

PRELIMINARY OVERVIEW OF THE POTENTIAL TO INCREASE THE USE OF PPPs UNDER THE WBIF

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Report based on preliminary desk research and consultations with IFIs

Looks at:

- i) PPP experience to date in the region
- ii) key issues that must be addressed to facilitate PPPs in general and by sector
- iii) the potential for PPPs under the current WIF Pipeline



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- i) PPP experience to date in the region:
 - EPEC list of PPP projects – about 79 projects across the region at various stages – from identification to financial close
 - Great heterogeneity in type and size
 - Most of them are still in very early or preliminary stages – will they proceed as PPPs and reach financial close?
 - Number of projects have been placed on hold, requiring re-tendering or re-negotiation



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- ii) key issues that must be addressed to facilitate PPPs in general and by sector
 - Improve legal and regulatory framework for PPPs
 - Enhance technical and administrative capacities
 - Identification of projects and operational maturity
 - Investment climate and availability of financing



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Transport:

- Project selection and structuring
- Road traffic and user charges
- Competitive procurement

Energy:

- Attractive sector for PPPs
- Tariffs too low to recover costs
- Requires a strong, reliable and predictable regulatory and institutional framework



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Environment:

- Performance-based public service contracting
- Low public acceptance (water)/ low rate of user charges collection
- Mostly suitable for bigger projects or would require bundling

Social sectors:

- Requires long-term public financing
- Possible for accommodation capacities based on availability fees



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Other issues:

- lower attractiveness of PPPs to banks as a result of the financial crisis
- narrowness and size of markets
- Relatively high development costs
- Eurostat treatment of PPPs and impact on debt and deficit calculations



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iii) Potential for PPPs under the current WIF Pipeline:

- Based on sector analysis
- Would require case-by-case assessment of project economics, risks, and added value of private sector participation



Sector	Main Sub-Sector	Comment
Energy	HPP	Good candidates for PPPs - internationally or local concessions for smaller projects
	District heating	Good candidates for PPPs - provided adequate set up is in place. Privatisation of DHC as possible first step
	Energy Efficiency	Usually good candidates for ESCOs - which are a type of PPP arrangement
	Renewable Energy	Good candidates for PPPs but bad publicity surrounding renewable feed in such projects within the EU
	Transmission/pipelines	<i>Typically not recommended for PPPs</i>
Transport	Urban and Interurban bus	Good candidates for PPPs
	Urban parking	Possible candidates for PPPs
	Urban rail	Feasibility as PPP depends on project - will require substantial capital expenditure support from the Government
	Rail	<i>Typically not recommended for PPPs in WB - possible for railway station upgrades</i>
	Motorways	Good candidates for PPPs depending on adequate dimensioning and project economics
	Other roads	Possible candidates for PPPs under DBFO model
	Airports Ports	Good candidates for PPPs - most airports in the region have been contracted as PPP (Pristina, Skopje, Tirana)
Environment	Water & waste water	Possible, depending on case-by-case business case analysis and performance-based public service contracting
	Solid waste	Possible, depending on case-by-case business case analysis and requires strong enforcement
	Flood protection/RBM	<i>Typically not recommended for PPPs</i>
Social Sectors	Education	Generally possibly as facilities management PPPs
	Sports halls	
	Hospitals/Health facilities	
	Prisons	
	Social Housing	

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iv) Recommendations

- Look at constraints on the countries of the region: narrowness of markets, country, sector and institutional limits
- Assess carefully project economics: EIRR, tariffs, value for money
- TA for project preparation and capacity building
- Take a regional approach
- Develop a pipeline of potential PPP projects

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v) Next steps

- EPEC reports on institutional and regulatory environment in several WB countries (end 2013)
- EC new financial regulations and possibility to combine EU funds with PPP approaches
- Case studies
- In-depth consultations with IFIs, beneficiaries and external experts
- Recommendations to SC in June 2014