European PPP Expertise Centre

Building successful PPPs

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Presentation agenda

- A brief introduction to EPEC
- Some PPP basics
- The market for transport PPPs in Europe
- PPP opportunities and challenges

About EPEC

- Established in 2008 - a unique cooperative initiative of the EIB, the European Commission and EU Member and Candidate States
- Part of EIB's Advisory Services, EPEC services also accessible through the European Investment Advisory Hub
- Team of 14 PPP professionals
- Membership: now over 40 members (e.g. PPP Units, Ministries of Finance)
- Mission: "to help the public sector deliver better PPPs in Europe"
- Networking & good practice sharing, PPP project advice and PPP policy advice

Some PPP basics

Public-Private Partnerships: a definition

- Public and private sectors working together to deliver public infrastructure projects and services

Key concepts

- A long-term contract between a public authority and a private partner aimed at the delivery of services rather than assets
- The transfer of certain project risks to the private partner, notably with regard to the whole life asset management and service provision and/or financing the project
- The public sector looks for advantages from the private sector participation to achieve "Value for Money" outcomes

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Some PPP features are unique

- Specification of project outputs rather than project inputs
- Focus on the whole life cycle cost of the project
- Risks that are normally managed by the public sector are transferred to the private sector
- Possible use of private financing (often "project finance") to underpin the risks transferred to the private partner
- Payments made to the private partner reflect the quantity/quality of the services delivered and are at risk if performance is poor
- Payment only made when delivery of services starts

Two main PPP models in use

Demand-based payment structure

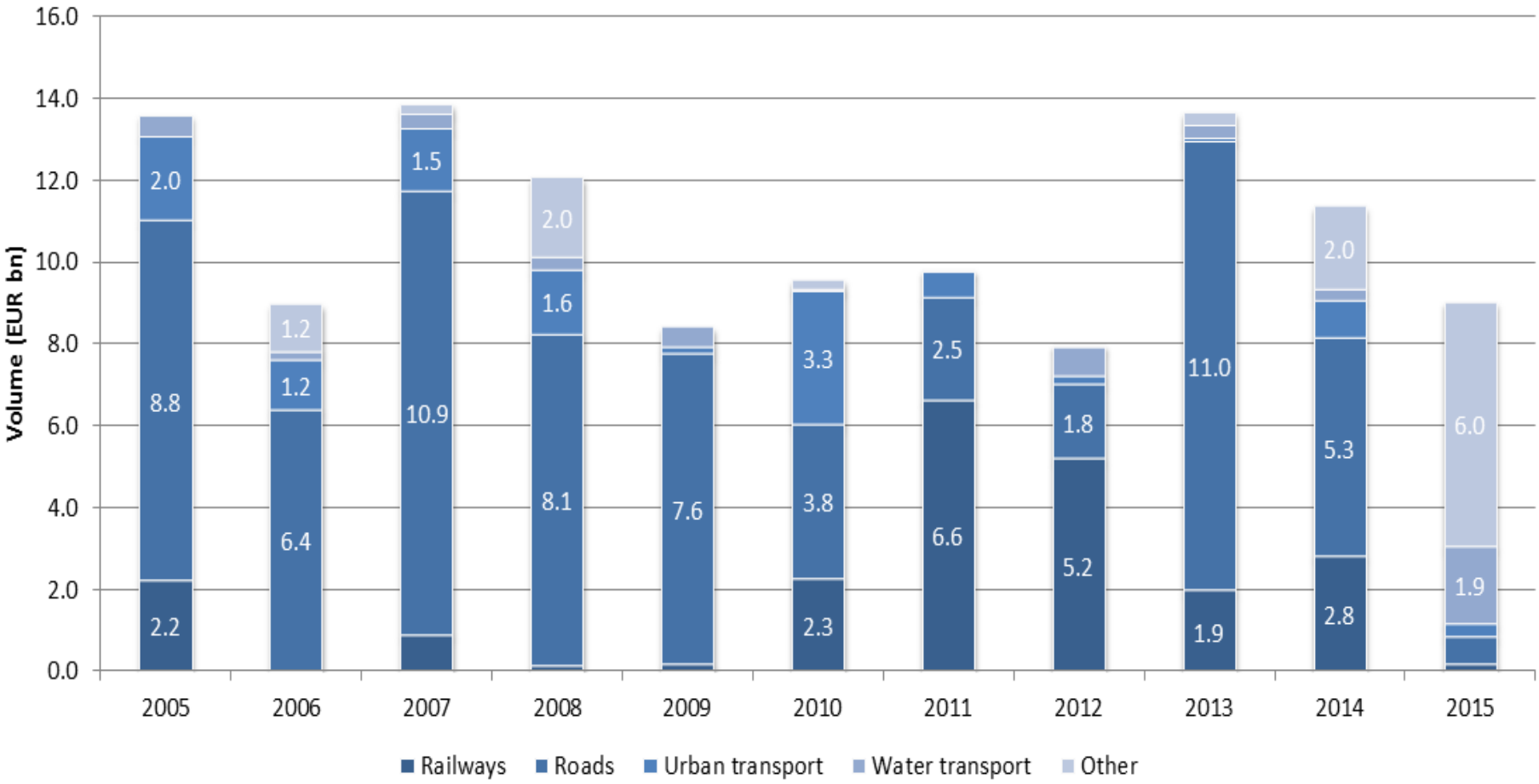
- Private sector bears risk of demand for service
- Includes user-pay concession models (e.g. toll roads)
- May involve some public subvention or support
- Penalties for poor performance

Availability-based payment structure

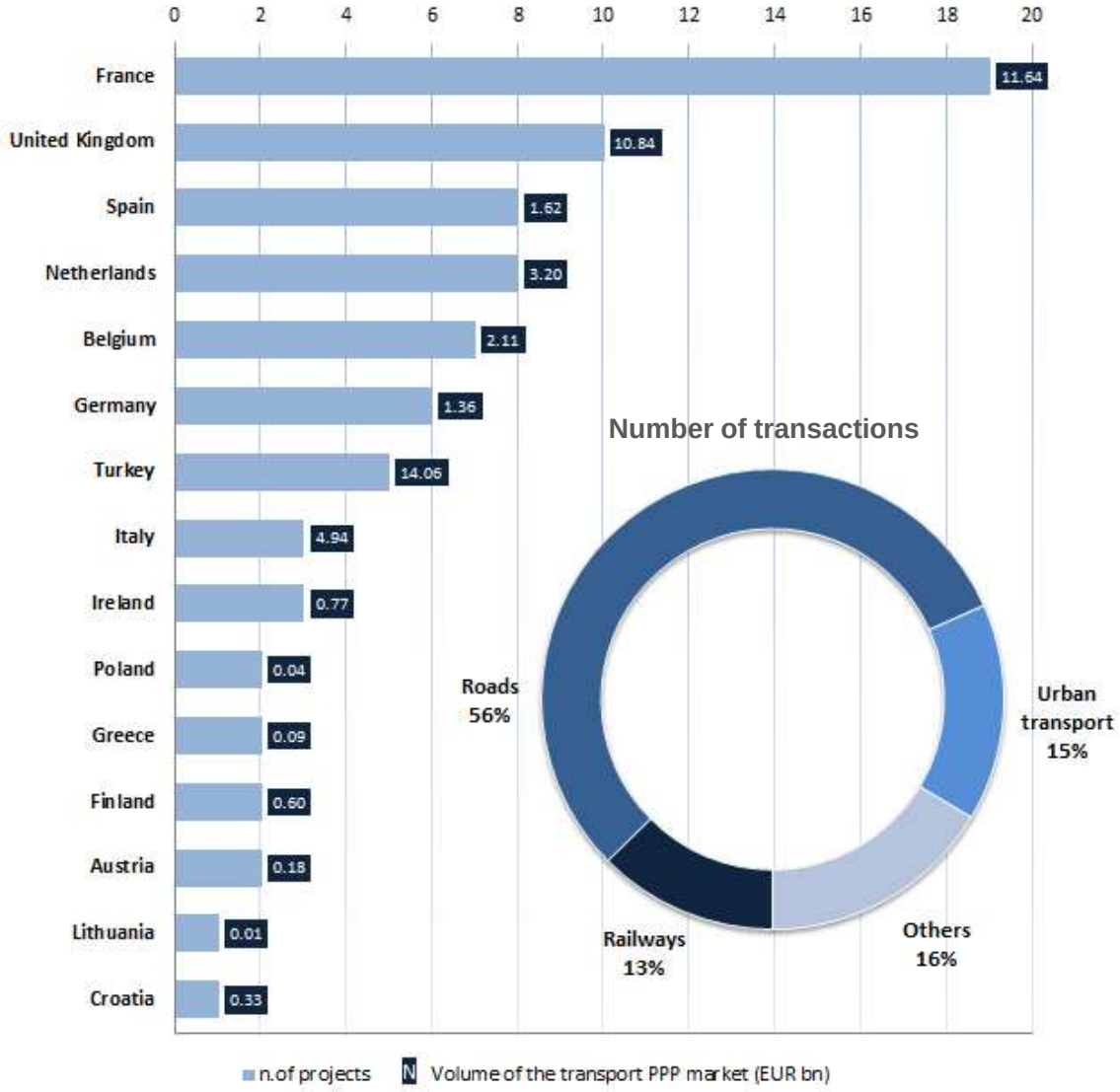
- Public sector bears risk of demand for service
- Regular public sector payments over operation phase
- Private sector partner makes facilities and services available for use (supply risk)
- Financial deductions and penalties for poor performance and non-availability of the asset

The market for transport PPPs in Europe

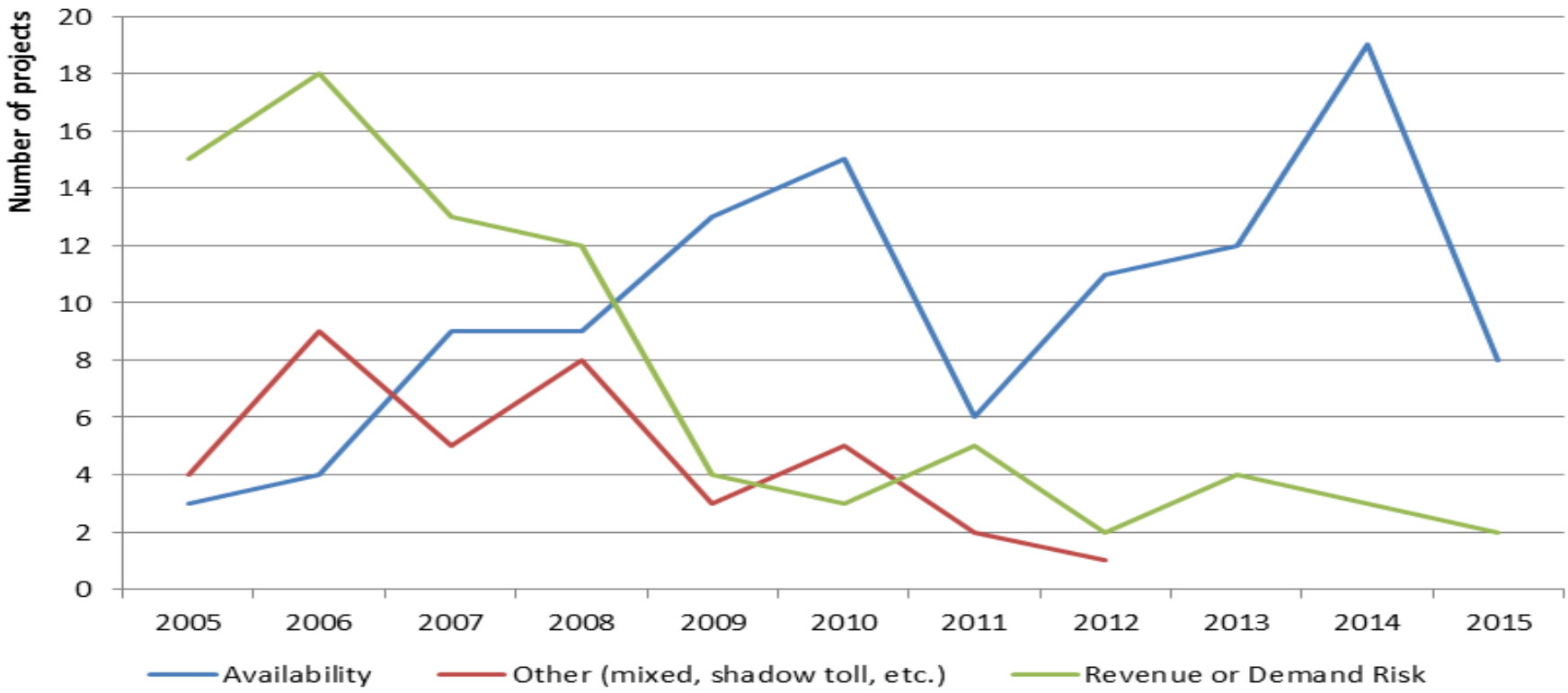
The European Transport PPP Market 2005-2015



The European transport PPP market, 2011-2015



Transport PPPs: user-pay vs. Government-pay



PPP opportunities and challenges

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PPP: the opportunities

- Achieve Value for Money!
- Improve risk management for large, complex projects
- Harness private sector innovation
- Spread costs over the life-time of the contract
- Improve affordability for the public sector/users
- Greater certainty of on-time, on-budget delivery of assets
- Improve asset management/services over the long-term
- Access to private finance

The opportunity for Value for Money

Value for Money is not a process issue, it is about doing the right project in the right way

- Sound project preparation of suitable PPP projects
- Effective competition
- Public sector ability to manage the procurement and contract management processes
- A balanced contract that allocates the risks efficiently and appropriately
- Involve lenders early

PPP challenges (found across Europe)

1. The wrong project (as an investment) and using PPPs where not suited

2. Poor project preparation and limited capacity of the authority in charge of preparing and delivering the PPP

3. Weak institutional, legal and regulatory frameworks and policy formulation

4. Poor procurement

5. Limited capacity or poor buy-in of the private sector

PPP challenges (found across Europe)

6. Political interferences

7. Is there a financing issue?

8. There is a funding (not financing) issue!

9. Are Eurostat rules an issue?

To conclude

- PPPs bring both opportunities and challenges for public authorities
- Not a panacea and not suitable for all types of project
- There must be a strong economic case for the project
- The near-term and long-term affordability of a PPP project is often a constraint
- PPPs require good discipline in defining the project at the start and procuring it
- There is ample finance available for sound, well-structured projects in conducive frameworks

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Identify the investment need

Is the investment worth making?

Choose a project delivery mode

Is PPP the right option for delivering the investment?

Prepare the PPP

Procure the PPP contract

Deliver the PPP
(construction, operation)

Is there a conducive and stable PPP framework (e.g. legal, institutional)?