JASPERS, JEREMIE, JESSICA Conference

The contribution of PPP to Economic and Social Infrastructure investment in the EU

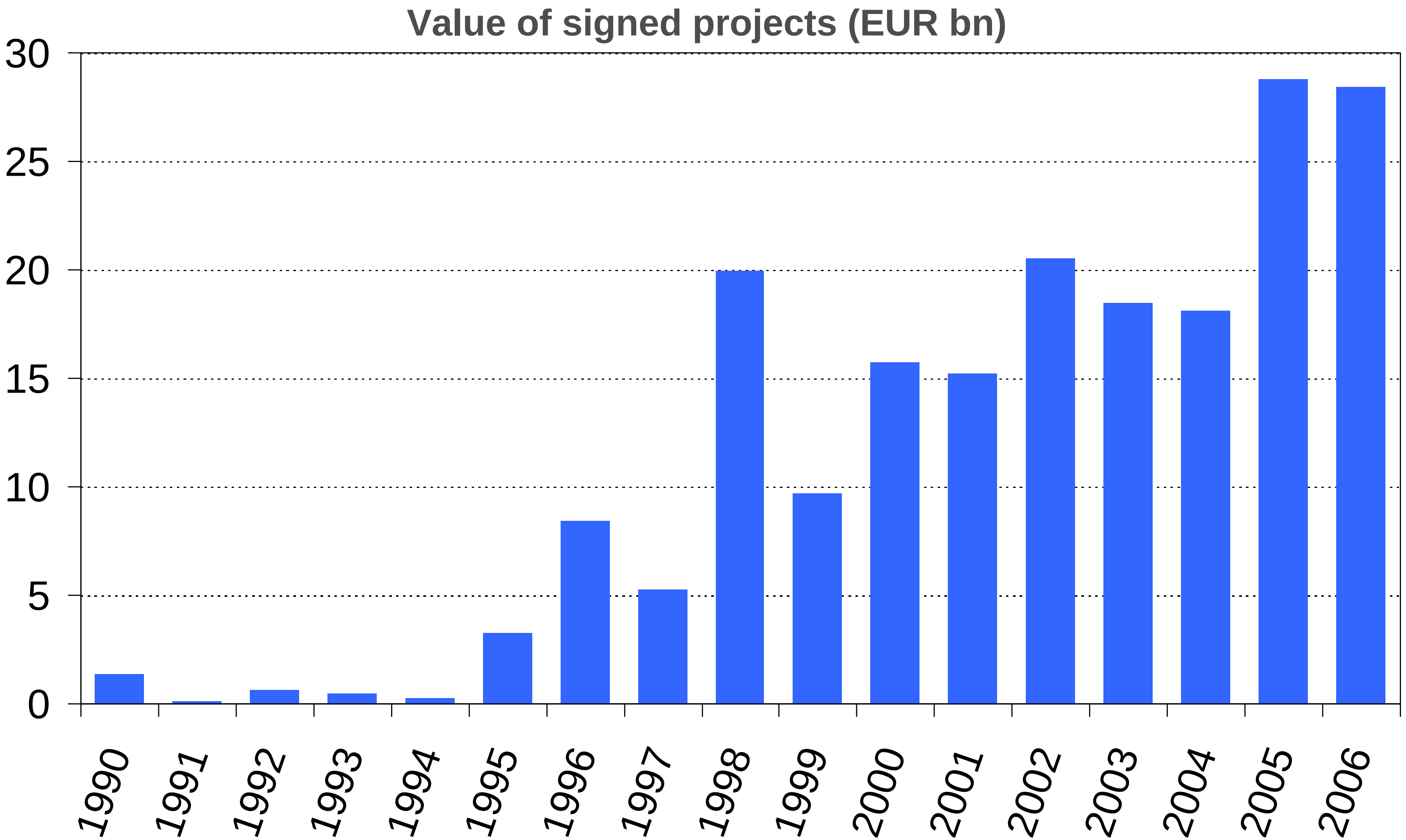
European Investment Bank

Bratislava, 15-16 October 2008

The record in the EU countries

- 1990 to 2006 EIB research has identified:
  - over 1000 PPP projects in the EU;
  - capital value of almost EUR 200 billion.
- Further ‘pipeline’ of almost EUR 75 billion;
- Significant political commitment to PPP evidenced by:
  - Legislative development in e.g. France, Germany, Greece, Italy, Poland; Czech Republic;
  - Commitment to 10-15% PPP share in public capital expenditure in France, Germany, UK, Poland, Turkey
- Significant variation in country records
  - Portugal, Spain, UK: 75% of deal value
  - France, Germany, Greece, Italy: 15% of deal value
  - Czech Republic, Hungary, Latvia, Poland, Romania, Slovak Republic, Slovenia: 4% of deal value

Evolution of European PPPs



(1990-2006)

Source: Blanc-Brude, Goldsmith and Välilä (2007)

Number of deals reaching financial close per year in the EU

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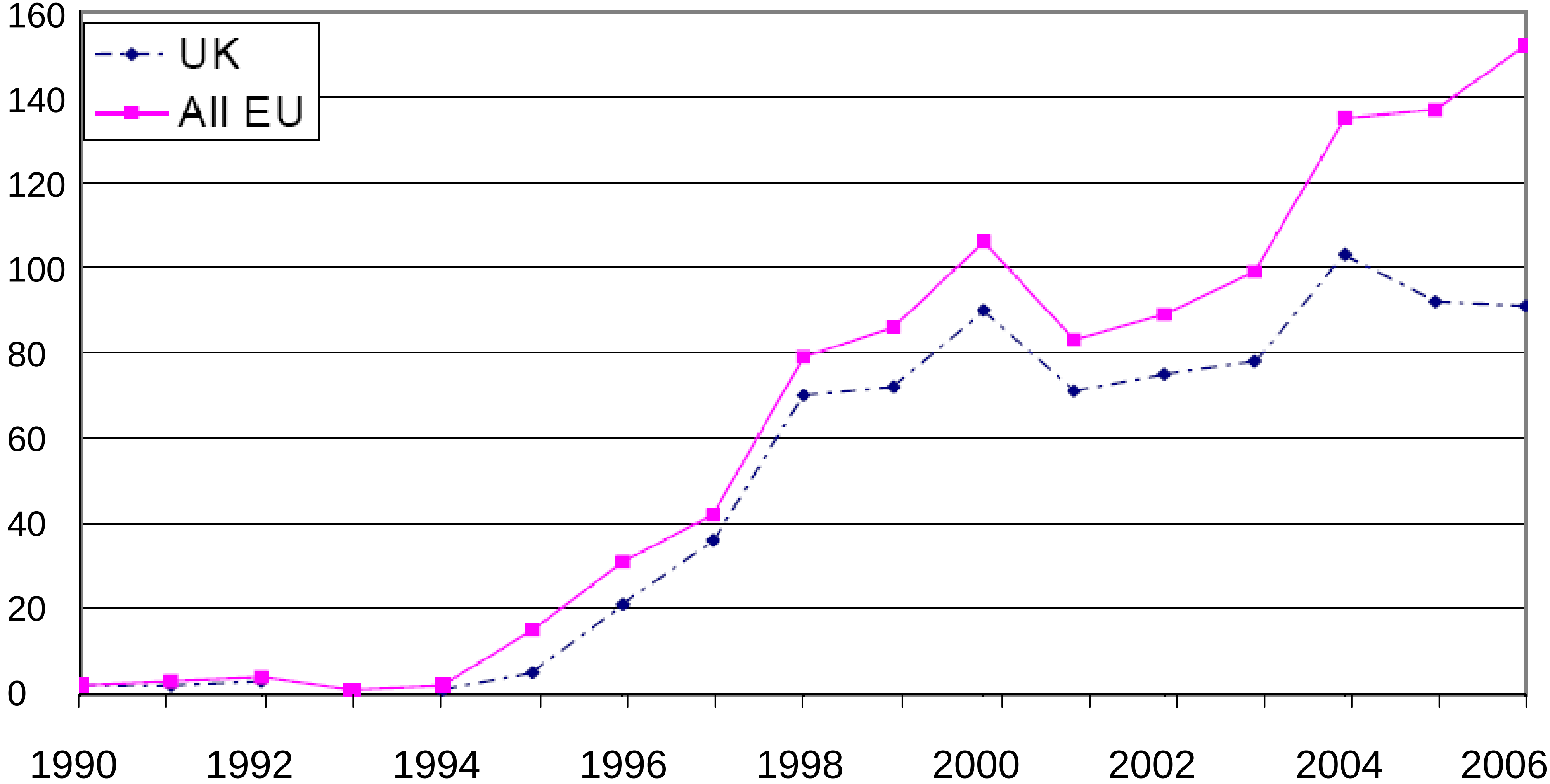

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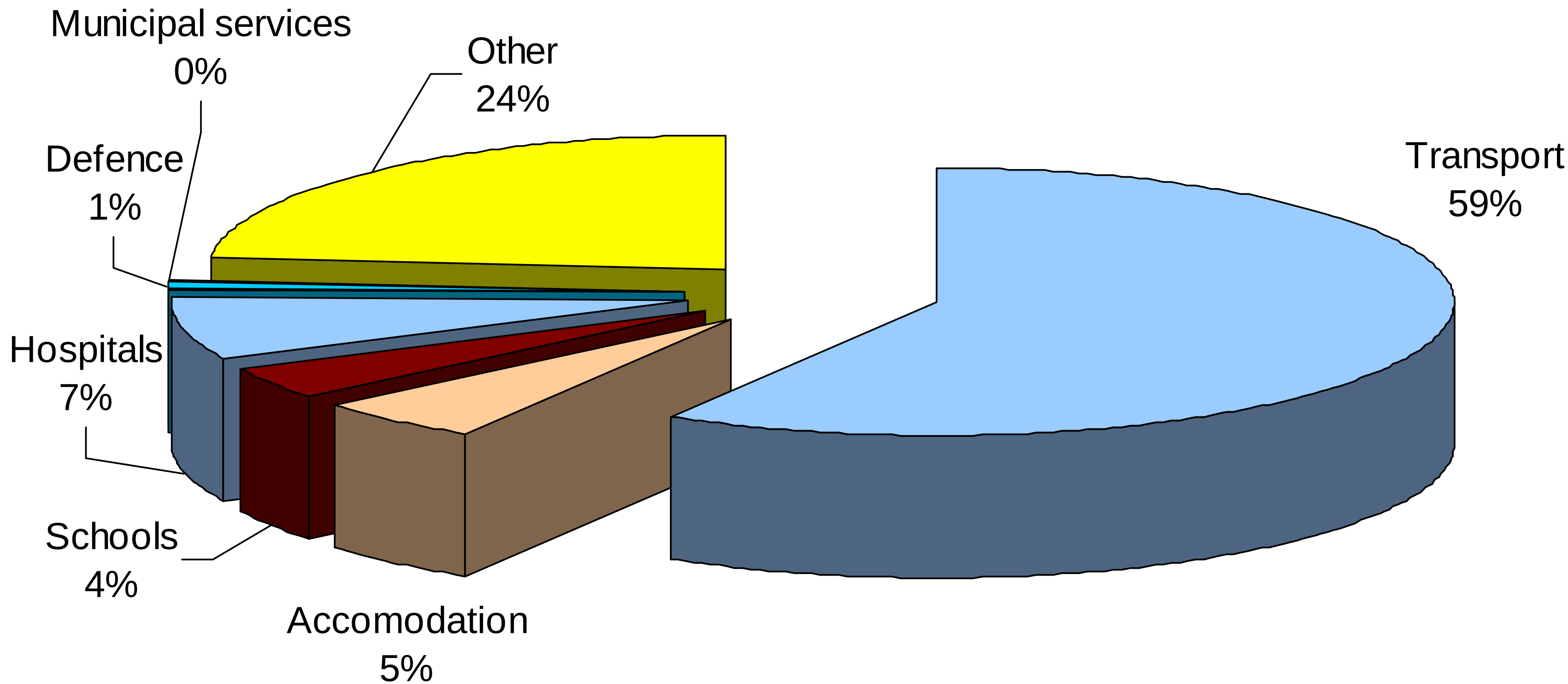
Source: Blanc-Brude, Goldsmith and Välilä (2007)

Sectoral distribution of non-UK EU PPPs

European Investment Bank

…by number of projects



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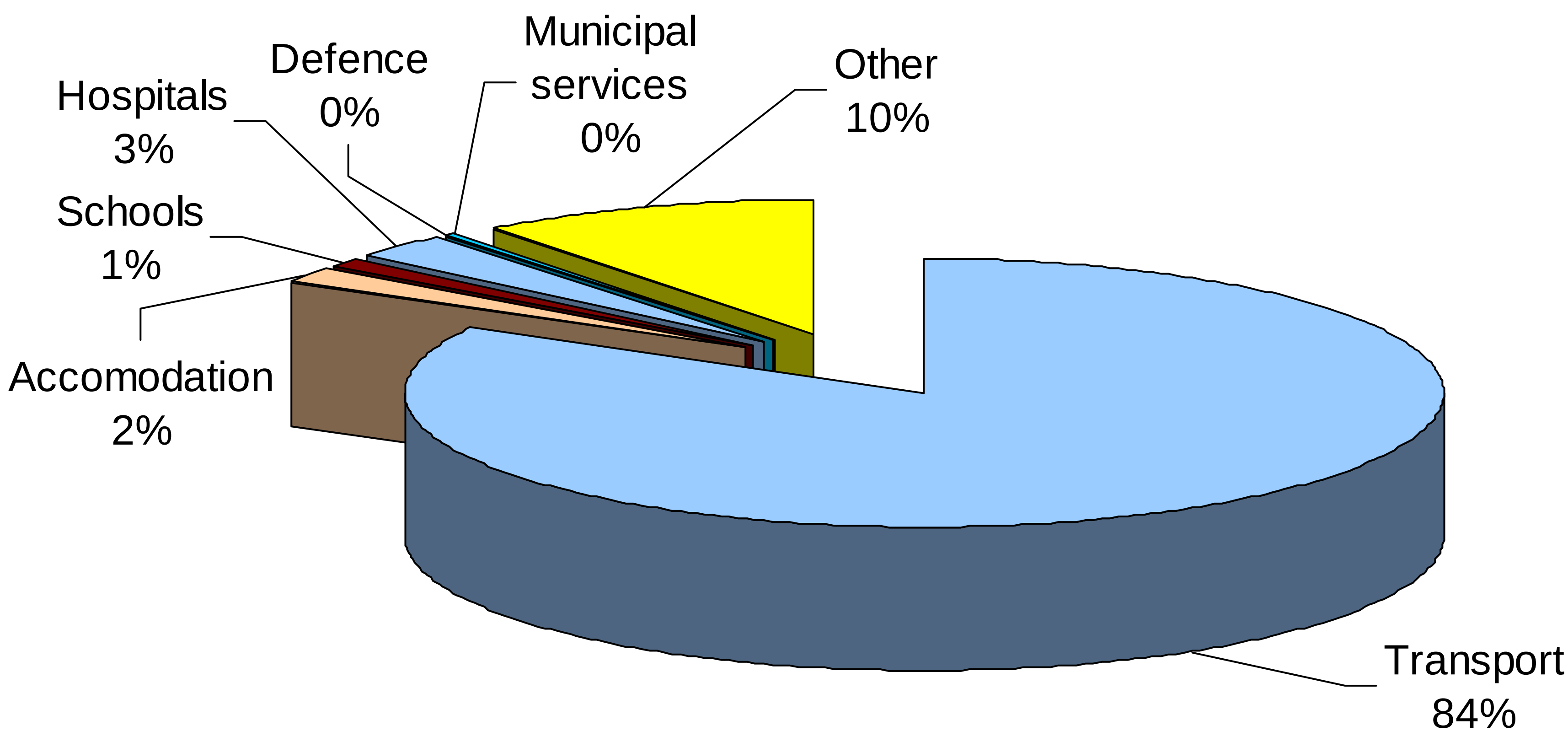
Sectoral distribution of non-UK EU PPPs

…by value of projects



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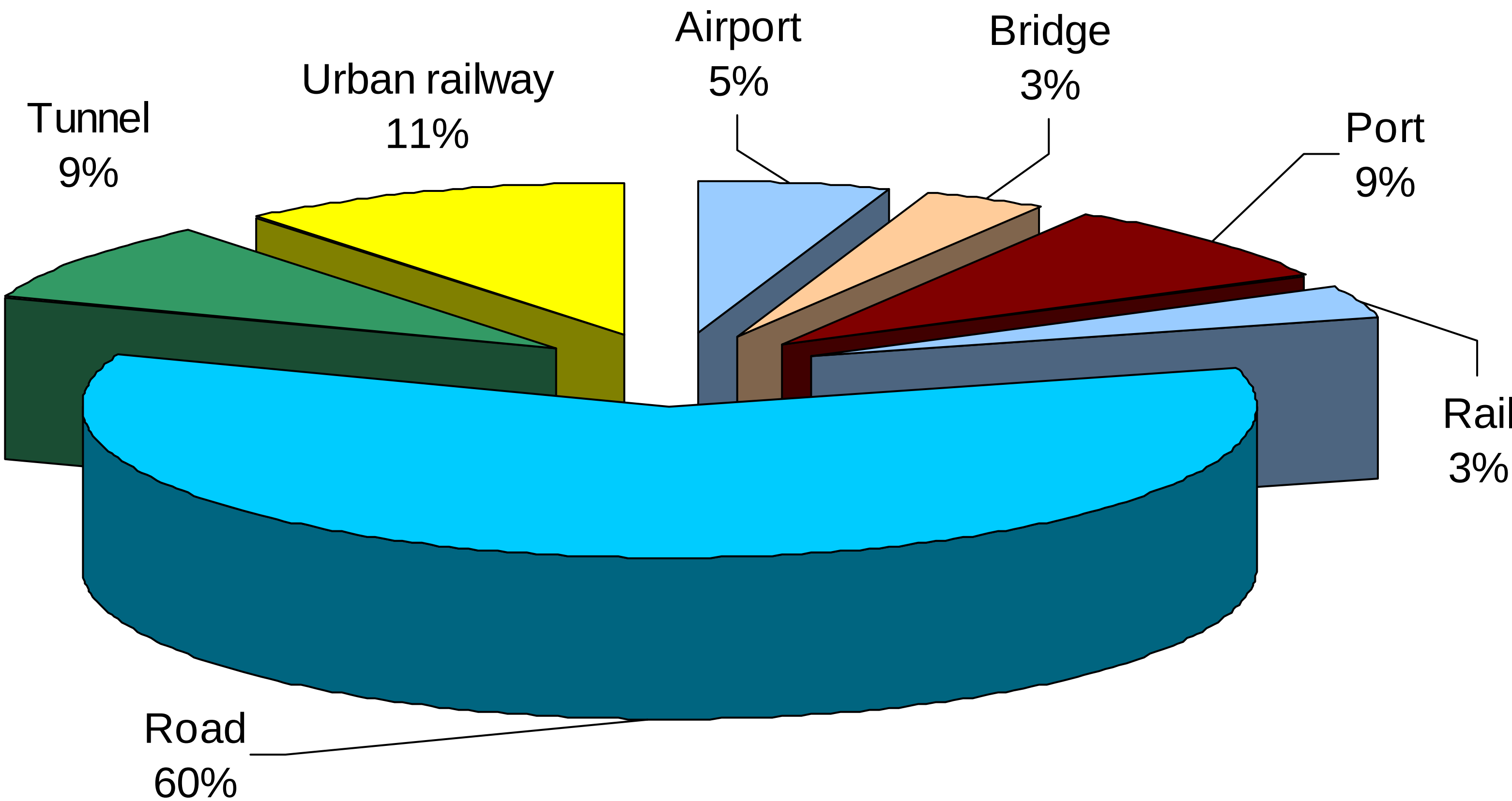
Source: Blanc-Brude, Goldsmith and Välilä (2007)

Breakdown of non-UK EU Transport PPPs

…by number of projects



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Breakdown of non-UK EU Transport PPPs

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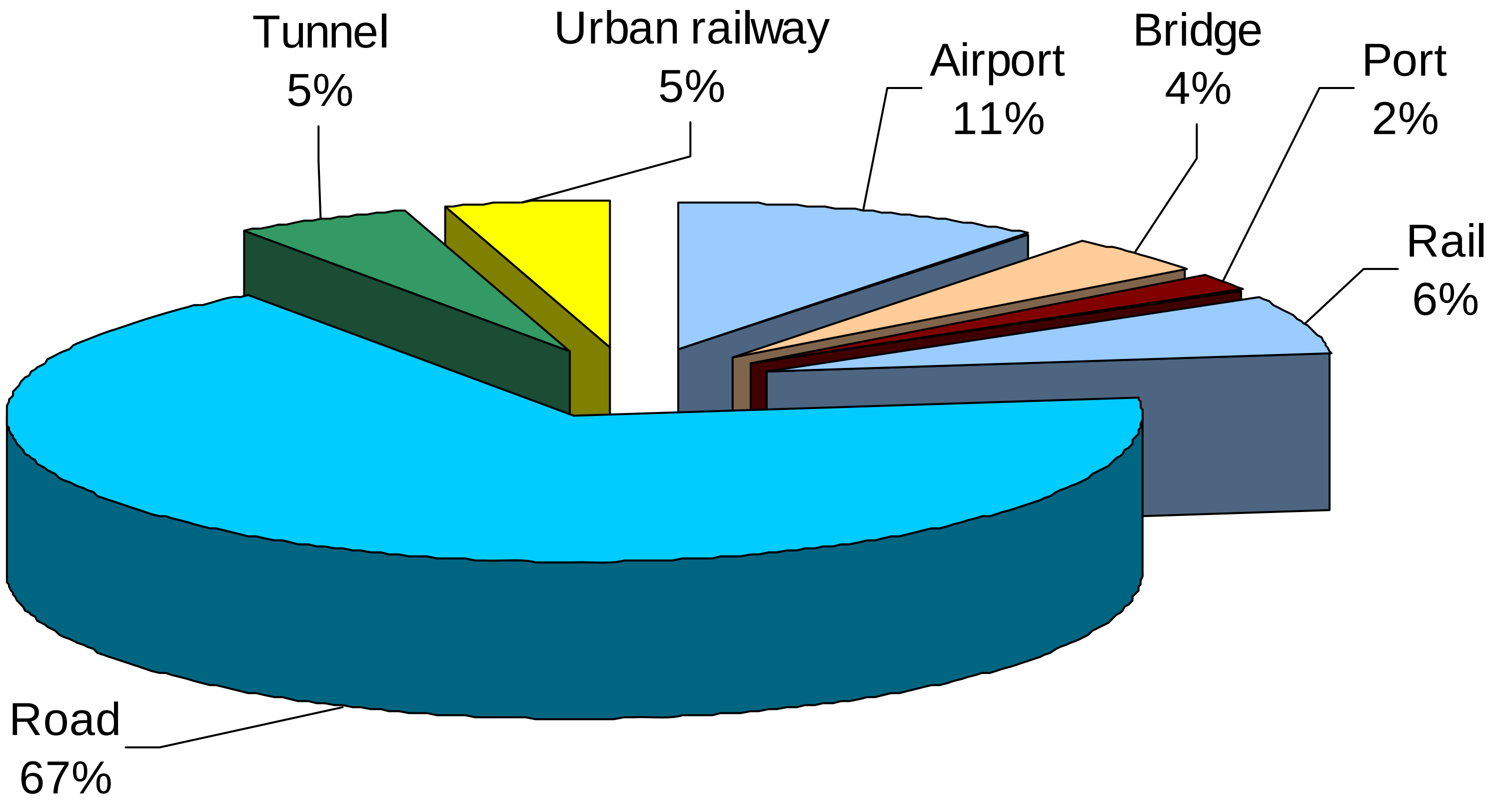
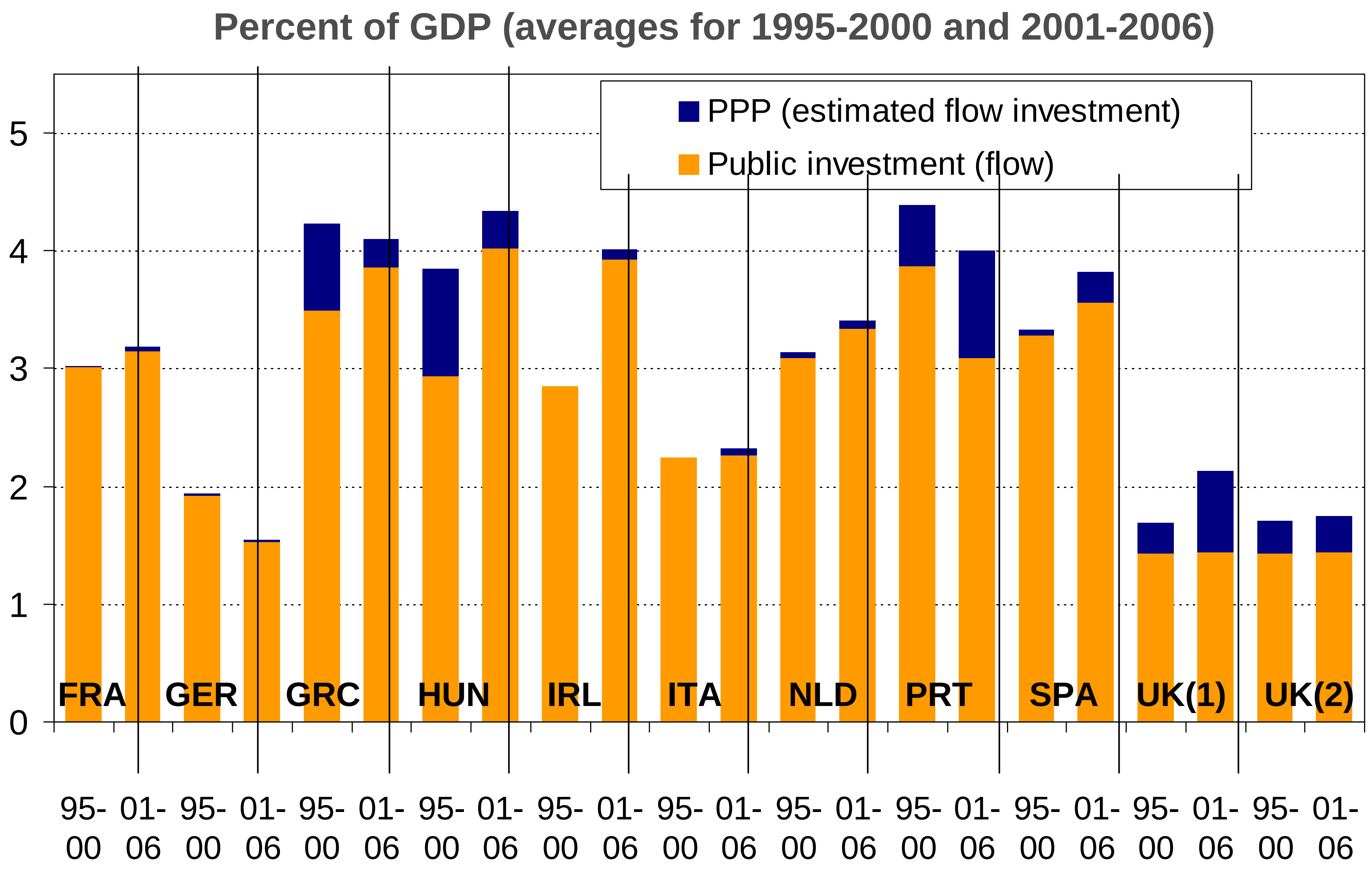


(1990-2006)

Source: Blanc-Brude, Goldsmith and Välilä (2007)

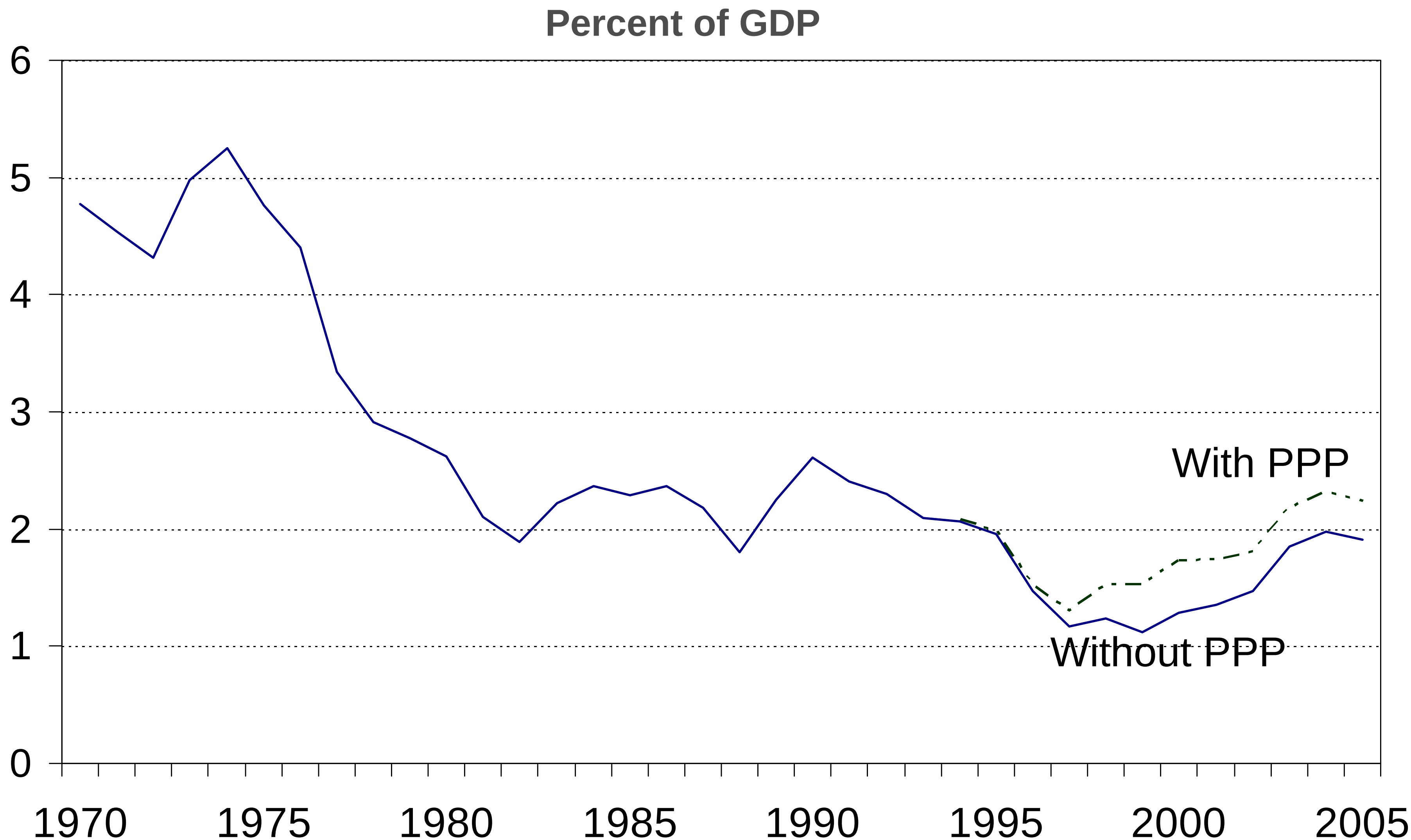
PPPs and public investment



Source: *Blanc-Brude, Goldsmith and Välilä (2007)*

Public investment and investment through PPP projects in the UK

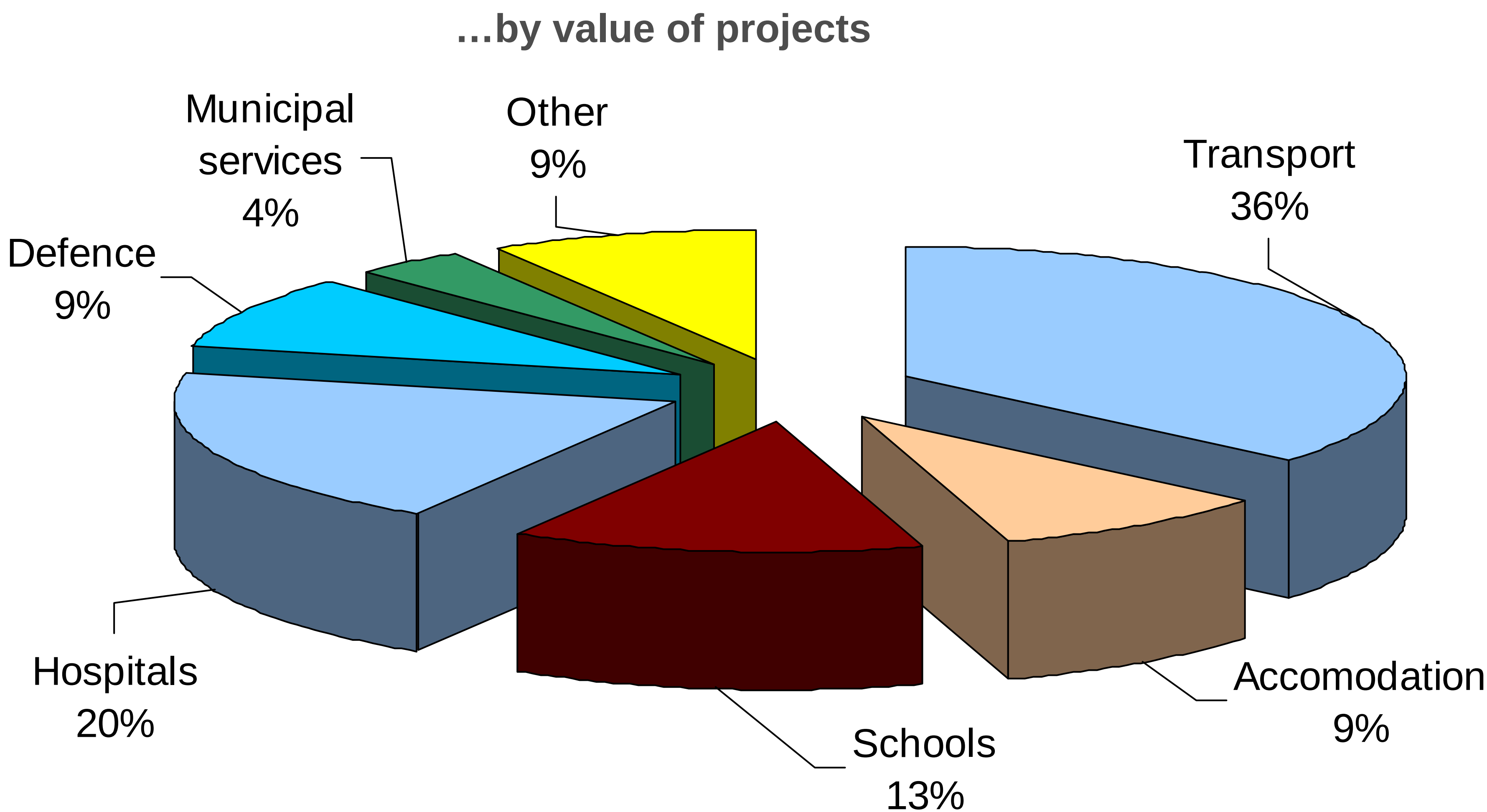
European Investment Bank



(1990-2006)

Source: Blanc-Brude, Goldsmith and Välilä (2007)

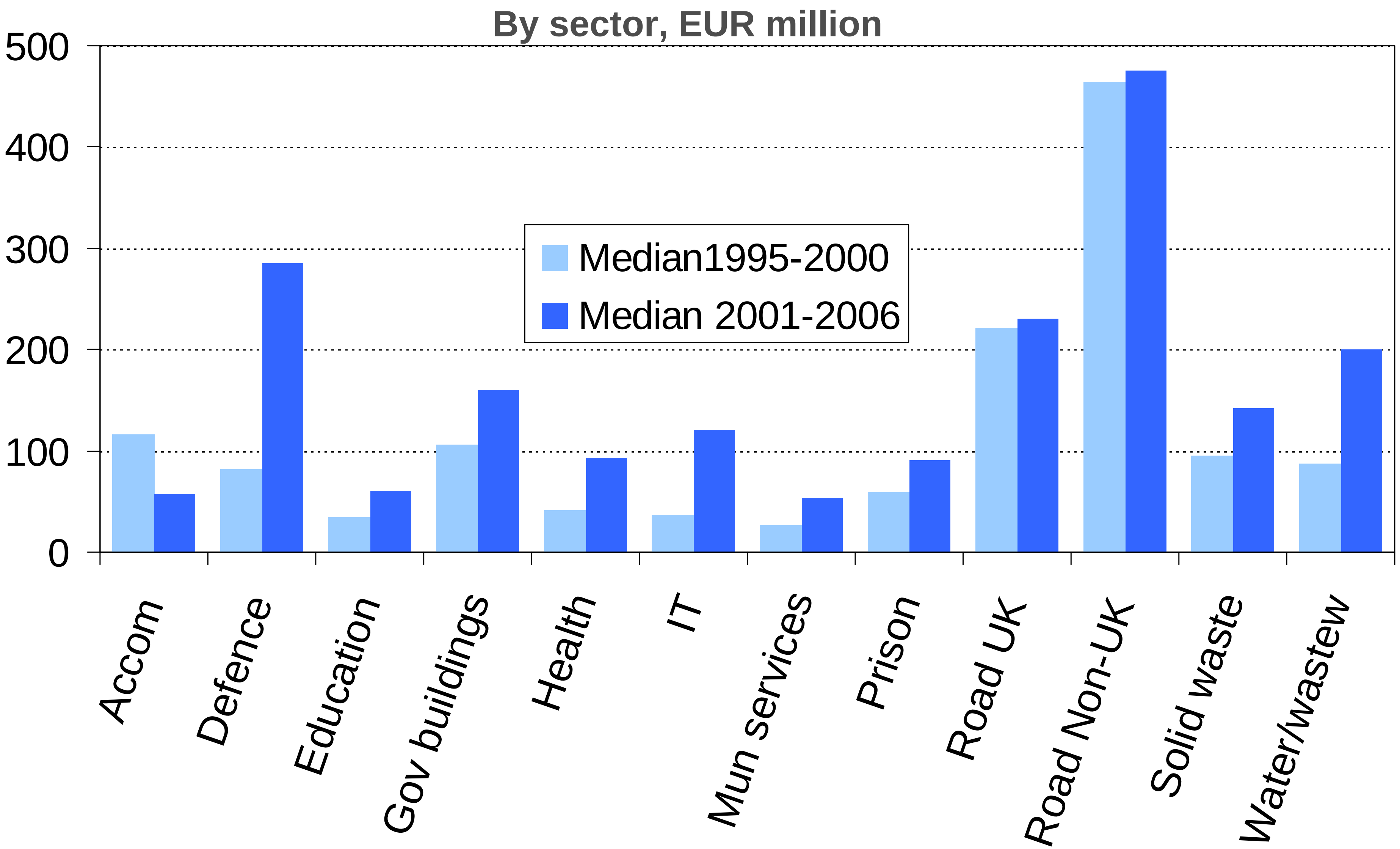
Sectoral distribution of PPPs in the UK



(1990-2006)

Source: Blanc-Brude, Goldsmith and Välilä (2007)

Median size of PPP projects in the UK



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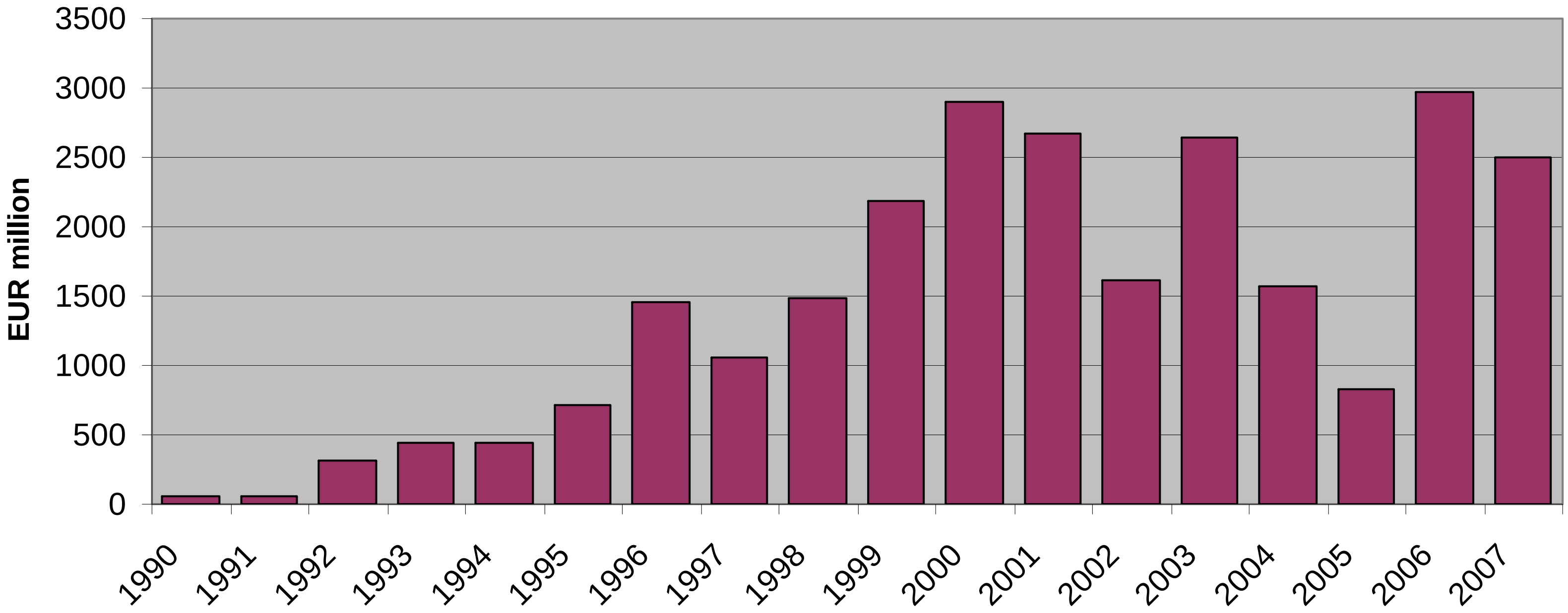
Source: Blanc-Brude, Goldsmith and Välilä (2007)

EIB Annual Loan Signatures for PPPs

Signature of PPPs varies annually in line with project completions. Approvals to date have been over EUR 36bn; signatures of EUR 25.2bn with an average of over EUR 2.0bn p.a. since 2000



Developing the PPP market
Loan Guarantee for TEN-Transport

- TEN programme is highly financially demanding:
  - funding requirement of around EUR 400 – 500 billion
  - Public funding of TEN-T of around EUR 4 billion
- 55% of TEN-T budget for rail, not more than 25% to road
- PPPs have a key role to play in financing TENS road infrastructure
- And – across Europe – PPP programmes have typically commenced in transport sector
- Loan Guarantee for TEN-Transport (LGTT) addresses a clear constraint in current market

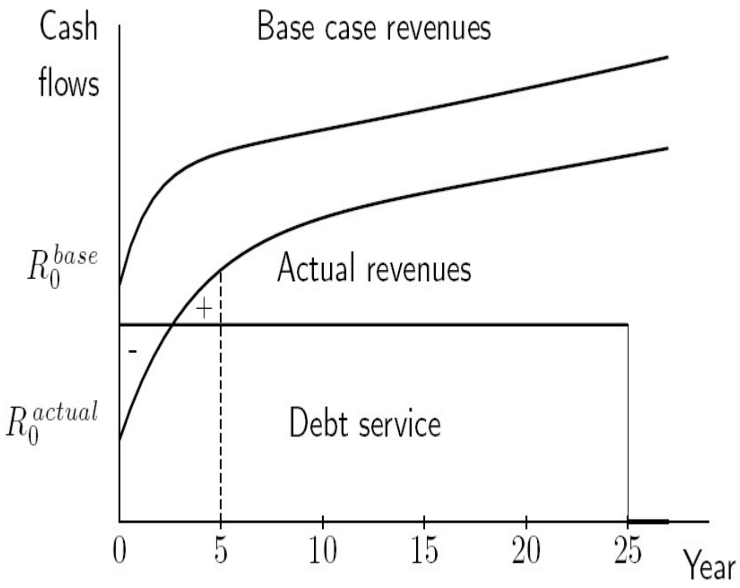
LGTT – Loan Guarantee for TEN-Transport

- Projects eligible under the TEN-T Financial Regulation will be eligible for LGTT provided they benefit from a substantial level of financial support offered by the Member States and/or other public authorities.

- The combined support of EU, national level grants and private capital should be such that project debt should be capable of reaching near-investment grade credit quality prior to benefiting from the Guarantee.

- LGTT will provide security for standby credit facilities aimed at covering post construction risks during the early operational phase.

Mechanics of LGTT



- Revenue shortfall during ramp-up - stand-by-facility drawn to cover debt service;
- If stand-by-facility can be repaid during the 5-year ramp-up, guarantee not called;
- If revenues are insufficient to repay the stand-by-facility during the 5-year ramp up, the guarantee is called – guarantee is then repaid during project life from revenues left over after senior debt service.

PPP size and Development in Central and Eastern Europe

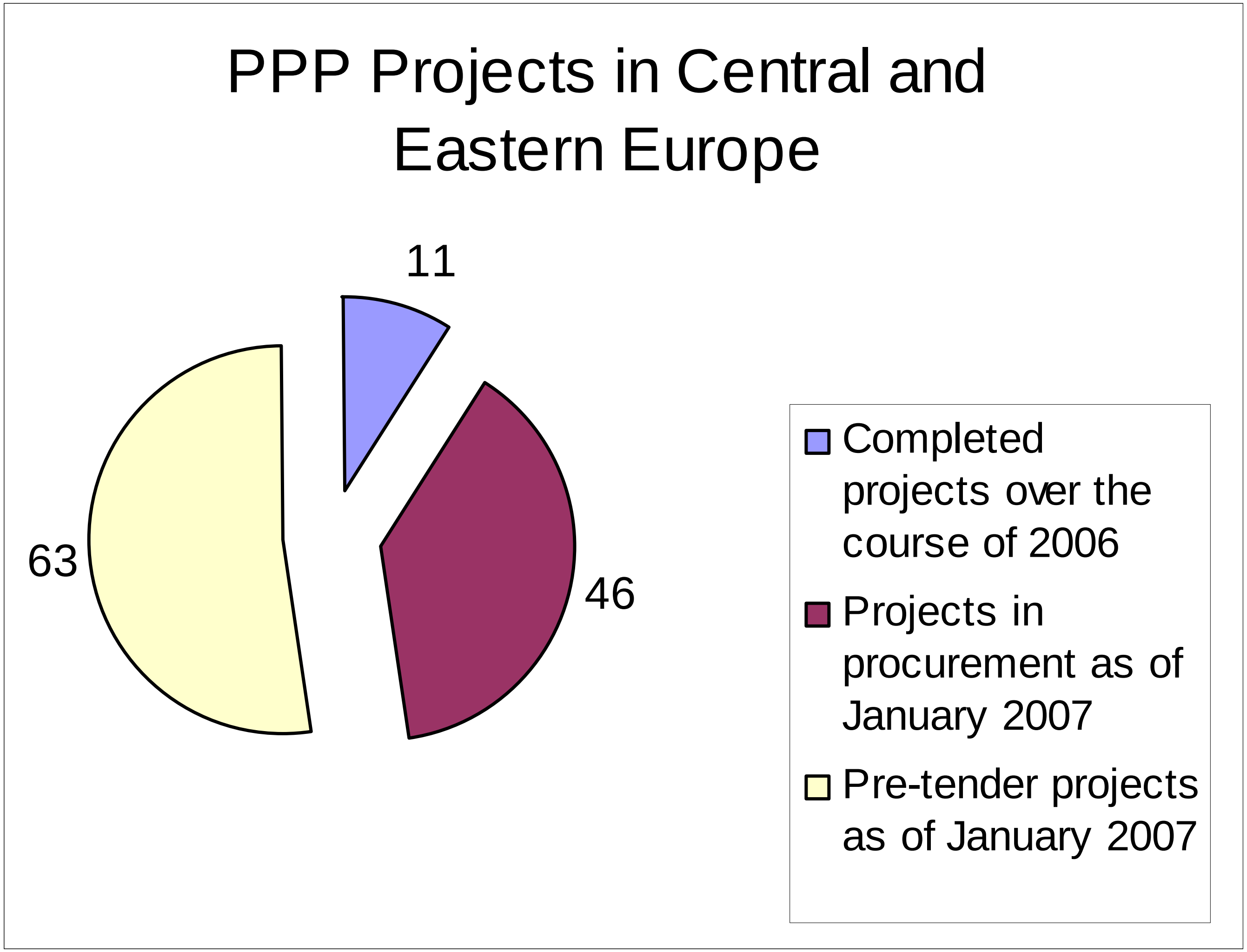
- ‘The CEE region’s PPP market made good progress in 2006 delivering financial close on a number of projects, in a range of sectors.’ (DLA Pipers-PPP Report 2007)

- Countries included in the CEE: Austria, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Serbia and Slovakia.

Challenges for CEE Markets

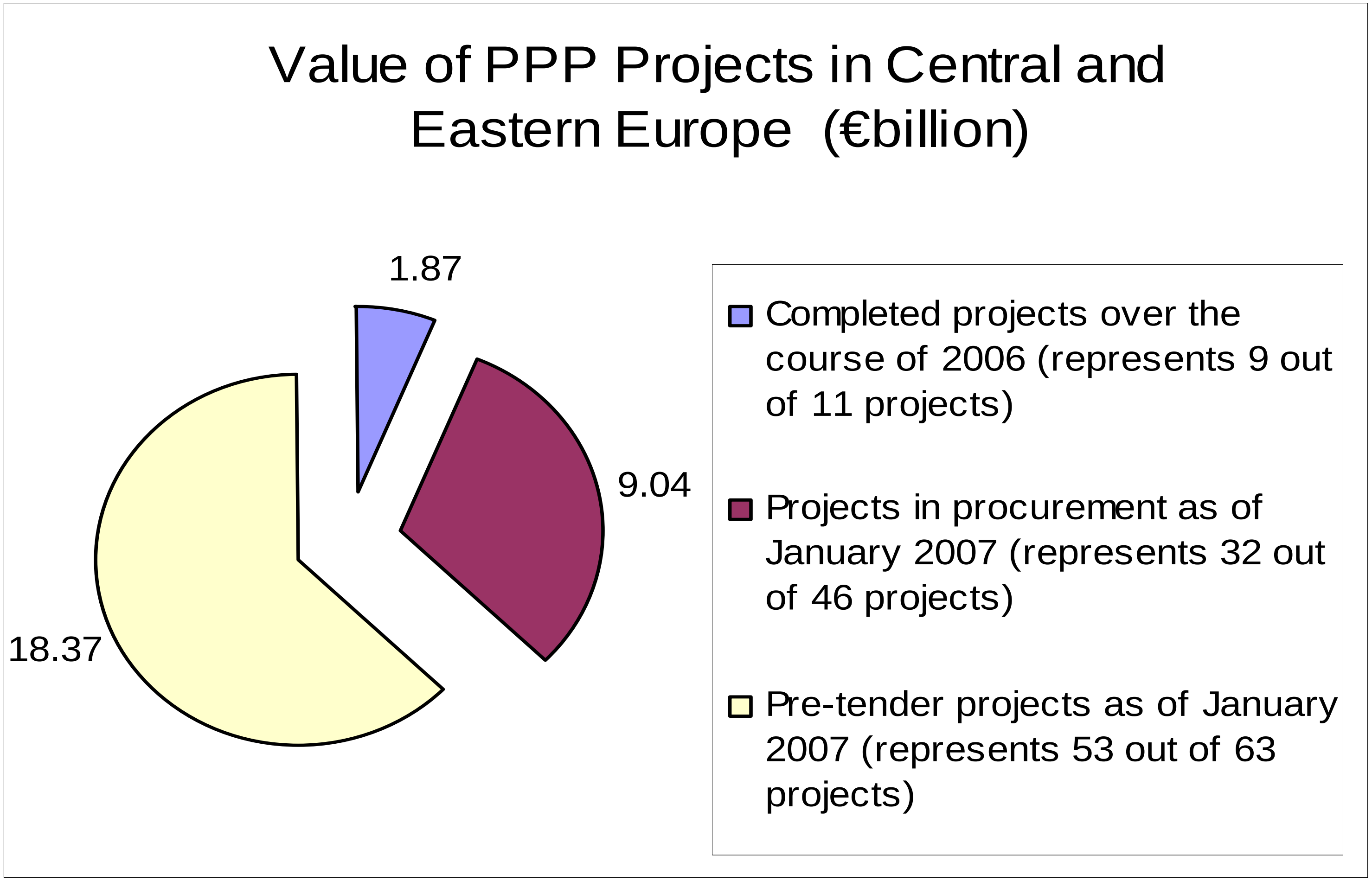
- Rate of progress
- EU funding in Central and Eastern European Member States
- Capacity in Financial Markets for PPPs
- Developing the market:
  - Blending grants and loans
  - Building public sector capacity
- EPEC

PPP Projects in CEE



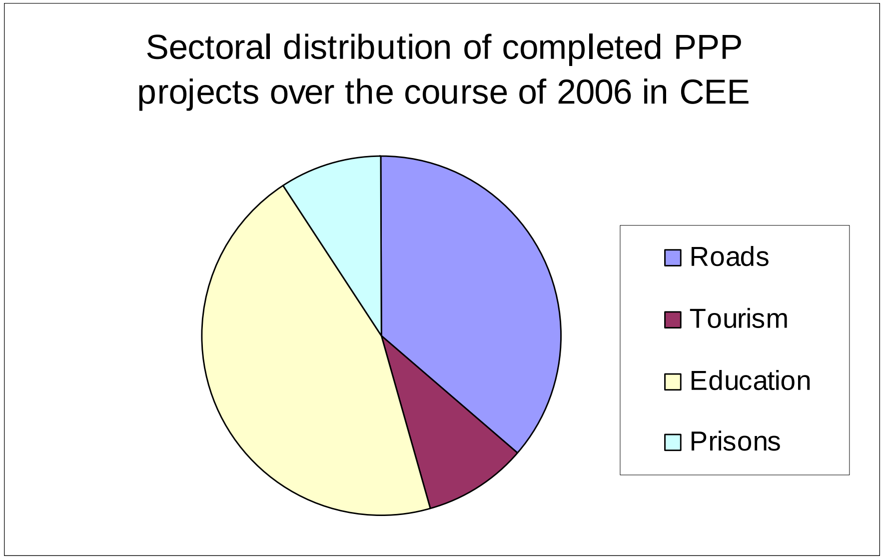
Source: DLA Piper, PPP Report 2007, Central and Eastern Europe, pgs 8-56

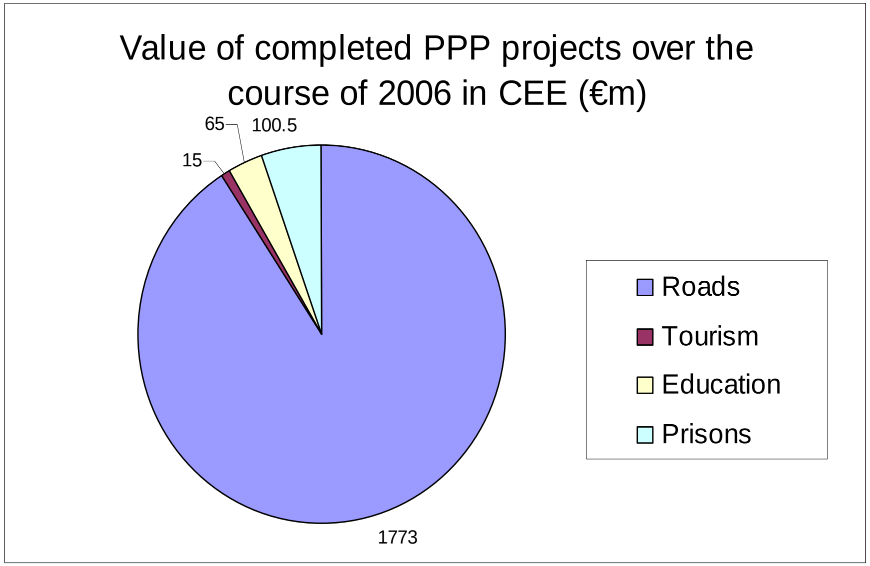
Value of PPP Projects in CEE



Source: DLA Piper, PPP Report 2007, Central and Eastern Europe, pgs 8-56

Sectoral Distribution- Completed Projects

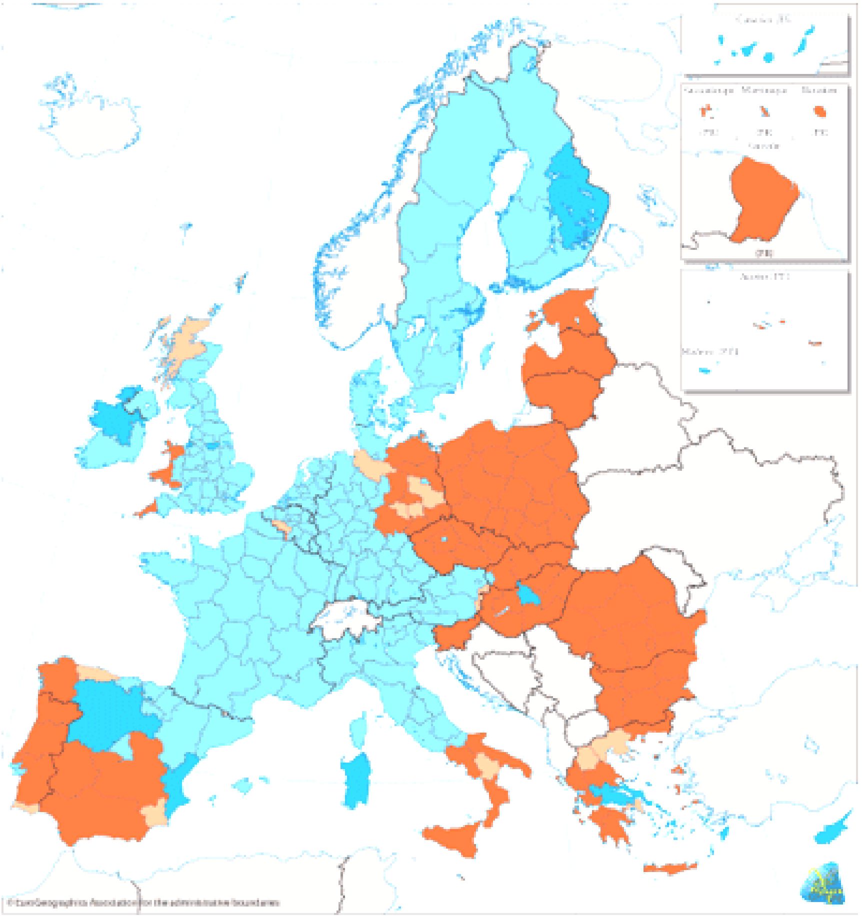




Source: DLA Piper, PPP Report 2007, Central and Eastern Europe, pgs 8-56

Structural & Cohesion Funds 2007-2013

- Will dominate the infrastructure market in much of central and eastern Europe
- Potential for unprecedented investment in transport, energy and telecommunications
- EUR 350 billion of grant funding – over EUR 300 billion for major infrastructure



The challenge of grant funding

Absorption capacity

- Devising, programming and implementing eligible projects: the rationale for JASPERS
- Harnessing private sector skills for this purpose through PPPs a key benefit

Blending grant and loan finance

- Drawing on successful examples of former Cohesion countries (Ireland, Spain, Portugal, Greece
- A range of options including capex subsidies, parallel co-finance, subsidies to unitary charges, co-investor models

Blending grants and loans: the new PPP alchemy

- Successful models include:
  - Tagus Bridge (Portugal)
  - Sparta Airport (Greece)
  - West Lothian College (UK)
  - M1 Drogheda bypass (Ireland)
  - Perpignan-Figeras rail link (France-Spain)

- But new rules (on additionality & grant rate calculations) apply since most of these projects closed

- Four basic models under investigation

Improving Rate of Progress

- Build on public sector commitment to private sector involvement
  - Considerable experience of private investment in public / former public infrastructure
  - Principally full or partial privatisations, particularly in energy and telecoms

- PPP market not meeting potential due to:
  - Uncertainties over interface between PPP and structural and cohesion funding - role for JASPERS
  - Shortcomings in skills / capacity in public sector - a role for EPEC
  - Need to develop new/adapted financial instruments e.g. LGTT

Developing the PPP market: Capacity building in the public sector

Addressing the information and skills gap

- Consensus on value of such capacity building initiative at EU level
- EIB / Commission / Member States implementing European PPP Expertise Centre (EPEC)
- New Member States likely to be users and beneficiaries of EPEC’s Policy and Programme Support services
- EPEC should be in a position to make a significant impact on deal flow as early as 2009
- PPP Units in CEE countries may have an important role in
  - building confidence of the contractor community;
  - educating contractors on their new role
  - explaining the role of third party equity
  - encouraging development of valuable secondary markets

Developing the PPP market
Sponsors & contractors

- Increased evidence of interest from third party equity: note the growing number of CEE focused equity funds
- Depth in the contractor market is key to both effective competition and attractive debt terms
- Across EU interesting differences between:
- Experience of concession operator groups in, for example, Spain, France, Germany
- Focus on competition in the contractor market (perhaps at expense of long term partnering, the ‘claims culture’) in the UK
- PPP Units in CEE countries may have an important role in
  - building confidence of the contractor community;
  - educating contractors on their new role
  - explaining the role of third party equity
  - encouraging development of valuable secondary markets

European PPP Expertise Centre

- A collaborative venture between the EIB and European Commission
- Membership open to PPP taskforces in Member States and candidate countries
- Allows members to share experience and expertise
- Staffed by experienced transactors capable of synthesising experience and disseminating guidance
- 22 organisations already signed up

EPEC-Three types of activities

- Collaborative network activities

  -Sharing information

  -Synthesising experience

  -Develop best practice
- Helpdesk
- Direct policy and programme support

Conclusion

- The public investment injection into CEE in coming years is unprecedented but so is the need for private sector funding
- If PPP developments in CEE have been low to date, the published pipelines are impressive
- Cohesion States have shown what can be achieved
- NMS will have advantages of:
  - New initiatives (JASPERS, EPEC)
  - New products (LGTT)
- Addressing the skills gap & encouraging local sponsor and contractor capacity remains key challenge to the public sector

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