Les PPP et les infrastructures publiques dans le cadre du Plan d'investissement pour l'Europe

Confrontations Europe, Paris
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About EPEC

- Established in 2008
- Part of EIB’s Advisory Services, EPEC services also accessible through the European Investment Advisory Hub
- A unique cooperative initiative of the EIB, the European Commission and EU Member and Candidate States
- 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”

Discussion points

- *What* are PPPs?
- *Where* are they used?
- *Why* are they used?
- What are the *challenges*?
- Conclusion

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

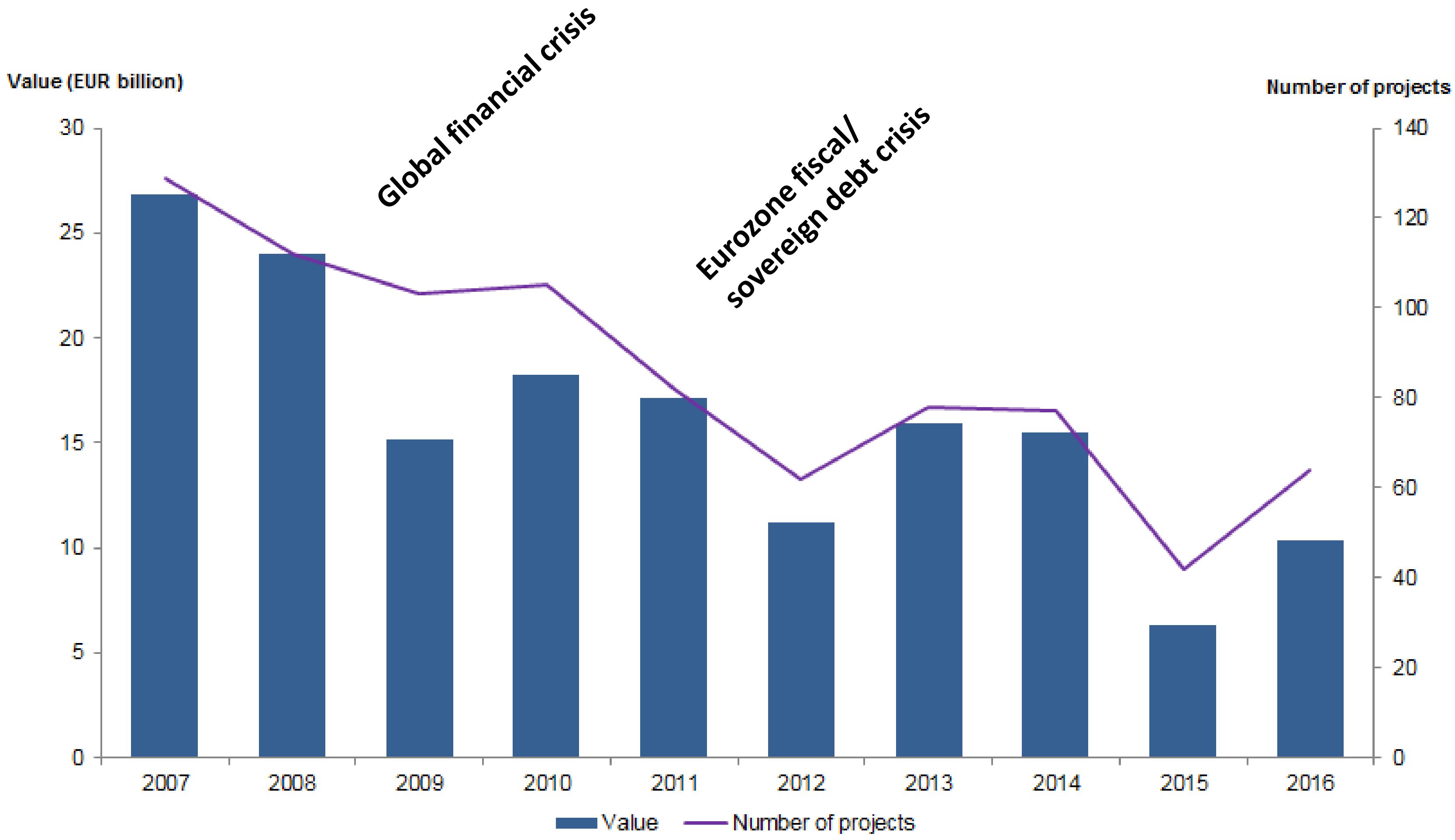
- Paying for a service - not the asset
- Specification of project outputs rather than project inputs
- Focus on the whole life cycle cost of the project
- Risks that are normally managed by the public sector are transferred to the private sector
- Payments made to the private partner
  - reflect the 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

EU-28 PPP market, 2007-2016



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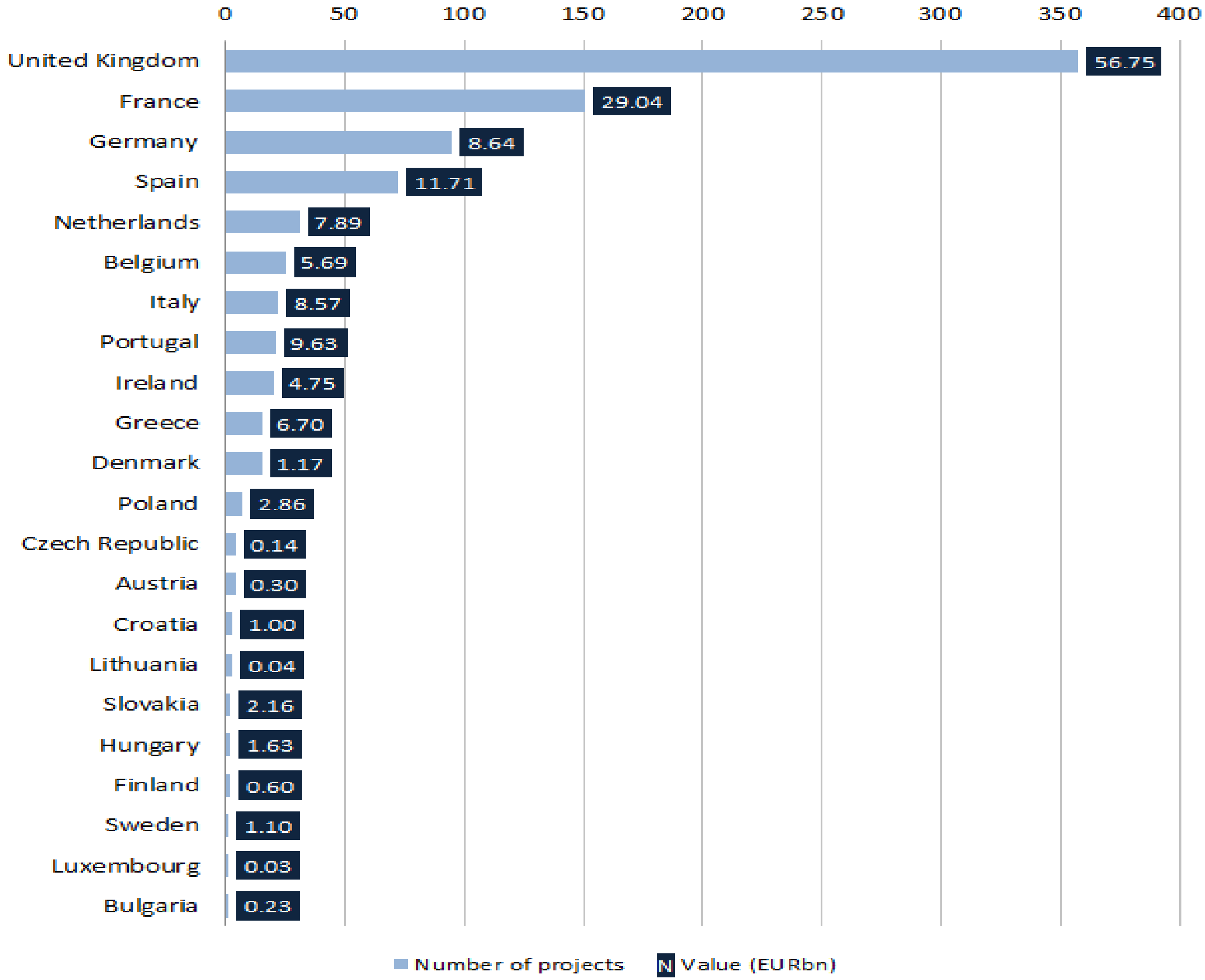


Why use PPPs?

- Overarching goal: improved VfM
- Harness private sector innovation to gain
  - Improved service quality
  - Improved asset management over the long term
- Greater certainty of on-time, on-budget delivery of assets
- Improve risk management for large, complex projects
- Spread costs over the life-time of the contract
- Improve affordability for the public sector/users
- Access to private finance

Most common PPP hurdles

1. Political commitment to engage in PPPs
2. Legal, regulatory and institutional frameworks, policy formulation
3. Capacity of the authority responsible for delivering the PPP
4. Capacity and buy-in of the private sector
5. Procurement
6. Funding and financing
7. Eurostat treatment and management of PPP fiscal risks

"Hurdle 1": Political commitment

- Underestimation of resources needed
- Short-lived or changing political commitment
- Promotion of unrealistic PPP pipelines
- Political pressure to quickly proceed with or opt for PPPs
- Renegotiation of signed contracts
- Changes in regulatory frameworks
- Early termination of PPP contracts

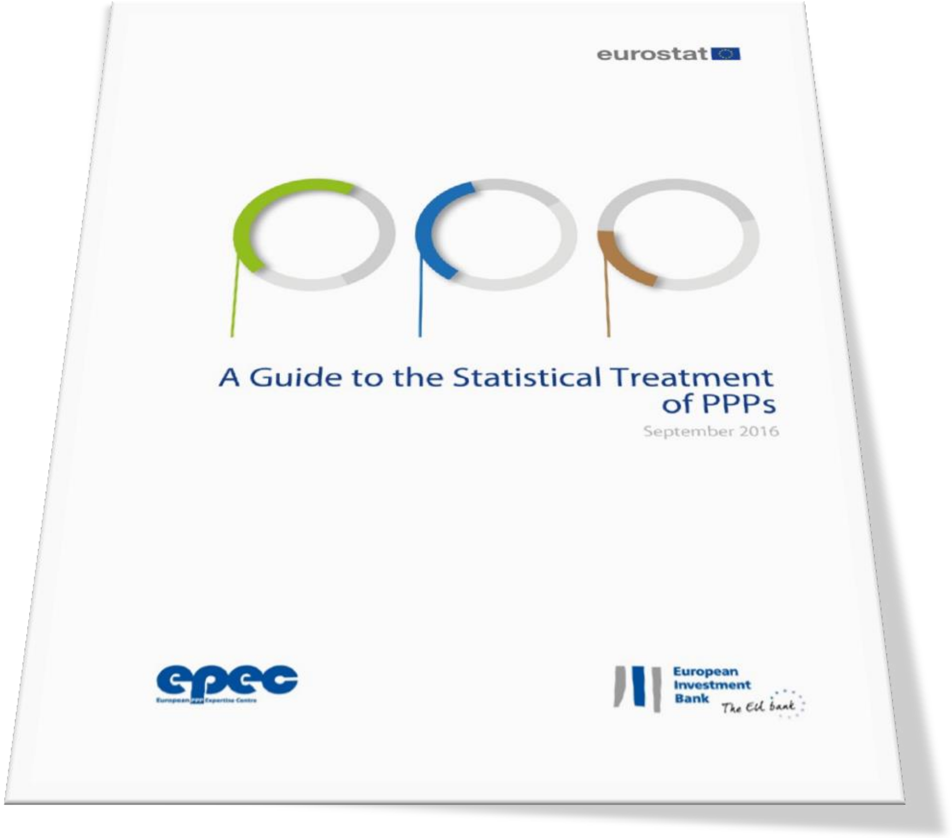
"Hurdle 3": Authority capacity

- Skills and resources are key
- Poor investment to start with
- Weak demand analysis
- Poor affordability analysis
- Optimism on the risks the private sector can take
- Using PPPs where not suitable
- Poor contracts

‘‘Hurdle 6’’: funding and financing

- Financing: bridge the time gap between investment period (cash outflow) and operational period (cash inflow)
- Funding: securing sources of cash that will pay for project costs:
  - tax-payers’ money (e.g. grants, availability payments)
  - user charges (e.g. tolls)
- “A financing instrument will not address a funding issue”
- In today’s PPP market:
  - significant liquidity is available to finance good PPPs, in enabling and stable environments
  - funding is often short!

"Hurdle 7": now overcome?



Conclusion

- PPPs can deliver value for the public sector/users if used properly
- Hurdles are multiple but most can be overcome
- Resolution of most hurdles is with Member States (rather than the EU)
- Political willingness will go a long way to overcome hurdles

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