Blending EU grants with PPPs in the next MFF

CSI-Europe towards 2014-2020
Financial Instruments for Cities
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Agenda

- The principles of blending PPP with EU Funds
  - Why blending EU Funds and PPPs
  - Which funds can be used for blended PPPs and how?

- Next budgetary period 2014-2020: how to benefit from EU funding in PPPs?
  - A list of past challenges to blended projects
  - How these challenges have been addressed in the new MFF
  - What MAs should do in programming blended PPPs
  - Open issues for 2014+
The European PPP Expertise Centre

Established in September 2008

A unique cooperative initiative of the EIB, the European Commission and EU Member and Candidate States

International team of 13 professionals

Membership: initially 20, now 39 Members

Strengthen the ability of the public sector to engage in PPPs by helping Members to share experience and expertise, analysis and good practice
Blended PPP projects: what?

- PPPs
  - Procurement of physical asset to deliver public services and operation of the asset
  - Risk sharing scheme between public and private sector
  - User- or government pay

- Blended PPPs
  - Financing scheme involving private funds (debt / equity), and
  - A contribution from EU funds (grants / financial instruments)
Blended PPP projects: why?

• Possible benefits of PPPs?
  • Project delivery on time and on budget
  • Innovation in asset and service delivery
  • Professional project management and implementation
  • Life-cycle approach with constant performance throughout concession/contract period
  • Assets off-budget, (partially) financed by the private sector

• What can EU funds bring to PPPs?
  • Risk mitigation mechanisms
  • Bridging market gaps
  • Provision of additional liquidity
  • Increasing financial viability
Which funds can be used for blended PPPs and how?

• The EU offers different funds...
  • European Structural and Investment Funds - ESIF (mainly: ERDF, Cohesion Fund, ESF)
  • Connecting Europe Facility - CEF

• ... for different purposes:
  • Grant co-financing
  • Financial instruments
  • Funding of advisory services and studies
A list of past challenges to blended projects

• Limited public sector capacity to deliver complex structures
  **Single most important barrier**

• Blended projects were not perceived to be positively viewed
  **Negative market perception is a powerful thing!**

• Uncertainties in the funding gap components and risks of recalculation
  **The private sector does not deal well with uncertainties related to funding issues**

• Decision on when to submit the grant application and how this interfaces with the PPP procurement process
  **Difficult to time the PPP process with the EU funds grant application**

• Timing for disbursing the grant into the project
  **Disbursement mechanism for EU Funds not aligned with standard PPP funding practices**
How the challenges have been addressed in the new regulatory framework (CPR)

- New Recital, New Definition, New Chapter specifically related to PPPs!
- Makes it crystal clear to all that blending is possible
  - Market perception addressed!
- Additional method to calculate the grant amount: flat rates
  - The vicious circle of the funding gap calculation can be broken
- Extension of the concept of the beneficiary
- Usage of escrow accounts and eligible expenditures
  - Channeling the grant to the project and to the private partner
What should MAs do in programming blended PPPs?

- General
  - Project size: small projects vs major projects

- PPP
  - Project identification / scope
  - Government- or user-pay PPP (revenue generation)
  - Initial assessment of the PPP option (affordability, risks, bankability, value for money, deficit and debt treatment)

- EU funding
  - Eligibility (11 thematic objectives, Operational Programme)
  - Selection of the funding instrument (grant, financial instrument)

A careful selection of well prepared candidates for blended PPPs!
There is still homework for everybody before 2014+...

- The EC has to clarify a number of open issues (delegated and implementing acts)
- Member states have to set up networks facilitating PPP/grant blending
- Managing Authorities have to consider at early stage the potential for PPP procurement in the sectors covered by Operational Programmes
- The private sector has to learn about possible structures and support their development

PPP/grant blending needs to be pushed at all levels!
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