

International Seminar on
Strengthening Public Investment and Managing
Fiscal Risks from Public-Private Partnerships

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**European
Investment
Bank**

Combining PPP with EU Grants

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*International Seminar on Strengthening Public Investment and Managing Fiscal
Risks from Public-Private Partnerships*

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Content

- Context
- Why
- How
- Rules
- Issues
- Instruments
- Looking forward



**N+20min
Rule**



Background

- **Mar 2003** - DG REGIO. *Guidelines for Successful Public-Private Partnerships*
- **Jun 2004** – DG REGIO. *Resource Book on PPP Case Studies*
- **Nov 2005** – Johnson & Kramarik. *The application of Public Private Partnerships (PPP) to the financing of transport projects from EU funds*
- **Jan 2006** - PwC/PPIAF. *Hybrid PPPs: Levering EU Funds and private capital*
- **May 2006** – Deloitte et al. *Application of the PPP Principle on the Economic and Social Cohesion Policy*
- **Jul 2006** – Council Regulation (EC) 1083/2006



The Good News



Tagus Bridge (Portugal), Sparta Airport (Greece), West Lothian College (UK), M1 Drogheda bypass (Ireland), Perpignan-Figueras rail link (France-Spain) etc.

The Bad News

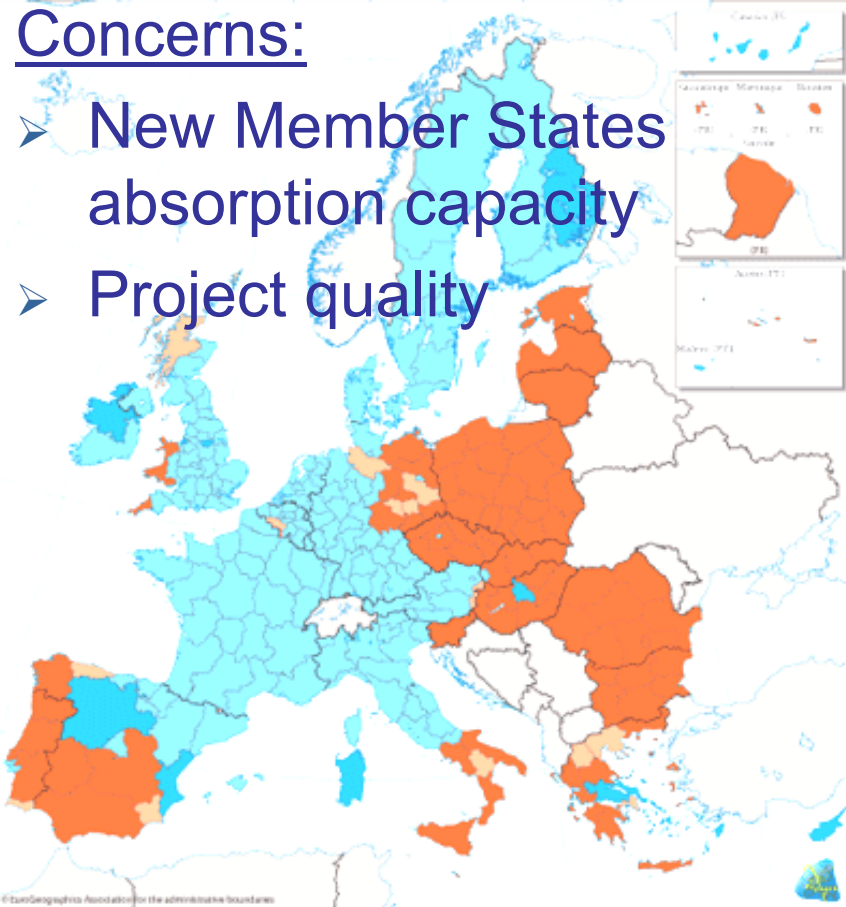
... the Rule Book changed





EU Grants

- Programming Period: 2007-2013
- Cohesion Instruments: **€308bn EU grant funds**
- Up to 85% project costs
- Public Infrastructure (transport, environment, municipal)
- Major projects:
 - ◆ > 50m transport etc.
 - ◆ > 25m environment



EU Grant funding will dominate public sector investment in New Member States



Fiscal Risks

Unexpected budgetary impacts

- Construction:
 - ◆ Cost Overruns
 - ◆ Delays
 - Operations:
 - ◆ Revenue guarantees
 - ◆ Reduced benefits
 - ◆ Operational costs
 - ◆ Unitary payments
 - EU Funds Decommitment:
 - ◆ N+2 (programme level)
 - EU Funds Repayment:
 - ◆ Non-compliance
 - ◆ Misuse
- }
- EU grants:
 - Fiscal windfall
 - Introduces new risks
 - PPP:
 - Tool to manage risks
 - Introduces new risks
 - Counterfactual:
 - Risks in Traditional Procurement



Why EU Grants?

- Grant Rationale:
 - ◆ Economic & Social Cohesion
 - ◆ Externalities
 - ◆ *Acquis* compliance
 - ◆ Affordability:
 - To users
 - To paying agency / taxpayers
 - ◆ Cost recovery policy:
 - User Charges v Taxes
- Article 55 – Revenue generating projects
 - “Eligible expenditure on revenue-generating projects shall not exceed the current value of the investment cost less the current value of the net revenue from the investment over a specific reference period”



Q. Why PPP Procurement?

➤ Why?

- ◆ Balance sheet treatment
- ◆ *à la mode*
- ◆ **Cost & date certainty of construction contracts**
- ◆ **Operational performance**
- ◆ Private sector skills
- ◆ Leverage of private finance
- ◆ Public procurement reform

➤ Why not?

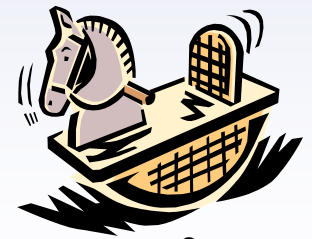
- ◆ Maturity of Legal Framework
- ◆ Project preparation time & cost in n+2 context
- ◆ Efficient scale of co-financing
- ◆ Enhanced public sector capacity requirements
- ◆ Poor experiences in New member States

A. Value-for-Money



Designing the PPP Process

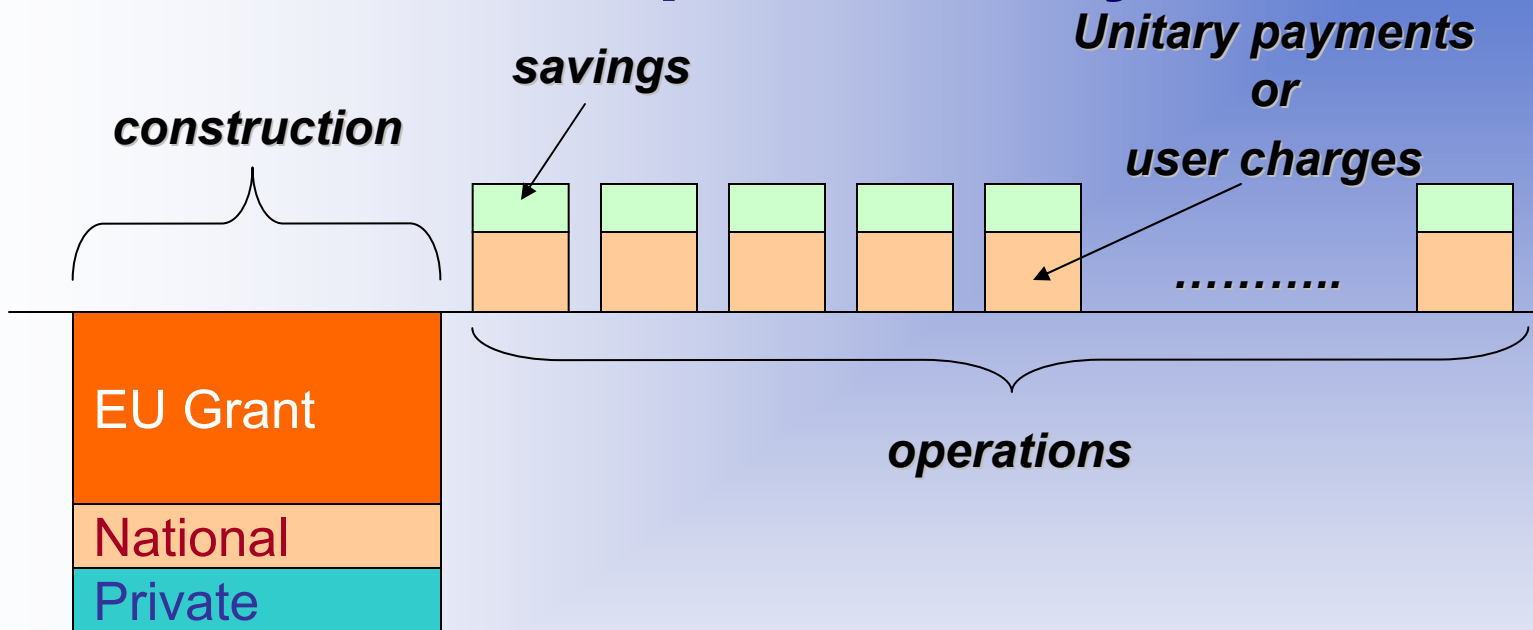
- Demonstration projects v programmes
- Build public sector capacity
- National/Regional/Ministry PPP Taskforces
- Process models:
 - ◆ UK, Nordic, French, Spanish, etc.
 - ◆ Anglo-Saxon v Administrative Law
- Project models:
 - ◆ DBFO, Concession, Institutional JV, etc
 - ◆ Risk allocation
- Grant blending models?
 - ◆ Horses for courses ...





Models (1)

Capex subsidy



Characteristics:

- Most common model
- Leverage: Low
- Incentives: Low (depends on grants)

Issues:

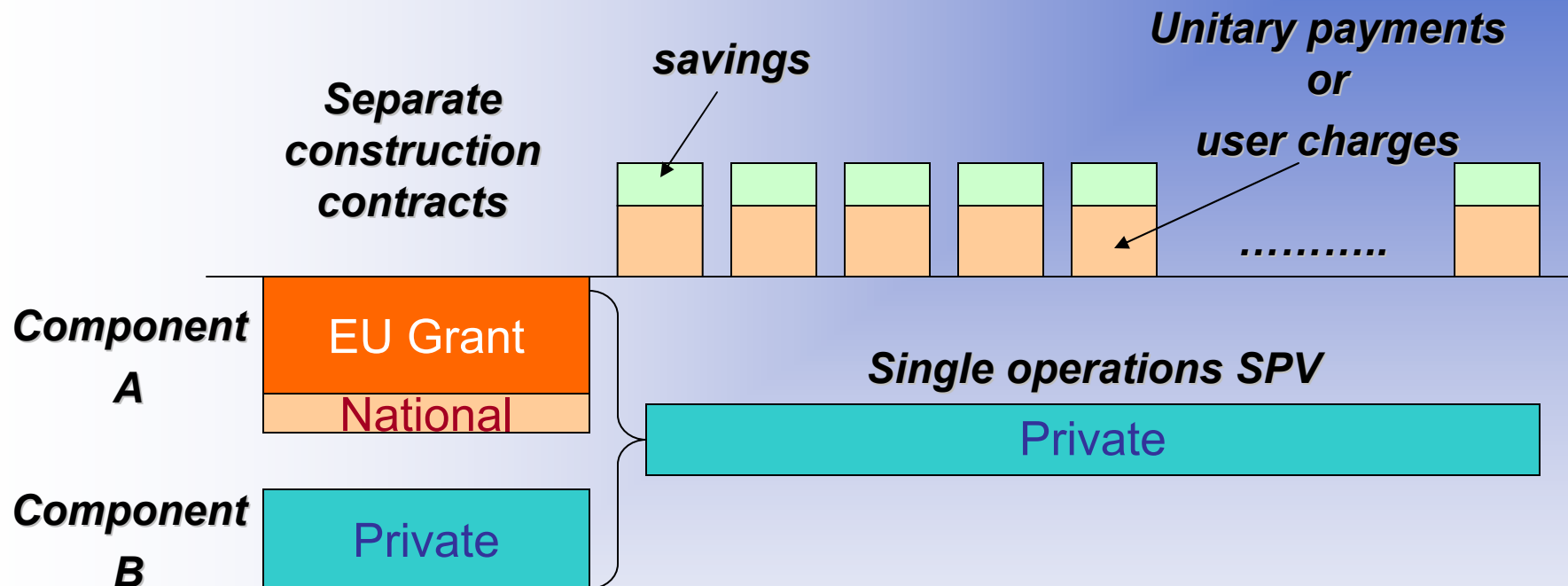
- Timing of grant commitment
- Scale for private finance

Fiscal risk depends on payment mechanism & guarantees



Models (2)

Parallel Co-finance



Characteristics:

- Common in transport
- Leverage: Moderate
- Incentives: Moderate

Issues:

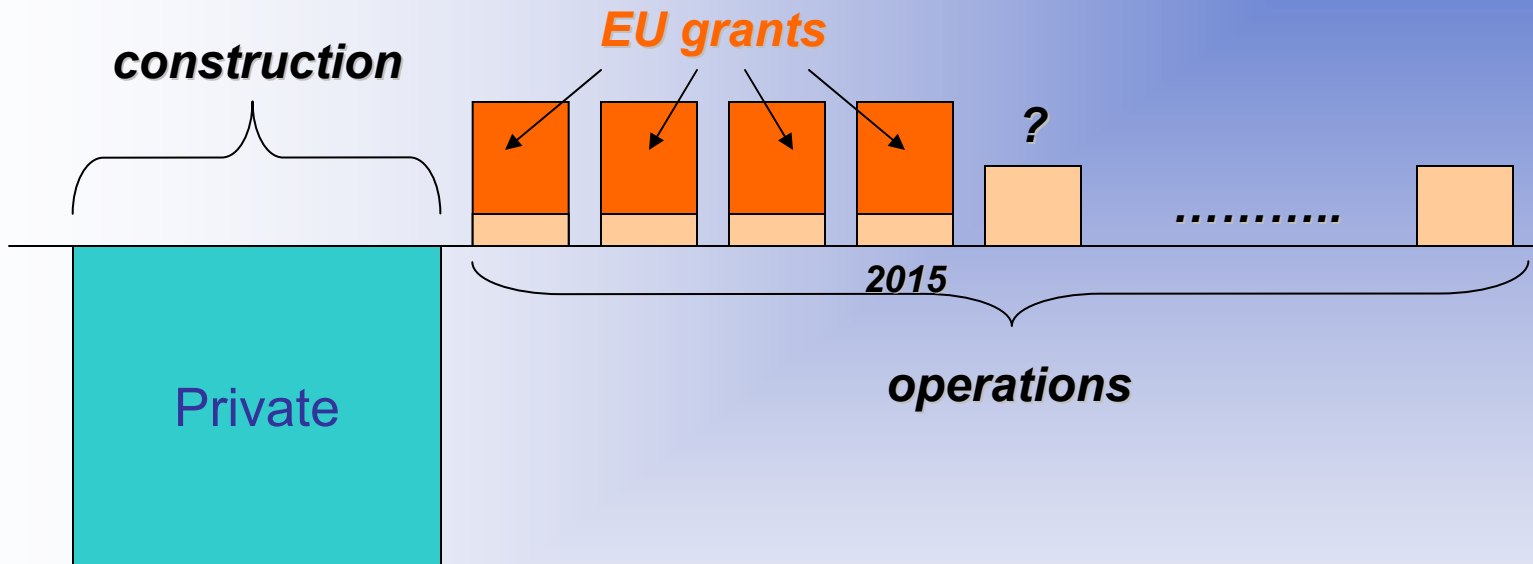
- Interface problems
- Ability to slice up project

Fiscal risk depends on payment mechanism & guarantees



Models (3)

Payment subsidy



Characteristics:

- Similar to UK PFI credits?
- Leverage: High
- Incentives: High

Issues:

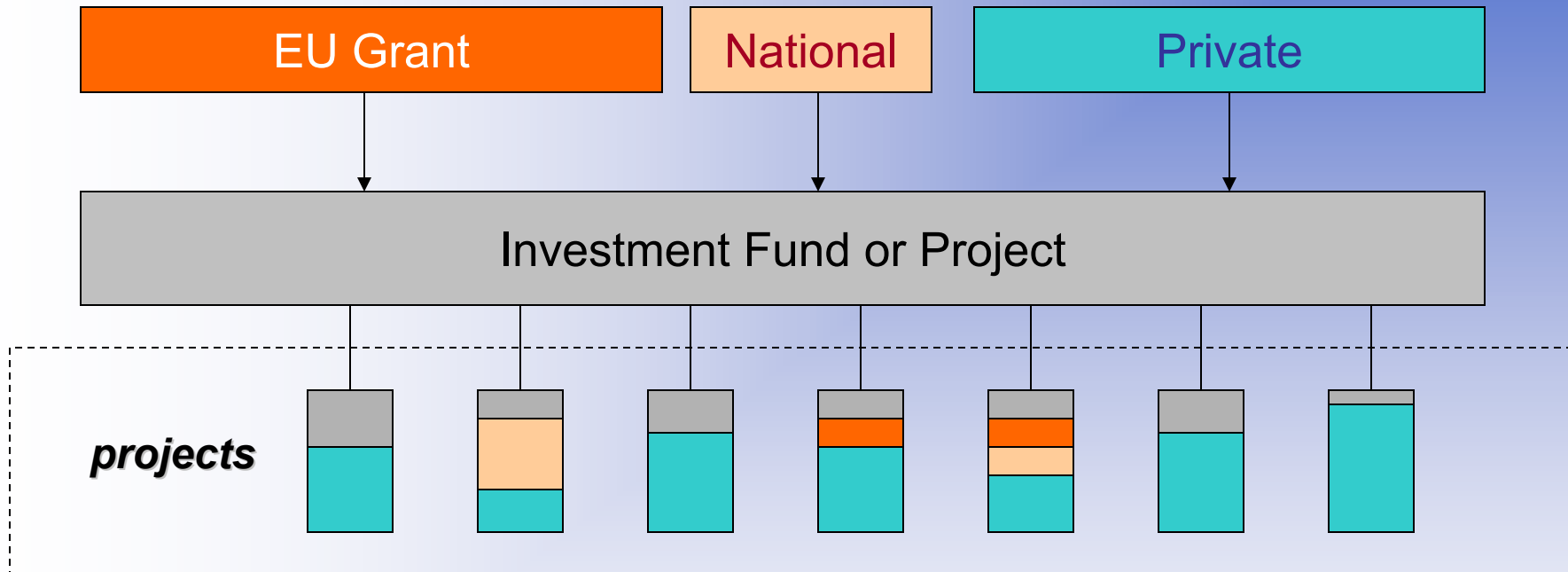
- Only for availability schemes
- Eligible expenditure period
- Regulations unclear

Fiscal risk depends on payment mechanism & guarantees



Models (4)

Co-Investor (Fund or Project)



Characteristics:

- Like urban regeneration funds
- Leverage: High
- Incentives: High

Issues:

- Social objectives v profitability
- Selection of private partner
- Recycling of profits

No fiscal risk as funding on equity basis



New EU Rules = Uncertainty

➤ PPP Procurement

- ◆ EU Green Paper on PPP
- ◆ Public Procurement Directives (from Jan 2006)
 - Competitive Dialogue Procedure
- ◆ EU Treaty Principles (ECJ Jurisprudence)
 - Must select private partner through competitive, fair, transparent process

➤ New Funding Regulations

- ◆ Regulation 1083/2006 Jul 2006
 - Additionality requirements
 - Grant rate calculation
 - PPP specifically mentioned 6 times
- ◆ Implementation Rules 1828/2006 Dec 2006



Uncertainties/Issues



- Definition of public v private expenditure
- Treatment of availability payments
- Co-financing rate calculation
- Private beneficiary as “initiator”
- Timing of application & grant decision
- Implications of N+2 rule to availability schemes
- Models for grant blending in different sectors
- Appropriate tender/bid criteria

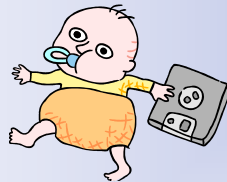


Managing Uncertainty

➤ You are not alone ...



➤ JASPERS



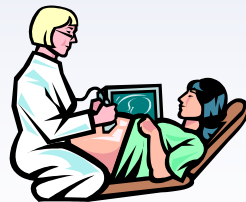
... alive & kicking

➤ JESSICA



... delivery room

➤ EPEC



... gestating



JASPERS



- Joint initiative EC-EIB-EBRD
- Project preparation Technical Assistance facility
- Free to New Member States (EU Grant Funded)
- Focus on Major Projects (Transport & Environ.)
- Annual Action Plans agreed with Countries
 - ◆ Requests to provide **project preparation support for 10 potential PPP projects in 6 countries**
 - ◆ Guidance Working Papers on cross-cutting PPP issues, including *Models for PPP-Grant Blending*



Looking forward

- Main fiscal risk from EU grant blending is decommitment
- EU policy commitment to allow PPP with grants
- Need new success stories
- Use new instruments (JASPERS, JESSICA)
- Learn lessons from experienced EU partners (EPEC)
- Pilots v Programmes
- “Eyes on the prize” :
 - ◆ Make best use of grant funds
 - ◆ Better public procurement
 - ◆ Better delivery
 - ◆ **Value-for-Money**
... to EU as well as National taxpayer!

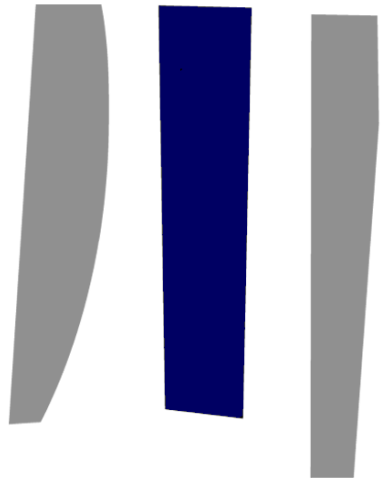




Take the money ... or open the box ?



Why not both?



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