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

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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
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
European PPP Expertise Centre

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