# An introduction to PPPs

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- Where and how PPP is used in Europe
- Understanding PPPs
  - What is a PPP?
  - What are the benefits and challenges
  - How do you get value for money from a PPP?

# About EPEC

- Established in 2008
- A unique cooperative initiative of the EIB, the European Commission and EU Candidate and Member States
- International team of 12 professionals
- Membership: now over 40 Members from EU and Candidate Countries (e.g. PPP Units, Ministries of Finance)
- Strong engagement from Members with more than 400 participations annually in EPEC working groups

European PPP Expertise Centre

# EPEC's mission:

## "to help the public sector deliver better PPPs in Europe"

### EPEC's main services

Network activities: analytical work and information sharing through Member working groups, publications and helpdesk

Policy and institutional strengthening advice: PPP policy and programme support through working with individual Members

Upstream project development support: high level advice to public sector at early stages of project preparation

### EPEC works by

Sharing information, experience and expertise of Members

Promoting good practice across the public sector

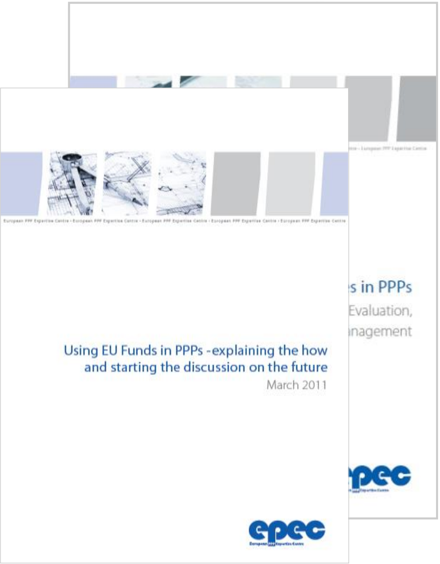
Strengthening the organisational capacity of public authorities to develop PPP programmes and projects

Applying the competencies and experience of its team

# Examples of EPEC resource tools

## EPEC provides **guidance** on wide ranging PPP topics

- Value for Money assessment
- Using advisers in PPPs
- Managing PPPs during their contract life
- Eurostat and accounting treatment of PPPs
- State guarantees in PPP
- The use of project bonds in PPPs
- PPP motivations and challenges




## **Freely available**, user-friendly PPP tools

- “How to” guide to PPPs http://www.eib.org/epec/g2g/index.htm
- Project preparation readiness assessment tool

# The European PPP market

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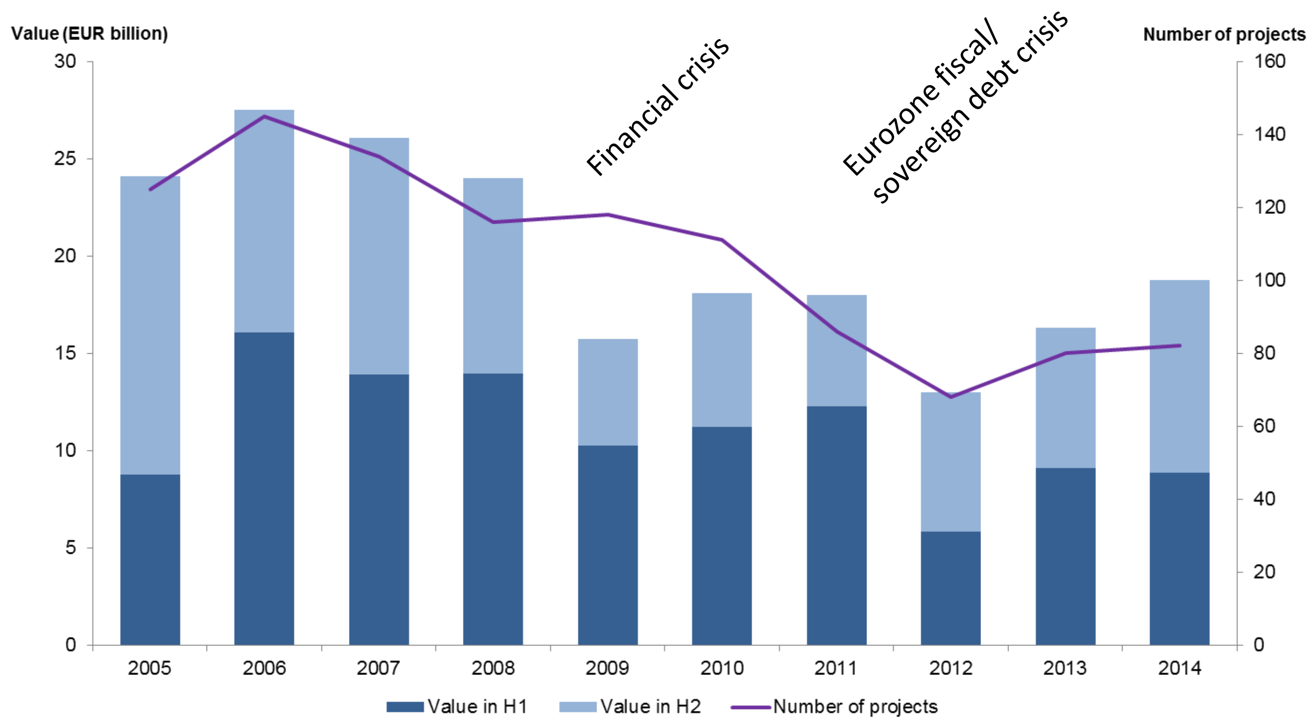
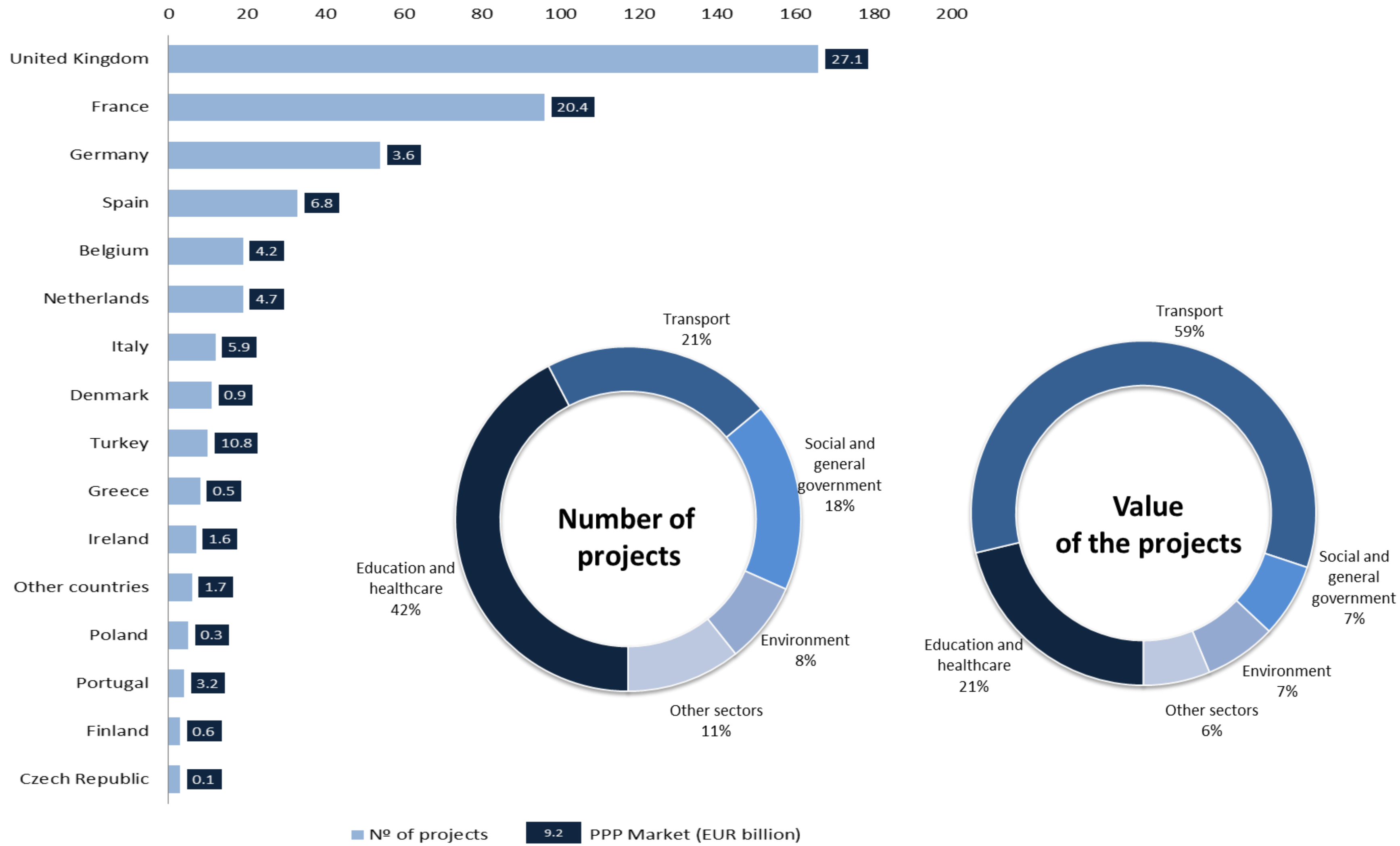
Trends match falling investment in capital formation and services by public authorities across Europe since 2008



# PPP usage in Europe: 2009 to date



# Overview of PPP principles

# What is a Public-Private Partnership?

- Public and private sectors collaborate to deliver public infrastructure projects and services

**Key concepts**

- A long-term contract between a public contracting authority and a private sector company 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" outcomes

# Some features that are unique to PPPs

- Focus on the specification of project outputs rather than project inputs
- Focus on the whole life cycle of the project
- Possible application of private financing (often "project finance") to underpin the risks transferred to the private partner
- Payments to the private partner which reflect the quantity/quality of the services delivered are at risk if performance is poor
- Payment only made when delivery of services starts

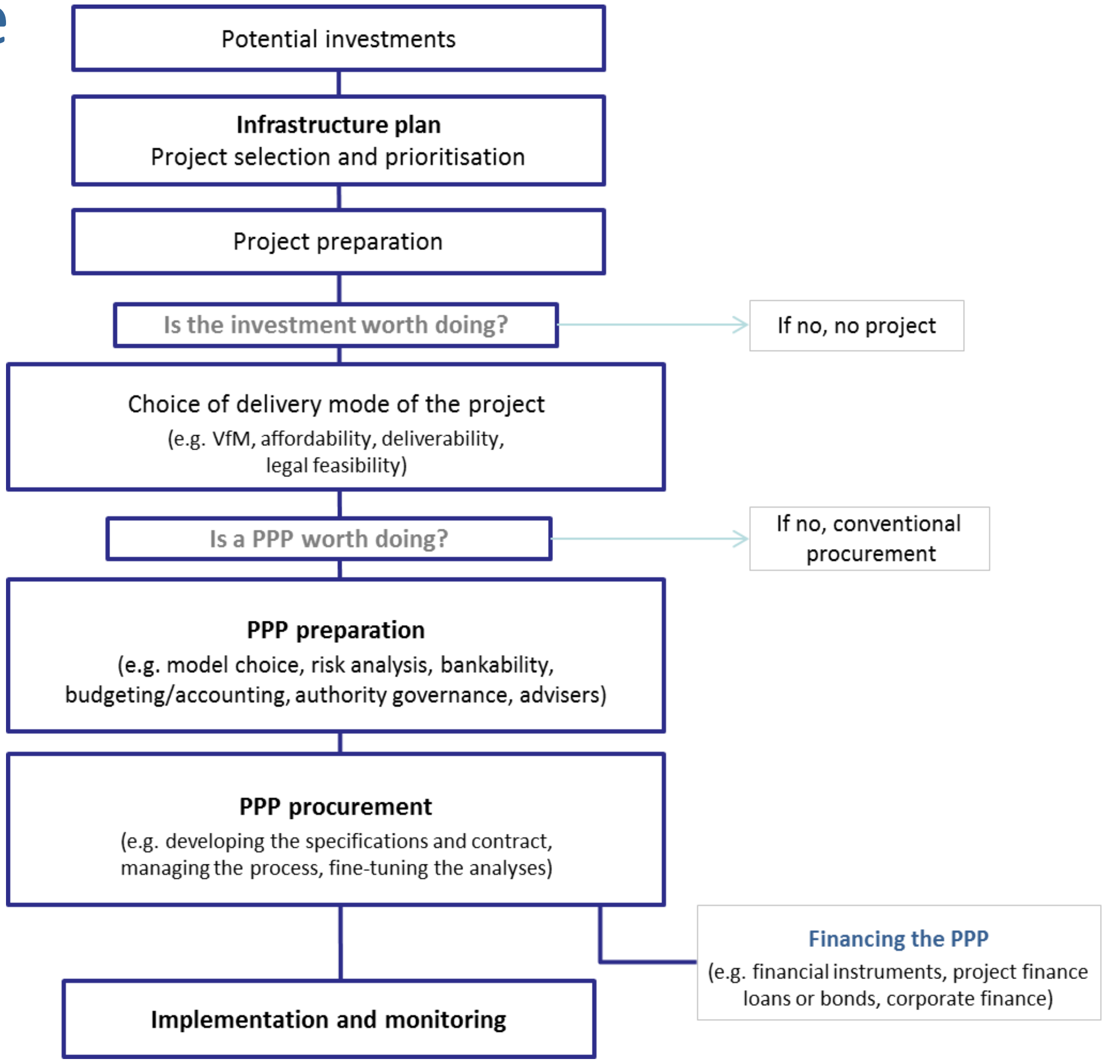
# Two principal "standard" PPP models

- **Demand**-based payment structure
  - Private sector bears risk of demand for service
  - Includes User-pay concession models: e.g. toll roads
  - May involve some public subvention or support
  - Penalties for poor performance
- **Availability**-based payment structure
  - Public sector bears risk of demand for service
  - Single annual payment over the life of the contract
  - Private sector partner makes facilities and services available for use (supply risk)
  - Financial deductions and penalties for poor performance and non-availability of the asset

# Typical functions (and risks) transferred to the private partner

- Design
- Build (or rehabilitate)
- Provision of services linked to the operation of the asset and/or related public service
- Maintenance of the asset and its residual value
- Make (and keep) available
- Finance of the project

# PPP project cycle



# Why use PPPs?

- Value for Money
- Improve risk management for large, complex projects
- Spread costs over the life-time of the contract
  - Earlier delivery of asset and services
- Improve affordability for the public sector/users
- Greater certainty of on-time, on-budget delivery of assets
  - improve budget certainty
- Harness private sector innovation
- Optimise design and construction for whole life management
  - Improve asset management over the long term
- Access to private finance

# Poor reasons for using PPP

- A poorly developed project
- Using the process to define the project rather than to define how best to deliver it
- Circumvent Eurostat/accounting treatment constraints
- “No other way of doing it”
- Transfer all responsibilities to the private sector (i.e. inappropriate risk allocation)

# Common challenges

- Legal / institutional framework
- Governance and decision-making arrangements
- Managing stakeholders
- Public sector capacity and capabilities (procuring authority)
- Private sector capacity and capabilities (the market)
- Perceived and actual inflexibility of the PPP contract
- Bankability
- Budgetary and fiscal risks (“funding” vs “financing”)
- Managing operational contracts
    - Adequate resources and governance arrangements

# Achieving Value for Money in a PPP

- Difficult to assess
- Not a process issue – it's doing the right project in the right way
- Sound project preparation of suitable projects
- Effective competition and contestability
- Public sector ability to manage the procurement and contract management processes
- A balanced contract that allocates the risks efficiently and appropriately
- Involve lenders early

# To conclude

- PPP allows the public and private sectors to collaborate in providing assets and public services
- Not a panacea and not suitable for all types of project
- To deliver Value for Money it relies on the effective and efficient **transfer of appropriate risks**, managed by the private sector
- It requires good discipline in defining the project at the start
- The process provides a high degree of assurance of the expected outcomes
- PPP has consistently delivered quality projects on time and to cost
- PPP mobilises private capital effectively and efficiently

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