



# PPP OPPORTUNITIES IN TRANSPORT SECTOR

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# The European Investment Bank

A policy driven public sector bank



- ❖ European Union's long-term lending bank set up in 1958 by the Treaty of Rome
- ❖ Provides long-term finance for public & private sector projects promoting European integration
- ❖ “Not-for-profit” – support for EU policies
- ❖ AAA financial institution with EUR 164.8 bn of subscribed capital
- ❖ Shareholders: 27 EU Member States
- ❖ 2007 lending activities total 47.8 bn thereof:
  - ❖ the EU – EUR 41.4bn
  - ❖ partner countries – EUR 6.4bn



# Transport Sector Investments

EIB's priority objective



- ❖ Promote an economically viable and financially sustainable transport solutions
- ❖ Focus on railways where they have a competitive advantage:
  - ❖ High speed links.
  - ❖ Urban and sub-urban transport.
  - ❖ Main freight corridors.
- ❖ Foster multi-modal integration.
- ❖ Support an EU wide approach to creating a competitive railway system (e.g. TENs, interoperability).
- ❖ Careful selection of new investment opportunities with project requirements including:
  - ❖ Support EU policies.
  - ❖ Technically sound investments.
  - ❖ Good economics (ERR).
  - ❖ Proper environmental protection (EIA, Nature Conservation, SEA).
  - ❖ Sufficient credit quality.



## Characteristics of PPPs

- ❖ Considerable legal and structural diversity
- ❖ Aim to harness private skills to promote efficiency in delivery of public services
- ❖ Are based on procurement of services, not procurement of assets
- ❖ Incorporate risk sharing arrangements, underpinned by private finance
- ❖ Often, although not always, financed through Project Finance structures
- ❖ Often support very long maturity debt



## Why a PPP?

Private Sector participation



- Increased use of private sector skills for public sector services; each partner does where he/she is 'best' at
- Payment related to private partner service delivery
- Whole life approach to design, build, operational maintenance
- Optimal realistic risk sharing and scope for innovation.
- Improved 'value for money' for the public sector
- Ultimate regulatory authority & responsibility remain in public sector

Under the right terms and conditions private participation could provide an additional instrument to the traditional way of financing transport investments



# Key Financing Issues In PPPs

In general

- ❖ Legal and institutional framework  
(including security and contractual rights enforcement issues)
- ❖ Political commitment to the PPP and specific project  
(including undertakings and obligations within the PPP structure)
- ❖ Competition and availability of PPP partners / participants
- ❖ Transparent procurement process
- ❖ Availability and capacity of LT debt markets and equity providers
- ❖ Appropriate risk and reward balance for public and private sector
- ❖ Public Sector Comparator  
(allowing to assess the Value for Money of the PPP for the public sector)



# Key Financing Issues In PPPs

Project Related



- ❖ Well defined project, with a clear designation of private partner role and project objectives
- ❖ Experienced and financially strong contractors
- ❖ Proper risk allocation among parties involved  
(risk should be allocated to the party best able to manage it)
- ❖ Economic and financial viability  
(predictable cash flows, reliable financial model and underlying assumptions)
- ❖ Availability of alternative suppliers



# Key Financing Issues In PPPs

## Legal Aspects

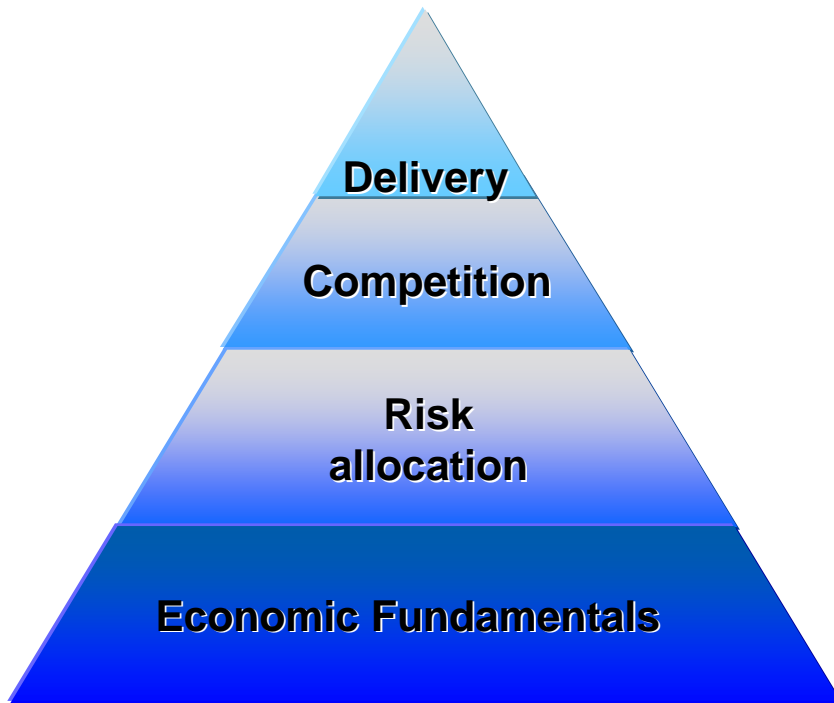


- ❖ Transparent legal structure
- ❖ Step-in rights for Senior Lenders
- ❖ Adequate contract termination protection
- ❖ Other risk mitigatnts build-in the contractual structure  
(protection for: project delays, cost overruns, environmental issues, change of law, force majeure etc.)





## PPP Programmes: Key success factors



- ❖ Public sector's capacity to manage its side of PPP and stable political commitment
- ❖ Competitiveness of bidding process
- ❖ Appropriateness of risk sharing – value for money
- ❖ Economic fundamentals – viability and affordability



## EIB's approach to PPPs



- ❖ PPPs are an additional policy option. No bias in favour of any particular procurement method
- ❖ However, clear that PPPs expand expertise and financial resources available for infrastructure investment
- ❖ EIB's focus on strategic public services with clear potential for value added from private participation
- ❖ Competitive tendering
- ❖ Non-exclusivity - support of all bidders through bidding stage
- ❖ Complementarities with banks & capital markets
- ❖ EIB benefits passed to end-users/taxpayer



## Samples of PPP Projects Financed by EIB

In years 2006-2007



- ❖ Motorways: M50 in Ireland, M3 & M6 in Hungary,
- ❖ Other transport infrastructure: Viaduc in France
- ❖ Urban transport: Metro in Madrid (Rolling Stock), Sevilla
- ❖ Schools: Newcastle, Highlands (UK)
- ❖ Hospitals: Murcia (ES), North Staffordshire (UK)
- ❖ Waste water treatment: Brussels



## **Financing:**

- Over 100 PPP projects financed to date
- PPP financing volume over EUR 20 billion
- Long loan maturities and grace periods
- Low cost of funds
- Large senior debt stakes (no syndication)
- Flexible structures
- Catalyst for other funding

## **Public policy:**

- Advisor to Public Authorities in Member & Acceding States and EU Institutions
- Sharing experience from other PPP environments
- Multi-sector know-how and geographical spread
- Applying best practice of successful PPP



## Contact



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