Information to media

July 16, 2021

**Ķekava Bypass as Public Private Partnership project. Fact sheet**

**Partnership contract period**

The total period of the partnership contract is up to 23 years. Of these, the construction period is no more than three years for design and construction. The availability period during which the private partner fully ensures the daily maintenance of the constructed road and the renewal of the road surface is not more than 20 years.

**State payments to the private partner**

During the design and construction stage the state will pay nothing. All investments will be made by the private partner. When the construction is fully completed, its quality is recognized as compliant with regulatory requirements and the infrastructure is available to the public, the state will start paying accessibility fees to the private partner, gradually reimbursing the private partner in full in the period of 20 years.

In accordance with tender results of procurement procedure of Ķekava Bypass PPP project the total gross availability fee amounted up to EUR 265 729 046.65 excluding VAT. However, at the moment of signing the PPP contract the total amount of gross availability fee was recalculated in accordance with the procedure foreseen in tender dossier, including the Euribor and interest rate swap at the time of signing the PPP contract. As a result, the **gross availability fee decreased by 15 million EUR to EUR 250 132 500, excluding VAT**. This amount will be divided into quarterly payments and paid to the private partner in the period of 20 years after the Ķekava Bypass becomes available. **The annual amount of gross availability fee will be EUR EUR 12 528 513 (12.53 million), excluding VAT**.

The availability fee covers the costs of the private partner for design, construction, routine maintenance and periodic maintenance in the period of 20 years after the completion of the construction works, as well as, the costs of borrowed funds, insurance, administration, etc. The total amount of the availability fee specified in the PPP contract is the maximum possible amount that the private partner will be able to receive during the period of the PPP contract. The accessibility fee may be reduced if the Ķekava bypass or any its section is not accessible or is partially accessible to traffic, i.e. for every hour and for each kilometre of the lane not fully accessible, except when driving conditions are affected by third parties (e.g. a traffic accident).

**Distribution of risks**

Practically all risks that may arise during design, construction or maintenance (such as errors in the design and construction process creating additional costs) will be borne by the private partner throughout the whole period of the PPP contract. Any expenses that may incur during the contract period in addition to any errors or omissions in the design, construction, maintenance or financing process will be the expenses of the Private Partner and the state will not pay for them. Failure to address the consequences of any risk in a timely manner will reduce the amount payable to the private partner.

Because of such allocation of risks it was possible to receive EUROSTAT statement certifying that this PPP contract corresponds to the off-balance sheet accounting from the point of view of the total liabilities of the Republic of Latvia and is in line with the European System of Accounts (ESA 2010).

**Construction and maintenance**

Ķekava bypass will be the first project in the Baltics to be implemented according to Design-Build-Finance-Operate model. The private partner will ensure design, construction, attraction of funding and road maintenance in the period of 23 years. In the case of Ķekava bypass the private partner will be fully responsible for all maintenance works for the entire duration of the PPP contract, including cleaning and spreading of roadways, grass cutting, destruction of hogweed, lighting, electricity for lighting and other traffic management equipment, maintenance of public transport stops, renewal of horizontal road markings, etc. The private partner will guarantee that for another 5 years after the expiry of the PPP contract, Ķekava bypass will remain in such quality that it will require only daily maintenance works, but no capital investments.

**Construction costs**

The construction cost of one lane kilometre of Ķekava bypass, including engineering structures (bridges, overpasses, tunnels, noise barriers, ramps, etc.), will be ~1.23 million EUR, excluding VAT. For comparison, the construction costs of 1 lane kilometre of Saulkrasti bypass (A1) including engineering structures in 2007 were ~1.25 million EUR. For the implementation of the project, the Ministry of Transport on behalf of the state purchased 218 land plots with the total area of 132 ha, including:

• Forest lands: 56 plots (26%);

• Agricultural lands: 56 plots (26%);

• Building lands: 48 plots (22%);

• Production territories: 19 plots (9 %);

• Land under roads: 39 plots (18%).

Total actual cost for appropriated lands is 4.6 million EUR.

**Why Ķekava bypass?**

The section of the Bauska Highway (A7) Rīga – Ķekava is one of the busiest roads in Latvia, with traffic intensity reaching ~ 17,000 vehicles per day, and in some road sections even 25,278 vehicles per day. In addition to that, it crosses the densely populated village of Ķekava. The intensity of heavy traffic in this section is already three times higher than the limit. Bauska Highway (A7) is the only road that has one lane in each direction for entering and leaving the Rīga city.

**Why does the state not borrow funds and implement the project itself?**

Borrowing money of this amount would complicate the state's fiscal space, namely its right to borrow money for other projects of national importance without violating the EU requirements on the limits of the state budget deficit in the long run. In addition to that, public-private partnerships make it possible to tackle the problems already now without placing excessive burdens on the state budget in medium term.

**Why PPP?**

The PPP model assumes that the state “buys” the road in several instalments, where the state does not pay anything for the first two years, but from the third year onwards, it pays both the principal amount and the interest in the period of 20 years. Such a project allows us to build the road already now but pay for it later, thus not burdening the state budget. This permits the implementation of other important state projects in parallel, and it would not be possible if all project costs had to be covered and paid from the state budget at once.

**Ķekava bypass in numbers**

Ķekava bypass will be the section of the main state highway Rīga – Bauska – Lithuanian border (Grenctāle) (A7) from km 7.78 to km 25.0. The total length of its lane kilometres will be ~100 km, including:

• 4 lane road (two lanes in each direction): 12.22 km,

• 2 lane road with one carriageway and one lane in each direction: 5.36 km,

• Parallel roads and interchanges: 20.7 km,

• Tunnels: 2,

• Bridges and interchanges: 6,

• Roundabouts: 9,

• Pedestrian bridges and tunnels: 2.

**Financiers of project private partner**

The **European Investment Bank (EIB)** is the long-term lending institution of the European Union owned by its Member States. It makes long-term finance available for sound investment in order to contribute towards EU policy goals. Since 2017, the EIB has provided nearly €485 million in financing to Latvian projects.

**Nordic Investment Bank (NIB) is** an international financial institution owned by eight member countries: Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden. The Bank finances private and public projects in and outside the member countries. NIB has the highest possible credit rating, AAA/Aaa, with the leading rating agencies Standard & Poor’s and Moody’s.

**Project private partner - Association of Persons *Ķekava ABT***

**About TIIC**

TIIC is a pan-European infrastructure firm investing into mid-market infrastructure projects in both the transportation and social sectors. TIIC invests in greenfield and early brownfield assets, i.e. projects that are in an early stage of operation or projects requiring additional investment to improve the performance of the asset. TIIC was established in 2008 by the management team together with *Edmond de Rothschild Group*.

TIIC operates from two offices in Lisbon and Paris and currently manages two infrastructure funds pursuing a high absolute return investment strategy. Visit [www.tiic.pt](http://www.tiic.pt) for further information.

**About ACB group**

Established in 1992, The A.C.B. Group is comprised of companies whose main operating directions are road and bridge construction, reconstruction and production of building materials. The group of companies was formed to unite building constructors with a joint goal: to create a quality, sustainable and contemporary end product. The Group of companies currently employs 918 people, including a certified road, bridge, railway, water supply and sewage systems, building and telecommunications construction engineers and designers.

**About BINDERS**

*Binders* is one the largest road construction companies in Latvia. Established in 1993, over the years *Binders* has performed countless building and reconstruction projects of infrastructure objects. Company is primarily engaged in provision of road, street and square construction services, but in parallel has developed strong competences and track record in development of water and sewage networks, railways, tram lines, airfields and development of military infrastructure. Together with its subsidiaries Binders employs more than 600 people in the construction season for the last 3 years.

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