



**European
Investment
Bank**

First International Conference
**Perspectives for Ukraine on Implementation of
Public Private Partnerships**

PPP – The EIB Experience

Tilman Seibert

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The EIB implements EU policies



EIB – The European Union’s financing institution:

Created by the Treaty of Rome in 1958, to provide long-term finance for projects promoting European integration.

- Subscribed capital EUR 163.7bn.
 - EIB shareholders: 25 Member States of the European Union.
 - Lending in 2005: EUR 47.4bn (EUR 42.3bn within the EU25).
 - Total outstanding loans at 31.12.2005: EUR 294.2bn.
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- ❖ *Development of Trans European Networks and links to New Neighbourhood Countries is one of five key strategic priorities set by the Board of Governors of the EIB.*
 - ❖ *Outside the EU, EIB operates on special mandates from the European Union.*

1. PPP – Main Characteristics and Objectives

Principles of PPP Risk Allocation and Risk Management (1/2)



Main Characteristics of PPPs

- Risk-sharing between public and private sectors.
- Long-term relationship between parties.
- Public service and ultimate regulatory responsibility remain in public sector.

Using private sector skills for public sector services

- Contracts for services, not procurement of assets.
- Output, not input, specifications.
- Payments related to service delivery.
- Whole life approach to design, build and operation.

Principles of PPP Risk Allocation and Risk Management (2/2)



Criteria for PPPs

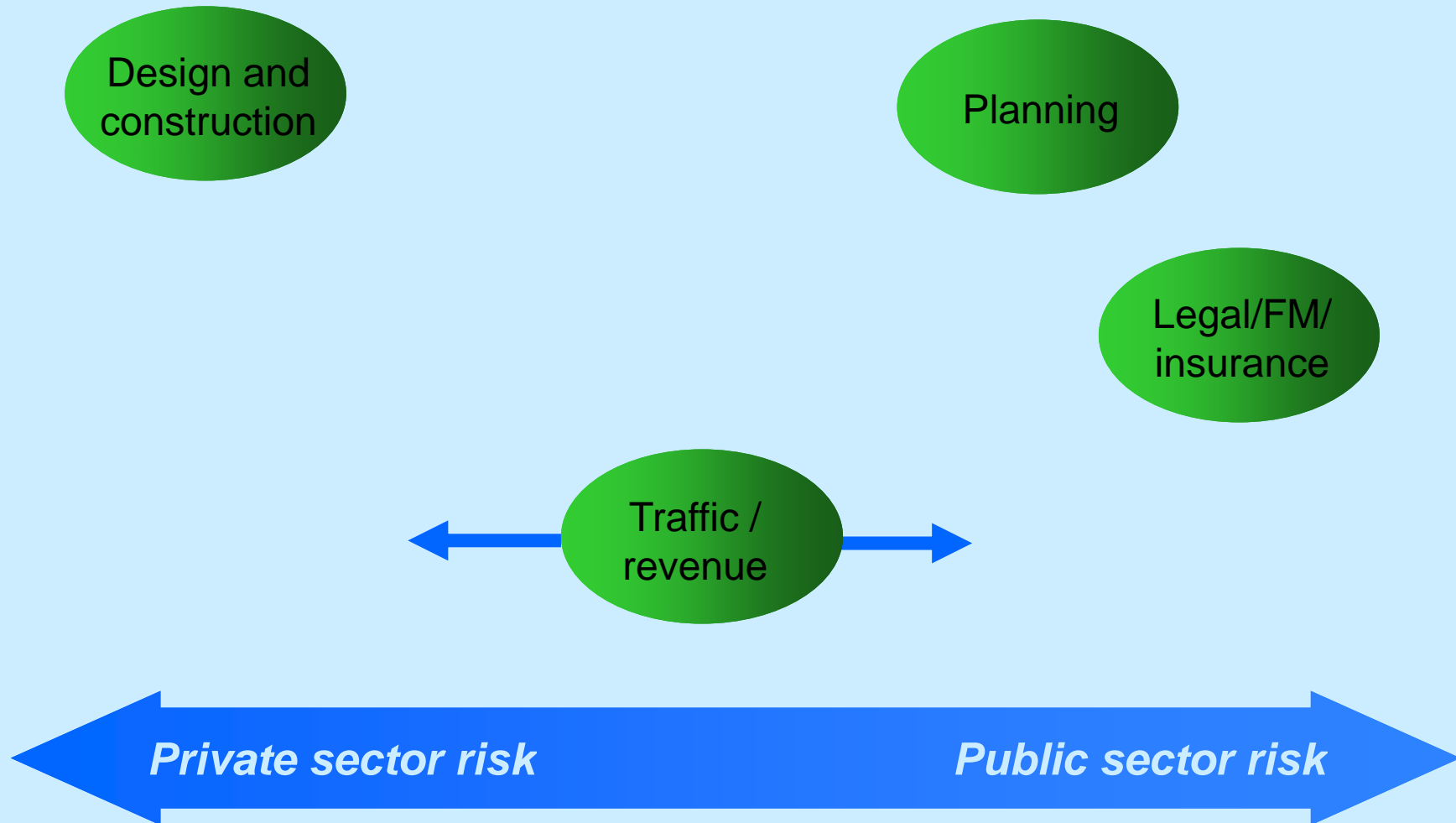
- Economically viable for the Public Sector.
- Financially viable for the Private Sector.
- Appropriate Risk and Reward Balance for Public and Private Sector
- Public Sector: value for money.

“Must” for successful PPPs

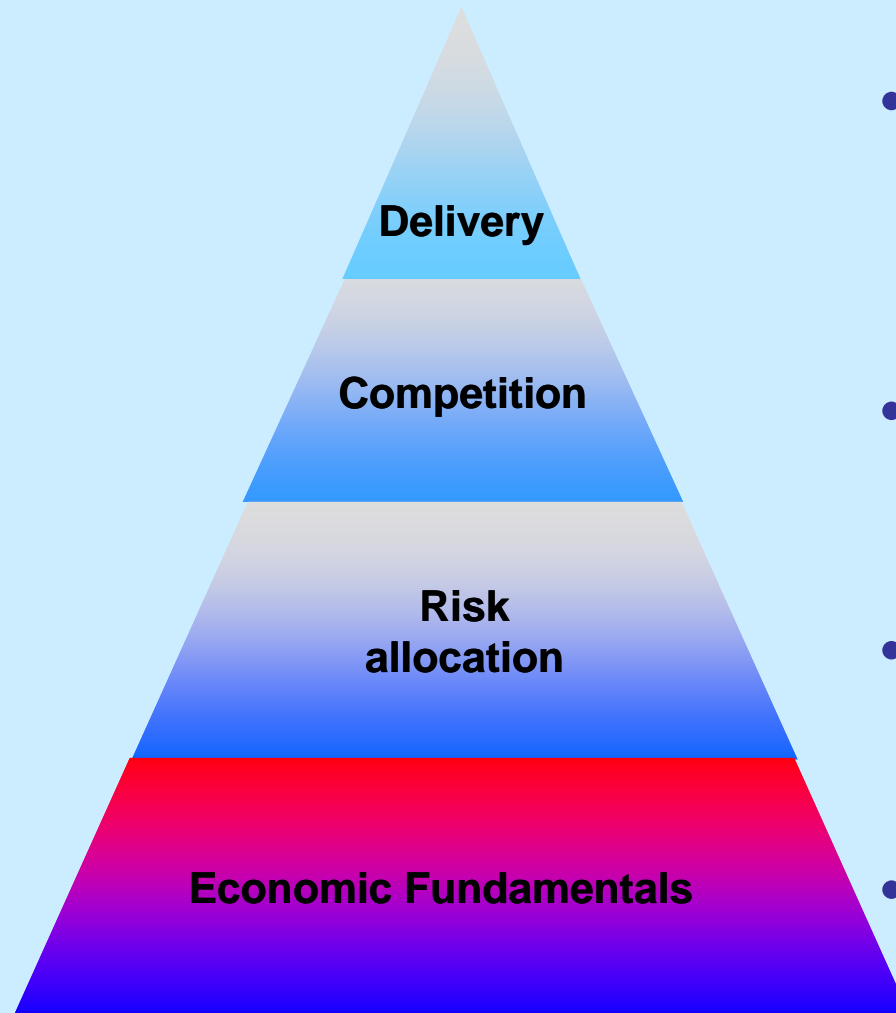
- Public Sector Political Commitment.
- Focused, dedicated and experienced public sector team – PPP Task Force.
- Clear legal and institutional framework.
- Transparent and competitive procurement.
- Realistic risk sharing.
- Government Partnership.

Risk Allocation.....

.... and each project is different and needs individual risk allocation



PPP Programmes: Key success factors



- **Public sector's capacity to manage its side of PPP and stable political commitment**
- **Competitiveness of bidding process**
- **Appropriateness of risk sharing – value for money**
- **Economic fundamentals – viability and affordability**

Benefits expected from PPPs



- Better risk assessment/management and improved long-term visibility, not only on financial issues.
- Greater innovation in design and financing structures.
- Incentives to deliver assets on-time and on-budget.
- Incentives to improve operational and commercial performance.
- Bundling different phases => life cycle cost/benefit optimisation.

There is a need for competence at public level to maximise these benefits...

PPPs and Value for Money



In principle, PPPs can improve VfM by:

- Facilitating and incentivising on time and on budget project implementation:
 - No service / no pay.
 - Incentives to cost control.
- Optimisation of capital & maintenance spends over project life.
- Innovation in design and financing structures.
- Improving management of operational risks.

*Optimal risk allocation → reduced cost of risk
Reduced cost of risk → better Value for Money*

Testing Value for Money



In practice:

- Does the private sector's price for taking project risks represent good value for money?
- Is the private sector's return on capital appropriate to the level of risk being taken?
- To be tested case by case through an agreed methodology (*Public Sector Comparator*).

*No presumption that PPPs will always prove better **Value for Money** than conventional procurement*

2. EIB's approach to PPPs



EIB Financing Principles



- Competitive tendering.
- Non-exclusivity - support of all bidders through bidding stage.
- Investment Grade Risks on strategic public services.
- EIB Complementarity with and leveraging of banks and capital markets.
- EIB benefits passed to end-users/taxpayer.
- Utility Risk and Utility Reward.

EIB's approach to PPPs



- Policy driven approach to PPPs based on the evaluation of the benefits achievable.
- PPPs are an additional policy option. No bias in favour of any particular procurement method.
- Expand expertise and financial resources available for “infrastructure” investment.
- Facilitating greater private sector investment.
- Focus on strategic public services with clear Value Added.

Project selection and appraisal

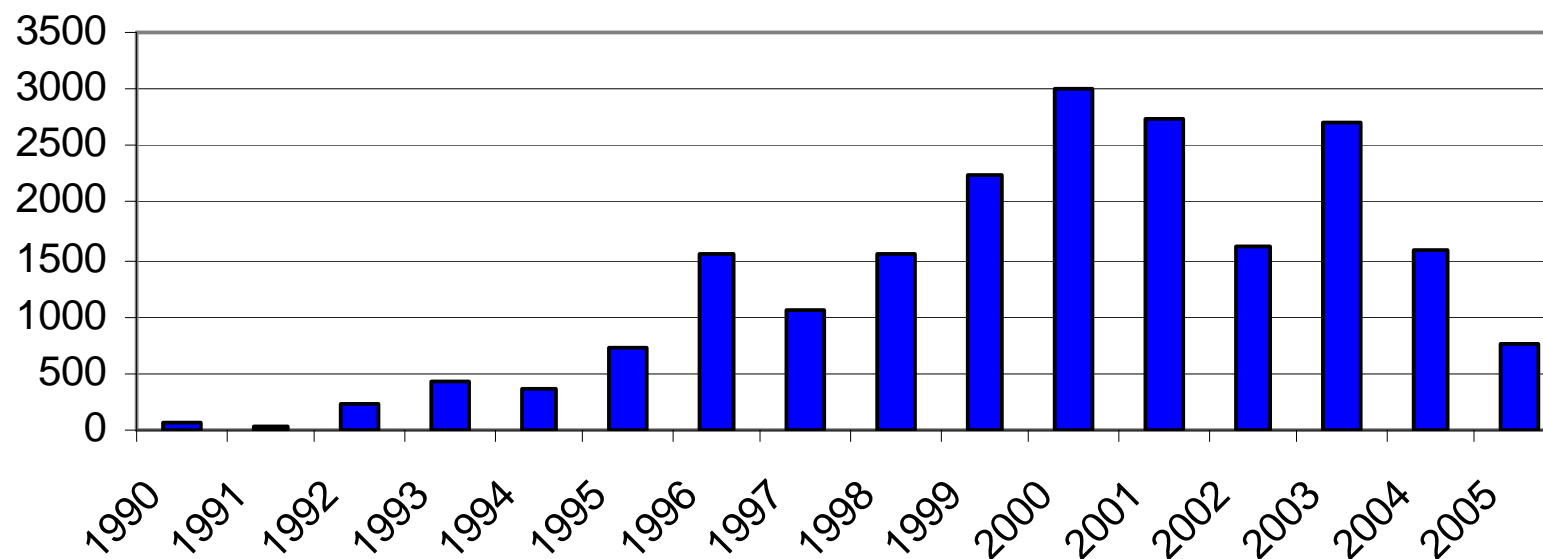


- Close collaboration with public sector to identify suitable priority projects.
- EIB aims to support competitive pressure during procurement process.
- Focus on the project:
 - Risk assessment.
 - Economic performance: socio-economic profitability (risk of adverse selection of projects), value for money for public sector.

EIB Annual Loan Signatures for PPPs



Signature of PPPs varies annually in line with financial closes. Loan approvals to date have been over EUR 20 bn and financial closes of EUR 16 bn with an average of over EUR 1.8 bn p.a. since 2000



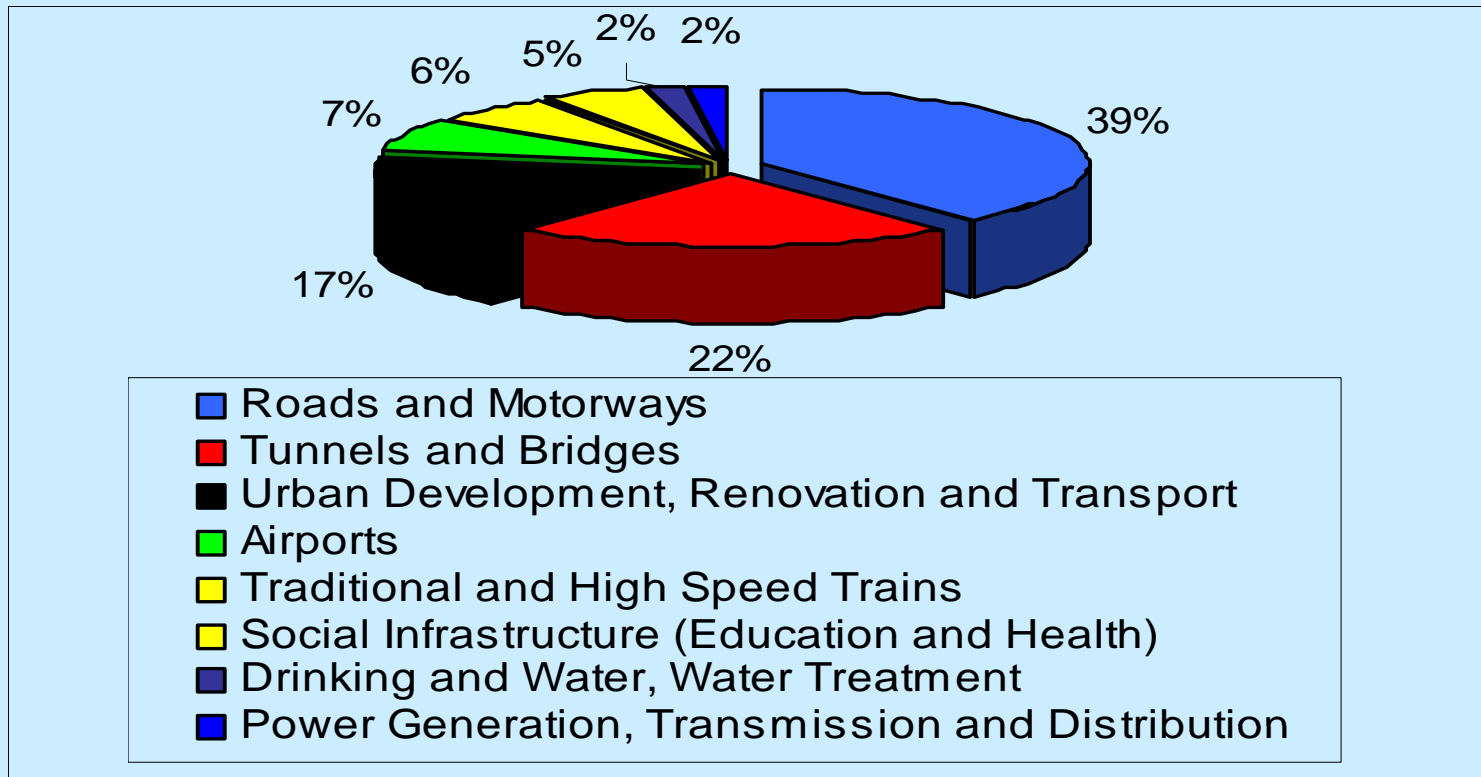
EIB financing for PPPs



Loans Approved in excess of EUR 20bn.

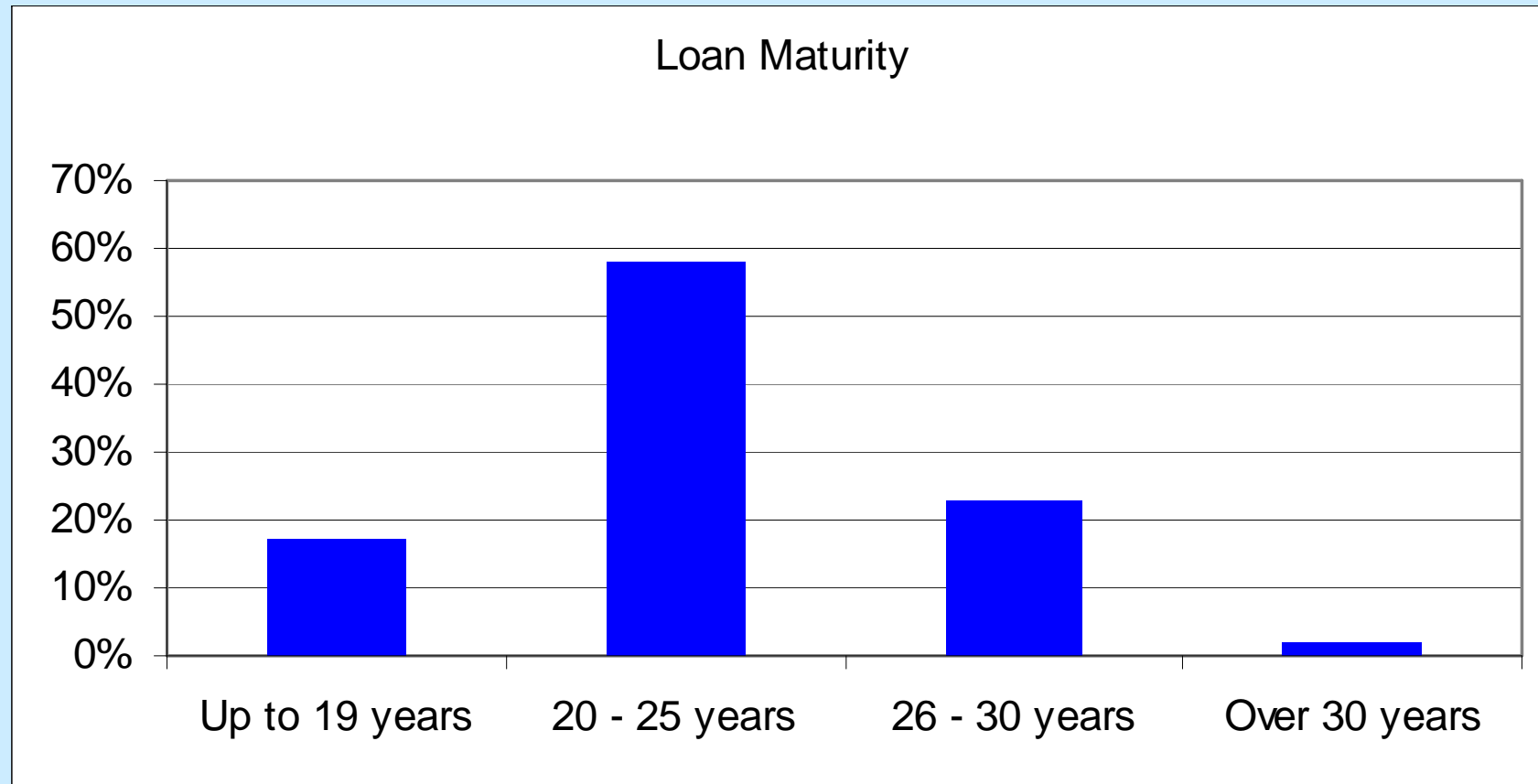
Loans Signed in excess of EUR 16bn.

Transport dominates (85%) to date.



EIB financing for PPPs

By loan maturity : longer than standard loans





3. Lessons learned from EIB's PPP experience

Key lessons from the Bank's PPP experience



- Importance of procurement.
- Evidence of project performance.
- Sectoral focus in PPP programmes.
- Effective payment mechanisms.
- Scale and expertise in PPP programmes.
- Developments at European Union level.

Importance of procurement



- Competitive pressure in procurement a must for achieving VFM from PPPs.
- Tendering process can be complex and, sometimes, costly.
- Public and private sector need appropriate skills to design, respond to and appraise procurement documentation.
- Full compliance with EU legislation key requirement for EIB funding.

Evidence on PPP performance



- National audit authorities commit significant resources to assessing PPP VFM.
- Reports are an important source of information, learning and benchmarking.
- For example, UK National Audit Office:
 - Cost and time performance in major infrastructure generally good.
 - Performance in IT sector generally weak.

PPP performance:

Evidence on construction projects from the UK's National Audit Office



	Conventional procurement	PPP procurement
Cost overruns for the public sector	73%	22%
Delay in project delivery	70%	24%

Sectoral focus



- Most countries commence PPP programmes in transport, with later migration to other sectors.
- Rate of 'migration' to other sectors (health, education, energy, water, waste treatment) reflects i) national priorities and ii) legal frameworks.
- Tendency for project to cascade from central to local government / municipalities.

Effective payment mechanisms



- Innovative use of payment mechanisms to focus on public sector objectives.
- Examples from the road sector:
 - User tolls – to pass costs to users.
 - Availability payments – to reduce congestion.
 - Accident rate premia – to improve safety.
- General tendency to move from toll to availability based payments in road projects.

Scale and expertise in PPP programmes



- Public and private sector may need to acquire new skills to commence a PPP programme.
- Sufficient 'deal flow' is critical to justify the costs and promote effective competition.
- Procurement programmes need to be managed to minimise costs (e.g. standardised documentation) and maximise competition (e.g. timing of contract notices).
- National PPP Task Forces can play key role in securing VFM in programmes.

Critical success factors for PPPs



- Public Sector Political Commitment.
- Focused, dedicated and experienced public sector team – PPP Task Force.
- Clear legal and institutional framework.
- Transparent + competitive procurement.
- Realistic risk sharing.
- Government Partnership.

EIB Ex-post Evaluation of 15 Projects (1/2)



➤ EIB Value-Added

- availability of funding/long-term maturities
- funding cost advantage
- other benefits of EIB involvement:
 - ❖ project validation.
 - ❖ catalytic effect on market development.
 - ❖ skills transfer.
 - ❖ long-term commitment.

➤ Project Performance

- relevance and efficacy : all positive
- efficiency : some weaknesses (low traffic levels)
- sustainability: all positive:
 - ❖ financial: potential problems with some toll roads
 - ❖ technical and environmental: good

EIB Ex-post Evaluation of 15 Projects (2/2)



Main Conclusions

- Notwithstanding the desirability of PSC and VfM analyses, the alternative to the projects evaluated was no project – not public procurement.
- Key indicators of success are the level of competition and the clarity and permanence of the project's specification.

Prerequisites for Prime Performance

- Clear boundaries / specifications / definitions
- Maximise competition
- Use PPP advantages
- Private partner must be strong enough to carry the risks.

The complete Evaluation report is available on the EIB website.

European Investment Bank

<http://www.eib.org>

T. Seibert, Associate Director, TEN and PPP: t.seibert@eib.org

**C. Synadino, Head of the Russia, Ukraine & Baltic States Division :
c.synadino@eib.org**