



**European
Investment
Bank**

**Regional Workshop on
Public-Private Partnership (PPP) in Transport**

**A Public Financier's Perspective -
The EIB Experience**

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Riga, 7 March 2007

Presentation outline



- 1. European Investment Bank**
- 2. EIB's approach to PPPs**
- 3. The EIB experience – lessons learned**
- 4. Recent developments in the EU and the region**

EIB implements EU policies



EIB – The European Union’s financing institution:

Created by the Treaty of Rome in 1958, to provide long-term finance for projects promoting European integration

- Subscribed capital EUR 164.8bn
- EIB shareholders: 27 Member States of the European Union
- Raises its funds on the capital markets (2005: EUR 50bn)
- Lending in 2005: EUR 47.4bn (EUR 42.3bn within the EU25)
- Total outstanding loans at 31.12.2005: EUR 294.2bn

EIB's role in PPPs



- Substantial risk sharing as senior lender in investments supporting EU economic and social infrastructure
- Over EUR 16 bn exposure on more than 100 PPP projects in all main sectors (e.g. transport)
- Strong financial, economic, technical & legal expertise on project viability and bankability
- Institutional role with Member State Authorities and EU Commission on strategic policy for the development of PPP market
 - Requests from public and private sector to EIB to play a more proactive role in the development of PPP policy and framework programmes

EIB's wider role in PPPs



- Strategic policy advice to Public Authorities of Member and Acceding States and EU Institutions
- Sharing experience from other PPP environments – multisectoral know-how and geographical spread
- Close collaboration with contractors/financing institutions
- Applying best practice of successful PPPs on a case-by-case basis (no pre-defined PPP model)

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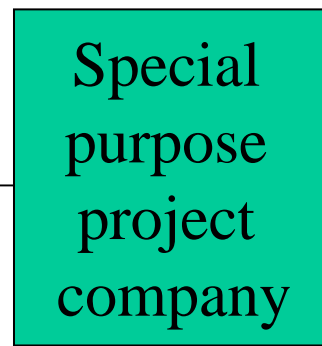
Typical PPP structure



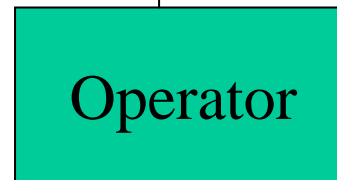
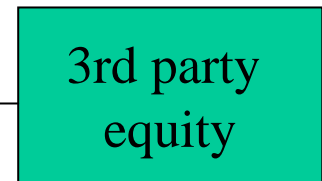
Government customer



Operation



Finance



Services

Unitary payments

Equity and sub-debt

Debt finance

EIB as a senior lender



- Significant participant in project debt
- Long term partner
- Attractive pricing
- Increasing participation in project risk
 - Full assumption of project risk from signature
 - Assumption of project risk post completion and early operations

EIB's financing principles



- Competitive tendering
- Non-exclusivity - support of all bidders through bidding stage
- Investment grade risks on strategic public services
- EIB complementarity with and leveraging of banks and capital markets
- EIB benefits passed to end-users/taxpayer

EIB's approach to PPPs



- Policy driven approach to PPPs based on the evaluation of the benefits achievable
- PPPs are an additional policy option. No bias in favour of any particular procurement method
- Expand expertise and financial resources available for infrastructure investment
- Facilitating greater private sector investment
- Focus on strategic public services with clear Value Added (Value for Money)

Project selection and appraisal



- Close collaboration with public sector to identify suitable priority projects
- EIB aims to support competitive pressure during procurement process
- Focus on the project:
 - Risk assessment
 - Economic performance: socio-economic profitability (risk of adverse selection of projects), value for money for public sector

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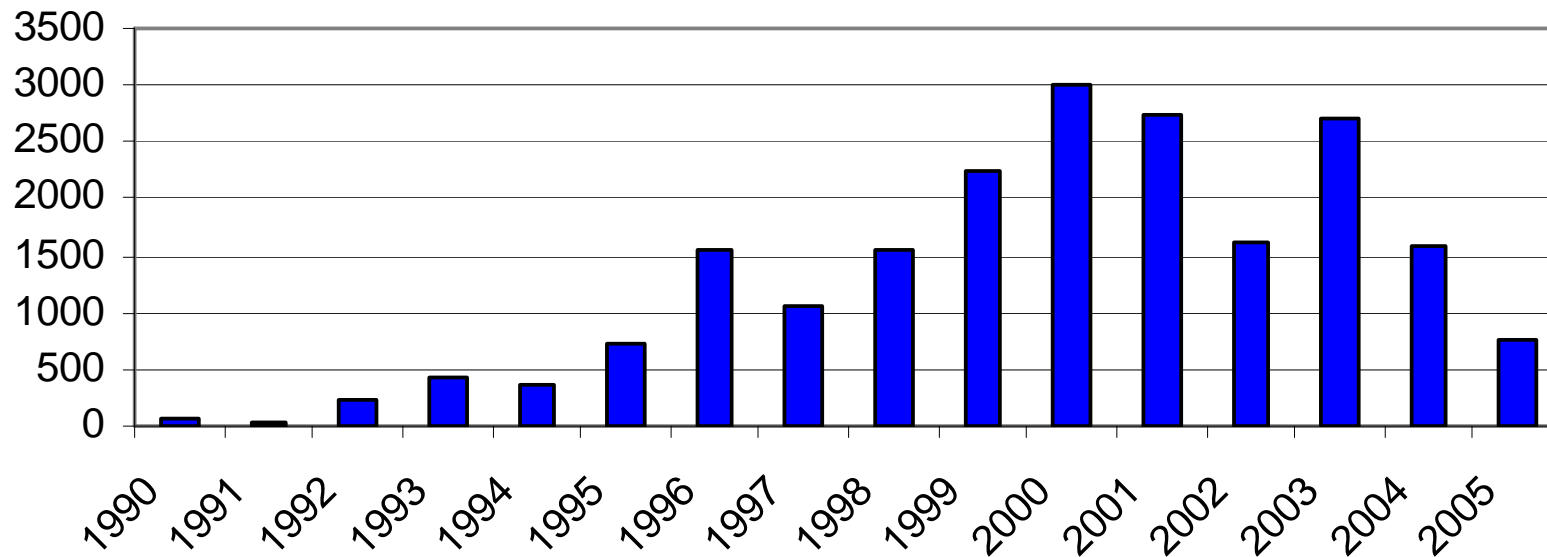


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EIB's annual PPP loan signatures



Signature of PPPs varies annually in line with financial closes. Loan approvals to date have been over EUR 20 bn and financial closes over EUR 16 bn with an average of over EUR 1.8 bn p.a. since 2000



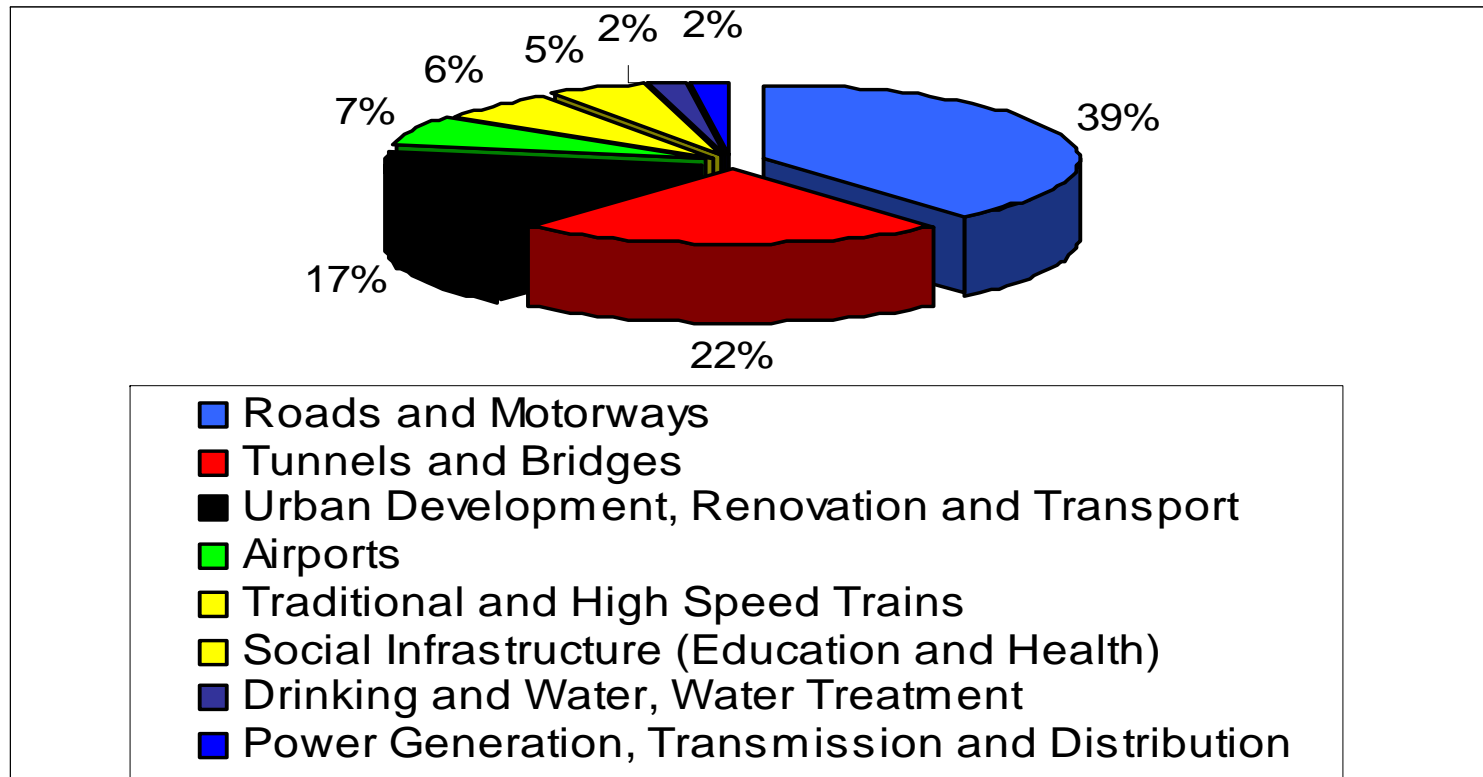
EIB financing for PPPs



Loans Approved in excess of EUR 20bn

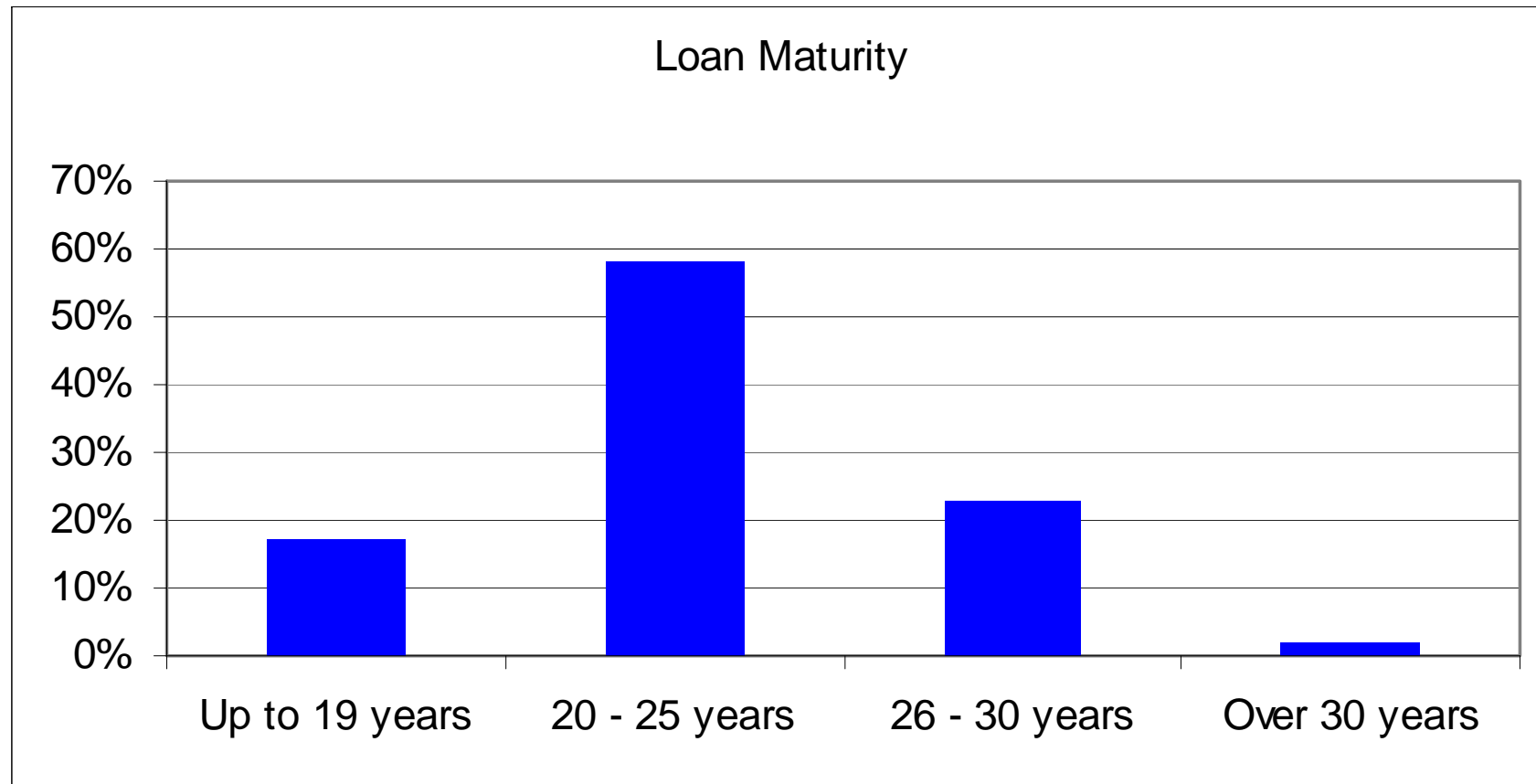
Loans Signed in excess of EUR 16bn

Transport dominates (85%) to date



EIB financing for PPPs

By loan maturity : longer than standard loans



Key lessons from EIB's PPP experience



- Importance of procurement
- Evidence of project performance
- Sectoral focus in PPP programmes
- Effective payment mechanisms
- Scale and expertise in PPP programmes
- Developments at European Union level

Importance of procurement



- Competitive pressure in procurement a must for achieving VFM from PPPs
- Tendering process can be complex and, sometimes, costly
- Public and private sector need appropriate skills to design, respond to and appraise procurement documentation
- Full compliance with EU legislation key requirement for EIB funding

Sectoral focus



- Most countries commence PPP programmes in transport, with later migration to other sectors
- Rate of 'migration' to other sectors (health, education, energy, water, waste treatment) reflects i) national priorities and ii) legal frameworks
- Tendency for project to cascade from central to local government / municipalities

Effective payment mechanisms



- Innovative use of payment mechanisms to focus on public sector objectives
- Examples from the road sector:
 - User tolls – to pass costs to end-users and to raise extra-budgetary funds
 - Availability payments – to reduce congestion
 - Accident rate premia – to improve safety
- General tendency to move from toll to availability based payments in road projects

Scale and expertise in PPP programmes



- Public and private sector may need to acquire new skills to commence a PPP programme
- Sufficient 'deal flow' is critical to justify the costs and promote effective competition
- Procurement programmes need to be managed to minimise costs (e.g. standardised documentation) and maximise competition (e.g. timing of contract notices)
- National PPP Task Forces can play key role in securing VFM in programmes

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PPP developments in Europe



- Sectoral concentration:
 - Principally in transport infrastructure
 - Increasingly in health and education
- Geographic concentration:
 - Primarily UK, Portugal, Greece, Spain and Netherlands
 - Increasingly significant in Ireland, Italy, France, Germany, Finland and Norway
 - Initiatives being revisited in the New Member States as well as in the CEE
- PPP structures vary across countries:
 - Ability to adapt to political conditions and socio-economic priorities is a key strength

Market developments in the region



- Anticipated growth in use of PPP throughout the EU including the Nordic and Baltic countries
- Market developments likely to follow experience elsewhere:
 - Public sector becoming increasingly sophisticated
 - Contractors becoming balance sheet constrained and / or seeking financial partners
 - Acceptance of, and demand for, independent third party equity for PPP transactions
 - Development of infrastructure funds to meet market needs

European PPP Expertise Centre

- European Council October 2003 invited Commission & EIB to consider mobilisation in support of Growth Initiative and PPPs
- Spring 2005 18 EU PPP Taskforces discuss need for EU PPP initiative
- Autumn 2005 wide distribution by EIB of Consultation Paper on establishment of a European PPP Expertise Centre (EPEC)
- 2006 refinement of EPEC concept by EIB, Commission and other potential partners and preparation of Concept Paper by EIB
- Preparation of Concept Paper on EPEC summer 2006
- Preparation of EPEC Business Plan and membership agreements on-going

How would EPEC work?

- Sharing of policy knowledge and expertise
- Information resources - network facilitation
- Preparation of review papers on EU experience
- Preparation of case studies, generic guidance, tried and tested PPP structures
- Core funding from sponsoring organizations (and staff secondments to EPEC)

European Investment Bank

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