

“PPP - today's opportunity for the future” Challenges and Opportunities

Conference
5th November 2020

Presentation outline

- Introduction to EPEC
- Understanding PPPs and what they mean for the public sector
 - What are PPPs?
 - Why use PPPs?
 - Benefits and challenges of PPPs
- The European and regional PPP market characteristics
- Some relevant project examples

Introduction to EPEC

About EPEC

- Established in 2008
- **Mission:** “to help the public sector deliver better PPPs in Europe”
- A unique cooperative initiative of the **EIB, EU Member and Candidate States** and the **European Commission**
- **Membership:** now **over 40 members** (e.g. PPP Units, Ministries of Finance)
- Team of **14 PPP professionals**
- Part of **EIB’s Advisory Services**
- EPEC is **PPP-neutral**

PPP advisory services to the public sector

Support PPP project preparation, offering high level strategic advice, tailored to each project, e.g.:

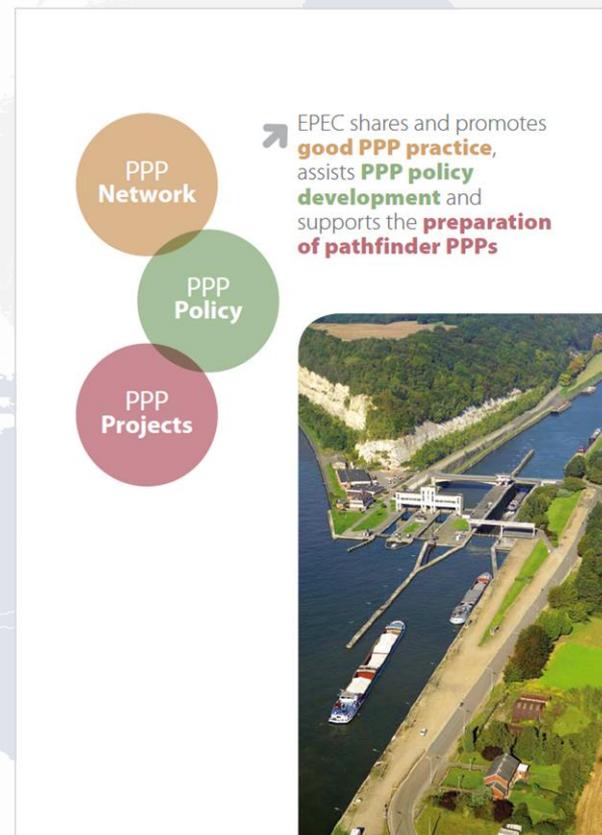
- Making the PPP decision
- PPP project analysis preparation
- Use of transactions advisers

Assist PPP policy development:

- PPP legal and regulatory frameworks
- PPP institutional arrangements
- Processes for preparation, approval and management of PPPs

Share good PPP practice through network activities:

- Providing market intelligence
- Addressing practical issues in implementing PPPs
- Developing PPP guidance and tools



What are PPPs and how do they work?

PPPs: a simple definition

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

Key concepts

- A long-term contract between a public contracting authority and a private sector 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 better Value for Money (VfM) outcomes

Some PPP project features are unique

- Paying for a service not an asset
- 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
- Payments made to the private partner
 - reflect the quantity/quality of the services delivered
 - are at risk if performance is poor
 - only start when delivery of services starts
- Possible application of private financing (often “project finance”) to underpin the risks transferred to the private partner

Two main “standard” PPP models in use

- User-pay structure

- Users pay the private partner for services e.g. toll roads, ports
- Private sector bears risk of demand for service
- May involve some public subvention or support
- Penalties for poor performance

- Government-pay structure

- Government makes regular payments to the Partner once the asset is built
- Payments are based on availability or demand
- Financial deductions and penalties for poor performance and/or **non-availability** of the asset

PPPs are not:

- free - someone has to pay for the service in the end
- just a financing tool - financing is only part of the story
- about hiding long-term liabilities - balance sheet treatment may be a driver but it should not be the only or main driver
- simple - PPPs are complex to put in place and manage and require significant preparation / resources / skills
- ‘deals’ - they are about long-term delivery of a public service

Why use PPPs to deliver infrastructure and what are the challenges?

Some opportunities and motivations for using PPPs

Public sector can focus on **services**

Innovation in design, construction and service delivery

Greater certainty of **on-time delivery** once contracts are signed

Mobilizing private sector **capital**

Integration of design, construction and services

Better **long-term maintenance** of assets

Widening the market to **global private sector providers**

Better **quality and consistency of service** delivery

Better long-term **management of risks**

Access to **third party scrutiny**

Greater visibility and **certainty of whole-life costs**

Matching long-term benefits to long-term funding

Earlier implementation of infrastructure plans

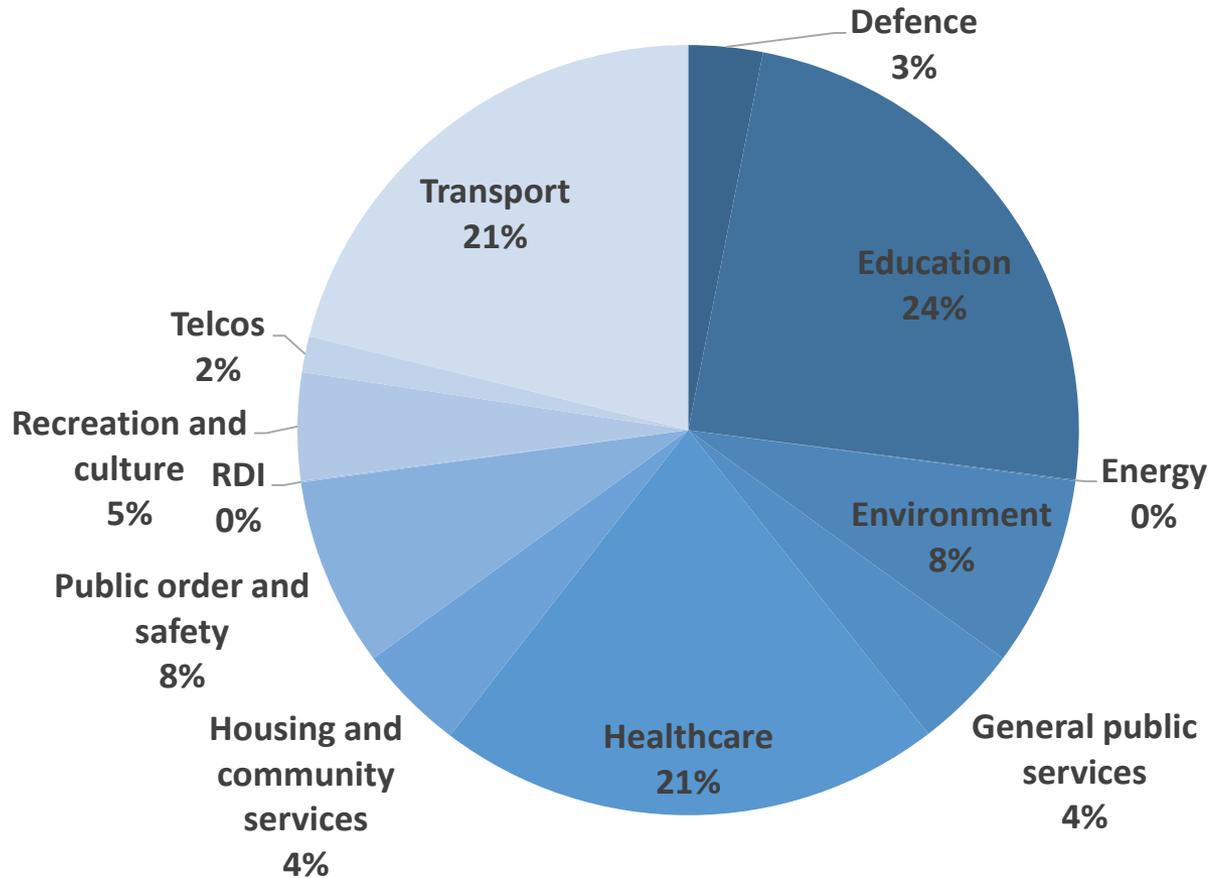
Reform of public sector practices

Common challenges

- **Organisational and structural issues**
 - Legal and institutional framework
 - Governance and decision-making arrangements
- **Managing public stakeholders**
 - Increased scrutiny on projects delivered as PPP
 - Importance of Value for Money analysis
- **Capacity and capability**
 - Public sector, especially the **procuring authority**
 - Private sector, the market and **pipeline**
- **“Funding” and “financing”**
 - Budgetary and fiscal risks: **affordability**
 - Attracting finance to the PPP project: **bankability**
- **Managing operational contracts**
 - Adequate resources and governance arrangements
 - Perceived and actual inflexibility of the PPP contract

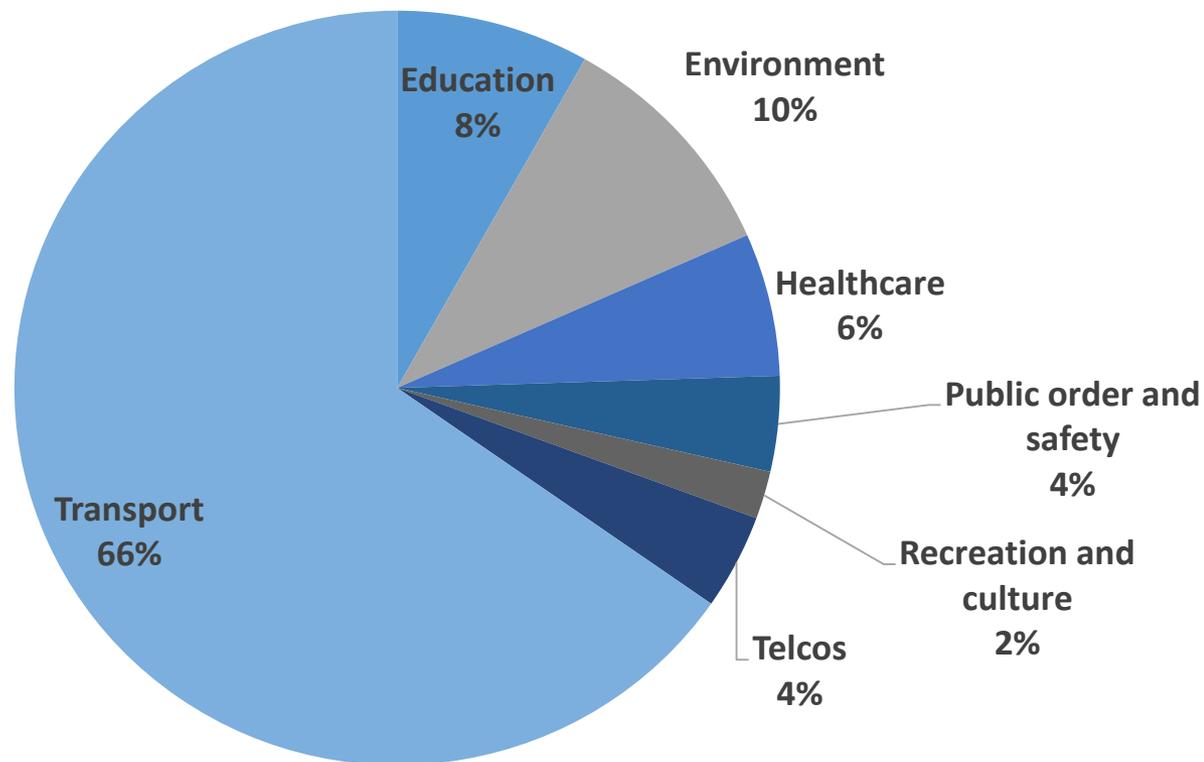
PPP data in the EU and CEE

The European PPP market – sector breakdown



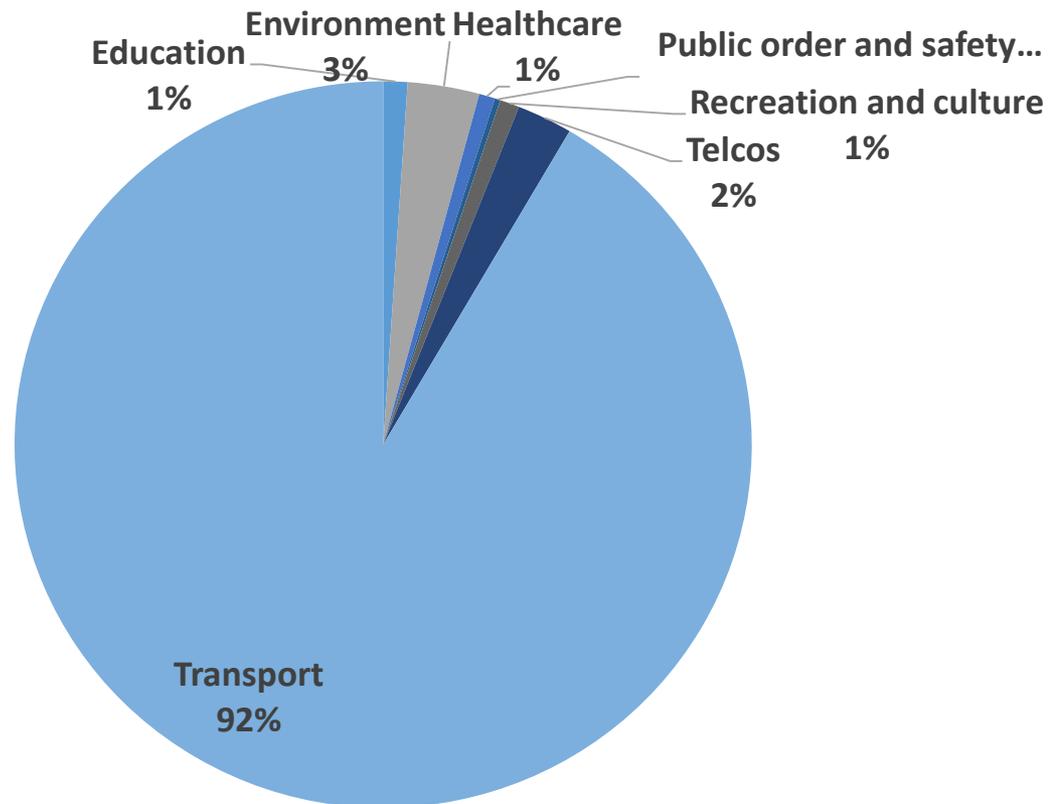
Number of projects

The PPP market across Central & Eastern Europe



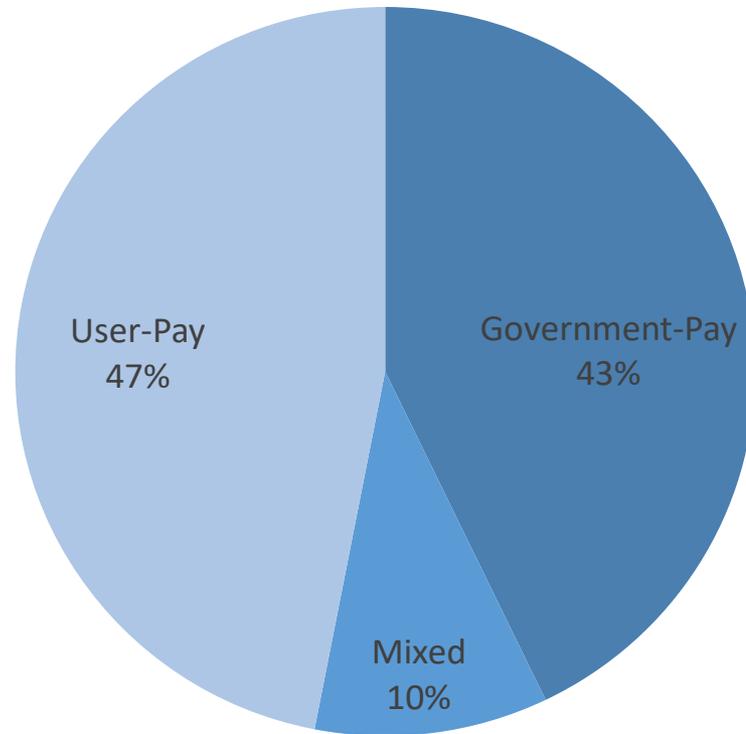
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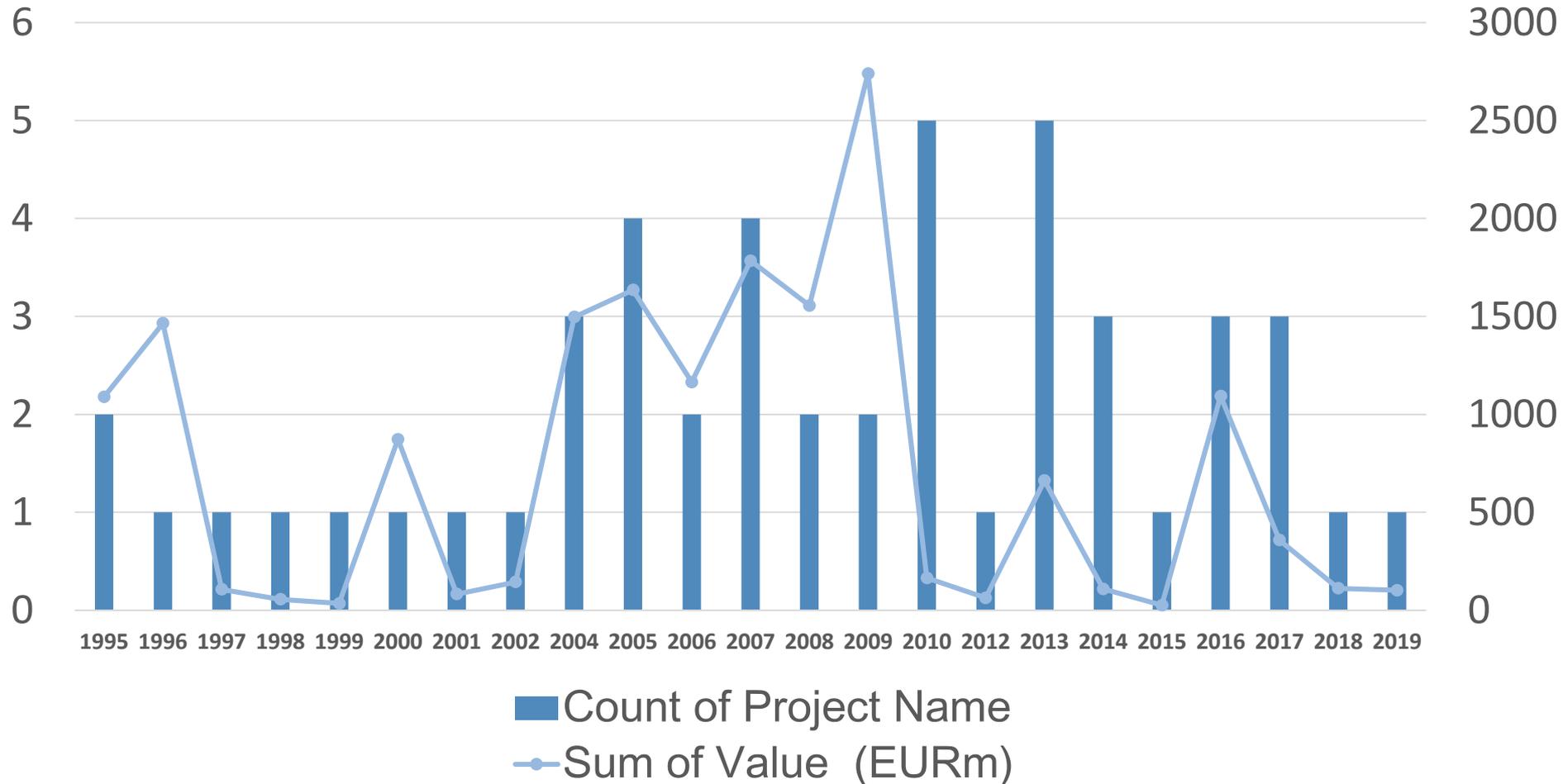
Value of projects

The types of PPPs in the Central & Eastern European market



User-pay Vs Government-pay

PPP market activity over time in Central & Eastern Europe



Spotlight on some project examples

Project examples

- Finland
 - Espoo Schools Project
 - Financial Close: June 2020
 - Procuring Authority: City of Espoo
 - First social infrastructure PPP in Finland
 - Five schools
 - Three daycare centres
 - 20-year term



Project examples

- Austria
 - Vienna schools campus PPP (programme)
 - Financial Close: 2019
 - Procuring Authority: Vienna City Municipality
 - Kindergarten, elementary school, middle school
 - 25-year term



Project examples

- Austria
 - Vienna Radiation Oncology PPP
 - Financial Close: 2016
 - Procuring Authority: Vienna Hospital Association
 - Refurbishment element
 - New facilities on two sites
 - 25-year term



Project examples

- Slovenia
 - Ig Care Homes PPP
 - Preferred Bidder: 2020
 - Procuring Authority:
Municipality of Ig
 - Elderly care home
 - Day-care centre
 - 40-year term



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