sub-operations with equity refinancing within the framework (M6) as well as loans (Budapest Airport). The expectations in terms of the composition of the sub-operations, which were set at the level of the framework, were not met overall.

The results and transition impacts of the framework were tied to the delivery of critical mass of sub-operations and their composition in terms of type of instruments. From the perspective of operations in Hungary, what can be considered critical mass for the local market was delivered in high profile transactions with some unique features including the presence of non-bank institutional investors. The level of activity registered in Hungary was not matched in other countries in the ATC region, and overall the critical mass of sub-operations was not implemented and the new local bond issues for infrastructure did not materialise.

EBRD has been developing significant internal expertise on PPPs and promotes formal and informal learning in this area.

Abbreviations

ABI	Annual Bank Investment
AMI	Annual Mobilised Investment
ATC	Advanced Transition Country
CEB	Central Europe and Baltics
CoP	Community of Practice
CRR	Capital Resource Review
CS	Country Strategy
CSDR	Country Strategy Delivery Review
CSU	Country Strategy Update
EU	European Union
EvD	Evaluation Department (EBRD)
GET	Green Economy Transition Approach
IPPF	Infrastructure Project Preparation Facility
LTP	Legal Transition Programme
NCBI	Net Cumulative Bank Investment
PPP	Public Private Partnership
SCF	Strategic and Capital Framework
SEI	Sustainable Energy Initiative
SIG	Sustainable Infrastructure Group
SIP	Strategy Implementation Plan
SO	Sub-operation
TC	Technical Cooperation
TI	Transition Impact
TIMS	Transition Impact Monitoring System
TQ	Transition Quality
TSS	Transport sector strategy

1 Portfolio overview

NB: All data in this section originates from DW_Banking_Operational dataset as available on the EBRD Tableau server in June 2020. Analysis by EvD.

In line with the approach to the evaluation outlined in the Approach Paper, this evaluation’s time scope comprised the past two strategic periods, the Capital Resource Review (CCR4, 2011-2015) and the first Strategic and Capital Framework (SCF, 2016-2020) until the end of 2019.

1.1 ABI

The **ABI (excl. restructuring) of SIG in Hungary in the period 2011-2019 amounted to over €204 million**, out of total ABI in Hungary over that period of €757m (27%). Within the three SIG subsectors, Transport represented the overwhelming share of SIG ABI. The **ABI of Transport amounted to over €150 million**. This represented 73% of SIG ABI in the country, while MEI delivered the remaining 27%. Energy ABI was not present in the period.

Figure 1: ABI (excl. restructuring) Hungary 2011-2019, share of sectors

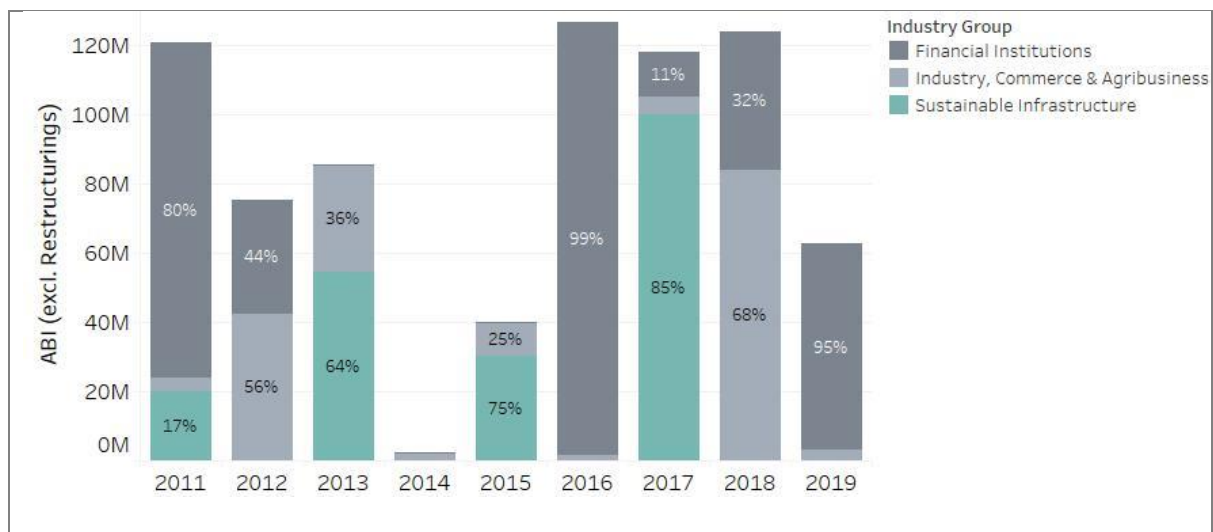
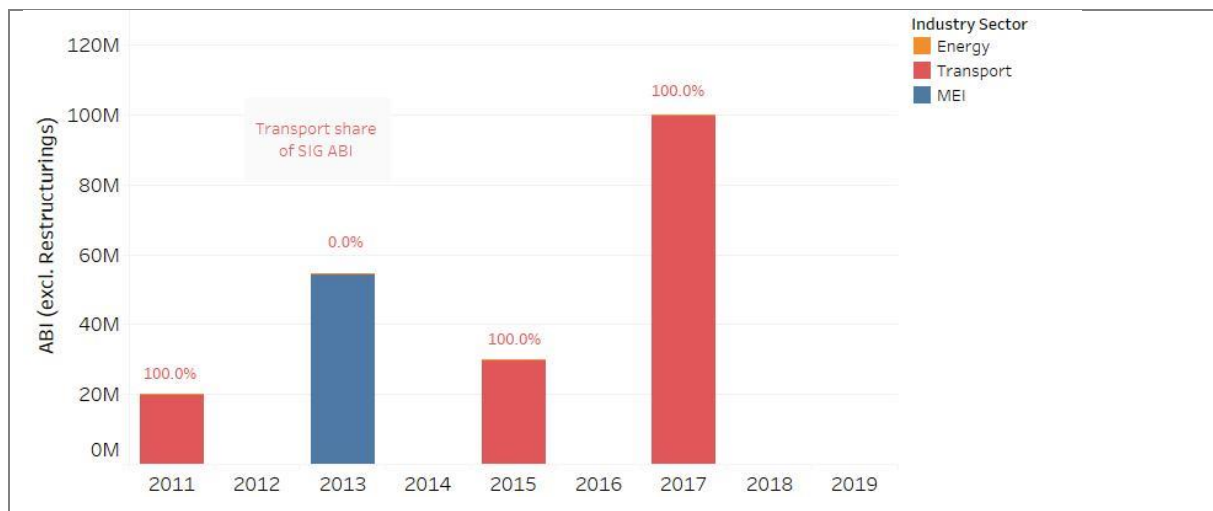


Figure 2: Sustainable Infrastructure ABI (excl. restructuring) Hungary 2011-2019, by sub-sectors



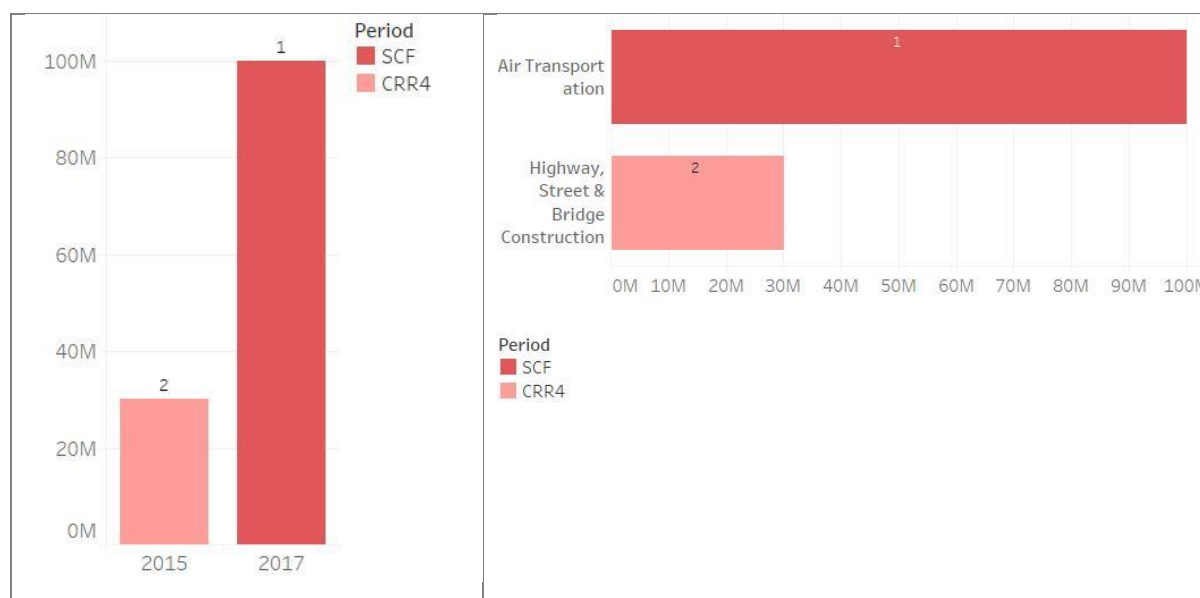
1.2 Investment

There were **three Transport operations** approved by the Board of Directors in 2011-2019, all of them **sub-operations of the Regional Framework for development of a Secondary market for maturing Infrastructure PPPs**¹. There were two projects approved in the first strategic period (2011-2015) and one under SCF by the end of 2019. In terms of subsectors, two operations were implemented in highway construction and one in air transport; in terms of investment however the air transport investment was about three times larger than the highway construction combined.

Table 1: Transport projects in Hungary, 2011-2019 (by approval year)

	Year approved	Operation Name	Op Id	Type	Portfolio class	Instrument Type	Sovereign Risk	NCBI (€)
CRR4	2015	Regional: PPP Second Market	47488	FW				
	2015	M6 Duna Zrt (f. Project Pannonia - Duna)	47490	SO	PRIVATE	Debt & Equity	Non-Sovereign	18,940,002
	2015	M6 Tolna Zrt (f. Project Pannonia Tolna)	47530	SO	PRIVATE	Debt & Equity	Non-Sovereign	11,120,069
	TOTAL CRR4							
SCF	2017	Budapest Airport Financing (f. Project Shuttle)	49046	SO	PRIVATE	Debt	Non-Sovereign	100,000,000
TOTAL SCF								100,000,000
TOTAL								130,060,071

Figure 3: NCBI Transport in Hungary in €, 2011-2019; by approval year and by subsector; number of operations



1.3 Technical cooperation

None of the projects in the evaluation portfolio was associated with technical cooperation (TC) funds.

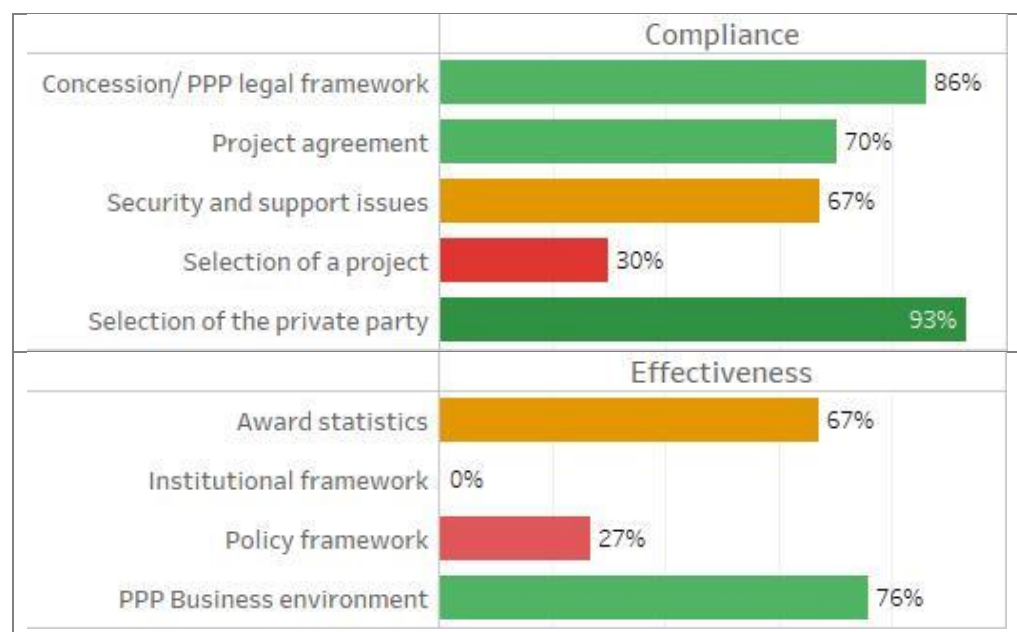
¹ BDS15-074

2 Sector overview

While all three projects in the evaluation portfolio were implemented in the Transport sector, their use of proceeds was not associated with any physical implementation in the sector. Their objectives were rather connected to the development of capital markets, and specifically to the development of the secondary market for PPPs. Likewise, their objectives were not specifically linked to the development of the secondary PPP market in Hungary as such, but through the larger framework to the development of the secondary market in the whole region through demonstration effect.

The regulatory and implementation context for the creation of PPP projects can be considered as one of the bases of the eventual secondary market, at the very least as the determinant of the pipeline of mature PPP projects ready for refinancing. EBRD publishes assessments of the PPP legislation in all countries of operations, benchmarked against internationally accepted standards and best practices. This identifies the strengths and weaknesses in terms of both extensiveness (law on the books) and effectiveness (law in practice).ⁱ In this assessment Hungary overall compliance and effectiveness is Medium (65%), together with other ATC countries Estonia, Latvia, and Slovak Republic but below High assessed ATC countries Croatia, Lithuania, Poland and Slovenia, and also below Turkey. Hungary's overall rating Medium is composed of High result for Compliance (Legislative Framework Assessment; at 72 just above the 70 threshold for High) and Medium result for Effectiveness (Legal Indicators Survey; at 58 also at the lower end of Medium but significant improvement from 2011 assessment of 39 Low).

Figure 4: PPP Regulatory framework assessment, Hungary, 2017



Source of data: EBRD Public-Private Partnership Assessment 2017-18

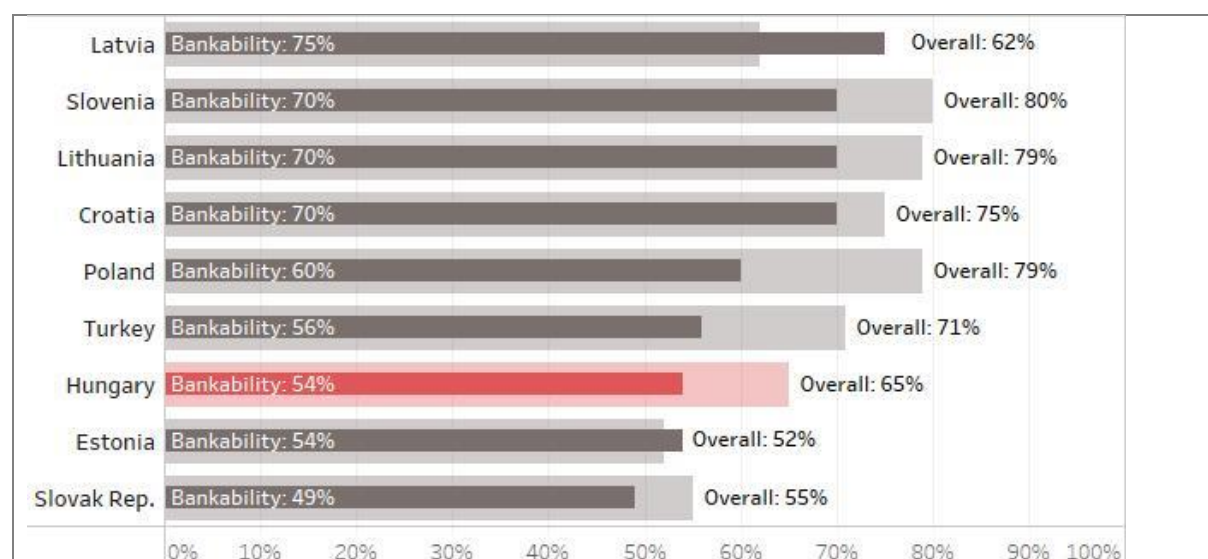
The assessment notes that although Hungary has significant experience with infra-structure PPPs, there is no PPP Law. The actual tendering process for PPP projects is governed by the Public Procurement Act and as such is regulated in a very detailed manner. The system is therefore very much a combination of two extreme approaches: the detailed and mandatory regulation on the procurement process and almost total freedom as regards project agreements.

There are over 100 PPP projects in the operating phase, ranging from motorway Design-Build-Finance-Operate (concessions) to small municipal sports facilities Private Finance Initiatives. PPPs started as early as 1991 as toll road concessions. However, the review considers that there are 'major political obstacles' for new PPPs. Starting from 2009, the Hungarian government began to review the ongoing PPP projects in order to renegotiate and to put an end to the "disadvantageous, disproportionately high risk-taking and/or economically unviable" projects. The current government has carried out a systematic termination or buy-back of existing Build-Operate-Transfer PPPs started after 2011 and has repeatedly communicated that this form is not favourable any more.ⁱⁱ

The particularly low scores for policy and institutional frameworks in Hungary are due to the fact that there is no government policy for the development of PPPs, and there is no inter-ministerial committee for PPP although ad hoc committees may be established for projects of large volumes. No PPP unit or knowledge management of the public side exist. The legislation does not contain any rules on pre-assessment/ value for money analysis and related issues. While the financing and insurance background for projects is present in Hungary, there are no specialised instruments for PPP.

In addition to the scores for compliance and effectiveness, the review also assessed whether the legislation supports finding “bankable” projects. The overall PPP Bankability score for Hungary was 54%, on the lower end of the spectrum for ATCs and Turkey (Figure 5).

Figure 5: PPP Regulatory framework assessment, Overall rating and Bankability, ATCs and Turkey



Source of data: EBRD Public-Private Partnership Assessment 2017-18

EBRD-commissioned learning/ discussion paper on the sources of PPP failures in Europe contains a wealth of illustrative examples, both positive and negative, as well as broader patterns and lessons learned from the implementation of PPP projects. Specifically for Hungary, this paper outlines the failing of earlier transport PPPs due to inadequate revenue forecasting, and the more successful later development of follow up projects (including M6 Tolna and M6 Duna, subject of the operations in this evaluation).ⁱⁱⁱ

Box 1: Hungary M1/M15. An example of a bailout due to overoptimistic assumptions in a real toll greenfield highway (with no risk sharing or guarantee)

2 toll motorways totalling 320M € developed in Hungary during 1992-1998, and constructed to a high standard, failed financially due to optimistic traffic forecasts. This was mostly because the forecasts ignored the sensitivity of the potential users to the availability of the free alternative. That is, the toll rates were too high to offset the additional travel time for the free alternative.

The projects attracted reputable global players. Commercial close (March 1993) was followed soon by a successful financial close (November 1993) and the motorways were open to traffic in 1996 and 1998 respectively.

The actual traffic was 54% below the original forecasts. There were large public protests against the level of tolling. The project had to be partially nationalized in 1999. In addition to the overoptimistic forecasts, these projects are an example of a lack of proper de-risking structures (there was no MRG or similar mechanism), as well as an example of lack of proper communication and stakeholder management.

Right after this project, the M5 toll motorway (also part of the TEN projects) responded in better terms to the same problem of overoptimistic traffic forecasts: it included an MRG from which AKA (the concessionaire) effectively draws on funds to complement the revenue deficiency. The Government was also more supportive in defending the fare levels against public opposition and more active in managing traffic risk (the traffic diversion to the alternative toll-free road). In 2004 a vignette¹⁶ system was adopted in the country and the project was re-structured to an availability payment model.

After these projects, other road PPP projects as M6-M60 (960 M€, closing in 2006), M6 Tolna and M6 Duna (both closing 2008) have been successfully developed in Hungary.

Source: EBRD (2018): *A Critical Analysis of PPP Experience in Greater Europe*

The position and presence of institutional investors in Hungary in the past decade suffered from a setback related to the Government's nationalisation of pension funds. In November 2010, the Hungarian government approved measures to force Hungarians back into the state pension system, a policy aimed at reducing Government pension funding costs (and thus the fiscal deficit) and recapturing private pension funds to reduce government debt. The Hungarian parliament cancelled mandatory contributions to private pension funds and returned the assets from fund management to state handling. The decision, which was a reversal of an earlier pension reform, had a negative effect on the institutional investor base in Hungary, as pension funds were significant investors into equities and government securities.^{iv} The sector recovered only in 2017 to the level of 2010. The investment fund industry assumed the role of the pension funds in collecting household savings but with a much shorter investment horizon. As a result the role of investment funds is much more important in Hungary than in the peer countries. The securities investments are concentrated in government securities in case of all institutional investors, mainly due to the crowding out effect of the government securities market. The disappearance of the pension funds affected mostly the equity market. The demand for equity instruments decreased instead of the previously predicted steady growth and in Hungary the weight of equity funds is the lowest in the region.^v

3 Strategic overview

NB: detailed overview of relevant strategic context and priorities is in Annex 2.

The Transport operations in the evaluation portfolio were approved in the context of different strategic frameworks. The main framework was given by the medium-term institutional strategic plans CRR4 (2011-2015) and SCF (2016-2020; only operations approved by end 2019 are part of the evaluation portfolio). Two of the operations were approved under CRR4, while the most recent one fell under SCF. In the same period there were two active Transport sector strategies; however, the operations relevant to this evaluation were only approved under the latter one, valid in 2013-2019. The strategic landscape was further complemented by two Hungary country strategies. The two earlier operations were approved in the last year of the 2011 Country strategy, while the last one was approved in the CS 2016 strategic period. Table 2 summarises the strategic framework.

Table 2: Overview of Hungary Transport operations strategic context 2011-2019

	2011	2012	2013	2014	2015	2016	2017	2018	2019
	CRR4					SCF			
Transport Sector	-10/2013			10/2013 – 10/2019					
Country Strategy	10/2011 – 03/2016					03/2016-			
Operations					47488 (fwk)		49046		
					47490				
					47530				

The CRR4 foresaw gradual decrease in activity in ATCs, projecting decrease of annual business volume from 12% in 2011 to 4% in 2015 reflecting declining additionality post-crisis and the decreasing transition challenges in the EU-7 countries; EU countries were also expected to graduate during the CRR4 period. Neither the decrease of ABI nor the graduations eventually happened for the ATC region over the CRR4 period. For the transport sector in ATCs the CRR4 noted that concessions policies and financing arrangements have improved, and construction, maintenance and other services were generally contracted out; however, they were not always in line with EU standards. The CRR4 foresaw demand for Bank financing for large PPP transactions in the transport sector, in addition to some private activities in rail, ports and regional airports.

The SCF introduced more focus on strategic portfolio management. While the overall strategic orientation was to move progressively towards less advanced transition countries, the Bank would maintain the size of its portfolio in ATCs, as opposed to a decline (ahead of expected graduation decisions in the medium term), given the region's contribution to the financial strength of the Bank's portfolio and remaining transition opportunities. With the revision of Transition concept, the ATC region was expected to target Competitive, Green and Resilient transition qualities (with continued emphasis on Well-governed), with an overarching objective to support frontier-level innovation and higher-value-added activities given the advanced economies of the countries in this region. While the lens to view and target transition moved from sectors to TQs, the focus in the ATCs was broadly on the development of capital markets and introducing new innovative ways of financing and products, which may still not be present in the market.

Sector strategies provided some region-specific guidance for ATCs. The Transport operations policy of 2004^{vi} was still in place at the beginning of the evaluation period in 2011. For ATCs it among other foresaw particular scope in infrastructure PPPs and the transitional properties of their demonstration effect. The policy also discussed the Bank's role in the refinancing market for PPPs, including the possibility of attracting institutional investors to the region. However, no Transport operations were approved in Hungary under this policy, and the regional framework for PPP secondary market was only approved under the following 2013 Transport sector strategy.^{vii} The 2013 strategy outlined among other the key transition challenge in mobilising private capital for infrastructure projects, including from institutional investors. In ATCs specifically, the strategy proposed to target resources to private sector projects, including PPPs and concessions in the road, port and airport sectors. In terms of financing structures, the strategy included supporting access to capital markets including bond issues and attracting institutional investors for infrastructure projects.

Country strategies presented the discussion of transition challenges and provided the most specific information on the Bank's priorities in the Transport sector and in capital markets development. The CS of 2011 expected Hungary to graduate EBRD within the strategic period. In the Transport sector the priority was set in restructuring, particularly in the railway sector and including related policy dialogue. The CS also prioritised private sector participation in infrastructure, including through the Banks participation in PPPs or their refinancing. The following CS in 2016 did not set any priorities in the Transport sector other than municipal and urban transport (MEI), and likewise did not foresee further PPP participations as a priority. Focus in the capital markets was on opening access to capital market funding for financial institutions.

4 Findings

How relevant were Transport operations in Hungary to the Bank's strategies and local context?

Relevance to client and sector needs and government priorities

The Transport projects in Hungary were sub-operations of the regional Framework for development of a secondary market for maturing infrastructure PPPs. Neither the rationale nor the objectives of the framework and the sub-operations related to specific countries; they were related to the development of the secondary PPP market in the whole region, with a focus on ATCs and Turkey.

Neither the framework nor individual sub-operations provided analysis of the secondary PPP market beyond general statements. The specific transition needs or market gaps that prevented the development of the secondary market in the region were not analysed, and the rationale for the framework was therefore such that a critical mass of projects was needed for demonstration purposes.

The Hungary sub-operations largely echoed the rationalisation of the framework and do not specifically discuss market considerations in the country. Their expectations of the projects' ultimate effect in attracting investment into primary PPPs was at odds with the government's adversarial stance to new PPPs.

The Transport operations in Hungary in the portfolio of this evaluation were sub-operations of a larger framework and their objectives related not to an individual country but the whole region. The framework did not explicitly outline its geographic scope. The framework project document noted that *'At this point, the Framework is anticipated to include predominantly advance transition countries and Turkey because of their current pipeline of maturing PPP projects.'*, and this was supported by the indicative framework pipeline of 25 projects, which were all located in ATCs (including Cyprus) and Turkey.^{viii} However, the framework was not closed to potential sub-operations in other countries, as evidenced by the exploration of activities in Bulgaria and Jordan, even if those eventually did not proceed for Board approval. Therefore, the relevance of the framework was not related to individual government priorities or individual country market needs but to the needs of the whole EBRD region.

Neither the framework nor individual sub-operations provided analysis of the secondary PPP market beyond general statements. There is limited information available on the secondary PPP market in the region at the time of the framework approval beyond the statements of its general absence or minimal number of operations. Neither the framework nor individual sub-operations presented an analysis or discussion of the underlying reasons be it exogenous factors or regulatory and market failures that would prevent potential investors in being interested in the entering the (secondary PPP) market. The strategic context section of the framework project document notes that ATCs and Turkey were the countries where large infrastructure projects were financed under PPP structures with relatively higher costs than in more developed countries given the lack of mature financial markets and perceived higher risks. These projects would be ready for refinancing at lower costs having completed their physical implementation. This would allow i) entry of new investors; ii) freeing Sponsors' equity for investment in new projects; and iii) ultimately attracting more investors into the primary PPP market as they would see a viable exit route on the well-developed secondary market. The framework however did not discuss what the obstacles for the development of the secondary market were, i.e. why EBRD presence should be needed. On the contrary, the framework asserts that institutional investors were increasingly looking at infrastructure to diversify their portfolios and it concludes that there were two main reasons why institutional investors would be interested in the secondary PPPs in emerging markets: i) the secondary PPP market in western Europe is becoming saturated, and ii) the expected return yields on infrastructure PPPs were higher than for other asset classes.^{ix}

In the absence of discussion on the sources of the market challenges of the secondary PPP, the rationale for the framework was therefore such that a critical mass of projects was needed for demonstration purposes. The framework analysis eventually concludes that *'there is a real and significant market for the Framework'* based on the list of 25 identified maturing PPPs in ATCs and Turkey, rather than based on an analysis of existing secondary PPP market (or the lack of it) in these countries. Correspondingly, the DAQs for the framework noted that the framework identifies no specific transition bottlenecks or [scope for] policy dialogue, and asked for elaboration on the specific market gaps for the proposed instruments. The answer to this noted that given the incipient state of the market in the EBRD region, critical mass of projects is needed essentially for demonstration purposes.^x

The Hungary sub-operations largely echoed the rationalisation of the framework and do not specifically discuss market considerations in the country. The project document for M6 PPPs notes that this would be the first large scale PPP to be sold in the secondary market in the country, and therefore a demonstration for further such sales in the country. It asserts that the project *'is expected to attract further investments into Hungarian [primary] PPPs'* if investors see a potential viable exit routes on the secondary market. There is a disconnect between this assertion and the fact that the biggest obstacle for investing in new PPPs in the country was the government's adversarial stance to new PPPs – which the same document acknowledges just a paragraph earlier (*'The political commitment and the regulatory framework for PPPs remain unclear and subject to considerable risk.'*). The policy side of the PPP market is not addressed by the sub-operations, which were taking place in the private sector and did not have explicit policy engagement elements.

Relevance to the EBRD transition mandate and applicable strategies

The Framework saw the creation of the secondary market for PPPs as a 'key remaining transition challenge' in infrastructure but did not outline any specific obstacles that it was aiming to alleviate. The approach rested on the support to a critical mass of transactions that would create a demonstration effect for new type of investors in infrastructure (institutional investors) and new ways of financing (including infrastructure bonds and equity transactions).

To the extent that the framework saw the underdevelopment of the secondary PPP market in the region as a transition challenge to be alleviated by demonstration, all three sub-operations in Hungary were relevant to that objective. The projects did not address the particular transition gaps in Hungary.

Hungarian M6 sub-operations were in line with the direction of the 2011 country strategy, while the last sub-operation fell out of the narrower scope of the 2016 strategy. The framework and its sub-operations were in line with the relevant Transport strategy priorities.

The Framework saw the creation of the secondary market for PPPs as a 'key remaining transition challenge' in infrastructure but did not outline any specific obstacles that it was aiming to alleviate. The approach rested on the support to a critical mass of transactions that would create a demonstration effect for new type of investors in infrastructure (institutional investors) and new ways of financing (including infrastructure bonds and equity transactions). It did not consider that specific policy/regulatory aspects of with PPP markets or capital markets would be the reason for the relative underdevelopment, and the risk to transition impact were identified only as i) potential lack of appetite from the capital markets and institutional investors for the PPP secondary markets in the region; and ii) initial legal clauses which might have some restrictions or allow government intervention during the re-financing. As elaborated in the answers to the framework's DAQs: *'The sub-projects under the Framework cover a range of sectors, sub-projects and instruments, but the key objective is common – creation of a critical mass of secondary PPP transactions necessary to kick-start a sustainable market.'*^{xi}

Transition gaps specifically in the Hungarian capital markets as well as infrastructure sectors were outlined mainly in the country strategies. Already at the beginning of the evaluation period the CRR4 document identified Hungary as one of only three countries of operations with small transition gap in private equity and capital markets sector (together with Turkey and Poland). The country strategies outlined further details. As one of the most advanced countries, overall remaining challenges were described as fairly small. In the Roads sector transition gaps were assessed as Small for Market structure and Negligible for Market institutions; for Capital markets and Private equity Market institutions transition gaps were small, while for Market structure the transition gaps were Medium. Table 3 summarises the key transition challenges in the sector (more detail in Annex 2).

Table 3: Summary of transition challenges for Hungary over the evaluation period

Roads	Capital markets
<ul style="list-style-type: none"> The political commitment and the regulatory framework for PPPs remain unclear and subject to considerable risk; A number of PPP projects but with a mixed track record; the government abolished tolls and all new PPP projects are on an availability payments basis; The transition challenges are considered as small but the key challenge relates to the reduction of political fluctuations on PPP projects. <p><u>Transition gaps</u></p> <p><u>2011:</u> Market Structure Small; Market institutions: Negligible</p> <p><u>2016:</u> Market Structure Small; Market institutions: Negligible</p>	<ul style="list-style-type: none"> Following the shift of assets out of the second pillar mandatory pension funds back into the state system the domestic institutional investor base is much weakened, property rights have become more uncertain, and local capital market development is impeded; Following the adoption of the EU <i>acquis communautaire</i> securities market legislation complies with high international standards. Key challenges: improving market liquidity; improving access to capital market financing for SMEs; developing issuer base for local currency capital market instruments <p><u>Transition gaps:</u></p> <p><u>2011:</u> Market Structure Small; Market institutions: Small</p> <p><u>2016:</u> Market Structure Medium; Market institutions: Small</p>
Private equity	
<ul style="list-style-type: none"> Remaining challenges include finalising the framework for private equity allocation for local pension funds; Corporate governance frameworks have the highest conformity with the OECD Principles of Corporate Governance of all countries of the region 	

<ul style="list-style-type: none"> • Pension and insurance companies are active as limited partners/investors in private equity funds. The domestic equity market is reasonably well capitalised and liquid to provide viable exits. • Key challenges: ensuring that uncertainties in the business environment do not have a negative effect on long term equity investment; increasing participation by local institutional investors <p><u>Transition gaps</u></p> <p><u>2011</u>: Market Structure Medium; Market institutions: Small</p> <p><u>2016</u>: Market Structure Medium; Market institutions: Small</p>	
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The Hungarian sub-operations fit within the transition objectives of the regional framework, and did not intend to target specific transition gaps of the country. To the extent that the framework saw the underdevelopment of the secondary PPP market in the region as a transition challenge to be alleviated by demonstration, all three SOs in Hungary were relevant to that objective. The SOs did not address the particular transition gaps in Hungary – in the primary PPP sector (to which the framework also aimed to ultimately contribute) the issues were political and regulatory. Private equity sector likewise suffered from uncertainties in the business environment, and institutional investors were set back in the country by the government’s nationalisation of the pension funds. These country specific transition challenges were not affected or tackled by the nature of the projects.

Hungarian M6 sub-operations were in line with the direction of the 2011 country strategy, while the last sub-operation fell out of the narrower scope of the 2016 country strategy. The project document for the first two SOs (presented together) referred to the 2011 country strategy, although they failed to refer to the appropriate priority. It quoted from the Strategy’s transition context assessment noting that “*The political commitment and the regulatory framework for PPPs remain unclear and subject to considerable risk. This will likely constrain the development and efficient management of a range of infrastructure sectors. There is a need to maintain the private foothold in the sector by reputable operators.*” The projects themselves did not respond to the political challenges context or regulatory framework and the relevant assets were already privately owned. The strategy did however foresee potential for EBRD involvement in PPP refinancing in its operational response, noting that the Bank will support PPPs, including ‘*in cases of refinancing or sale of shares in existing PPP companies*’ which was the case for the M6 projects. The following country strategy did however not contain any priorities related to Transport other than municipal infrastructure (MEI) and its capital market priorities were focused on the resilience of the banking sector. Correspondingly, the project document referred only to the context section of the strategy where it discusses limited access of companies to private sources of funding as well as the limited liquidity of the capital markets, but did not find a connection to any strategic priority.

The framework and its sub-operations were in line with the Transport strategy priorities. Both the regional framework and the three Hungarian sub-operations were approved under the 2013 Transport sector strategy. The framework project document referred to the strategy which identified the lack of private capital and non-sovereign financing in infrastructure as a challenge, and the corresponding operational response in promoting private capital in the sector. In terms of financing, the Strategy proposed support to additional ways of financing infrastructure by supporting access to capital markets and mobilising institutional capital beyond commercial bank lending. The sub-operations likewise made appropriate links to the sector strategy.

The sub-operations also made references to the Strategic performance indicators of the 2013 Transport sector strategy. The framework itself made no connection to those, but the Hungarian SOs linked themselves to the delivery of the Strategy’s overarching performance indicators. Both M6 and Airport project documents highlight their contribution to *Commercial orientation* (TSS performance indicator nr.2). This indicator was defined as the share of Transport projects under the Strategy structured on private or non-sovereign basis. While this is true for all three SOs which took place in the private sector, they also consisted of refinancing existing private sector structures. The M6 project

document also makes a connection to performance indicators 3 and 4, environmental, social and road safety aspects. These elements were already present in the existing PPPs and did not represent additional value added brought on by the refinancing, and therefore their link to these indicators is tenuous – for example, the project document spoke highly of the existing environmental, social and health and safety management systems and concluded that no Environmental and Social Action Plan was required.

Neither the framework nor the sub-operations made references to the Local Currency and Capital Markets Development Strategic Initiative.

Financial and non-financial additionality

The expectations of EBRD additionality on the secondary PPP market in the region at the framework level appear exaggerated with the benefit of the hindsight, given the ultimate underutilisation of the framework. Generally speaking, excess liquidity in the markets was not conducive to international investment in PPPs or bond placements.

However, there are indications that in the sub-operations that materialised the Bank did bring additional value. This included the attraction of non-bank and institutional investors and offering longest tenor on its tranche.

The framework argued the Bank's additionality based on three interrelated aspects of its value, all of which supported the common objective of attracting new, especially institutional, investors in the PPP refinancing. These dimensions of additionality were relatively broad as they related to the whole region where the specific of the individual countries differed:

- **Sector expertise:** investments in infrastructure are different from other asset classes, due to high upfront costs, low liquidity and long asset life, all of which requires specific expertise in evaluating the risks involved. The Bank's understanding of the sector and region would be additional in the structuring of the deals;
- **Risk perception:** closely related to the above, the framework document argued that the Bank would provide long-term financing through newly issued debt instruments, not readily available on the market. By playing a key role in structuring the transactions the Bank would lower the overall perception of risks and attract institutional investors;
- **Development of benchmarks:** with more secondary PPP transactions, there would be 'benchmarks' that would allow investors to make comparisons to in other investments and provide data on the performance of infrastructure projects. This additionality therefore does not relate directly to the Bank's operations but represent expected wider influence of these operations on the markets, and is therefore more akin to a source of impact.

The Hungarian sub-operations provided more specificity on the additionality of EBRD in those particular cases. The M6 projects noted that Aberdeen equity fund, having no previous transactions in the region, approached EBRD to participate in their first acquisition of stakes operating PPP assets in Hungary. The Bank's non-financial additionality stemmed from its experience in the region and potential mitigation of political risks, and its financial additionality rested on the bridging of funding gap and the requirement of investors that no single investor should hold a majority stake. In the case of Budapest Airport refinancing, the additionality argument likewise rested on providing comfort to new institutional investors in the Institutional Tranche of the deal. In addition, the Bank's presence was linked to the extension of the average maturity of the financing from 5.2 years to 7.8 years. The project document also foresaw a second phase refinancing, anticipated two years later, whereby the existing senior bank loan facility would be refinanced by a publicly listed bond. EBRD attached its additionality to the 'implementation of the action plan' of the Company related to the future placement of the bond.

The overall projections of EBRD additionality in the secondary PPP market in the region appear exaggerated overall, given the under-utilisation of the framework headroom. With the benefit of the hindsight, EBRD's presence in the PPP refinancing was lower than originally expected; the framework was under-utilised by about a half at its closure. While the Bank explored its potential presence in about seven additional projects, these did not materialise for various reasons, including low additionality. Since the framework approval there was excess liquidity in the market which meant that institutional investors required higher returns than local commercial lenders. In some cases deals were repriced with existing lenders rather than refinanced with international investors. Bond market was also less vibrant than was expected at the approval of the framework.

Nevertheless, in the sub-operations that materialised, there is evidence of EBRD additionality. In Hungary in both cases EBRD's presence provided comfort to new investors; equity in case of M6 and institutional (non-bank) investors in the case of Budapest airport. While these transactions take place in the private sector, there is some evidence of EBRD facilitating the communication with the government in support of the M6 deal. In Budapest Airport EBRD's tranche provided the longest tenor (15 years) for which there was otherwise little appetite, and exceeded the average tenor of the deal of 7.8 years. On the other hand, the Bank's expectation of further facilitation of the follow-up bond placement in Budapest Airport did not materialise to date.

Mobilisation of private finance

Transport operations in Hungary did not report any mobilised finance (AMI); there are however indications of EBRD's role in attracting co-investors even if not formally captured. Neither of the Hungarian sub-operations was reported as contributing to the Bank's AMI (Annual Mobilised Investment). However, related to the above discussion of the Bank's additionality, there is evidence that the Bank's presence provided comfort to co-investors, some of whom reportedly conditioned their presence on the Bank's participation.

What results and transition impacts can be identified from these operations?

Adequacy of design for results and results reporting

The results expectations rested on the cumulative effect of a critical mass of sub-operations within the framework and were aimed at the regional level. Consequently, transition benchmarks were developed for and monitored at the framework level. The 'main indicator' of success was meant to be the replication of the best practice of PPP secondary markets by other players.

Tools for systematic reporting of transition performance of frameworks are lacking. While the framework's transition benchmarks were monitored through TIMS based on the contributions from the individual sub-operations, this was not translated to any meaningful reporting to the Board of Directors. CSDRs only noted the signing of new operations in their respective countries; the transition performance report did not present any discussion on the contributions of the framework to the development of the secondary PPP market after the framework's closure.

The results expectations rested on the cumulative effect of a critical mass of sub-operations and were aimed at the regional level. The framework project document as well as additional information provided to the Board was explicit in the intention to deliver transition impact by volume and cumulative effect, not by any single operation: "*The rationale for this Framework stems from the fact that participation in single, geographically isolated projects involving newly issued PPP debt refinancings and/or minority equity participations will have a limited impact on the overall development of the PPP secondary market in the Bank's region as a whole.*"^{xii} This was also reflected in the framework's transition potential assessment (Strong Good) and ETI rating of 80, which applied to all sub-operations regardless of the country of implementation. The DAQs accordingly questioned whether framework approach was warranted where no specific common transition bottlenecks were identified nor any scope for policy dialogue was proposed. Management reiterated the framework approach was necessary for creating a critical mass of transactions and achieving a cumulative (essentially demonstration) effect. Likewise, the high ETI rating of SOs regardless on the country of implementation implied the expected regional visibility regardless of possible small remaining transition challenges in that particular country.

Consequently, transition benchmarks were developed for and monitored at the framework level. The framework document notes that the '*main indicator*' that will be monitored to underpin the success of the framework is the '*replication of the best practice of PPP secondary markets by other players and development of new financial instruments for promoting private capital for infrastructure*'. The capturing of the '*demonstration effect*' has been a long-standing weakness of transition monitoring in the Bank. Transition benchmarks set for the monitoring of '*replication*' are in fact set only for monitoring of new instances but not for establishing any causal or contributing effect – this would usually require qualitative analysis which is resource intensive and in many cases not even feasible. In cases where none new

instances occur it can be concluded that demonstration effect did not take place. However, in the opposite case the contribution analysis is not often attempted and contribution is taken as given.

There has however been no reporting on the framework's transition results to the Board. While the framework's transition benchmarks were monitored through TIMS based on the contributions from the individual sub-operations, this was not translated to any meaningful reporting to the Board of Directors. The framework document noted that annual updates on its progress would be presented to the Board at the approval of sub-operations. Providing updates is a common practice for framework sub-operations that require Board approval. It is however not a replacement for transition results reporting mainly because i) due to the on-going nature of the framework it can only largely be an update on inputs/outputs (i.e. new operations and their volumes) as it is too early to establish results and lessons; and ii) it is never fully assured that there will be another sub-operation and it may therefore also not be obvious which operation is the final one under the framework to provide a more comprehensive report on results.

Tools for systematic reporting of transition performance of frameworks are lacking. There are no suitable reporting tools for transition results reporting at framework level in general, but this is even more pronounced for a framework with regional-level transition expectations. CSDRs provide largely previous year activity reporting and their 'results' frameworks are country-based. Thus, the individual operations may be mentioned in CSDRs for the relevant country when they are signed but this has little to do with the regional and 'critical mass' -based expectations as discussed above. The annual transition performance report could in principle provide an opportunity to discuss the transition achievements of closing frameworks. In this case the report for 2019:^{xiii}

- Mentions the signing of the two new operations of 2019, also noting that the Bank '*increased the use of some other highly ambitious FWs (e.g. VCIP or PPP Secondary Market)*' – while it may be correct that the two sub-operations were indeed more than the framework delivered in the earlier years, without mentioning that the framework was also in fact closed that year with more than half of its headroom underutilised this could be seen as somewhat partial reporting;
- Contains a section of selective case studies with more in-depth coverage of some 'results highlights'. One of these was dedicated to '*Developing capital markets and access to finance in EBRD's EU COOs*', perhaps a unique opportunity to discuss the achievements and lessons of the just finalised framework. However, there is no discussion of the region's progress in the development of the secondary PPP market and the Bank's contribution to it; in fact, the framework and its results are not mentioned at all. It could be argued that it may be too early to assess the actual transition impact of the framework at its closure. However, the TIMS benchmarks that were monitored for the framework were targeted to end-2020 at latest, and the TIMS monitoring was concluded with the closure of the framework. There is no other future formal opportunity to revisit the achievements of the framework and bring this reporting to the Board.

Operational results and transition impact

Inputs & Outputs

Hungary represented the biggest share of the investment which materialised under the regional framework and was the only country with multiple projects. The regional framework overall underperformed expectations in terms of number of projects (six signed vs. benchmark of seven at the level of framework) and total investment volume (€314m vs. framework headroom €650m). One contributing factor to this underutilisation was the reliance of the initial pipeline for the framework on sub-operations in Turkey, where contextual developments later prevented wider activity.

Operations in Hungary were the only sub-operations with equity refinancing within the framework (M6) as well as loans (Budapest Airport). The expectations in terms of the composition of the sub-operations, which were set at the level of the framework, were not met overall. By number of sub-operations the largest share was supposed to be in loan-to-bond transactions (40%) but the framework implementation relied most on loan-to-loan transactions.

Outcomes & Transition Impacts

The results and transition impacts of the framework were tied to the delivery of critical mass of sub-operations and their composition in terms of type of instruments. From the perspective of operations in Hungary, what can be considered critical mass for the local market was delivered in high profile transactions with some unique features including the presence of non-bank institutional investors. The level of activity registered in Hungary was not matched in other countries in the ATC region, and overall the critical mass of sub-operations was not implemented. The most prized instrument in terms of local capital markets development – new local bond issues for infrastructure – did not materialise.

Regional effects are difficult to establish – this is due to the lack of original analysis together with the expectations of ‘replication’ at the level of the whole region where causal effects would not be feasible to credibly argue. The potential impact on the development of primary PPPs is possible but likely only a minor contributing factor.

NB: this section presents a summary discussion of results drawing on the detailed overview per project presented in Annex 1

Inputs & Outputs

Hungary represented the biggest share of the investment which materialised under the regional framework and was the only country with multiple projects. The regional framework overall underperformed expectations in terms of number of projects by one (six signed vs. benchmark of seven at the level of framework) and total investment volume (€314m vs. framework headroom €650m). One contributing factor to this underutilisation was the reliance of the initial pipeline for the framework on sub-operations in Turkey, where contextual developments later prevented wider activity. The framework approved headroom was €650m, of which only about half was utilised at the framework’s closure in 2019. The expected number of sub-operations given in the framework document was 5-10, which was translated into a monitoring benchmark of ‘seven successful secondary transactions’. Hungary emerged as the largest country of the framework’s operations, both in terms of number of transactions (3 out of 6), and in terms of investment volume (41% of total framework NCBI). It also registered the single largest sub-operation (Budapest airport).

Figure 6: Amount Board approved vs. NCBI (€)

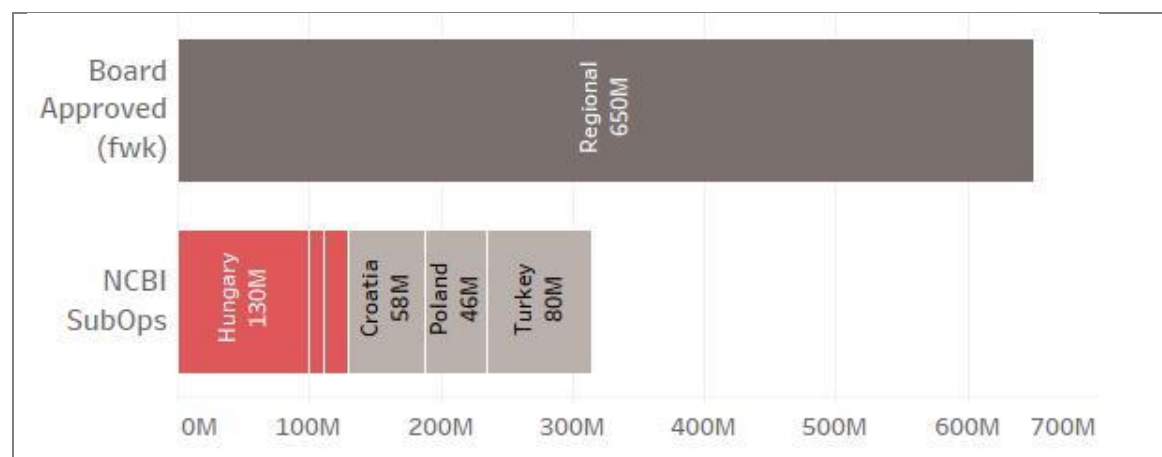


Table 4: Overview of Framework sub-operations

Board approved	OpID	Name	Country	NCBI (€)	Type
2015	47490	M6 Duna Zrt	HUNGARY	18,940,002	Equity to equity
2015	47530	M6 Tolna Zrt	HUNGARY	11,120,069	Equity to equity
2017	49046	Budapest Airport Financing	HUNGARY	100,000,000	Loan to loan
2018	50391	Project Gateway	CROATIA	57,786,842	Loan to loan

2019	50798	Project Felicjan	POLAND	46,250,000	Loan to loan
2019	51532	Project Scorpion	TURKEY	80,163,891	Bond to bond

314,260,804

Operations in Hungary were the only sub-operations with equity refinancing within the framework (M6) as well as one loan-to-loan refinancing (Budapest Airport). The expectations in terms of the composition of the sub-operations, which were set at the level of the framework, were not met overall. The expectations of the framework transition in terms of the development of capital markets were also translated into the composition of the type of operations the framework would support. In Hungary, there was a combination of instruments used with equity refinancing as well as loan-to-loan. At the level of the framework where the expectations were set, the largest share was supposed to be in loan-to-bond transactions (40%), while loan-to-loan and equity-to-equity refinancing were to comprise 30% each. In implementation the framework was skewed towards loan-to-loan sub-operations; these represented 50% in terms of number of operations (and almost 2/3 of EBRD NCBI under the framework). Loan to bond refinancing did not actually take place. The final sub-operation in the framework (Project Scorpion – Mersin port Turkey) was a bond participation but represented refinancing of an existing earlier bond – one issued in 2013 with EBRD participation. Budapest Airport foresaw loan to bond refinancing in a second phase within two years (with potential EBRD participation) but this did not occur to date.

Outcomes & Transition Impacts

The results and transition impacts of the framework were tied to the delivery of critical mass of sub-operations and their composition in terms of type of instruments. The presentation of the framework emphasised its ‘strategic approach’ as necessary and superior to the potential alternative of individual stand-alone transactions. *“While in the past the Bank has pursued secondary PPP transactions on a case-by-case basis, through this Framework it is the first time the Bank takes a strategic approach to building the secondary PPP market and putting the region on the map of investors in mature PPPs. It is therefore expected to generate a cumulative impact that materially addresses the identified transition gap (lack of secondary markets for PPPs).”*^{xiv} This strategic approach rested on i) achieving a critical mass of transactions; and ii) the composition of transactions through different types of instruments. The emphasis was on the critical mass that had to be achieved for cumulative effect to generate enough visibility and traction for a demonstration effect to take place (as management put it, to ‘kick start’ a sustainable secondary PPP market). The right composition of instruments was to ensure that new ways of financing were demonstrated as viable – this meant that especially bond placements were seen as valuable for the development of capital markets and were supposed to represent 40% of the framework sub-operations.

From the perspective of operations in Hungary, what can be considered critical mass for the local market was delivered in high profile transactions with some unique features including the presence of non-bank institutional investors. The level of activity registered in Hungary was not matched in other countries in the ATC region, and overall the critical mass of sub-operations was not implemented. The most prized instrument in terms of local capital markets development – new local bond issues for infrastructure – did not materialise. The framework placed its rationale in the delivery of sufficient demonstration effect. The theory of change in the framework project document was largely underdeveloped, not specifying any market or policy failures that prevent the secondary PPP market from developing organically. With no analysis of the market there were no larger market benchmarks the achievement of which would underpin the framework’s success. In Hungary specifically it can be argued that three high profile operations would have sent strong signal to the local market and be considered ‘critical mass’. They also featured some locally new elements of the deals, including the presence of institutional investors for whom this represented their first investment in the sector in the region.

. As for the instruments specifically, loan-to-bond operations were considered the most valuable in terms of capital markets development and introducing new ways of financing infrastructure. In their comment on the framework, LC2 noted: *“To the extent that refinancings under the framework take the form of public issues of local currency bonds, it will support the development of local capital markets. These bonds will represent a broadening and diversification of the instruments available in most markets, which have few tradable infrastructure investments available. [...] These bonds would tend to be long*

term, and could create interest rate benchmarks (price points, not benchmark yield curves) in the local market.” Likewise EPG in its assessment of the framework concluded: “the framework is expected to support new ways of financing (i.e. project bonds) with likely demonstration effects and possibly contribute to the development of the local capital markets (e.g. when issued in non-Euro local currency on local exchanges)”. For this reason in the assigned composition of sub-operations, loan-to-bond operation were to represent the largest share of the framework at 40%. Eventually however there was no loan-to-bond sub-operation under the framework (see above). TIMS at the framework level closed monitoring after the closure of the framework in 2020, downgrading the rating from Strong good (80) to Moderate good (60), citing the mixed progress on the composition of instruments and replication.

Regional effects are difficult to establish – this is due to the lack of original analysis together with the expectations of ‘replication’ at the level of the whole region where causal effects would not be feasible to credibly argue. While the framework put its weight behind the ‘critical mass for demonstration’ rationale, it is not quite clear where the estimate of what the sufficient critical mass for the region should be came from. It appears that the expectations were based on the pipeline of identified maturing PPPs in the region, which were presented in the framework document. This was a list of 25 projects, of which about half was in Turkey. Interestingly, aside from the two M6 projects in Hungary, which were presented to the Board for approval together with the framework, none of the rest of projects materialised as sub-operations of the framework. It would be useful to know what happened to the rest of the projects for the understanding of the developments in the secondary PPP market. It may be that they were not refinanced for a variety of possible reasons despite EBRD being ready to support them – in this case the rationale for the framework was not well designed in addressing the real bottlenecks; or they may have been refinanced without EBRD presence – in that case there was low additionality, which should be seen as a positive sign of the market working.

While there is no comprehensive analysis of the secondary PPP transactions in the whole region available, some partial elements are relevant to the overview:

- The Bank reportedly explored its participation in about seven additional sub-operations, mostly outside of the original pipeline list as well; these were eventually not brought to Board for approval. In some cases, the Bank’s presence was not needed (low additionality) – these would represent market functioning without public intervention. In some cases the Bank could not take part due to its own standards not being met (e.g. due to the original PPP transaction not following the necessary procurement or E&S safeguards; not enough interest from institutional investors). Some other refinancing may not have taken place at all due to the eventual balance of benefits against refinancing.
- The lack of success in public bond placements points perhaps to over-optimistic projections of the bond market. One reason were also the developments in Turkey as the most prominent market on the pipeline of projects, where political instability and ensuing rating downgrade meant that only one project eventually materialised in the country and that was a refinancing of an existing bond. In the case of Budapest Airport the sources of transition impact were relying on the second phase of refinancing through bond; eventually this has not materialised either.
- There is however evidence of EBRD bringing value to the transactions that ultimately took place with its presence, as discussed in the additionality section. It is difficult to say these transactions would not take place at all without EBRD but there is a credible case to be made for taking part in the more risky portions of the finance and providing comfort to investors at the margins of the secondary market that makes a difference.

The potential impact on the development of primary PPPs is likely only a minor contributing factor. There were expectations of the framework contributing to the reenergising of primary PPP markets based on i) the developers’ ability to ‘recycle’ the freed-up equity back into new infrastructure projects; and ii) more interest of investors in PPP projects if they see a viable exit route via a well-functioning secondary market. While this rationale is in principle sound, it is likely that the operations of the framework are only a minor contributing factor in the development of primary PPPs, likely to be overshadowed by the effects of others, including:

- Political and public support for private sector participation in infrastructure through PPPs; such support can also be withdrawn as it happened in Hungary or Croatia;
- Capacity of governments to successfully develop PPP projects. Here EBRD recognised its potential contribution in preparation of projects, including through establishing expertise in its SI3 advisory unit and LTP legal assessments and expertise on regulatory environments;

- Availability of low-priced sovereign loans, including those from EBRD or EIB, which provide an alternative for governments to PPPs, counterbalancing the positive effect of advice on PPP project preparation. However, these can potentially also work in conjunction – for example, management reported that “using leverage from our sovereign-guaranteed financing, EBRD persuaded the Belarusian Government to utilise our [project preparation facility] to pursue the country’s first-ever PPP for the M10 motorway, despite the option of alternative IFI sovereign financing for this corridor”.^{xv} Similarly, countries with access to EU funds prioritise their absorption and utilisation for investment, which can displace potential PPP projects.

Overall, based on EIB-EPEC data on primary (new) Transport PPPs in EBRD countries of operations in Europe, it appears that since about 2010 these projects are in decline in this region except for Turkey. Hungary in particular, while an early champion of PPPs in transport since the second half of 1990s, has not been developing new PPPs in transport infrastructure. (Figure 7)

Figure 7: Primary (new) Transport PPPs volume and number, EBRD COOs Europe, 1995-2019



*) Countries included: Bulgaria, Croatia, Cyprus, Greece, Hungary, Lithuania, Poland, Romania, Serbia, Slovakia, Turkey

Source of data: EPEC <https://data.eib.org/epec>

Effective learning

EBRD has been developing significant internal expertise on PPPs and promotes formal and informal learning in this area. EBRD has established a specialised PPP advisory unit (SI3P) operating the PPP window of the Bank’s Infrastructure Project Preparation Facility (IPPF). The unit i) provides independent PPP advisory services until the project’s financial close after the public-private partnership agreement signing; ii) conducts PPP origination and identification as exploratory exercises; and iii) provides support to preparation and implementation, and capacity building for Bank-originated-and-implemented PPPs. Management reported that out of 12 mandated advisory projects, three have already delivered a PPP agreement between public and private parties, with seven additional PPPs on schedule to close during the course of 2021 and 2022. IPPF also comprises a Policy Dialogue window, which implements consultancy assignments in i) knowledge sharing and platforms, standardisation and dissemination of infrastructure information; ii) policy seminars for the sector strategy’s priority areas; iii)

capacity building through PPP certification training; and v) PPP Project Management Support to public sector clients.^{xvi}

Further PPP knowledge work is performed in the framework of the Legal Transition Programme (LTP). Recent evaluation of LTP found that the legal team performs a significant amount of work in relation to setting international standards and assessing country-level gaps, including on PPPs. LTP carried out two assessments of PPP legal context in the Bank's countries of operations, in 2011 and 2017. The evaluation described how LTP's work contributes capacity building – legal assessments help to define the gaps between the practices/standards of the CoOs and those of the developed countries, legal support projects provide resources and expertise to prepare/amend legislation and regulations, establish institutional frameworks and support implementation/enforcement capabilities training and capacity building activities address the gaps in human capital and are intended to advance local knowledge and expertise to the appropriate level. LTP's assessments and diagnostics are also used regularly in the EBRD's Transition Reports, country and sector strategies and integrated approaches to illustrate the level of development and transition gaps in certain areas, requiring further support from the EBRD and other IFIs.^{xvii}

Finally, as part of its internal knowledge management EBRD has established a Community of Practice (CoP) on PPPs. CoPs function as informal communities for learning and horizontal exchange of knowledge and peer advice among members from different Bank departments. CoP PPP currently has over 100 members on its mailing list. The CoP develops and disseminates a variety of learning products on demand of its members, including policy papers, discussion papers, analysis of PPP project experiences, and others; it also organised events such as policy academy and PPP certification training.

ⁱ EBRD (2018): Public-Private Partnership Assessment 2017-18; <https://ppp-ebrd.com/>

ⁱⁱ EBRD (2018): Public-Private Partnership Assessment 2017-18; p. 60

ⁱⁱⁱ EBRD (2018): A Critical Analysis of PPP Experience in Greater Europe; available on EBRD intranet

^{iv} BDS/HU/15-1 (Final): Strategy for Hungary

^v SGS20-425: Hungary Diagnostic

^{vi} BDS04-72 (Final): Transport Operations Policy 2005 – 2008

^{vii} BDS13-205 (Final): Transport Sector Strategy

^{viii} BDS15-074: Regional: Framework for Development of a Secondary Market for Maturing Infrastructure PPPs; p. 17

^{ix} BDS15-074: Regional: Framework for Development of a Secondary Market for Maturing Infrastructure PPPs; p. 7 & 16

^x Meeting of the Board of Directors of 22 April 2015; Directors' Advisers' Questions; Regional: Framework for Development of a Secondary Market for Maturing infrastructure PPPs (BDS15-074)

^{xi} Ibid.

^{xii} BDS15-074: Regional: Framework for Development of a Secondary Market for Maturing Infrastructure PPPs; p. 5

^{xiii} CS/BU/20-09: Annual Report on Transition Performance 2019

^{xiv} Meeting of the Board of Directors of 22 April 2015; Directors' Advisers' Questions; Regional: Framework for Development of a Secondary Market for Maturing infrastructure PPPs (BDS15-074)

^{xv} SGS20-193: Information Session: EBRD Approach to Roads

^{xvi} SGS20-271: Infrastructure Project Preparation Facility - Circulation of the TC Progress Report No. 4

^{xvii} CS/AU/20-60: EvD Special Study: Legal Transition Programme

ANNEXES

Annex 1. Results by operation

All three projects in Hungary Transport portfolio included in this evaluation were sub-operations of a Regional *Framework for Development of a Secondary Market for Maturing Infrastructure PPPs (47488)*, Board approved in 2015. Due to the common transition rationale and transition framework-level expectations and monitoring, the results of the three Hungary sub-operations are considered together.

47488 FWK: Regional: Framework for Development of a Secondary Market for Maturing Infrastructure PPPs

Sub-operations:

47490 M6 Duna Zrt (f. Project Pannonia - Duna)

47530 M6 Tolna Zrt (f. Project Pannonia Tolna)

49046 Budapest Airport Financing (f. Project Shuttle)

OUTPUTS

Expectations (FWK BDS15-074)

FWK Inputs

- Up to €650m debt and/or equity financings for EBRD's own account to participate in maturing PPP projects that have been completed or substantially completed;
- Clients: Special Purpose Vehicles (SPVs) or Project Companies that hold concession rights under a concession arrangement in order to provide public services on behalf of the Public Authority.

Outputs

- Acquisition of Sponsors' equity interests, as a minority investor, and/or the newly market-arranged refinancing of senior and junior loans in concession companies
- **Number and composition of sub-operations**
 - At least 7 successful secondary transactions in 2015-2019
 - At least 2 loan-to-loan; At least 2 loan-to-bond; At least 3 equity-to-equity
 - 30% of loan-to-loan transactions (in number terms) (total size of transaction of EUR 1,000 million)
 - 40% of loan-to-bond transactions (in number terms) (total size of transaction of EUR 2,000 million)
 - 30% of equity-to-equity transactions (in number terms) (total size of transaction of EUR 300 million)
- **Institutional investors presence**
 - 35% in loan projects of all mobilised funds
 - 65% in bond projects of all mobilised funds
 - 65% in equity projects of all mobilised funds

Delivery

Fwk level – Largely not delivered

Outputs

There were 6 sub-operations implemented under the Framework, just **below the expected minimum of 7 sub-operations**. The Framework was however significantly under-utilised in terms of investment volume – the total NCBI over the six operation of over €314m, less than half of the approved headroom in the Framework of €650m.

The **composition of the sub-operations was also skewed towards the 'loan-to-loan' type** – both in terms of number of operations (3 out of 6, i.e. 50% compared to the targeted 30%) as well as in terms of volume (almost 2/3 of NCBI of the framework). The total value of the three projects was €1,902m.

The refinancing of the earliest sub-operations on M6 was equity to equity (total of 10% of the framework NCBI). The final sub-operation in Turkey Mersin port was a bond refinancing of an existing bond rather than a previous loan.

Equity to equity transactions represented 2 out of 6 sub-operations by number, i.e. mostly in line with the target of 30%; however the overall value of these projects at just over €100m underachieved the target of €300m.

There was no loan to bond transaction. The final sub-operation in the framework (Project Scorpion – Mersin port Turkey) was a bond participation but represented refinancing of an existing earlier bond. Budapest Airport

foresaw loan to bond refinancing within two years (with potential EBRD participation) but this did not occur to date.

Board approved	OpID	Name	Country	NCBI (€)	Type	% of fwk NCBI	Total project value (€)
2015	47490	M6 Duna Zrt	HUNGARY	18,940,002	Equity to equity	6%	61,079,919
2015	47530	M6 Tolna Zrt	HUNGARY	11,120,069	Equity to equity	4%	40,112,747
2017	49046	Budapest Airport Financing	HUNGARY	100,000,000	Loan to loan	32%	1,320,000,000
2018	50391	Project Gateway	CROATIA	57,786,842	Loan to loan	18%	199,870,000
2019	50798	Project Felicjan	POLAND	46,250,000	Loan to loan	15%	382,500,000
2019	51532	Project Scorpion	TURKEY	80,163,891	Bond to bond	26%	500,813,822

314,260,804

Institutional investors

- Loans: Institutional investors reported on Budapest Airport financing (€355m or 26% of tpv), and Project Gateway (€142m or 71% of tpv). On project Felicjan no institutional investors reported on the loan, but some reported on the equity part of the financing package (no EBRD participation).
- Equity: According to TIMS 65% of financing came from institutional investors;
- Bonds: on the bond transaction (Project Scorpion) all the non-EBRD participation is reported as institutional investors (€425m or 85% of tpv).

HUNGARY SUB-OPERATIONS DETAILS

BDS15-074 (Addendum 1)

BDS15-074 (Addendum 2)

M6 Duna Zrt & M6 Tolna Zrt

Expectations:

Equity participation of up to €33m

The exit by the Vendors will allow **new sources of capital provided by institutional investors and more sophisticated financiers** to enter the PPP equity market in Hungary. The Project is **expected to attract further investments into Hungarian PPPs** where potential investors would now become more comfortable in investing into long-term PPP assets, once the secondary market becomes more viable.

The Project will **support the development of a Secondary Market for PPPs** in Hungary through an equity investment alongside renowned **private institutional sponsors** in the infrastructure sector. This will be the first market transaction of its kind in scale and scope in Hungary. This would lead to a **significant demonstration effect for the broader region** with growing and maturing PPP portfolios.

Setting standards of corporate governance: adoption of the following best market practices: (i) all investors are minority shareholders, with no one having a majority stake; Aberdeen will act as the asset manager on behalf of minority investors; (ii) the Bank will have a Board representation in both concession companies. The **Bank's Nominee Director/s will be focusing on strengthening of the audit functions in both concession companies**. In addition, Co-Investors will sign an **Investor Protocol Agreement** that will set out the agreed principles for each Concession Company.

Delivery:

Two equity to equity transactions. This involved an acquisition of a minority equity stake in M6 Duna Autópálya Koncessziós Zrt. (M6 Duna), the concessionaire of the M6 Motorway Phase I in Hungary, together with other investors including Aberdeen Infrastructure Asset Managers Limited; and an acquisition of a minority equity stake in M6 Tolna Autópálya Koncessziós Zrt. (M6 Tolna), the concessionaire of the M6 Motorway Phase II in Hungary, together with other investors including Aberdeen Infrastructure Asset Managers Limited. [TIMS]

Both investments performing successfully. COVID-19 does not have negative effect on the performance of this investment as availability payments do not depend on traffic and operations are running as usual. M6 Duna

initial value creation plan has been fully completed. M6 Tolna value creation plan completed or substantially completed items: 1. Merger between M6 Tolna B.V and M6 Tolna Holding GmbH; 2. Heavy maintenance savings (on going); 3. Extraction of cash surplus through a more efficient dividend policy. 4. Insurance savings. Projected IRR at 14.37% Tolna and 12.42% Duna. [Credit]

Setting standards: An **Operating Protocol Agreement** was signed. EBRD director was appointed to the board of both concession companies; according to TIMS the nominee director was effective in reviewing all technical issues (notably the maintenance plan and closing of the dispute with contractors). There is an audit and remuneration committee and the EBRD Board representative serves on both of them. [TIMS]

Budapest Airport Financing

Expectations:

Senior Note facility of up to EUR 150 million; part of a EUR 1,320 million senior debt consisting of an **Institutional Tranche**, through a note facility of up to EUR 500 million to be issued among institutional investors, and a **Banking Tranche**, through a loan facility of up to EUR 820 million placed with local and international banks.

The Bank's participation will help the Company extend the maturity of its existing debt and will also act as a **catalyst in attracting international institutional investors, paving the way for a successful placement of a publicly listed bond instrument**, potentially in two years' time. EBRD will support the Sponsors' staged approach to the capital markets and may seek to participate in the publicly listed bond issue, if needed, to ensure its success.

In their efforts to attract strong institutional investors, the Sponsors have opted for a two-stage strategy with an **initial private placement among institutional investors of a portion of the debt, combined with a senior loan facility provided by a banking consortium**. During a second phase, **anticipated in two years' time, the senior bank loan facility will be refinanced with the proceeds of a publicly listed bond instrument**. In moving from a financing structure relying predominantly on bank debt towards capital market funding, the Client views EBRD as key to attracting institutional investors, reflecting the Bank's experience, established market presence in Hungary and its relationship with the government.

Refinancing rationale: **1) extending debt maturity, 2) reducing the financing costs, and 3) diversifying the funding sources by introducing an institutional tranche**.

Demonstration of New Financing Methods: The transaction is part of a two-stage strategy with the **initial private placement amongst institutional investors alongside a senior loan facility, to be followed by a refinancing of the bank loan facility with the proceeds of a publicly listed bond**. A successful placement amongst international institutional investors will have a significant demonstration effect in the market. The subsequent public bond placement would be the first of its kind issued by a Hungarian infrastructure company. This may be the first airport in the region to issue a capital market debt instrument, which would have a positive demonstration effect. **A successful follow-up transaction as part of the second phase will clearly demonstrate** that an infrastructure asset could successfully access capital market financing throughout its lifecycle in this region.

Delivery:

EBRD participation of €100m. The €1,320m project involved refinancing of the Airport's existing debts through a senior loan facility of €795m, and senior note facility of € 525m (10y tranche of €250m + 15y tranche of €275m). **The Bank participated only in 15y tranche.**

High impact of COVID-19 on operations and revenues. Substantial cash buffers and no principal payments in the next 3 years provides some comfort for the debt service. Nevertheless, the refinancing risk is substantial, as ~50% of the Co-Borrowers' debt have a bullet in Jul 2024 while further subordinated EBRD's bullet is due only in 2032. [Credit] The Hungarian government has not given its support to EBRD's proposed liquidity facility, the project didn't proceed. The Client engaged in discussions with 3 commercial banks to replace EBRD's proposed financing. [Credit]

Institutional investors: the **loan refinancing attracted €355m** of financing from institutional investors (26%), some of which reportedly entered the Hungarian market for the first time. However, the **public bond placement, foreseen to refinance the senior bank loan facility within two years, did not happen to date.**

SEI/ GET contribution

None of the Framework's sub-operations was reported as contributing to GET.

TRANSITION IMPACT

Expectations (BDS15-074)

FWK expectations

- **Market expansion – development of secondary PPP markets:** through equity and/or newly issued market benchmarked debt instruments. In most cases, it would be the first transaction of its kind, allowing current equity holders to free up financial resources and for the Project Co to refinance the project at more favourable cost. These transactions would also allow new sources of capital and new types of more sophisticated financiers (e.g. equity and pension funds) to enter the PPP market in the region.
- **Capital markets development:** The Framework will enable **institutional investors** (pension and investment funds as well as life insurance companies) to finance infrastructure projects, matching the assets with the projects' long life expectancy, (e.g., by using cash flow of the long term investment to match a long maturity financial instrument in the same currency). The **strongest transition impact would come from the local currency bonds issues**, while there is also expected positive transition impact in terms of introducing new issuers to capital markets and improving standards and transparency in relation to expected Eurobonds issues.
- **Setting Standards of Corporate Governance:** The Bank's presence transactions under this Framework will contribute to the improvement of standards of corporate governance and business practices through the adoption of the best market practices. Whenever suitable the Bank will have a Board representation in SPV companies, when investing into equity. Co-Investors in the equity sub-projects will sign a specific document, e.g. Operating Protocol Agreement or similar, that will set out the agreed principles among co-investors.

Delivery**Fwk level – Largely not delivered****Market expansion – development of secondary PPP markets: Largely not delivered**

Based on both the underperformance in terms of 'critical mass' of sub-operations as well as their composition in terms of instruments, which were both underpinning the rationale for the framework's transition impact, this objective remained largely not delivered. While a number of visible operations were implemented, they did not reach the benchmarks set by the framework itself for success.

Capital markets development – Development of New Financing Methods/Products: Largely not delivered

Likewise, the lack of bond refinancing of loans was a setback for the expected transition demonstration of new ways of financing. As per TIMS, "*the framework is expected to support new ways of financing (i.e. project bonds) with likely demonstration effects and possibly contribute to the development of the local capital markets (e.g. when issued in non-Euro local currency on local exchanges).*" This expectation did not materialise. One bond participation (Turkey Mersin port) was a refinancing of existing bond (which also included EBRD participation in 2013). The transition expectations of Budapest Airport rested to a large extent on the second phase of bond placement – "*refinancing of the bank loan facility with the proceeds of a publicly listed bond. A successful placement amongst international institutional investors will have a significant demonstration effect in the market.*" – this expectation did not materialise.

On the other hand, the existing sub-operations did attract the attention of institutional investors, largely in line with the targets (see above).

The actual demonstration effect of the sub-operations is difficult to establish. TIMS tracked 'replication' of secondary PPP transaction without IFI presence. This of course is only a very rough proxy for the demonstration effect, as there is no attempt to establish causality or contribution. TIMS also concludes that "*all the secondary transactions took place in Poland, a country with a relatively well-developed PPP market.*"

Setting Standards of Corporate Governance: Some delivered

The equity transactions in Hungary included Investor Protocol Agreement, and likewise a presence of EBRD nominee director for the board of the concession companies. Little formal reporting on the specific governance improvements pursued through this director exists however.

Annex 2. Strategic priorities

COUNTRY STRATEGY

HUNGARY COUNTRY STRATEGY & COUNTRY STRATEGY UPDATES/ CSDRs		
	Context/ challenges (Transport/ Cap markets)	Priorities/ bank activity (Transport/ Cap markets)
2011-2016	BDS/HU/11-1 (Final)	
	<p>Country expected to graduate during the CRR-4 period (2011-2015);</p> <p>Advanced transition country, though many structural reforms remain incomplete, and some have been reversed. Mainly small and medium T gaps remaining.</p> <p>Assessment of T challenges:</p> <p><u>Roads</u>: Market Structure Small; Market institutions: Negligible</p> <p>The political commitment and the regulatory framework for PPPs remain unclear and subject to considerable risk. This will likely constrain the development and efficient management of a range of infrastructure sectors. There is a need to maintain the private foothold in the sector by reputable operators.</p> <p>There have been a number of PPP projects but with a mixed track record (e.g. M1/M15 was eventually nationalised). The government abolished tolls and all new PPP projects are on an availability payments basis. Road construction and maintenance are contracted out to the private sector. Road sector finance has been in line with EU standards. The transition challenges are considered as small but the key challenge relates to the reduction of political fluctuations on PPP projects.</p> <p><u>Railways</u>: Market Structure Small; Market institutions: Small</p> <p>The main railway operator, MAV, remains state owned and the latest government reform package did not contain any details on its restructuring. Although the policies and institutions are considered to be at an advanced stage, there remain deep-rooted problems. Financial conditions remain weak while the government and railways effectively rely on EU grants and concessional loans.</p> <p><u>Private equity</u>: Market Structure Medium; Market institutions: Small</p> <p>Active capital is estimated to amount to a little more than 0.4 per cent of GDP and capital available for investments stands at an estimated 0.3 per cent of GDP. Remaining challenges include finalising the framework for private equity allocation for local pension funds and expanding to small start-up and technology intensive enterprises. Market institutions are fairly well developed. Corporate</p>	<p>Strategic orientations</p> <ul style="list-style-type: none"> resilience of the financial sector, including through the development of local currency capital market structures; Address deep-rooted inefficiencies, in transport sectors, stemming in part from insufficient private sector participation and lack of restructuring of transport companies; <p>Operational response</p> <ul style="list-style-type: none"> To address challenges in the non-bank financial sector, the Bank will work with insurance and pension companies to develop products that meet more exacting regulatory standards and at the same time promote the development of the local capital market, in particular by facilitating the issuance of corporate bonds; To address restructuring needs in the transport sector, the Bank will provide long term financing supporting public transport sector investments in both transport infrastructure and services with a focus on large-scale sector reforms (particularly in the railway sector) aimed at cost efficiency, transparency and commercialisation. To promote private sector involvement in infrastructure, the Bank will support private public partnerships and the use of public service contracts. Specifically, the Bank will support the existing PPP concessions in cases where EBRD involvement would be important for preserving the presence of reputable operators in cases of refinancing or sale of shares in existing PPP companies. <p>Policy dialogue</p> <ul style="list-style-type: none"> Offer advice on building capacity for local currency finance and on creating a more conducive environment for local institutional investors; The Ministry of National Development has been leading the effort in preparation of a railways restructuring plan. The Bank will continue to offer advice on key areas of reform to be implemented and continue the dialogue with both the railway authorities and the relevant government departments on both scale and scope of the reforms.

	<p>governance frameworks have the highest conformity with the OECD Principles of Corporate Governance of all countries of the region. Pension and insurance companies are active as limited partners/investors in private equity funds. The domestic equity market is reasonably well capitalised and liquid to provide viable exits.</p> <p><u>Capital Markets:</u> Market Structure Small; Market institutions: Small</p> <p>Development of the insurance and asset management industry has substantially regressed, following the shift of assets out of the second pillar mandatory pension funds back into the state system. As a result, the domestic institutional investor base is much weakened, property rights have become more uncertain, and local capital market development is impeded.</p> <p>Following the adoption of the EU acquis communautaire securities market legislation complies with high international standards, both with respect to quality and effectiveness. Stock market capitalisation is reasonable at around 40 per cent of GDP. Hungary's government bond market is well developed, with regular and frequent issuance of securities via auctions as well as a well-developed infrastructure in the secondary market. Liquidity of secondary trading has not yet caught up with more developed countries and in particular with CEB peer Poland. Hungary's money market shows benchmark indices in place and used; however, activity in forward as well as unsecured and secured markets again lags behind more advanced countries.</p>	
CSU 2012	BDS12-081 (Final)	
	<p>Strategic priorities</p> <ul style="list-style-type: none"> • Address deep-rooted inefficiencies, including in respect of energy efficiency, in transport sectors, stemming in part from insufficient private sector participation and lack of restructuring of transport companies and resulting in associated budget pressures; • resilience of the financial sector, including through the development of local currency capital market structures and instruments in support of real sector growth; <p>Operations</p> <ul style="list-style-type: none"> • To support the commercialisation in the transport sector the Bank invested in a regional transport infrastructure fund targeting Hungary and other Eastern European countries; <p>Policy Dialogue</p> <ul style="list-style-type: none"> • The Bank has engaged in policy dialogue with the Ministry of National Development to facilitate a better understanding of the 	<p>Priorities for coming year</p> <ul style="list-style-type: none"> • The Bank remains committed to supporting the design and implementation of structural reform measures, as well as to well-defined new investments and policy advice, in the public transport sector, including Budapest urban transport and MAV, national railways. <p>Policy dialogue</p> <ul style="list-style-type: none"> • in the area of railway sector reform once an outline strategy has been approved by the Government.

	concession structure for the motorway projects it financed , as the Government intended to review and potentially revise all PPP agreements . The concessional motorway projects have not been revised and are fully operational.	
CSU 2013	BDS13-071 (Final)	
	<p>Strategic priorities</p> <ul style="list-style-type: none"> Address deep-rooted inefficiencies, including in respect of energy efficiency, in transport sectors, stemming in part from insufficient private sector participation and lack of restructuring of transport companies and resulting in associated budget pressures; resilience of the financial sector, including through the development of local currency capital market structures and instruments in support of real sector growth; <p>Operations</p> <ul style="list-style-type: none"> engagement on municipal financing, energy or railways restructuring has been difficult, and hampered by regulatory uncertainty 	<p>Priorities for coming year [<i>not relevant to transport</i>]</p> <p>Policy dialogue</p> <ul style="list-style-type: none"> The Bank will also persevere with its policy dialogue in the area of railway sector reform
CSU 2014	BDS14-108 (Final)	
	<p>Strategic priorities</p> <ul style="list-style-type: none"> Address deep-rooted inefficiencies, including in respect of energy efficiency, in transport sectors, stemming in part from insufficient private sector participation and lack of restructuring of transport companies and resulting in associated budget pressures; resilience of the financial sector, including through the development of local currency capital market structures and instruments in support of real sector growth; <p>Operations [<i>none transport relevant</i>]</p>	<p>The next Country Strategy for Hungary will be developed in 2014, with Board discussion scheduled for April 2015 [<i>did not happen until 2016</i>]</p> <p>Priorities for coming year</p> <ul style="list-style-type: none"> the Bank will endeavour to address the rail transport sector inefficiencies and promote competition leading to a more efficient provision of passenger and freight transport services and operation of the rail infrastructure with an emphasis on private sector solutions
CSU 2015	BDS15-045 (Final)	
	No CSU for Hungary [<i>new CS was supposed to be approved in 2015; this did not actually happen</i>]	
CSU 2016	BDS16-035 (Final)	
	No CSU for Hungary [<i>new CS scheduled for 2016</i>]	
	BDS16-035 (Addendum 4)	
	CEB: Promotion of private sector participation in infrastructure: equity investment in private road concessionaire of M6 Motorway (Hungary)	

2016-2021	BDS/HU/15-1 (Final)	
	<p><u>Previous CS implementation</u> Despite heightened additionality in these crisis conditions, and the adjustments made to the Bank's strategic priorities, the Bank's objectives have only been partially achieved, while a number of earlier transition achievements in the country have been reversed.</p> <p>Hungary's transition indicator ratings fell in eight sectors (natural resources, power, railways, water and wastewater, banking, insurance and other financial services, and capital markets and telecommunications).</p> <p>As the government has reviewed all PPP contracts signed under previous governments, the underlying structure and contracts for concessional motorway projects for which the Bank had previously provided financing stayed in place, and the Bank has supported the regular dialogue between its concessionaire clients and the relevant authorities.</p> <p>However to date, and despite a formal request by the government back in 2010-2011, the Bank has been unable to engage with the government on the railways company MAV, to address the deep rooted inefficiencies in this public transport sub-sector due to very slow and limited progress with railway restructuring.</p> <p>Assessment of T challenges:</p> <p><u>Roads</u>: Market Structure Small; Market institutions: Negligible</p> <p>Key challenge: reducing political fluctuations on PPP projects</p> <p><u>Railways</u>: Market Structure Small; Market institutions: Small</p> <p>Key challenges: substantial corporate restructuring; establishment of contractual arrangements; developing new businesses, including commercial based property management.</p> <p><u>Capital Markets</u>: Market Structure Medium; Market institutions: Small</p> <p>Key challenges: improving market liquidity; improving access to capital market financing for SMEs; developing issuer base for local currency capital market instruments</p> <p><u>Private equity</u>: Market Structure Medium; Market institutions: Small</p> <p>Key challenges: ensuring that uncertainties in the business environment do not have a negative effect on long term equity investment; increasing participation by local institutional investors</p>	<p>Strategic orientations <i>[does not contain priorities related to Transport (road, rails) other than municipal/ urban (MEI); does not contain PPP related priorities;</i></p> <p><i>Capital market priorities focus on the resilience of the banking sector]</i></p> <p>Operational response n/a</p> <p>Policy dialogue n/a</p>
CSDR 2017	BDS17-042 (Final)	
	Largely due to additionality concerns and generally scarce transition impact opportunities, implementation of country	CSRF

	<p>strategies has been particularly challenging in Hungary and the Baltics states.</p> <p>Going forward, the Bank will continue to focus on where it can make a meaningful contribution to these advanced transition countries, by deepening capital markets and developing innovative financing structures.</p> <p><i>No relevant strategic priority</i></p> <p><i>No relevant strategic objective</i></p> <p><i>No relevant activity reported</i></p>	<i>No relevant indicators</i>
CSDR 2018	BDS18-039 (Final)	
	<p>Activity</p> <p>Closed a €100m transaction with Budapest Airport, via a capital market framework, leveraging the airport's improved operational and financial performance, thus supporting a secondary PPP market, which should facilitate attracting private operators in the infrastructure sector as a whole.</p> <p><i>[included in the report under Priority: Enhancing competitiveness and addressing innovation gaps; Objective: Support financial and operational improvement in targeted sectors, such as municipal urban transport, through commercialisation and restructuring]</i></p>	<p>CSRF</p> <p><i>No relevant indicators</i></p>
CSDR 2019	BDS19-051 (Final)	
	<p><i>No relevant strategic priority</i></p> <p><i>No relevant strategic objective</i></p> <p><i>No relevant activity reported</i></p>	<p>CSRF</p> <p><i>No relevant indicators</i></p>
CSDR 2020	BDS20-051	
	<p><i>No relevant strategic priority</i></p> <p><i>No relevant strategic objective</i></p> <p><i>No relevant activity reported</i></p>	<p>CSRF</p> <p><i>No relevant indicators</i></p>
2021-	BDS/HU/20-01 DRAFT	
	<p><u>Diagnosics (SGS20-425)</u></p> <p>The institutional investor base recovers slowly, while the retail investors gain on importance</p> <ul style="list-style-type: none"> • The nationalisation of the mandatory pension funds in late 2010 shocked the institutional investor base. The sector recovered only in 2017 to the level of 2010; • The investment fund industry assumed the role of the pension funds in collecting household savings but with a much shorter investment horizon; As a result the role of investment funds is much more important in Hungary than in the peer countries. • The securities investments are concentrated in government securities in case of all institutional investors, mainly due to the crowding out effect of the government securities market; • The disappearance of the pension funds affected mostly the equity market. The 	

	<p>demand for equity instruments decreased instead of the previously predicted steady growth and in Hungary the weight of equity funds is the lowest in the region</p> <p><u>Implementation of previous strategy</u></p> <p>Key 'results':</p> <p>Closed a €100m transaction with Budapest Airport, via a capital market framework, leveraging the airport's improved operational and financial performance, thus supporting a secondary PPP market, which should facilitate attracting private operators in the infrastructure sector as a whole. [<i>indicated under Priority3: Enhancing competitiveness and addressing innovation gaps</i>]</p>	
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SECTOR STRATEGY

TRANSPORT SECTOR STRATEGY		
	Context/ Challenges (ATCs)	Strategic priorities/ directions (ATCs)
Transport policy	BDS04-72 (Final)	
		<ul style="list-style-type: none"> • Open up new markets, promote market liberalisation and encourage investment in liberalised markets • PPPs will feature particularly in ATCs; The additionality and transition impact of the Bank's financing of sustainable PPP projects can be enhanced through replication in other countries; • By encouraging the development of the refinancing market for PPPs the Bank can play an important role in encouraging investors to consider initial investments in our countries of operation; • State-owned entities or agencies may benefit from further restructuring or commercialisation (e.g. Croatian railways, Hungarian railways) supported by selected sovereign financing alongside other IFIs • Work usefully with the EIB in the ATCs, by lending on a complementary basis to cover the proportion of a project that EIB is prevented by its procedures and guidelines from financing • Acting as the anchor lender alongside other commercial lenders; leading the market; and by taking project development risks not acceptable to the market
Transport strategy	BDS13-205 (Final)	
	<ul style="list-style-type: none"> • Challenges are largely focused on developing the private market for both transport infrastructure and services • In the rail sector, institutional reform in some cases has been insufficient • Many of these countries still retain 'medium' transition challenges in the transport sector compared to the 'small' 	<ul style="list-style-type: none"> • Target resources on private sector projects, including PPPs and concessions in the road, port and airport sectors • Achieving longer term reform objectives in the rail sector, which envisages full or partial privatisation most commonly of the state freight operator

	<p>challenges seen in many other sectors of the economy</p>	<ul style="list-style-type: none"> • Policy dialogue will focus on energy efficiency investments, financial sustainability of state railways through restructuring, privatisation and commercial activities such as rail freight operations and rolling out of PPP structures. <p>Financing</p> <ul style="list-style-type: none"> • Consider selectively additional ways of financing transport infrastructure by supporting access to the capital markets. This may involve supporting initiatives such as revenues bond or credit enhancement structures to improve the attractiveness of bond financing for infrastructure development such as PPPs; • Mobilising institutional capital beyond the conventional commercial bank lending is also part of the Bank’s transition mandate and it plans to engage with suitable institutional investors when prospective projects satisfy their financing criteria. <p>Roads</p> <ul style="list-style-type: none"> • much of the legal basis of the sector reform has been established; Bank will increase its selectivity, continuing to support sovereign infrastructure investments only where a clear rationale for incremental transition can be made. • mobilise private sector capital, through structures such as PPPs, and will support governments with the necessary legislative and institutional reforms to facilitate the use of private finance <p>Rail</p> <ul style="list-style-type: none"> • EU member states which have separated rail infrastructure and operations in compliance with European directives, the role of the Bank in the public rail domain is more limited • Promoting financial sustainability of the railway sector <p>Air</p> <ul style="list-style-type: none"> • the Bank can support competitively selected strategic sponsors and private investors in airport investments such as PPP structures;
<p>Transport strategy</p>	<p>BDS19-172 (Final)</p>	
	<ul style="list-style-type: none"> • Principal investment needs relate to the replacement and maintenance of the existing road and railway infrastructure 	<p>Connected networks</p> <ul style="list-style-type: none"> • Rail, Logistics, Maritime, Aviation <p>Private sector participation</p> <ul style="list-style-type: none"> • Sector reform, Private sector <p>Environmentally and Socially Responsive Transport</p> <ul style="list-style-type: none"> • E&S <p>Low Carbon And Innovative Solutions</p> <ul style="list-style-type: none"> • Low carbon, Climate resilience, Electrification/ Alt fuels, Innovation <p>Financing structures</p> <ul style="list-style-type: none"> • Sub-sovereign and Private, PPPs, Capital Markets and other