

Blending ESIF grants and PPPs – an EPEC perspective

Smart Procurement and Efficient PPPs
Bled
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Blending: what?

Blending:

- A contribution from ESIF grants
- and
- PPP procurement involving private financing (debt/equity)

Public-Private Partnership (CPR Art 2.24):

- Cooperation between public bodies and the private sector
- Delivery of investments in infrastructure projects...
-or other types of operations, delivering public services
- Risk sharing
- Pooling of private sector expertise or additional sources of capital

Why blend EU funds with PPPs?

From an ESIF grant perspective: PPPs may **improve value for money in the use of EU Funds**, bringing PPP disciplines to bear, including:

- payments based on performance (outputs)
 - project delivery to time and budget
 - long-term life-cycle approach to project cost assessment and delivery
 - professional project management and implementation
 - innovation in asset and service delivery
 - appropriate risk allocation
 - third party investor/lender scrutiny
- **PPPs may help Managing Authorities to improve the quality of expenditure and ensure effective use of EU Funds**

Why blend PPPs with EU Funds?

From a PPP project perspective: EU funds may **increase the viability of PPPs**, by:

- reducing the level of **national funding** required for the project
 - lowering the level of **user charges**
 - reducing **private financing** needs
- **EU Funds may make PPP projects more affordable for the procuring authority and/or users and may improve the bankability of PPP projects**

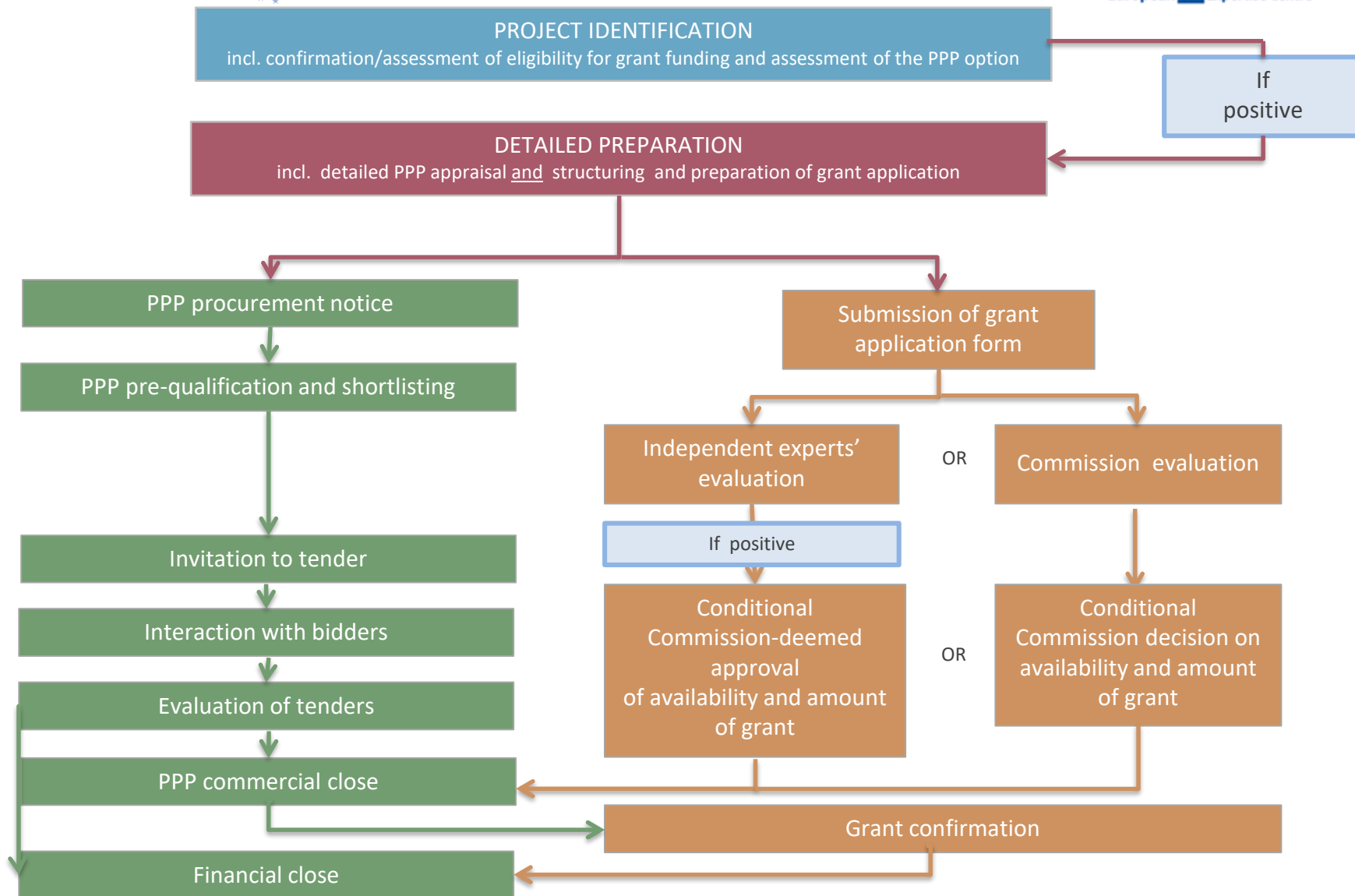
What needed to be fixed

- **Timing/integration** of PPP process and the EU funds grant application process
- **Disbursement mechanism** for EU Funds not aligned with standard PPP payment profile (**limited risk transfer**)
- Difficulties in calculating the **funding gap** (based on projections) and risk of grant amount **recalculation**
- **Negative market perception**

1303/2013 Common Provisions Regulation on ESI Funds aimed to fix these issues for PPPs =>

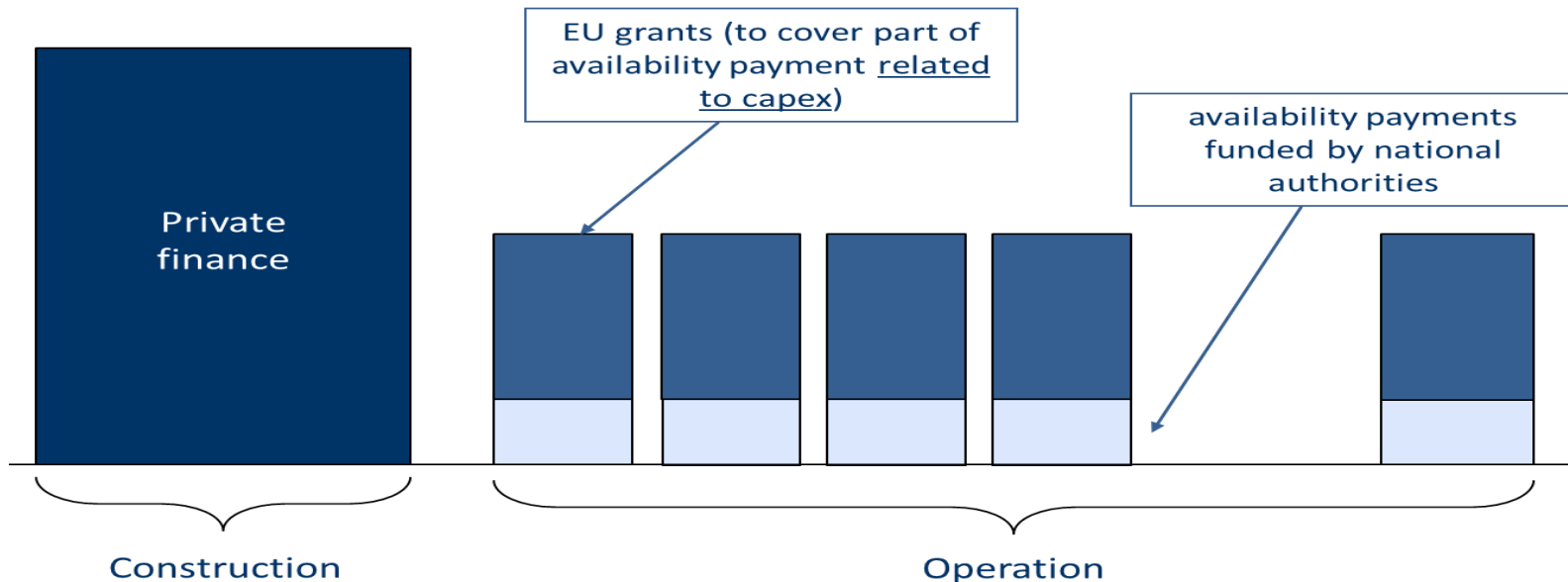
Timing of PPP and ESIF grant approval

- Earlier assurance of grant availability...
- ...enabling the PPP and the EU grant processes to run together
- Subsequent identification of the private sector beneficiary
- Possible change of the private sector beneficiary during the contract



Aligning EU grant disbursements with performance payments

- Expenses incurred and paid by the private partner are considered incurred and paid by the public sector beneficiary subject to conditions
- Use of escrow accounts to allow for disbursement of grant funding beyond N+3 and 2023



Simplifying the grant amount calculation

1. Traditional Funding Gap calculation

- More or less the same as in the past

2. Application of a flat rate

- Co-funding rate of eligible expenditure
= 1- flat rate
- No risk of recalculation

Sector	Flat rates
Road	30%
Rail	20%
Urban Transport	20%
Water	25%
Solid Waste	20%
RDI	20%

3. State Aid limits

Managing market perception

- Blending projects not possible or not welcomed?
- CPR chapter specifically related to PPPs - article 62 explicit on possibility of blending
- A broad definition of a PPP.

Nevertheless activity with lending projects remains low – pointers for the next MFF

- Low levels of project activity in relevant markets/sectors (e.g. only 21 PPPs signed in Cohesion Countries since 2013)
- ESIF and PPP funding/financing sources may be seen as competing not complimentary and pressure to achieve absorption
- Perceived marginal benefits of using PPP to mobilise financing resources where ESIF grants fund a significant proportion of capital costs
- Perceived complexity of the blending process: institutional capacity to prepare blending projects requires further development
- Further develop awareness of the possibility for blending and/or its potential benefits

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