

Promoting PPP in CEE

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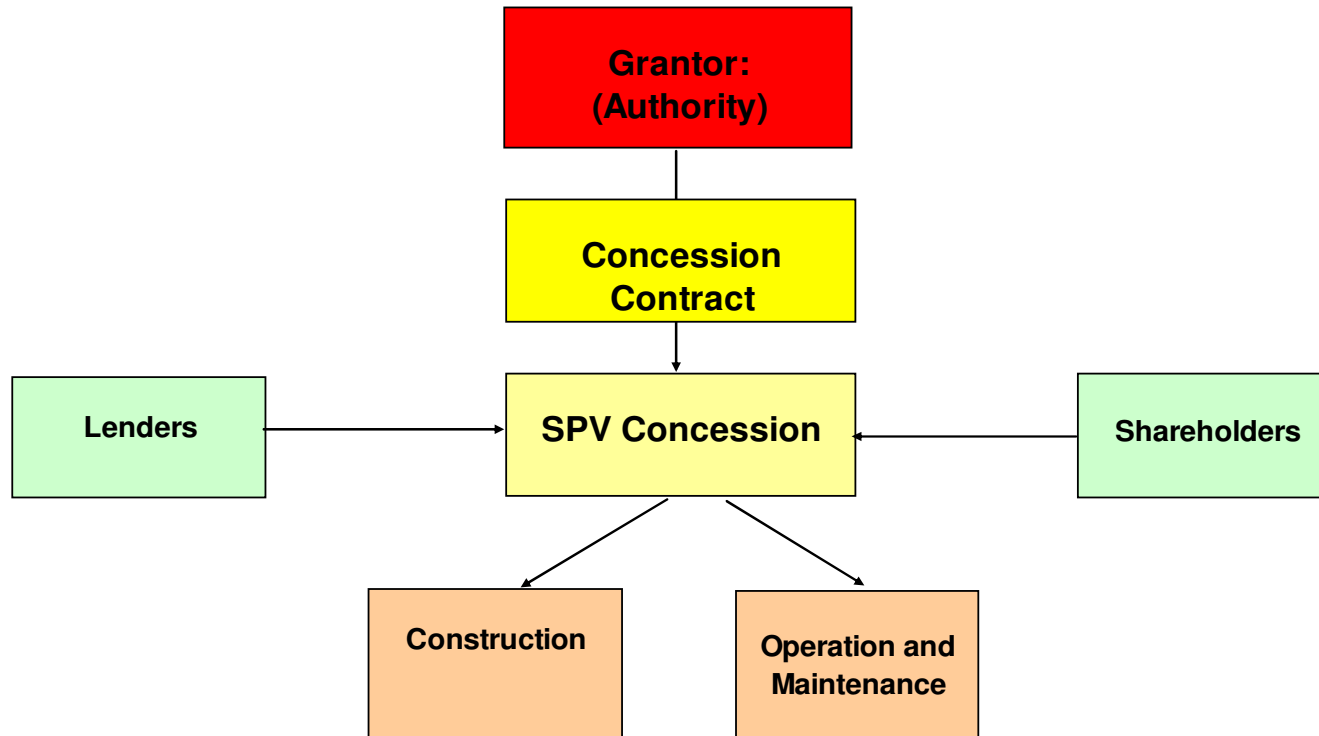
Promoting PPP Investments in CEE
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Introduction

- Introduction to Atkins
- What is a Public Private Partnership
- Evaluating the Suitability of PPP's
- Working within and Existing Framework
- Prospects for PPP In CEE

Introduction to Atkins

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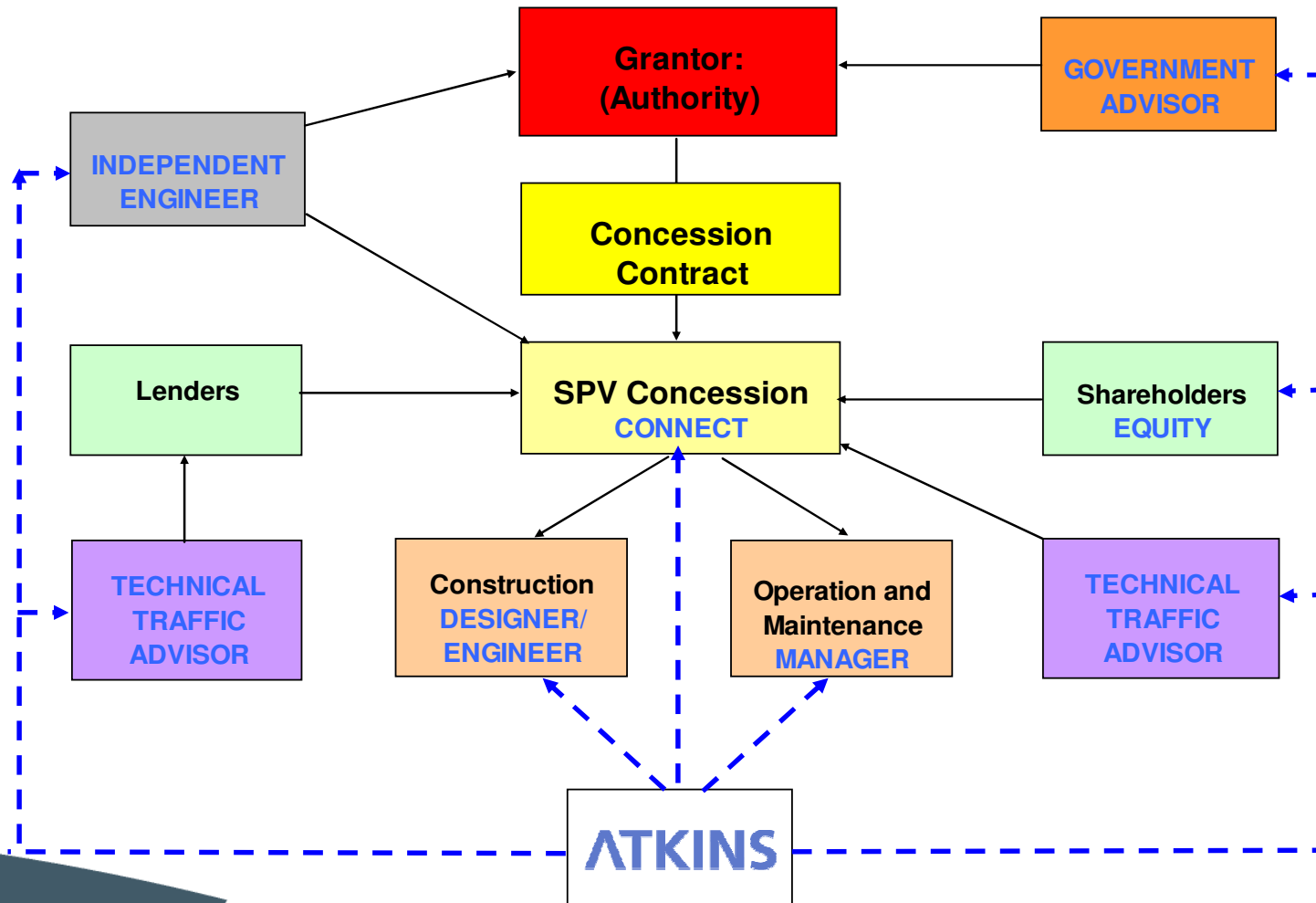


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Introduction to Atkins

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What is a Public Private Partnership

**A Partnership between the Public and Private Sectors
where Risks and Benefits are shared.**

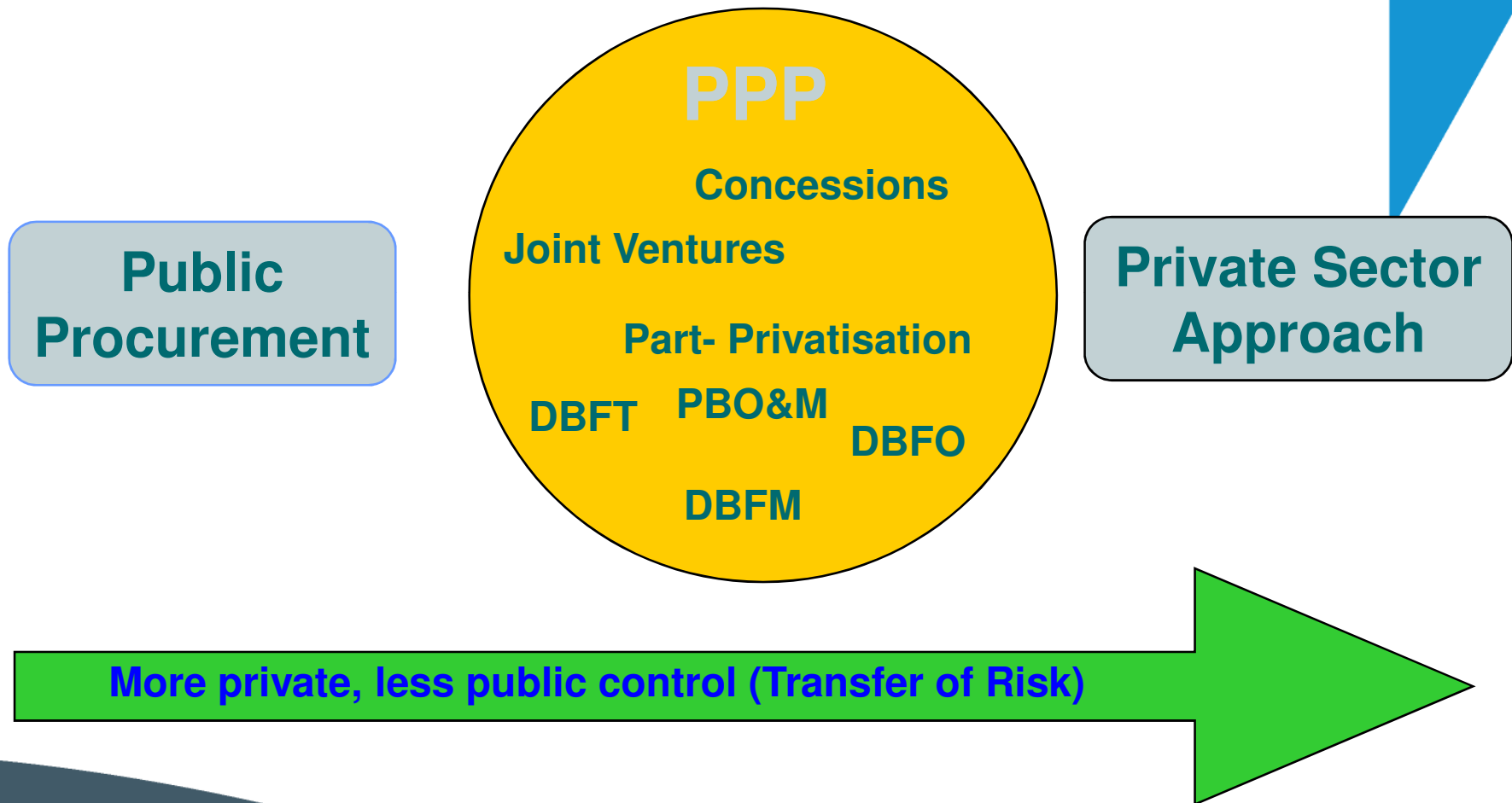
A Form of Procurement and Contracting

Not necessarily a form of Financing

A form of Delivery

What is a Public Private Partnership

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What is a Public Private Partnership

Greenfield

- Greenfield PPP's involve the construction of a new asset (Highway), by the Private Sector, on behalf of the Public Sector, along an alignment that does not currently have an asset of a similar nature.

Brownfield

- Brownfield PPP's involve the lease/sale of an existing asset (Highway) from the Public Sector to the Private Sector on an existing alignment.

Operation & Maintenance

- Operation & Maintenance PPP's involve the operation & maintenance of an existing asset (Highway, Network) by the Private Sector on behalf of the Public Sector

Evaluating the Suitability of PPP's (Why?)

- Maximise Value for Money (VfM)
 - Provide a service over a long timescale
 - Maximise efficiency and innovation
 - Minimise cost and time overrun on delivery
 - Innovation and Best Practice
- Reduce Public Debt.
 - Reduction of Public Sector Borrowing Requirement
 - Enable the procurement of services consistent with economic policy
 - Pay for services which achieve the required quality
 - Off Balance Sheet Financing

Evaluating the Suitability of PPP's (Why?)

- Strengthening of Infrastructure
 - Provide services that would not otherwise be available
 - New facilities provided efficiently and effectively
 - Standards Maintained
 - Flexibility

- Other ?
 - Introduce Private Finance
 - Introduce Institutional Reform

Evaluating the Suitability of PPP (How?)

- Need and Justification
 - Is it justifiable?
 - What are the REAL options ?
 - Is PPP the way to do it ?
- Appropriate Legislation
 - Is there an appropriate Legal Framework available in the Country ?
 - Are all relevant Laws and Acts linked to enable a PPP ?
 - Has the legislation been approved by Eurostat ?
 - Is It transparent ?

Evaluating the Suitability of PPP (How?)

- Technically Feasible
 - Are the Risks manageable ?
 - Are permissions in place ?
 - Is there enough flexibility in standards and norms ?
- Bankability.
 - Is it Commercially Attractive ?
 - Does it give attractive Economic Returns ?
 - Is it Financible ?
- Affordability
 - Is there enough allocation in the long term budget ?
 - This is a long term mortgage and will cost money over a extended period (possibly 99Years)
 - Each PPP adds to the previous one !!!!!!!

Working within an Existing Framework (The Market)

PPP is becoming more important driven by limits in public funds to cover investment needs in many countries (not just CEE - Western Europe and USA)

Construction Companies / Concessionaires are looking for more certainty in the market and in the product and require more certainty in the market in CEE

The ability to blend EU Funding (Cohesion and Structural) with PPP is becoming clearer

Raising private capital is easier than ever with a surplus of lenders searching for new investment opportunities

PPP Projects with the state as a guarantor (public partner) raise more and more interest with investors

EIB Involvement

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Working within an Existing Framework (The Market)

Some countries are, at last, getting their necessary legislation in place with either specific PPP laws (Poland, Romania, Slovenia) or adaptation / use of concession, privatisation, procurement laws (Hungary, Latvia, Georgia)

PPP centres staffed by people who are being educated in PPP are being put in place (Czech Republic, Bulgaria, Romania)

Guidelines and standards are being formulated for the PPP Centres to guide the implementation ministries (Romania, Czech Republic)

Long term advisory contracts are being let to help the PPP centres (Romania)

Working within an Existing Framework (The Market)

Consultancy studies being let to define Pilot PPP's in various sectors:

- Romania – Performance Based Highway Maintenance, PPP Motorway Construction
- Poland - Performance Based Highway Maintenance
- Czech Republic - PPP Motorway Construction, Prisons, Courts, Hospitals ?
- Latvia - PPP motorway Construction, District Heating, City Lighting

However this has been done before with no resultant projects that have been realised as PPP Projects. (Slovenia, Czech Republic, Poland, Romania, Georgia, Albania)

Working within an Existing Framework (The Market)

THE MARKET IS GLOBAL

DELAY IS DAMAGING

MONEY AND EXPERTISE WILL FIND THE MOST
CONVENIENT WAY

YOU CAN ONLY MAKE SO MANY MISTAKES

Working within an Existing Framework (The Market)

JASPERS

- Joint Assistance to Support Projects in the European Regions
- Joint policy initiative of EIB, EBRD and European Commission (DG REGIO)
- Assist EU countries (principally new Member States and Acceding Countries) to absorb Structural and Cohesion Funds period 2007 to 2013
- Assist with project presentation and Identification
- PPP Project preparation is a key priority
- Offices now being set up (Romania)

EPEC

- European PPP Expertise Centre
- EIB, EU initiative
- Sharing of Policy Knowledge and Experience
- Information Resources – Network Facility
- Preparation of Review Papers on EU Experience
- Preparation of Case Studies, Generic Guidance, Tried and tested PPP structures
- Core Funding from Sponsoring Organisations

Working within an Existing Framework (Challenges)

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RISK and UNCERTAINTY

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Working within an Existing Framework (Challenges)

- Commercial Risks (also known as project risks)
 - Relate to the risks inherent in the project itself or the market in which it operate
 - Construction
 - Operation and Maintenance
 - DEMAND AND REVENUE
- Macro-economic Risks (also known as financial risks)
 - Relate to the external economic effects not directly related to the project
 - Inflation
 - Interest rate
 - Currency exchange rates

Working within an Existing Framework (Challenges)

- Political Risks
 - More Frequent Changes in the Governments of CEE and the uncertainty of change
- Institutional instability
 - Transfer of competences between institutions, foundation of new institutions
 - Change of staff within institutions.....a Common Factor
- Result
 - Contract award procedure is drawn out
 - Higher transaction costs with no certainty of success

Working within an Existing Framework (Challenges)

Public Sector Appreciation

- Whole Life approach to the contract (A New Way)
- Shared and equitable Risk Allocation
- Affordability (Do not forget to add each PPP to the future budget for the life of each concession)
- Private Finance is not free (Ensure Value for Money and be willing to pay for it)
- Procurement Process Must conform to the rules and be Transparent
- Use International Advisors during the procurement process
- Make sure you want the project and get the process right
- Understand the Private Sector has to make a Profitable Business
- **Be Patience.....it takes a long tome to introduce PPP**

Prospects for PPP in CEE Countries

SECTOR	REFERENCE	INVESTEMENT Bln €
Roads	Modernisation / Construction to EU average Density	44
Railways	Modernisation / Construction to EU average Density	37
Telecoms	Teledensity of 35/100 mainlines	63
Water Sewage	European Standards for collection treatment	180
Energy	Network Development, oil, gas and coal sector reform	110
Environment	EU Directives on Air Pollution and Waste	71
TOTAL		515

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Conclusions

The most common issues in PPPs, often resulting in poorly structured contracts, lengthy and costly procurements, high bidding costs and reduced value for money, include:

- Inappropriate levels of risk transfer (either too little or too much);
- Inappropriate legal codes;
- Political (Institutional) Instability;
- Poorly defined procurement methodologies and a lack of standardisation;
- Poor co-ordination between Government departments and agencies;
- Insufficient consultation with key Stakeholders at an early stage;
- Reluctance to make appropriate use of professional advisers;
- Lack of public sector commitment to PPPs;
- Continued focus on input specifications rather than output specifications; and
- Over-optimism with regard to third party revenues.