

PPP Projects in the Western Balkans: Good Practice, Challenges and Lessons Learnt

Public-Private Partnerships in the Western Balkans

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Abbreviations

B&H	Bosnia and Herzegovina
CAPEX	Capital Expenditures
CBA	Cost-benefit analysis
EBRD	European Bank for Reconstruction and Development
EIA	Environmental impact assessment
EIB	European Investment Bank
EoI	Expression of Interest
EPEC	European PPP Expertise Centre
ESIA	Environmental and social impact assessment
EU	European Union
FYROM	Former Yugoslav Republic of Macedonia
IFC	International Finance Corporation
ICT	Information and Communications Technology
MDB	Multilateral Development Bank
NFB	Non-financial benefits
NPV	Net present value
OB	Optimism bias
OPEX	Operating expenditures
PPP	Public-private partnership
PSB	Public sector benchmark
PSC	Public sector comparator
ROE	Return on equity
SA	Suitability analysis
SIA	Social impact assessment
SLA	Service level agreement
SPV	Special purpose vehicle
UK	United Kingdom
VfM	Value for Money
WBIF	Western Balkans Investment Framework

1. Introduction

During 2013 and 2014, the European PPP Expertise Centre (EPEC) of the European Investment Bank (EIB) delivered an assignment for the Western Balkans Investment Framework (WBIF) on *PPP Institutional Strengthening in the Western Balkans* (the '2014 EPEC Study').¹ EPEC's work provided an assessment of PPP legal and institutional frameworks in the six WBIF beneficiary countries to identify areas that could be further improved and developed of a tool to help PPP practitioners to assess the 'readiness' of the a PPP project for market launch.

Following the successful completion of the 2014 EPEC Study, the WBIF commissioned EPEC to conduct a follow-up advisory assignment to contribute further to *Strengthening the Capacity of the Public Sector to Undertake PPPs in the Western Balkans*.² Building on the findings of the 2014 Study, the assignment aims to strengthen the capacities of key public sector bodies to identify, prepare and procure sound PPP projects.

This assignment (the '2018 EPEC Study') comprised four areas of work:

1. An expert review of PPP projects in the Region to identify good practice, challenges experienced and lessons learnt when seeking to design and deliver PPPs in the Region.
2. An examination of the status and comprehensiveness of the preparation of PPP projects in the Region to assess 'readiness' for a market launch, using the project preparation status tool developed by EPEC in the 2014 study.
3. Preparation of guidance documents on PPP preparation and procurement processes and a detailed guide on conducting Value for Money assessments.
4. Preparation of a guidance document on the PPP procurement process, with a review of the main clauses of the PPP availability-based contract.

This report summarises the key findings and recommendations drawn from the first of these activities and is structured as follows:

- **Section 1** introduces the assignment and the report's contents.
- **Section 2** provides an overview of the infrastructure needs in the Region, presenting data on PPP projects undertaken in the Western Balkans and providing summary information on the legal and institutional frameworks in the WBIF beneficiary countries.
- **Section 3** provides an assessment of a sample of 10 PPP projects implemented in the Region, analysing the processes adopted by the public authorities (in respect of project identification, preliminary project preparation and choice of procurement methodology, project structuring and risk allocation, procurement procedures, Value for Money assessment and contract

¹ Project WB7-REG-PSD-Sd-02. This study area also included Croatia.

² Project WB13-REG-PSD-SDP-01.

management) based on project information gathered during interviews with procuring authorities between January and April 2017.

- **Section 4** presents the key lessons drawn from the exercise and proposes a number of recommendations to address the main challenges identified. The findings presented in this Section have been used to inform the content of the regional workshops and the guidance documents prepared as a result of this 2018 EPEC Study.

2. Infrastructure needs and PPPs in the Western Balkans

Investments in social and economic infrastructure are crucial to accelerate economic growth and social development in the Western Balkans. In particular, investments in education, transport and energy promise to strengthen persistently weak growth rates and low job creation.³ According to an analysis conducted by the Vienna Institute for International Economic Studies, infrastructure investments of EUR 7.7 billion over 15 years could increase economic growth by one percentage point and create 200,000 new jobs in the Region.⁴ However, the ability to implement this level of additional investment is often constrained by scarce public funding. Thus, governments in the Region are paying increasing attention to the possible use of public-private partnerships ('PPPs') to accelerate infrastructure investments.

2.1 A definition of PPP

In this report, a PPP is defined as an arrangement whereby a public authority and a private sector partner collaborate to deliver public infrastructure services. This definition covers those PPPs and concessions that typically share the following features:

- A long-term contract between a public authority and a private sector partner (or 'private partner') based on the delivery of services, not assets;
- A focus on the specification of project outputs rather than project inputs, taking account of the whole life cycle implications for the project;
- Transfer of certain project risks to the private partner;
- Private financing arranged by the private partner to underpin the risks transferred to the private sector; and
- Payment for the public infrastructure services made to the private partner by either users (user-pay projects/concessions), the public authority (authority-pay) or a combination of both.

This report excludes consideration of projects in the extraction of natural resources.

This section provides an overview of infrastructure needs and the recent and current use of PPPs as a means to deliver public infrastructure services. This is followed by a concise overview of the relevant national institutional and legal frameworks in the Region.

³ Vienna Institute for International Economic Studies, *Infrastructure Investment in the Western Balkans*, 2015.

⁴ Vienna Institute for International Economic Studies, *Infrastructure Investment in the Western Balkans*, 2015.

2.2 Infrastructure needs in the Region

In any society insufficient investment in economic and social infrastructure is widely perceived to constrain productivity and competitiveness gains, as well as human capital development and living standards. For the countries of the Western Balkans, the legacy of an already inadequate infrastructure from its prior socialist past has been made worse by further deterioration that occurred during recent conflicts, and a consequent acute lack of repair and maintenance.

The infrastructure ranking of the World Economic Forum (WEF) highlights these infrastructure gaps, when compared to competing neighbouring countries (see Table 1).

Table 1 – Infrastructure gap measured by WEF ranking for 2016/17

Country	2016/17 WEF infrastructure ranking	
	Rank (138)	Score (1-7)
Albania	91	3.5
Bosnia & Herzegovina	105	3.2
Kosovo*	n.a.	n.a.
FYROM	80	3.8
Montenegro	76	3.9
Serbia	74	3.9
Other neighbouring countries		
Austria	14	5.8
Croatia	46	4.6
Czech Republic	43	4.7
Hungary	62	4.2
Slovenia	39	4.8

Source: The Global Competitiveness Report 2016-2017, World Economic Forum

Infrastructure investment needs over a ten-year period from 2015 to 2024 will amount to an estimated EUR 110 billion in the six Western Balkan countries together with Croatia, according to a 2014 analysis by the University of Nice.⁵ The sectoral analysis of the study estimates that:

- Short to medium-term financing needs for ready to procure projects in the transport sector amount to EUR 2.9 billion for motorways and EUR 1.2 billion per annum for railways;

⁵ Ri, Berthomieu, Cingolani, Priority Investments in the Western Balkans and Croatia: Analysis of medium-term needs, possible impacts and criteria for ranking in terms of efficiency and development potential, STAREBEI Research Program, 2014 (supported by an EIB research grant).

- Around EUR 4.5 billion per annum is required to finance at least 80 identifiable strategic projects in the energy sector; and
- The environment sector (addressing water, waste management, etc.) requires significant investment, estimated to be around EUR 2.4 billion per annum.

According to an EBRD report, governments have started to address these needs and have strengthened infrastructure planning and investment in recent years. National economic programmes in almost all countries provide for higher future public capital spending.⁶

With the encouragement and support of the European Commission, the six Western Balkan governments have developed a 'Single Project Pipeline' of prioritised projects within the Region to address existing and future infrastructure needs. The pipeline identifies those projects in the energy, transport, environment, social and business-related sectors that are eligible for EU financial support. Investment in the transport sector, partly thanks to EU funds, has already started to increase, but large gaps remain - especially in the key sectors of motorway and railway networks.

However, as will be seen later in the report, the ability of public authorities in the Region to finance infrastructure is often constrained by scarce public funds and already high levels of public debt. Private sector involvement in the provision and financing of infrastructure services using, for example, PPPs is therefore one approach available to public authorities seeking to fill national and local infrastructure gaps.

2.3 Experience of PPP projects in the Region

The 2014 EPEC Study (which included the six Western Balkan countries together with Croatia) described the status of the regional PPP market at that time and assessed its potential future prospects for development. This assessment was based on data brought together by EPEC for the purpose of the 2014 Study. It summarised the main features of signed PPP contracts (i.e. those PPP projects that had reached financial or commercial close) and considered the then known pipeline of potential new PPP projects.

For this 2018 EPEC Study, EPEC made a renewed analysis of the regional PPP market for the period 2001 to 2016 (albeit this time not including Croatia) and also revalidated and extended the data set of PPP projects that have reached financial or commercial close. A full list of these PPP projects is provided in Annex 1.

In the fifteen-year period under review (2001-2016), 29 PPP projects reached financial or commercial close, with an aggregate capital expenditure (or 'CAPEX') of around EUR 0.7 billion (see Figure 1). This represents a modest increase in activity when compared to the 23 projects that were identified in the fifteen-year period 1998-2013 that was considered in the 2014 Study. These projects cover different social and economic sectors, including transport, ICT, environment, health and education. The projects have been implemented at both national and sub-national levels.

⁶ EBRD, How the Western Balkans can catch up, 2016.

The number of PPP contracts signed within each country ranges from two projects in Serbia to eleven projects in Albania. Regional distribution in the level of activity largely reflects that observed in the 2014 Study, except that the number of contracts concluded in Albania has somewhat increased. This increase in activity reflects the number of PPPs that were noted as being in tender in the 2014 Study and which now appear to have reached a successful conclusion.

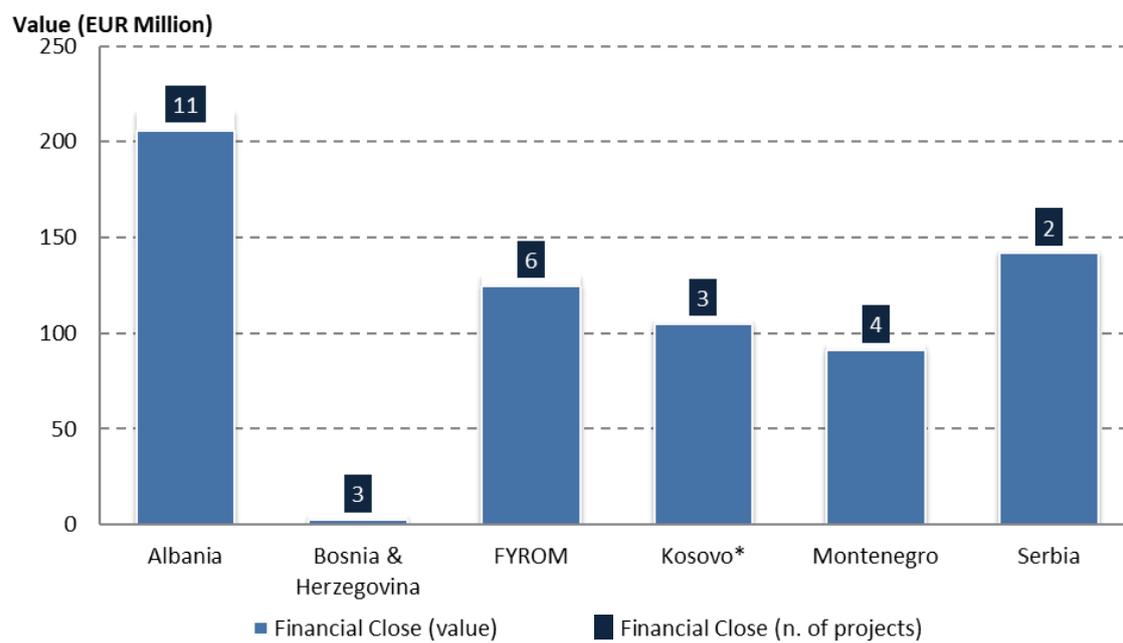
In the period under review for this 2018 Study, the number of PPP projects that reached financial close increased significantly after 2010 (see Figure 2). However, the total number of projects closed remains low in comparison to other regions in Europe over the same period. The number of PPP projects that reached financial close peaked in 2012 and 2013 (at five and eight, respectively), before activity dropped to pre-2010 levels in 2014. A sectoral breakdown of this activity in the Western Balkans and the EU is shown in Figures 3 and 4. The main differences are the lower number of healthcare projects and the absence of defence, public order and safety, and recreation and culture projects in the Western Balkans.

The largest PPP projects concluded during this time relied almost exclusively upon financing provided by foreign banks and Multilateral Development Banks ('MDBs'), often combined with technical assistance.⁷ This continued a trend seen in the earlier study. The largest transactions were the two airport concessions - at Pristina (Kosovo*) and Skopje/Ohrid (FYROM) - with a combined CAPEX of EUR 200 million.

⁷ SEETO, SEETO Investment Report 2016: Common Problems – Shared Solutions, 2017.

* This designation is without prejudice to positions on status and is in line with United Nations Security Council Resolution 1244/99 and the International Court of Justice Opinion on the Kosovo declaration of independence.

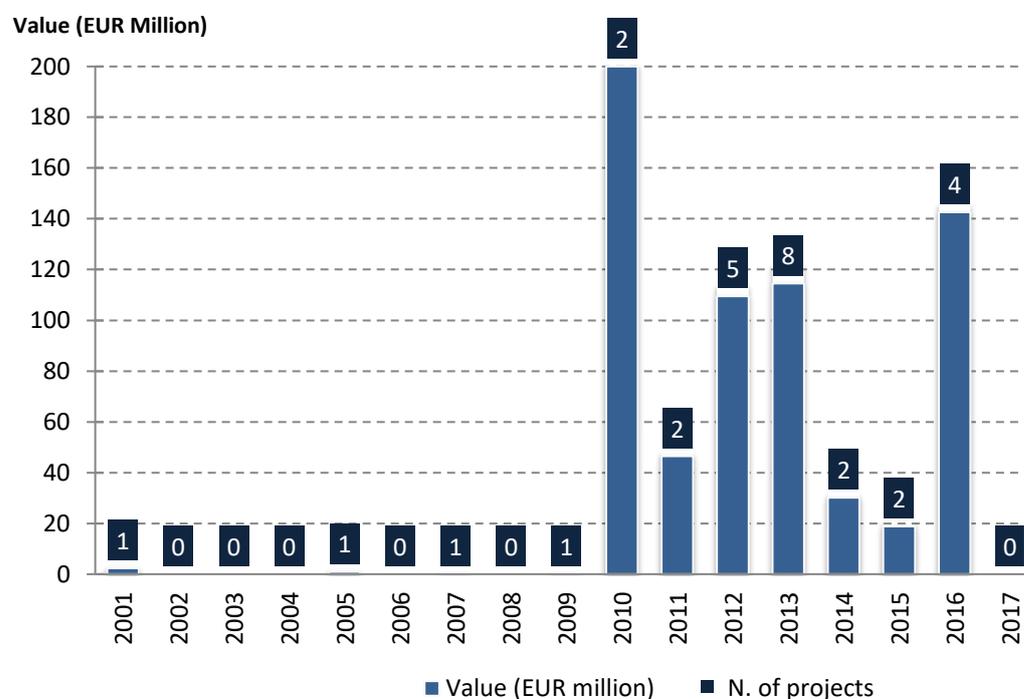
Figure 1 – Number of PPP projects that reached financial close in the period 2001-2016: by CAPEX value and number



Source: Prepared by EPEC in May 2017 based on public databases and information from national authorities.

Note: Includes all social and economic sectors, excluding energy and natural resources.

Figure 2 – Number and aggregate value of PPPs that reached financial close in the Region



Source: Prepared by EPEC in May 2017 based on public databases and information from national authorities.

Note: Includes all social and economic sectors, excluding energy and natural resources.

Figure 3 – PPP projects in the Western Balkans that reached financial close in the period 2001-2016, by value and number

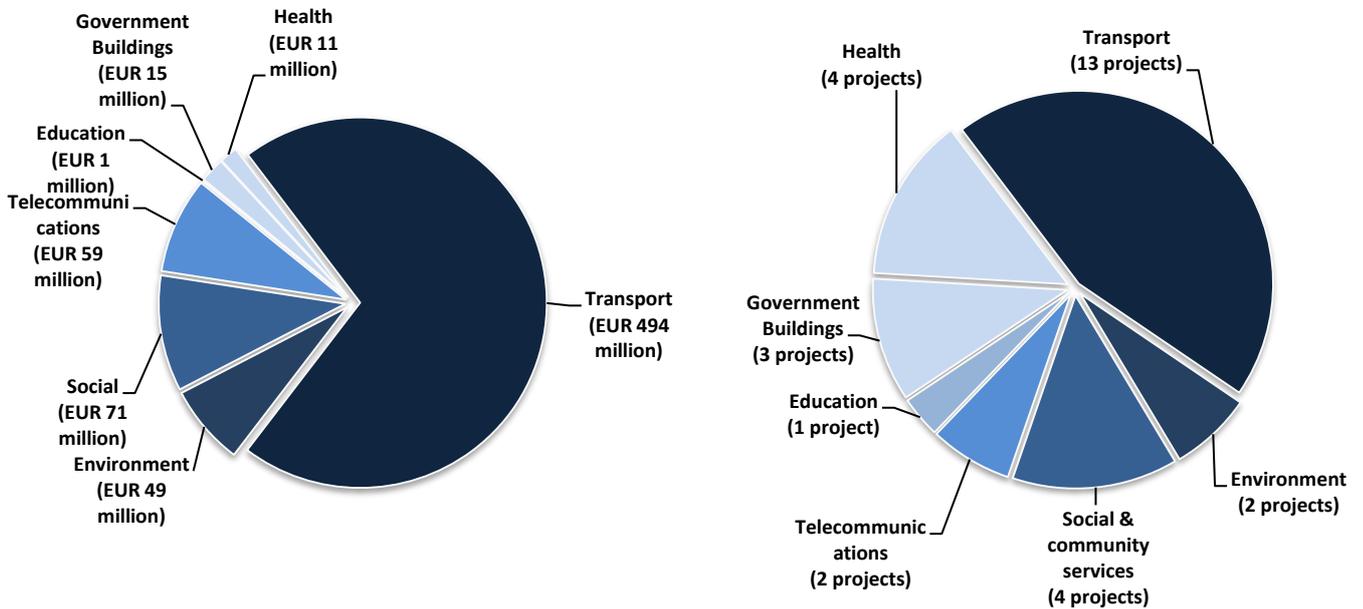
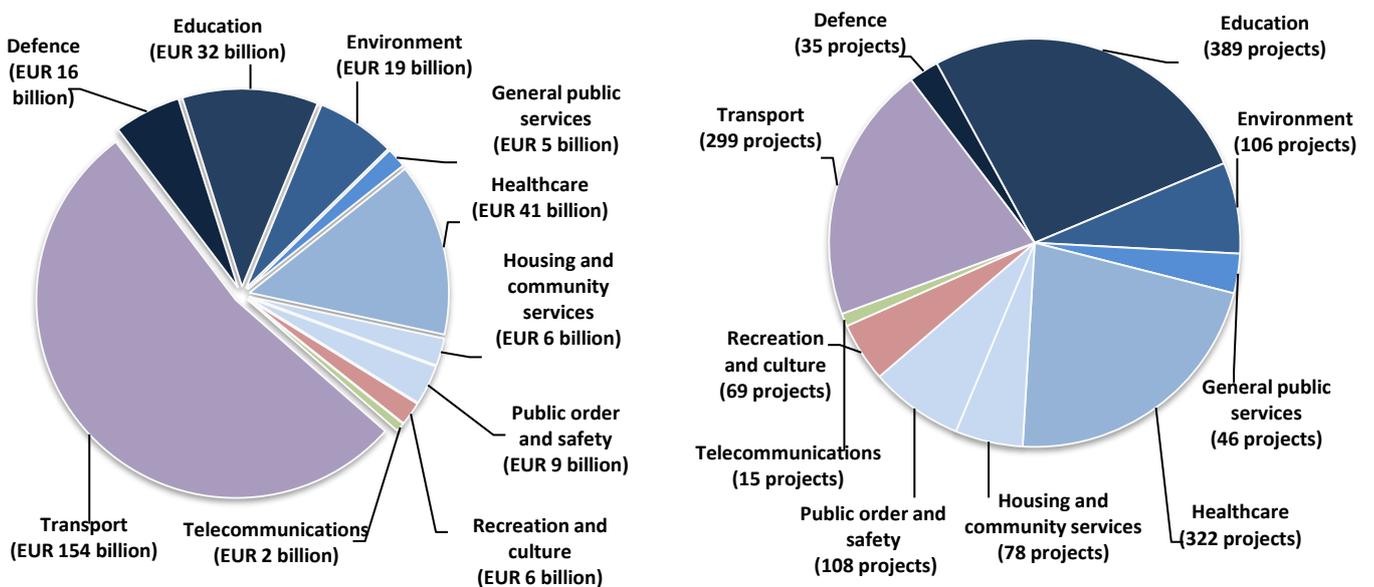


Figure 4 – PPP projects in the EU that reached financial close in the period 2001-2016, by value and number



2.4 Analysis of PPP activity in the Region

2.4.1 Regional overview

Analysis of public capital investment activity in the Region over the period 2001-2016 shows that a number of public authorities have increasingly sought to procure infrastructure using PPPs. However, despite this increased activity, only a very limited number of new contracts have been successfully concluded.

As identified in the 2014 EPEC Study, the Region continues to be characterised by a high PPP mortality rate, especially during the preparation and tender phases.⁸ The 2014 Study listed some 23 PPP projects as being in the tender stage within the Region. Since then, only eight PPP projects have reached financial close (mostly in Albania). This suggests that the mortality rate for PPP projects remains high and/or the pipeline has not developed as anticipated in the 2014 Study.

The two principal causes of PPP project failures identified in the Region are:

1. Poor initial preparation of the project, with a tendency for public authorities to launch the procurement process for a PPP project before it is sufficiently ready for the market; or
2. Poor preparation and management of the procurement process.

The very modest increase in the number of projects that reached financial close over the fifteen year period 2001-2016 compared to that of 1998-2013 can also be linked to the size of the pipeline of PPP projects observed in the 2014 Study.

The limited experience and capacity of the private and public sectors to prepare, procure and implement PPPs, and to sustain a pipeline of PPPs, are discussed in more detail in Section 3.

2.4.2 Sector analysis

Despite the limited number of PPP projects that reached financial close in the period under consideration, PPPs were successfully delivered across various social and economic sectors in the Region (see Figure 3 earlier).

Transport has been the most active sector in the Region, with seven projects with an aggregate CAPEX of EUR 356 million, representing around 65% of the total market by value over the reference period.

In value terms, the **social & community services** (20%), **telecommunications** (10%) and **environmental** (8%) sectors are the next largest sectors. This sectoral split is similar to that of the rest of Europe where the transport sector remains a dominant user of high-value PPPs.

⁸ The average PPP mortality rate in the Region was estimated to be approximately 50% in the 2014 Study: there is no evidence to suggest that this rate has improved.

2.5 Regional overview of the legal framework for PPPs

Each country in the Region has developed a legal framework of dedicated concession and/or PPP laws that makes it possible to deliver some form of private participation in the provision of public services and infrastructure. In some of these, the PPP laws are further supported by secondary legislation, by sector-specific laws (e.g. water and waste) and often by references to public procurement laws (see Table 3).⁹

While PPPs are regulated through dedicated laws, the legal frameworks adopted across the Region show significant levels of harmonisation: all countries of the Region have adopted a civil law system.

2.4.3 Definitions and types of PPP contract used

The definition of the various types of PPP contracts used and the procurement methods available for the selection of a private partner are similar in most countries in the Region. Additionally, those countries that are seeking accession to the EU can be expected to continue to harmonise their laws in line with the relevant EU directives, including for public procurement, leading to closer regional alignment.

Public procurement generally conforms with the core principles of the EU directives on public procurement, namely those of transparency, equal treatment, open competition, and sound procedural management. These principles are designed to achieve a procurement market that is competitive, open, and well-regulated.

In 2014 the then prevailing public procurement directive 2004/18/EC was reformed through the publication of Directive 2014/24/EU on Public Procurement and a new Directive 2014/23/EU on Concessions. Within the Region, most of the national laws on public procurement were enacted between 2009 and 2013 and, therefore, remain modelled on the 2004 Directive.

- **Availability-based PPPs:** These are currently procured by public authorities in a manner that is largely compatible with the procedures set out under the 2004 directive. For example, Bosnia and Herzegovina,¹⁰ FYROM, Montenegro and Serbia each provide for the use of the competitive dialogue procedure in their legal framework.
- **Concessions (User-pay):** Until Directive 2014/23/EU was issued, public works and services concessions had not been closely regulated by EU directives. As a result, concession contracts in the Region have frequently been procured through ad hoc negotiated competitive procedures.
- **Unsolicited proposals:** In Albania, Bosnia and Herzegovina, Montenegro and Serbia current laws permit private companies to put forward unsolicited proposals for PPP projects to public authorities. If the relevant authority accepts the proposal as a valid investment need or opportunity, it will then launch a competitive procedure that allows others to tender for the provision of the

⁹ A more complex legal framework, in relative terms, exists in Bosnia and Herzegovina due to the different national and sub-national levels that have responsibility for procuring PPPs.

¹⁰ Availability-based PPPs are not permitted in the Federation currently, as there is no PPP law in existence.

project. In some countries, such as Albania, participation by other tenderers in the public competition may be hampered by the provision of additional (favourable) bonus tender evaluation marks, available only to the private company responsible for submitting the initial unsolicited proposal.

Table 2 – Overview of PPP legislation in the Region

Country		PPP Law and date of entry into force		PPP types covered	PPP contract duration	Procurement legislation and date of entry into force	
Albania		<u>Law on Concessions and PPPs (Amended 2015)</u>	2013	Availability-pay and User-pay	Up to 35 years	<u>Public Procurement Law</u>	2006, amendment <u>2014</u>
B&H¹¹	B&H State	<u>Law on Concessions of B&H</u>	2002	User-pay	Up to 30 years	<u>Law on Public Procurement</u>	2014
	Republika Srpska	<u>Law on PPPs</u>	2009	Availability-pay	Not specified		
	Federation of B&H	PPP Act	2014	Availability-pay and User-pay	Not specified		
FYROM		<u>Law on Concessions and PPPs</u>	2012	Availability-pay and User-pay	Up to 35 years	<u>Law on Public Procurement</u>	2007, amendment <u>2012</u>
Kosovo*		<u>Law on PPPs</u>	2011	Availability-pay and User-pay	Not specified	<u>Public Procurement Law</u>	2011, amendment <u>2016</u>
Montenegro		<u>Law on Concessions</u>	2009	User-pay	Up to 30 years	Law on Public Procurement	2006
Serbia		<u>Law on PPPs and Concessions and Amendments to the Law</u>	2011 2016	Availability-pay and User-pay	5-50 years	<u>Public Procurement Law</u>	2013

¹¹ In B&H, due to the administrative system, the PPP legislation is a combination of federal and local PPP laws which are complemented by national, federal and local concession laws.

2.6 Institutional framework

2.6.1 Regional overview

Each country in the Region has designated one or more public sector bodies to support other public authorities in the development or evaluation of PPP projects (see Table 4). Only Albania and Kosovo* have so far each established a dedicated PPP Unit with permanent staff, operating across sectors and projects. In comparison, the Commissions for Concessions/PPPs in Bosnia and Herzegovina and Serbia comprise mainly officials representing different ministries who meet intermittently in response to specific needs.

The various PPP bodies in the Region are primarily responsible for the fulfilment of PPP policy support functions. However, their involvement in programme/project development activities or in approval/quality review functions is generally limited. Other functions - for example, the promotion and approval of PPP projects - often overlap with activities of other public bodies. This can lead to confusion about roles and responsibilities and create uncertainty as to the point-of-contact on PPP market developments for potential private sector partners.

The influence that the institutional arrangements can have on the development of PPPs in the Region and their impact on the preparation and delivery of PPPs are discussed further in Section 3.

2.6.2 Overview of institutional PPP frameworks at the country level

▪ **Albania**

Relevant authorities include the Concessions Treatment Unit (ATRAKO), the Ministry of Finance, and the Public Procurement Agency, with the following responsibilities:

- **ATRAKO** participates in project committees, provides advisory services to public authorities and monitors technical matters.
- The **Ministry of Finance** is responsible for the establishment and maintenance of a PPP project database.
- The **Public Procurement Agency** verifies that the required procurement procedures are followed and promotes the development of legislation and capacity development.

▪ **Bosnia and Herzegovina**

At national level, the **Council of Ministers** decides on the type, subject and scale of concessions. Its decisions need to be approved by the Parliamentary Assembly of Bosnia and Herzegovina. User-pay PPPs are monitored at the national level by the **Commission for Concessions of Bosnia and Herzegovina**.

At the sub-national level:

- In Republika Srpska, the **Department for Implementation of PPP Projects** is responsible for developing PPP policy and implementing projects. The **Commission for Concessions** of Republika Srpska is responsible for concession policy. In addition, line ministries evaluate feasibility studies prepared by public authorities and approve contracts before signature (for projects in their domain).
- In the Federation of Bosnia and Herzegovina, the **Commission for Concessions** is responsible for developing PPP and concession policies and projects. The **Ministry of Finance** assesses feasibility studies and approves contracts.

▪ **Former Yugoslav Republic of Macedonia (FYROM)**

No permanent PPP unit has been established.

The Department for Legal Affairs in the **Ministry of Economy** is designated as the competent authority for PPPs responsible for proposing legislative reform, organising training on PPPs for government departments and other stakeholders and providing expert assistance and advice on implementation procedures.

▪ **Kosovo***

Two authorities in the **Ministry of Finance** are responsible for supporting the implementation of PPPs in Kosovo*:

- The **PPP Committee (PPPC)** is a high-level political body and has five permanent members. The Minister of Finance is a permanent member and is the chairman of the PPPC. The other four permanent members are designated by a formal decision of the Government, and have the rank of a Deputy Prime Minister or a Minister of the Government of the Republic of Kosovo*. The Committee is responsible for developing general PPP policies, issuing and implementing regulations, approving PPP projects, approving amendments to contracts, and maintaining a national database on PPPs.
- The **Central PPP Department** supports the PPP Committee, the Ministry of Finance and public authorities on PPP-related activities. For example, it offers technical assistance and advice to public authorities at the project identification, preparation and procurement stages of a PPP project's development. The Department reviews project proposals as regards their viability and provides recommendations to the PPPC and the public authorities.

- **Montenegro**

No dedicated PPP Unit has been established. The **Prime Minister's Office** has been responsible until now for developing PPP policies and legislation, promoting PPPs and sharing best practice, although this institutional framework is currently under review.

The **Commission for Concessions** is the public body responsible for responding to appeals submitted by tenderers in respect of the award of concession contracts, and managing the registry of concession contracts.

- **Serbia**

The **Commission for Public-Private Partnerships** appraises the suitability of projects for implementation as PPPs. If the project value exceeds EUR 50 million, the PPP Commission requests the Ministry of Finance's opinion.

The **Ministry of Finance** evaluates PPP projects from a budgetary perspective and by law is responsible for monitoring project implementation and maintaining a registry of PPP contracts.

Table 3 – Overview of PPP Units and Commissions for Concessions in the Region

Country		PPP Unit or Commission for Concession	Year established	Contract types	Coverage
Albania		<u>Public Procurement Agency</u> <u>Concession Treatment Agency (ATRAKO)</u>	n.a.	Availability-pay and User-pay	National and Sub-national
B&H	B&H State	<u>Commission for Concessions of B&H</u>	2005	User-pay	National
	Republika Srpska	<u>Department for Implementation of PPP Projects</u> ¹²	2009	Availability-pay	Sub-national
	Federation of B&H	Commission for Concessions of the Federation of B&H	2007	Availability-pay and User-pay	Sub-national
FYROM		No central PPP Unit (Department for PPPs within the Ministry of Economy ¹³)	2009	Availability-pay and User-pay	National and Sub-national
Kosovo*		<u>Central PPP Department</u>	2008	Availability-pay and User-pay	National and Sub-national
Montenegro		No central PPP Unit			
Serbia		<u>PPP Commission</u>	2012	Availability-pay and User-pay	National and Sub-national

¹² There is a Department for the implementation of PPP projects within the Ministry of Finance of Republika Srpska.

¹³ There is a Department for PPPs within the Ministry of Economy.

3. Review of PPP practices in the Western Balkans

3.1 Methodological approach to the review

This section presents a review of selected PPP projects carried out in the Region. It analyses the practices and procedures used to identify and assess these projects so as to be able to identify key lessons that can be learned and possible opportunities for improvement. The selected projects are considered somewhat representative of recent diverse experiences of delivering PPPs in the Region.

The approach adopted involved examining a sample of 10 PPP projects:

- that have reached financial close - in order to help identify how future projects can be improved and to strengthen the management of existing projects to ensure that the expected benefits are realised; or
- that are currently at the preparation stage or have been cancelled following an unsuccessful procurement process - to help identify how to unlock the PPP project pipeline and learn how to avoid similar issues in future projects.

Specific PPP legislation was first introduced in the Western Balkans in 2009 (in Serbia and Kosovo*). Previously, infrastructure delivered through public contracts using private sector participation had been mainly in the form of user-pay concessions, with examples of such projects often in the energy and transportation sectors (e.g. the Devoll Hydropower project and Tirana Airport). However, while the legislative environment to support PPPs and concessions has existed for some 10 years or so, as the research in Section 2 has highlighted, the number of operations tendered by the public sector since then is limited and the mortality rate is high by comparison to other PPP markets.

3.1.1 Project selection for the review

With limited availability of initiatives from which to select a sample of projects, this section will consider both availability-pay PPPs and user-pay concessions (acknowledging that not all practices and associated lessons are directly relevant to each type of contract). The scope of the analysis has included major infrastructure projects¹⁴ as well as examples of the more commonly occurring small- and medium-sized PPP projects that are typically developed at local and municipal government level.

For that portion of the sample of projects that failed to reach financial close, consideration was only given to those for which there was a meaningful amount of project preparation activity to examine and where a formal (albeit incomplete) procurement procedure was initiated.

¹⁴ According to Article 100 (Major projects) of Regulation (EU) No 1303/2013, a major project is an investment operation comprising 'a series of works, activities or services intended to accomplish an indivisible task of a precise economic and technical nature which has clearly identified goals and for which the total eligible cost exceeds EUR 50 million'.

The final project list was subject to consultation with the relevant PPP units and other PPP officials in the WBIF beneficiary countries, with agreement being reached on those representative projects where sufficient, reliable data was expected to be available to support the analysis.¹⁵

3.1.2 Projects selected for review

The projects selected for review are presented in Table 5 and summarised below.

- **Albania** - Tirana International Airport ('Nënë Tereza') and an urban waste treatment project in the Municipality of Durres;
- **Bosnia and Herzegovina** - the Corridor 5C Highway PPP project, the dialysis centres for the Ministry of Health and Social Welfare and the City of Sokolac District Heating scheme. All three projects were developed in Republika Srpska;
- **Kosovo*** - Pristina International Airport ('Adem Jashari');
- **Montenegro** - Krnovo Wind Farm, Bar-Boljare Highway Corridor and the Kotor-Lovcen-Cetinjie Cable Car; and
- **Serbia** - the City of Topola street lighting project.

It was not possible to consider projects in **FYROM** due to the unavailability of relevant staff during the post-election transition period that coincided with the execution of the review.

The projects selected can be divided into two broad categories:

- **Major projects developed at national/entity level**, often involving strategically important infrastructure and potential impacts transcending national borders; and
- **Small/medium-sized projects developed either at national/entity level or local government/municipal level**, in response to more local needs.

The sectors chosen and the number of projects selected in each reflect the balance of PPP usage in the Region, whether transportation, energy and environment, social (healthcare) or municipal services.

¹⁵ Many projects identified in the Region as PPPs do not meet the definition of a PPP as used in this report. This is primarily because of the absence of one (or more) necessary component(s), i.e. (i) the construction of a dedicated asset; (ii) the provision of a public service; and/or (iii) the long-term nature of the contractual relationship between the public and private partners.

Table 4 – Review of PPP practices in the Western Balkans: PPP projects selected for review

Project	Project development level	Sector	Estimated value (EUR million)	Expected contract duration	PPP type	Date launched	Status (Q1 2017)
Albania							
Tirana International Airport	National	Transport	34	20	Concession	2005	Operational
Durres Urban Waste Treatment	Local [#]	Environment	8	n.a.	Demand	n.a.	Not yet awarded
Bosnia and Herzegovina							
Corridor 5C highway	National	Transport	2,500	n.a.	Availability		Cancelled
Dialysis Centres	National [#]	Social/Health	2.4	15	Demand	2001/2009	Operational
City of Sokolac District Heating	Local	Energy	15	n.a.	Availability	n.a.	Re-tendered
Kosovo*							
Pristina International Airport	National	Transport	105	20	Concession	2013	Operational
Montenegro							
Krnovo Wind Farm	National [#]	Energy	120	20	Regulated asset	2015	Operational
Bar-Boljare Highway Corridor	National	Transport	2,000	30	Mixed	n.a.	Cancelled
Kotor-Lovcen-Cetinjie Cable Car	Local	Transport	40	n.a.	Demand	n.a.	Cancelled and re-tendered
Serbia							
City of Topola Street Lighting Project	Local [#]	Municipal	1.5	15	Availability	2015	Operational

[#] Project development initiated by an unsolicited proposal from a private partner

3.1.3 Data collection and information gathering on the selected projects

Due to the limited documentary evidence base available for many projects, most information was gathered from interviews held with senior representatives of the relevant public authorities and relevant stakeholders. A standardised approach was adopted to, firstly, compiling essential data about the project and, secondly, the conduct of the interviews.

From the information gathered, a Project Identification Sheet was prepared for each of the selected projects, the details being agreed with the relevant representatives as part of the information gathering process. This comprises the basic elements of the project under examination: e.g. a brief project description; planned or actual value of the contract or amount of capital expenditure; name of the public authority; project preparation and tender processes followed (where applicable) and their chronology; identification of the private partner and investors/lenders who participated; and the current status of the project.

A standardised, semi-structured questionnaire was used when conducting the interviews to ensure consistency. The questionnaire was used to guide discussions regarding the various phases of the project cycle (from project identification to contract management). This helped to give an understanding of the crucial steps followed by the public authorities involved and the main challenges they encountered.

3.2 Review of PPP practices: Project identification phase

In this section, the process, whereby the public authority selects the project for development, is considered. (For the processes used to decide on the PPP option as the means of delivery, see Section 3.4).

From the information made available, each of the projects in the sample appear to respond to well-identified public service needs. The major projects and most of the smaller-scale projects seem to have been developed on well-founded and considered decisions of the policymakers. A number of projects were the subject of unsolicited tenders and, in these cases, some review of the business case supporting the proposal appears to have been made by the relevant public authorities.

3.2.1 Major PPP projects

- These two motorway projects are undoubtedly of strategic importance for the host countries. The **Corridor 5C** project in Republika Srpska is part of the Trans-European Network, so its project development phase was backed by research and studies promoted by the European Commission. The **Bar-Boljare** motorway is also a priority investment for Montenegro and has been recognised by the European Commission in the Indicative Strategy Paper that sets out the

priorities for EU financial assistance for the period 2014-2020 to support Montenegro on its path to EU accession.¹⁶

- The two airport projects at **Pristina** and **Tirana** at the time of project identification were considered flagship projects for each country. At the time of identification, adequate project development budgets were allocated to these initiatives, with additional funding being made available through development aid funds provided by international donors. For Pristina, the Kosovar authorities initially also considered privatisation of the existing airport company PIA JSC before deciding to re-tender a new concession (excluding air traffic control services, however).
- The **Krnovo** Wind Farm, Montenegro was developed in the context of the National Infrastructure Plan 2030 and the National Action Plan for the use of renewable energy. The project identification process included the assessment of the project's ability to deliver clean energy in a reliable way at a competitive cost, and an analysis of its conformity with the institutional framework (including the availability of a feed-in tariff), the pre-existing installed generation capacity, the national energy plan, and related demand and supply factors.

In conclusion, all five major projects considered in the sample appear to respond to important national infrastructure needs that are identified either within national planning frameworks or in strategic development plans.

3.2.2 Small/medium-sized PPP projects

- The decision, at national level, to develop the **Dialysis Centres** in Republika Srpska appears to have been initially prompted by the presentation of an unsolicited proposal rather than via a centrally developed healthcare plan, notwithstanding the acceptance by the public authorities that the provision of such public service was needed. This type of treatment was not readily accessible within the country, with many patients forced to travel abroad, at high social and economic cost.
- The landfill project in **Durres** was developed by the Albanian Ministry of Environment in compliance with national directives on waste management following receipt of an initial unsolicited proposal. The project provides for more efficient disposal of the waste produced by this community, where there is no further capacity in terms of existing landfill and where waste is often dumped illegally (with consequential environmental damage).
- The street lighting project in **Topola** was developed and promoted by the City authority, following receipt of an initial unsolicited proposal. It provides for an enhanced service and the reduction of energy use by the City.
- The district heating project in **Sokolac** was developed and promoted by the Municipality of Sokolac. Its final approval for award is still pending. The provision of efficient heating to private households is viewed as an essential public

¹⁶ European Commission, 'Instrument for Pre-Accession Assistance, Indicative Strategy Paper for Montenegro (2014-2020)', adopted on 18.08.2014.

service. The feasibility and affordability of the project, as envisaged in the tender offer, remains to be determined by the public authority.

- The **Kotor-Lovcen-Cetinjie** Cable Car (or **Cetinjie** Cable Car) was planned as a tourism project to improve access to the region and therefore make it more attractive to international cruise operators as a calling point. The project was expected to generate a number of direct and indirect economic and social benefits for the local community.

3.3 Review of PPP practices: Preliminary project preparation

The review highlighted the fact that major investment projects are more likely than small/medium-sized ones to receive appropriate levels of public funding to assist in the preliminary project preparation stages, i.e. for those activities that are necessary to make the project ready for procurement. Further, the public authorities responsible for these major PPP projects were more likely to appoint and have access to international, expert PPP transaction advisers.

3.3.1 Major PPP projects

The four major projects in the transportation sector included in the sample each had resources allocated during the project preparation phase that enabled the appointment of external, international PPP transaction advisers:

- For the **Tirana** airport project, an international team was appointed that advised the government on transaction structuring and implementation through the procurement process;
- USAID made a substantial monetary contribution to assist in the development of the **Pristina** project, not only by providing the necessary consultancy and transaction services, but also by advocating (and funding) the creation of a PPP Unit within the Ministry of Finance;
- The International Finance Corporation (IFC) provided, from their own resources, consulting and transaction services to the Ministry of Transportation, Maritime Affairs and Telecommunications for the development of the **Bar-Boljare** motorway as a PPP; and
- The EBRD provided grant funding to the Republika Srpska Highway Agency for the appointment of an international PPP transaction adviser (through a separate public tender) for the **Corridor 5C** Highway project.

For the **Krnovo** Wind Farm, the Montenegrin government did not engage project-specific advisers but did have direct access to advisory support through a separate, EBRD-funded programme aimed at reconfiguring the energy sector. This programme was aimed at attracting private investors in independent power production - or 'IPP' - especially in the field of renewables. The EBRD was later to be a financier of the Krnovo project.

3.3.2 Small/medium-sized PPP projects

In the case of the smaller PPP projects in the sample, the use of transaction advisers is more varied.

In some cases, such as for the **Cetinje** Cable Car and the district heating project of **Sokolac**, external advisers were engaged during the project preparation phase in addition to the public authorities' own resources. In both cases, an MDB funded this support. The EBRD directly funded the adviser appointment at Cetinje and through a grant funded the employment of a consultant at Sokolac).

For the **Dialysis Centres** project, the public authorities had done no preparation work on a project of the scope and nature proposed prior to receiving the unsolicited proposal. Whilst the landfill project in **Durres** also originated from an unsolicited proposal, the Ministry of Environment had previously developed a national waste management strategy and national action plan to which the unsolicited initiative was aligned. The Ministry of Environment subsequently reviewed and updated the feasibility study provided initially by the proposer.

The City authority in Topola did not use external advisory services in support of the project preparation phase of the **Topola** street lighting project.

3.4 Review of PPP practices: Rationale for selecting PPP as the project delivery method

For the major projects in the sample, the decision of the authorities to procure their investment at that time through a PPP, instead of through traditional procurement, appears to reflect national strategic considerations rather than any specific circumstances related to the project in question.

In terms of the suitability of each transaction for PPP procurement, there are many examples of similar types and scale of transaction in Europe and worldwide, having been successfully procured as PPPs, and the option to potentially use a PPP was, in each case, considered relevant.

3.4.1 PPP as a tool for delivering nationally determined strategic objectives

For the redevelopment and expansion projects at the airports of **Tirana** and **Pristina**, a key consideration in the decisions of both the Albanian and Kosovar authorities to use a PPP structure was the already high level of public debt and the consequent limited available fiscal space within the national budgets. Both projects are configured as user-pay concessions with no requirement for any upfront capital contribution from the public authority.

However, for both investments, there were also strong strategic considerations cited by the public authorities for using PPP, namely:

- the ability to access new sources of capital which were alternative and additional to the traditional providers of international aid and financial lenders; and

- the ‘demonstration effect’, whereby the success of a major privately-financed infrastructure project could show an emerging jurisdiction to be an investor-friendly environment and so stimulate further inward investment.

The decision in favour of using a PPP delivery model therefore reflected a strategic objective to open up the respective economy to private sector investment and reform public investment practice. However, having made the early strategic decision not to adopt a traditional procurement option, it was apparently not considered necessary to carry out a formal value-for-money test of the PPP option (e.g. by using a public sector comparator).

While seeking private sector participation in the delivery of the project, in both cases the public authority chose to retain control of certain strategic elements. At Tirana Airport, the concession agreement imposes an obligation to execute additional investments on reaching defined threshold levels in passenger throughput. At Pristina Airport, the authorities chose to retain air traffic control operations.

The decision to procure the **Krnovo** Wind Farm on a private sector participation basis was fully aligned with the ‘Energy Development Strategy of Montenegro by 2030’ prepared by the Ministry of the Economy. This strategy recognises, as a priority of government, the development of a competitive energy market with transparent conditions and pricing policies based on market principles. It is aimed at creating the necessary market conditions for the entry of new participants, including independent power producers, suppliers and traders. In seeking to liberalise the market, the preferred contracting approach was therefore one that supported the entrance of new IPP players rather than building new power generation facilities through a traditional procurement process.

For the **Bar-Boljare** project, while a number of operational-led strategic issues were matters of consideration in choosing to use a PPP model, the limited available fiscal space in the national budget and the ability to develop the project using an ‘off-balance sheet’ structure was cited by some of those interviewed as a significant influencer in the choice of using PPP.

3.4.2 PPP as a means to access private and MDB finance

For the two major road projects, many of the same considerations that influenced the decision to use PPP for the two airport projects (as outlined above) also applied. More specifically, in considering using PPP in the road sector, additional influencing factors also included:

- recent trends in the delivery of road infrastructure that offered examples of successful PPP projects across a variety of jurisdictions in Europe;
- the ability to access private sector know-how in building and operating roads; and
- access to new sources of finance, having received expressions of interest from the private sector and international financiers to invest in the Region.

The Highway Agency of Republika Srpska gave further reasons as to why a PPP was attractive to them for the **Corridor 5C** project, including:

- the opportunity to improve the analytical skills within the Agency, with benefits likely to be retained even if the PPP option was not finally selected; and
- the perceived value-for-money advantage of linking the construction and operational phases especially, as was often experienced in the case of traditional procurements, the commitment of funding for long-term maintenance was often lacking.

In both cases the decision to use PPP appears to have been made early in the project preparation process. Consequently, the public authorities did not explore the option of building these motorways using traditional contract methods after this point and no structured value-for-money assessment was therefore made of the PPP option, such as using a public sector comparator.

From discussions, it also appears that the express support of a number of MDBs for these two projects at the early stages of development influenced the decision by the public authorities to use PPP, along with other considerations.

3.4.3 The choice of PPP for delivering small/medium-sized projects

For the other, smaller projects the interviewed officials were often not in a position to express the main reasons why PPP procurement was preferred to traditional contracting approaches due to the passage of time and loss of corporate memory. In the cases of the landfill in Durres and the Dialysis Centres in Republika Srpska, the main driver cited to opt for PPP procurement was the presentation of an unsolicited proposal that had the merits of addressing an existing and unresolved need. In this case, a PPP model seemed to provide an affordable solution to an urgent need that would have been difficult – if not impossible – for the public authority to fund otherwise.

In the case of the Cetinje Cable Car project, the explanation given for the choice of PPP was the technical complexity of a project that the City of Cetinje felt lay outside its capacity to separately develop and operate using its own resources. A PPP offered the ability to link the design and construction of the facility with its operation.

For the City of Sokolac, the representatives of the City expressed their belief that a private partner was likely to deliver a better service than a City-owned one. Since the City is trying to attract the interest of the international community as a tourist and cultural destination, a PPP project was also seen as a way to encourage private sector participation along with international investors. Financial analysis using a public sector comparator was conducted as part of the feasibility study commissioned by the City (using grant funding from the EBRD) in support of the decision to use a PPP.

It was observed through the interview processes that the support of one or more MDBs for the potential use of PPP to deliver even small projects may have been an additional influencing factor for some authorities in the final decision to use a PPP option (such as in Sokolac and Cetinje).

For the City of Topola street lighting project, a PPP model was identified as the preferred choice because it was considered that the involvement of the private sector (rather than the City) was more likely to be effective in both improving service quality and reducing the likelihood of illegal connections to the street lighting network. Before the commencement of this PPP concession, high operational and maintenance costs for street lighting - including the costs of remedying illegal connections - were seen as a disproportionate burden on the public budget. A private company was seen as more likely to enforce legal remedies than a company from the public sector.

3.5 The Procurement Process

3.5.1 Major PPP projects

The project preparation activities undertaken for the major road and airport projects included all the various components normally observed when following international good practices (such as preparation of a CBA, FS, ESIA, market and traffic studies and a risk register). These activities were supported with the assistance of suitably qualified PPP transaction advisers appointed by the public authorities.

These major projects each represented, at the time of their launch onto the market, new initiatives as 'pathfinder' projects and particular legal and institutional issues needed to be addressed to enable compliance with the respective procurement processes. For instance, in the case of **Tirana** Airport, the national Parliament had to ratify the concession contract, while a *lex specialis* was necessary to enact the **Bar-Boljare** motorway project.

▪ Tirana Airport

The procurement process for the Tirana Airport followed a two-stage international tender procedure (request for pre-qualifications followed by a request for proposals). Out of the 18 companies/consortia expressing interest in the transaction, four entities were invited to tender. At the end of a competitive dialogue procedure, the contract was awarded to a consortium led by Hochtief AirPort GmbH in association with DEG and the Albanian-American Enterprise Fund.

▪ Pristina Airport

The PPP Inter-Ministerial Steering Committee rather than the airport company acted as grantor in the procurement of this PPP contract. The procurement process followed a two-stage international tender procedure. The three pre-qualified tenderers (Limak/Aéroport de Lyon, Fraport and Bouygues/Egis) received the draft concession contract as an attachment to the Request for Proposals and were given the opportunity to submit comments and proposals for amendments. The Bouygues/Egis consortium withdrew from the competition during this second phase with only two offers being received. The contract was awarded to Limak/Aéroport de Lyon on the basis of having offered the highest concession fee (calculated as a percentage of annual gross revenues).

▪ Corridor 5C

For the Corridor 5C project the structure of the transaction was based on availability payments from the public authority. While up to 40 companies initially expressed interest in the project, only two consortia (Samsung/Egis and Strabag/Bouygues) submitted requests for pre-qualification when the procedure was launched and one of these - Samsung/Egis - withdrew from the competition prior to the start of the competitive dialogue phase. The remaining consortium, led by the Strabag/Bouygues consortium, submitted an offer. However, the price exceeded the estimate prepared by the public authority as part of the business case and, unable to reach agreement on better terms, the competition was eventually abandoned.

▪ Bar-Boljare

This project was structured on a mixed payment basis, with a combination of limited revenue risk on toll payments and availability payments. When submitting their offers, tenderers were invited to indicate the level of availability payments they required in combination with their estimates of toll income.¹⁷ Accordingly, the availability payments were intended to offer some mitigation of traffic risk. A two-stage procedure was adopted (following a derogation from the general legislation prevailing at the time of launching the tender (2008), which only allowed a single-phase tender process).

The pre-qualification criteria to be used together with the expected schedule and stages of the tender process, tender evaluation criteria, draft output specification, draft PPP contract, a risk matrix, and draft payment mechanism all formed part of the initial tender documentation. Six candidates were pre-qualified (Strabag, Bouygues, Alpine/Porr, Shikunbinui, Aktor, Konstruktor) with a preferred tenderer selected following the second, dialogue phase. Unfortunately, the timing of the selection of a preferred tenderer coincided with the height of the international financial crisis and the withdrawal of the expected potential sources of finance. As a result, the winning consortium was unable to secure the necessary financing and the competition was abandoned.

The Montenegrin authorities relaunched the project as a traditional (non-PPP) infrastructure procurement and a contract was eventually awarded on this basis.

▪ Krnovo Wind Farm

The Krnovo Wind farm project was awarded on the basis of a direct negotiation with the grantor, following the presentation of an unsolicited proposal. The private partner provided technical feasibility studies as part of its submission to the authority, which was reviewed by a tender commission. This included an Environment and Social Impact Assessment prepared by a consultant drawn from a list of eligible firms put forward by the grantor. While no project-specific cost benefit analysis was carried out to inform the commercial offer, the previously published

¹⁷ The concession was to be awarded to the tenderer that had requested the lowest cumulative availability payments valued in terms of NPV.

National Action Plan for the use of renewable energies provided guidance to the grantor on the acceptable levels of tariff (expressed in euros/kWh).

- **Small/medium-sized PPP projects**

For the procurement process for both the **Cetinjie** Cable Car and the City of **Sokolac** District Heating projects, a two-stage procurement methodology was used. In the case of the cable car project, the request for pre-qualifications received only one submission, which did not conform to the requirements of the tender, so the process had to be abandoned. In the case of **Sokolac**, out of the five companies that responded to the request for pre-qualification, only two companies complied with the minimum requirements. Of the two complying entities, one withdrew prior to the start of the second phase, at which point the City abandoned the competition, not wanting to proceed with just one tenderer.

For the remaining three projects in the sample, an unsolicited offer initiated the process for the award of the contract. In the cases of the **Durres** landfill project and the **Dialysis Centres** in Republika Srpska this was possible because the processes started before the enactment of new PPP laws which, for the two jurisdictions in question, now require a two-stage competitive tender to allow a PPP contract to be awarded. The **Topola** project complied with current legislation in Serbia, which allows consideration of 'self-initiated' proposals.

3.6 Risk Allocation

3.6.1 Major PPP projects

From information that was gathered in the course of this review, it was observed that in most cases the risk allocation model was guided by the overarching principle that each component of risk should be “allocated to the party that is in the best position to manage it”.

- **Airport concessions**

The risk allocation models adopted in the **Tirana** and **Pristina** airport concessions are similar in the transfer of design, construction, operation, maintenance and market/demand risks to the private partner, while the public partner retains regulatory risks. In these cases, the public authority also retains certain other risks associated with operational aspects of the investments such as provision of air traffic control services or the delivery of necessary ancillary infrastructure, e.g. access roads.

As concessions, airport projects in the Region may be considered less exposed to political risk than other kinds of PPP infrastructure projects. For example, the risk of closure (or severe disruption) of the main international airport in a sovereign country would likely be seen as harmful to the economy. Additionally, aviation revenues are normally denominated and collected in foreign currency (i.e. dollars or euros) so they are not exposed to the same level of risk of devaluation of a local currency.

Finally, while unitary costs of non-aviation revenues may be denominated in local currency, they are often indexed to a basket of international currencies to mitigate the risk of devaluation of the local currency.

Environmental risk is a shared risk in the contracts. While the public partner retains the risk relating to any pre-existing conditions of the site, the private partners generally undertake to comply with the statutory environmental requirements throughout the concession period.

The public and the private partners also share financial risks: while the private partner remains responsible for making financing available to the project and for reimbursing the lenders, in the event of early termination the public partner commits to make the lenders whole of any residual amount still due and outstanding. This obligation remains valid irrespective of the reason behind termination (default of the private partner, default of the public partner or force majeure).

In conclusion, the risk register in these two projects at the time of financial close was broadly in line with international practice prevailing at the time.¹⁸

▪ Road PPPs

While ultimately abandoned, in both road PPP projects the design, construction, operation and maintenance risks were intended to be allocated to the private partner. Each contract, however, treats demand/traffic risk differently. The **Corridor 5C** project was an availability-based PPP model while in the **Bar-Boljare** project the public authority sought to transfer a part of the demand/traffic risk to the private partner.

The final offer from the one remaining tenderer for **Corridor 5C** was unaffordable as it exceeded the grantor's own cost estimates. While there was, in the final stages, reduced competitive pressure it is understood that the technical specifications required by the public authority were viewed as unnecessarily demanding, with the project perhaps seen to have been 'over-designed'. This aspect may have contributed to the higher price received and subsequent the affordability issue. Further, despite the public authority retaining demand/traffic risk, the sovereign credit rating remained a material concern for potential investors and most likely affected both the financeability and bankability of the project.¹⁹

For the **Bar-Boljare** motorway, the Montenegrin authorities proposed to mitigate traffic demand and finance risk through the provision of an upfront capital grant of EUR 100 million (out of an estimated total capital cost of EUR 800 million) to the private partner, in addition to providing substantive annual availability payments (expected to represent up to 85% of the annual revenues of the private partner).

¹⁸ It should be noted however that, according to current EU good practice, public authorities are discouraged from accepting responsibility for full debt repayment in the event of early termination of the concession resulting from default of the private partner. Under Eurostat rules, such a provision would result in the project being classified 'on balance sheet' for national accounting purposes.

¹⁹ In the case of this project, the primary obligor for the availability payments would have been the public company 'Republika Srpska Motorways', with a guarantee from Republika Srpska (in turn backed by a sovereign guarantee issued by Bosnia and Herzegovina). The wider context was a sub-investment grade sovereign credit rating (Standard & Poor's and Moody's current credit ratings for Bosnia and Herzegovina stand respectively at B and at B3).

Having six pre-qualified tenderers and three valid tender submissions in response to the request for proposals suggests that the risk profile was acceptable to the market. Unfortunately, the successful tenderer was unable to secure the necessary finance for the project.

▪ **Krnovo Wind Farm**

This project has a standard risk allocation structure for the sector, with the private partner assuming design, construction, operation and maintenance risks. The risk of not having sufficient wind to operate the turbines at the expected operating levels has also been transferred to the private partner. A feed-in tariff that is guaranteed by the State for a period of 12 years mitigates the pricing risk for the operator.²⁰

Securing the rights to occupy the site and getting all the necessary permits and licenses was a complicated task, with the risks shared between the public partner (finalising the lease of the land) and the private partner (obtaining permits and licenses). The project also required the construction of a 26 km electricity transmission line, which was within the scope of the concession (thus reducing the interface risk), but for which the private partner carried the risk of obtaining all necessary rights of way.

In conclusion, the risk allocation of this project seems to be in line with international practice for similar types of PPP.²¹

3.6.2 Small/medium-sized PPP projects

The risk transfer proposed appears to be reasonably conventional in most of the smaller sized PPP projects. In the case of the landfill in **Durres**, the private partner is responsible for the expropriation of the site and the construction, operation and demand risks. Price risk is retained by the public partner via a pre-determined gate-fee, but there is no guarantee of a minimum level of revenues should demand fall.

In the case of the **Sokolac** District Heating project, the risk allocation model transfers construction/rehabilitation and operation risk to the private partner, while the grantor retains the entire demand risk, effectively acting as the offtaker of the heat produced and delivered to end-users. A similar arrangement is in place in the **Topola** project where the private partner assumes installation and operation risk.

A full, final risk allocation was apparently not developed for the **Cetinje** Cable Car project as the project was cancelled before the issue of the request for tenders. However, it is understood that the risk allocation planned would generally have been in line with international practice for an availability payment-based PPP, where the private partner retains the construction, technical operation and maintenance risks.

²⁰ In Montenegro, electricity from renewable sources is supported through a feed-in tariff. Operators of plants that generate electricity from renewable energy sources can obtain the status of 'Privileged Producer/Generator'. The energy market operator (COTEE) is legally obliged to buy the electrical energy from privileged producers and pays the incentive for a period of 12 years after having signed a formal agreement.

²¹ It should be noted, however, that in this case it was not possible to analyse the early termination clauses of the concession agreement.

For the **Dialysis Centres** in Republika Srpska a significant risk transfer appears to have been made with the private partner taking full construction, equipment procurement, operational and demand risks. However, the grantor seems to have limited ability under the concession contract to control the quality and price of the services provided by the dialysis centres.

Table 6 below summarises how the main categories of risk were allocated in the projects included in the sample.

Table 5 – Overview of risk allocation for selected sample projects

Project	Design & Construction	Operation & Maintenance	Demand/ Market	Permits	Regulatory
Tirana Airport	Private	Private	Private	Shared	Public
Pristina Airport	Private	Private	Private	Shared	Public
Corridor 5C	Private	Private	Public	Shared	Public
Bar-Boljare	Private	Private	Shared	Shared	Public
Krnovo Wind Farm	Private	Private	Public	Private	Public
Dialysis Centres	Private	Private	Private	N. A.	N. A.
Durres Landfill	Private	Private	Private	Private	N. A.
Sokolac DH	Private	Private	Public	Private	Public
Topola Street Lighting	Private	Private	Public	Shared	Public
Cetinje Cable Car	Private	Private	Public	Private	Public

3.7 Bankability and financing methodologies

Out of the ten projects in the sample, five did not reach financial close (for the reasons previously outlined). The major PPP projects that reached financial close were the two airport concessions and the Krnovo Wind Farm.

- **Tirana** Airport was financed by a combination of limited recourse debt and equity. The equity of the private partner Tirana International Airport (TIA) was provided by Hochtief AirPort GmbH (47%), DEG Deutsche Investors und Entwicklungs Gesellschaft (31.7%) and AAEF - Albanian-American Enterprise Fund (21.3%),²² whereas senior debt was provided by the EBRD, Alpha Bank Albania and DEG.
- In the case of **Pristina** Airport, the equity of the private partner Limak Kosovo International Airport J.S.C. was subscribed by the Turkish conglomerate Limak (90%) and by the French company Aéroport de Lyon (10%). Debt to the private

²² The equity of TIE was recently sold to Keen Dynamics Limited (a joint venture between China Everbright Limited and Friedman Pacific Investment).

partner was provided by Turkish banks, on the basis of a security package that included a corporate guarantee from Limak.

- For the **Krnovo** Wind Farm project, equity to the private partner Krnovo Green Energy was provided by Akuo Energy, the French renewable energy producer, whereas limited recourse financing was supplied by the EBRD and KfW IPEX-Bank.

Limited recourse financing has been available to projects in the infrastructure sector for many years now and the PPP project structures financed in this way seem largely repeatable and predictable. However, the bankability of a PPP project in a particular market will always remain dependent on the receptiveness of the banking market to the opportunity and risks it presents. This is influenced by, among other things, the 'risk appetite' prevailing in the financial markets, the relative scarcity or abundance of bank capital and prevailing regulatory and liquidity constraints. In the case of the Corridor 5C project, as has already been indicated, the credit weighting of the sovereign (in the context of the prevailing international financial crisis) weighed heavily on the ability for the sponsor to secure the required finance.

3.7.1 Small/medium-sized PPP projects

Little information was available during the review on the financing arrangements for the **Dialysis Centres** and the **Topola** street-lighting project although it is understood that for the Topola street lighting project no special purpose company was established as would be commonly seen in a PPP transaction.

3.8 Value for Money

In this section, the analysis made is restricted to the five sample projects that reached financial close (i.e. **Tirana**, **Pristina**, **Krnovo**, **Topola** and the **Dialysis Centres**).

3.8.1 Airport concessions

The 20-year concession agreement²³ for **Tirana** Airport was signed in October 2004. The private partner commenced operations in 2005, so the infrastructure has been in operation already for more than 10 years. Initial investments included the construction of a new passenger terminal, new car park areas, new access roads and additional operational facilities (e.g. wastewater treatment plant), all of which were completed on schedule. The structure of the concession agreement allowed for a 'phased' construction period, with new investment obligations triggered automatically on reaching certain, predetermined levels of annual passenger traffic. This approach appears to have ensured that development at the airport has avoided the potential risk of 'over-design' (i.e. building today an infrastructure that will provide, for some time, over-capacity for the actual passenger throughput). Operational standards have reportedly been very high throughout the life of the concession.

²³ As it was not possible to review the concession agreement, the analysis is based exclusively on what was disclosed during a meeting with the Civil Aviation Authority last January 2017 and additional desk research.

The private partner was granted a one-off exemption from customs duties, import taxes, and VAT on imports and materials supplied for construction and reconstruction work, although a part remains liable to corporate tax and VAT at the statutory rates. The Albanian government also receives a concession fee, which is structured as follows: (a) an initial lump sum of EUR 3 million; and (b) a variable annual fee equal to 30% of the distributable profits of the private partner.

Overall, the authorities at Tirana consider that the contract is fair, with an appropriate balance accorded to a genuine partnership spirit. The parties involved consider that the project delivers value for money (although there is no quantitative analysis to demonstrate this).

The concession agreement of the **Pristina** Airport project includes similar provisions to those in the Tirana agreement, with a tax holiday on imported construction materials and equipment but full tax liability in the operation phase. The concession fee, however, is structured differently, with two lump-sum payments (of EUR 2 million) in each of the first two years of the concession followed by the payment of an annual royalty. This royalty fee varies, being a fixed percentage of the actual turnover of the private partner (and therefore independent of the existence of distributable profits).

Construction works were not phased in relation to passenger usage, as in the case of Tirana, such that the airport is currently operating well below its full capacity. During the interview with the private partner, a 50% factor was mentioned. Operating standards are reported as being excellent.

As with Tirana, it is not possible to quantify whether the project represents value for money at this point in the delivery of the concession, although the status of the project in terms of capacity provided versus the level of usage could be indicative of a lower efficiency of investment at Pristina. Although the comparative levels of the various aviation charges were not researched in detail as part of this review, some interviewees indicated that charges at Pristina are higher than elsewhere in the Region (including Tirana). Assuming the higher charges are related to the level of investment made under the PPP, it could be inferred that not having phased construction works (linked to passenger throughput) has put a heavier financial burden on the private partner. The 'royalty' structure of the concession fee may also be considered less favourable and attract a price premium. An additional influence on the perceived higher costs may be related to the private partner having to employ the existing workforce of the previous airport company (544 people) for a minimum period of three years. Of course, a higher charge is not, in itself, an indicator of poorer value for money (when compared with the other airport).

3.8.2 Other PPPs in the sample that reached financial close

It is not possible to be determinative as to the existence of value for money in respect of the other projects in the sample. In the case of the **Krnovo** project, power production is a regulated sector in Montenegro. To the extent that the wind farm can operate sustainably within the statutory feed-in tariff levels, it would appear that the project

passes a general affordability and VfM test.²⁴ The project was not yet operational at the time of the review.

For the **Topola** street lighting project, City officials interviewed as part of this review expressed their satisfaction with the level of savings achieved and the enhancements in the quality of service that the projects had delivered. City officials additionally observed that, because of the better-maintained street lighting, there was reportedly a reduction in crime levels in the city.

For the **Dialysis Centres** the absence of a public authority tender-stage financial model prevents a comparative analysis to determine whether the project represents value for money.

3.9 Contract management

3.9.1 Airport concessions

At **Tirana** Airport, the Civil Aviation Authority (CAA) manages the concession agreement, which comes under the Ministry of Transport and Infrastructure. The contract appears to work well in operation. The choice of phased delivery of the facilities does not seem to have overly complicated the management of the concession contract, nor has it created any sense of confrontation between the public and private partners. The phase two and phase three investments have been undertaken in a timely manner.

The contract outlines with clarity the service obligations of the private partner (which reflect international norms in aviation operation²⁵) together with the penalties that the grantor is entitled to apply in the event of non-compliance. The CAA has offices and personnel at the airport compound and so monitors the performance of the operator on a continuous basis.

Two major events occurred during the life of the concession. The first was a change in ownership of the private partner and the second a request by the grantor for the private partner to waive its exclusivity for handling international flights within Albania. Neither event was anticipated in the original contract; but, in both cases, a satisfactory agreement was reached reflecting the goodwill of the two partners and evidence of the success of the initiative.

At **Pristina** Airport, construction was completed on schedule. Service requirements are well outlined in the contract, with cross-reference also made to measurable, international standards.

The concession contract - for which the PPP Inter-Ministerial Steering Committee acted as grantor - was at first managed by the PPP Unit. In response to observations that the contract should be managed by an entity independent from the grantor, this arrangement was recently modified and an *ad hoc* Project Monitoring Unit (PMU) has now been established at the Ministry of Finance. The PPP Unit still maintains an office

²⁴ The statutory feed-in tariff levels are assumed to reflect fair market prices.

²⁵ The required levels of service are often cross-referenced with international standards set by entities such as ICAO, IATA and FAA.

at the airport compound and exchanges information with the newly-established PMU. During the interviews with the private partner and the PMU it was emphasised by both that each has a positive, cooperative and problem-solving attitude.

The Kosovar authorities have recently expressed their intention to extend the length of the runway of the airport to 3.0 km (from 2.5 km). It is unclear whether it is possible to amend the contract under existing legislation due to the expected high cost of the extension relative to initial contract value. This may require the extension works to be put out under a separate, competitive tender.

3.9.2 Other PPPs in the sample that reached financial close

The **Krnovo** wind farm has not yet commenced operations. The contract is managed by the Ministry of Economy, which can rely on a skilled team of professionals. During the interview with the private partner it was stated that cooperation with the grantor was very good during the construction phase, especially in respect of obtaining the necessary permits and licenses and in the delivery of some ancillary infrastructure works.

4. Conclusions, lessons learnt and recommendations

4.1 Conclusions and lessons learnt

1) There is limited evidence that the identification of projects and the decision to use PPPs follow a systematic process of assessment for suitability

In conducting the review of each of the major projects in the sample, limited documentary evidence was found that recorded the process that determined the suitability of the project to be delivered as a PPP. While there was an evidence base that supported the use of PPPs for similar projects in other jurisdictions, a formal assessment of the suitability of the particular investment may have highlighted the challenges that some projects were to face in the later project development and delivery processes.

The decision to use PPP as the contracting method was taken very early in the project identification process for these projects, which often meant that further qualitative or quantitative assessments of the benefits of the PPP option – including a formalised VfM assessment – did not take place. The conduct of a structured VfM assessment that included a quantitative analysis of costs, in particular for the large projects, may have informed later decisions (or prompted the need for a decision) during the project preparation and procurement phases that may have influenced or indeed changed the course of the project. For the projects that achieved financial close, an *ex-ante* VfM assessment might also have been useful in making subsequent *ex-post* assessments, thus demonstrating whether the expected VfM is being delivered.

There was even weaker evidence of the rationale and decision to use PPP in the small/medium-sized projects and, more especially, in the instances of the unsolicited projects. In these cases, the pathway for delivering the project using the private sector is often almost 'ready-made' and therefore appears to go unchallenged, especially if there is no apparent alternative means of delivery available to the public authority. Again, the use of a systemised suitability test may have helped to identify issues that would have prompted decisions to change the course of action including on whether to proceed. A VfM qualitative assessment (perhaps supported by some quantitative analysis) could have identified barriers earlier and allowed mitigation measures to be developed.

2) Institutional arrangements would benefit from a clearer definition of roles and responsibilities and the allocation of dedicated resources

It is probably not without coincidence that the country that has implemented the most projects in recent years is Albania, where a dedicated PPP unit is active in supporting its public authorities in the development and delivery of PPPs. An observation of both the 2014 Study and this latest review is the continuing lack of clarity in a number of the institutional arrangements that are in place to govern the use of PPPs within the Region.

The role of the respective Ministries of Finance appears well defined and consistent, in particular in having central responsibility for setting broad strategic objectives and acting

as a 'gateway' approver of contracts prior to their final commitment by the public authorities.

There is less consistency apparent in the clarity of the role played by commissions for concessions, especially where they convene in a more ad hoc capacity. Such committees have important roles in demonstrating political support for a project, as well as challenging those charged with its delivery. Public authorities would, however, most likely benefit from receiving more coherent and consistent administrative support and technical guidance in the development of their PPP projects – a role that is not suited to the commissions. Instead, this may be best served by having a dedicated and appropriately resourced central PPP Unit, as is the case in Albania (ATRAKO) and Kosovo*.

3) Major PPP projects generally demonstrate good practice in project preparation and procurement phases

Analysis of the projects included in the sample has shown that the five major projects generally adopted international good practice in the preparation and procurement phases. With the exception of the Krnovo wind farm, these projects were procured following recognisable, conventional international tender practices and procedures. Adequate project preparation budgets appear to have been available to enable the appointment by the public authorities of suitably experienced PPP project advisers to advise on the preparation and transaction phases. The subsequent competitions appear to have been appropriately managed in a transparent and non-discriminatory manner.

The Krnovo project originated from an unsolicited offer and therefore did not use the same public procurement process as the other major projects. Much of the cost of the project preparation activities was borne by the private promoter rather than the public authority (for example, the public authority appointed no specialist PPP advisers.) However, it is common in the power sector, where liberalisation processes in the electricity sector have taken place, for the private promoter to take the lead in such activities and to bear the costs. The subsequent contract awarded appears to be structured appropriately in supporting an institutional framework conducive to private sector participation.

As was highlighted earlier, in Section 3.3 the use of PPP transaction advisers was not as consistent in the smaller PPP projects examined as in the major projects, with more varied practices adopted in the initial preparation and procurement phases and in the administration of the projects.

4) Appointing suitably experienced PPP transaction advisers brings added benefits to the preparation of projects – but does not necessarily guarantee project success

The involvement of specialist transaction advisers to the two airport concessions was found to be an intrinsic part of the success of these two projects in promoting an internationally competitive procurement process. The contracts signed are obviously working well and to international norms.

While specialist PPP project advisers were also appointed to the two road projects, neither reached financial close. This failure is clearly not attributable to the use of transaction advisers; however, in both these cases the public authorities (together with their advisers) were most likely over-optimistic in assessing the capacity, responsiveness and risk appetite of the market, including the potential private sector operators and financiers for the projects.

While the 2008 worldwide financial crisis clearly affected the ability of the Bar-Boljare PPP tender to reach a financial close, the consensus view amongst those spoken to is that the project was very unlikely to be affordable in its proposed configuration. There is a general view in the Region that, in the case of the Corridor 5C project, the public authority overestimated the capacity of the private sector to undertake a high-value contract characterised by significant technical risks (resulting from the hydrogeological configuration of the site). The sovereign credit rating at the time of the tender (combined with the high technical risks) also meant that private finance was ultimately unaffordable or inaccessible.

5) The early involvement of MDBs can bring valuable assistance to the preparation of projects – but does not necessarily guarantee project success

MDBs are active in the Western Balkans and maintain an ongoing policy dialogue with governments, including on infrastructure development issues. Their involvement in the sample projects includes the disbursement of project preparation grants (e.g. Pristina and Sokolac projects), provision of project advisory services (both formal and informal pro bono services; e.g. Corridor 5C and Cetinje projects) and as mandated transaction adviser (e.g. Bar-Boljare project).

Of the major projects that reached financial close, two were supported by the EBRD and the KfW/DEG group (Tirana Airport and the Krnovo Wind Farm) and one by USAID (Pristina Airport). Indeed, it is likely that in the prevailing investment environment such large PPPs can only succeed with the participation of MDBs and the rigour required by their investment decision processes. It is notable that domestic financial institutions have yet to play a meaningful role in the PPP sector.

Although the support of MDBs does not guarantee per se the success of an initiative, their role in transferring knowledge and best practices to public authorities in the Western Balkan region has clearly been very influential in the subsequent delivery of the assets and services of the PPPs.

However, the case studies for some of the smaller PPP projects also highlight the potential pitfalls of such MDB involvement, where the ambition to engage with a MDB can potentially distract from the fundamentals of the project and the commercial dynamics (and realities) of smaller-scale investments. Despite the benefit of support in the project preparation phase (e.g. in the preparation of feasibility studies), a number of the smaller projects examined that had MDB support were ultimately abandoned in the procurement phase because of poor market development.

6) Using a PPP will not overcome external market factors or make an unsound project better

It is perhaps surprising that two of the most successful PPP projects in the Western Balkans (the two airports) are fully exposed to market risk, while the apparently less risky, large availability-based road projects failed to achieve financial close. This appears to be at odds with the rest of the European PPP market where demand-based PPPs have been difficult to achieve and close in recent years. The willingness to accept availability-based PPPs is, however, a reflection of the perceived relative strength of an implicitly government-backed payment over a market-based payment.

The fundamental economic, social and financial soundness of the project is of far more relevance and importance to potential investors and financiers than the presence of a State-backed payment or guarantees. Investors may prefer a demand-based payment that is essentially independent of the sovereign country risk (e.g. international air travel) to a State-backed scheme. While the sovereign credit ratings within the Region remain below normal institutional investment grade levels, the presence of undertakings or guarantees at the national or sub-national level is therefore unlikely to offer an enhancement to a project that does not have a sound economic basis.

It is likely that these market dynamics, associated with the underlying economic conditions within the Region that limit investor appetite have influenced the participation rates in smaller PPP projects.

As highlighted above, some of the smaller PPP projects perhaps had weak business cases from the start, notwithstanding poor capacity within the market to undertake PPPs. In these cases, private sector involvement did not change the likelihood of success of delivery.

7) The local banking and financial markets lack capacity to undertake large-scale project finance contracts

Each of the major projects considered in the sample relied entirely on external financing which mainly came through the MDBs active in the Region. Such financing was also made in a currency other than the base (local) currency. The lack of experience and capacity within local markets to support project finance transactions will continue to weigh on the ability of the Region to develop PPPs at scale and most probably will require further development and capacity within public authorities in order to convince other international lenders to participate in projects. Good project preparation and demonstrable capacity to support the deliverability of PPPs will be essential to gaining this confidence.

8) Unsolicited proposals from the private sector are unlikely to deliver VfM

Four of the ten projects in the sample were unsolicited proposals, of which three have successfully achieved financial close and the fourth awaits final approval (which is expected). Does this mean that unsolicited proposals are as likely to succeed and therefore deliver as good or better results than those that follow a competitive tender procedure?

Firstly, the sample considered is not representative of the wider experience in the Region of managing unsolicited proposals. There are strong anecdotal indications (based on the interviews held for this review) that unsolicited proposals are a common feature of market activity in the Western Balkans (and not just for PPPs) with very many of these discarded by public authorities after the first, preliminary analysis.

The review of the sample projects has shown that there can be a significant asymmetry in the quality of information held by the public authority and private partner in these cases. Often, the public authority has not previously developed a business case and is therefore unable to negotiate effectively with the private partner, reducing the ability to confirm the existence of VfM. A systematic approach to suitability testing and VfM assessment (qualitative and/or quantitative) may assist in identifying any needs for more information, or to direct the public authority to consider other options.

Further, there is often evidence of poor or no competitive pressure in the period when the offer is being considered. In some cases, other prospective tenderers may not be motivated to invest time, money and resources on an opportunity for which the original proponent has already spent time and effort. In other instances, national legislation can serve to give a commercial advantage within the tender process to the unsolicited proposal (e.g. through crediting the original proponent with a bonus of up to 10% of the marking scheme in the evaluation process).²⁶ This mechanism likely discourages the presentation of competing offers and diminishes the potential for better VfM.

This review has highlighted, however, how the potential assistance of an independent PPP Unit might help public authorities to manage these shortfalls and difficulties and perhaps could help to devise ways of providing enhanced scrutiny with regard to the contract award decision. Further, while not specifically identified in the course of the review of these projects, it is likely that the availability of a standardised form of PPP contract may assist in making any such unsolicited proposals accepted coherent with other PPPs and with practice in the Region.

4.2 Recommendations

From the review of practices and processes currently adopted in the Region and drawing from the experience of the sample PPP projects presented in Section 3, a number of key lessons have been identified, as described in Section 4.1. Based on these, the following recommendations are made for public authorities responsible for the identification, preparation and delivery of PPP projects in the Western Balkans.

These recommendations are largely reflected in the terms of reference established for the 2018 EPEC Study, as outlined in **Section 1**, as the findings do not materially depart from the observations made in 2014 and are therefore addressed in other outputs of the 2018 WBIF Study:

- 1) Implement a more **systematic approach to assessing the suitability of projects to use PPP** as part of the project identification stage; for example, by using EPEC's Project Preparation Status Tool (PPST) as developed under the 2014 Study.

²⁶ For instance, this is the case in Albania.

-  *Workshops held throughout the Region focusing on the use of EPEC's PPST as part of capacity-building activities.*
 -  *Detailed guidance prepared on how to test the suitability of a project to use a PPP method: A Guide to the Qualitative and Quantitative Assessment of Value for Money in PPPs*
- 2) Implement a consistent approach to **assess and demonstrate the potential for value for money of a PPP** in the delivery of a project.
-  *Detailed guidance prepared on testing PPP value for money once the suitability of a project to use PPP is assessed: A Guide to the Qualitative and Quantitative Assessment of Value for Money in PPPs*
- 3) Develop **guidance on how to use PPP transaction advisers** where public capacity is inexperienced or unavailable.
-  *Guidance prepared on appointing PPP transaction advisers: A Guide to Preparing and Procuring a PPP Project*
- 4) Develop templates and guidance in the **preparation of the Terms of Reference for the PPP transaction advisers**.
-  *Guidance prepared on the planning, preparation and procurement of PPPs (including direction to sources of guidance on the use of PPP transaction advisers): A Guide to Preparing and Procuring a PPP Project*
- 5) Consider establishing **dedicated national PPP units** to help support public authorities to develop and implement PPPs, similar to those established in Albania and Kosovo*.
-  *Guidance prepared on the potential role of a PPP unit in supporting a public authority in the planning, preparation and procurement of PPPs: A Guide to Preparing and Procuring a PPP Project*
- 6) Consider establishing a **forum to exchange knowledge and share experience in the development and implementation of PPPs** for the benefit of public authorities across the Region.
-  *Communications with key stakeholders in the Region of the final outputs includes a proposal for the creation of a regional exchange forum: A Guide to Preparing and Procuring a PPP Project*
- 7) Further **harmonise national public procurement rules with the 2014 EU directives** on public procurement and concessions to assist in the development of more consistent practices across the Region, especially in relation to concessions.

 *Guidance prepared on the planning, preparation and procurement of PPPs in line with EU public procurement principles and extant directives: A Guide to Preparing and Procuring a PPP Project*

 *Guidance prepared on the development of the pre-qualification and tender processes for PPP projects in line with EU public procurement principles and current directives (taking account of national rules): PPP Procurement Handbook*

8) Consider developing **national guidance rules on how to manage unsolicited proposals when using PPP**, including standardised terms to be adopted in any PPP contract.

 *Detailed guidance prepared on standard contract provisions for availability-based PPPs, taking account of national rules: A Guide to the main provisions of an Availability-based PPP Contract*

Annex A – Closed projects 2001-2017

Data included in the following table are an EPEC aggregation of information collected from commercial databases specialised in infrastructure projects and (where available) material provided by the Region's national PPP-related institutions. Wherever possible the PPPs included in these tables have been reviewed by national PPP bodies. This dataset cannot be assumed to be comprehensive as closed projects may have been missed, particularly smaller projects not registered at national level.

Table A – Closed PPP projects over the period 2001-2017

Project	Year of FC	Sector ¹	Value ² (EUR millions)
Albania			
Mother Teresa Airport Terminal (Tirana)	2005	Transport	34
Yacht port (City of Durres)	2011 ⁵	Transport	28
Durres East Terminal	2013 ⁵	Transport	15
Yacht port (Turrës, Komuna Synej, Kavajë)	2013 ⁵	Transport	32
Hemodialyses Service	2014 ⁶	Health	9
Landfill in Elbasan	2014 ⁵	Environment	22
Marina in Durres	2015 ⁵	Transport	10
MBM Porto Romano Durres	2015 ⁵	Transport	9
Marina in Shengjin	2016 ⁵	Transport	5
Milot-Morine motorway	2016 ⁵	Transport	15
Landfill in Fier (including energy production)	2016	Environment	27
Bosnia and Herzegovina			
Dialysis centres (2 centres)	2001	Health	2
Dialysis centres (6 centres)	2009	Health	n.a.
Radiotherapy centres (2)	2007 ⁴	Health	n.a.
FYROM			
Airport project (Skopje and Ohrid)	2010	Transport	100
Sports complex	2013	Social & Community	8
Public lighting systems	2012	Social & Community	2
Technological Development Zone – Tetovo	2013	Government Buildings	3
Administrative office building and parking	2013	Government Buildings	13
Administrative office building	2012	Government Buildings	<1
Kosovo*			
Pristina International Airport	2010	Transport	100
Peja Urban Bus ³	2013	Transport	4
Infrastructure adjustment – Gjilan high schools campus	2013	Education	1
Montenegro			
Wireless Montenegro	2013	Telecommunications	12
Student Accommodation Podgorica	2012	Social & Community	8
Podgorica urban development	2012	Social & Community	53
Meljine-Putijevci road project	2011	Transport	18
Serbia			
Novi Sad FTTH network reconstruction and building	2012	Telecommunications	47
Urban refurbishment - City of Belgrade ⁵	2016 ⁵	Transport	95

Notes to Table A1

1. All sectors, excluding electricity generation;
2. Value might refer to value of contract or CAPEX, converted at times from non-EUR currencies; Terminated
3. Operational since 2007 and 2013, no data on FC and CAPEX
4. Contract awarded
5. Start of operation

Annex B – Project Identification Sheets

Albania – Tirana International Airport	
Project description	Upgrade and expansion of airport facilities, construction of a new passenger terminal, cargo and access roads, etc., improving safety and security standards, and operational standards
Awarding authority	Ministry of Transport and Industry
National/Sub-national	National
Region/City	City of Tirana
Sector	Transport
Sub-sector	Airports
Availability-pay or User-pay	User-pay
Project value (CAPEX)	EUR 34 million
Project preparation process	
Technical, financial and legal feasibility studies conducted	Yes
Cost-Benefit Analysis	No
Environmental and social impact assessment	Yes (by private partner)
Rationale for the project and its procurement as a PPP	Refurbish existing airport and construct new facilities, with the PPP making it possible to access private financing and international operating expertise
Involvement of PPP unit, MDBs or other international agencies	EBRD, KfW (through DEG Invest)
Details	
Transaction advisers assigned	Not known
Details	
Procurement process	
Unsolicited proposal	No
Tender process	Competitive tender
Current status of the project	Operational
SPV/project company established	No
Private partner(s)	Tirana International Airport Sh.p.K ²⁷
Date contract signed/commercial close	2005
Duration of the PPP/concession	20 years + 2-year extension
Equity providers	AAEF
Debt providers	EBRD and DEG Invest (subsidiary of KfW)

Note: N/A – Information not available

²⁷ The Tirana International Airport Sh.p.K concession was sold in 2017 to China Everbright Limited, giving it the right to operate the airport until 2027.

Albania – Durres Urban waste treatment	
Project description	Waste treatment facilities
Awarding authority	Ministry of Environment
National/Sub-national	National
Region/City	Municipality of Durres
Sector	Environment
Sub-sector	Waste
Availability-pay or User-pay	Availability-pay
Project value (CAPEX)	EUR 8 million (estimated)
Project preparation process	
Technical, financial and legal feasibility studies conducted	Yes
Cost-Benefit Analysis	No
Environmental and social impact assessment	Yes
Rationale for the project and its procurement as a PPP	Unsolicited proposal meeting existing needs
Involvement of PPP unit, MDBs or other international agencies	Yes
<i>Details</i>	
Transaction advisers assigned	No
<i>Details</i>	
Procurement process	
Unsolicited proposal	Yes
Tender process	Competitive tender (no info on procedure being used)
Current status of the project	In tender
SPV/project company established	Not yet appointed
Private partner(s)	Not yet appointed
Date contract signed/commercial close	Not yet reached
Duration of the PPP/concession	N/A
Equity providers	Not yet appointed
Debt providers	Not yet appointed

Note: N/A – Information not available

Bosnia and Herzegovina – Regional Dialysis Centres	
Project description	New regional dialysis centres at eight locations, operation and maintenance of new buildings, equipment and related healthcare services
Awarding authority	Ministry of Health and Social Welfare, Health Insurance Fund
National/Sub-national	National
Region/City	Republika Srpska
Sector	Social and community buildings
Sub-sector	Health
Availability-pay or User-pay	Availability-pay based on number of medical treatments provided
Project value (CAPEX)	EUR 2.4 million (initially two centres)
Project preparation process	
Technical, financial and legal feasibility studies conducted	None
Cost-Benefit Analysis	No
Environmental and social impact assessment	No
Rationale for the project and its procurement as a PPP	Unsolicited proposal responding to unmet service needs
Involvement of PPP unit, MDBs or other international agencies	N/A
<i>Details</i>	
Transaction advisers assigned	No
<i>Details</i>	
Procurement process	
Unsolicited proposal	Yes
Tender process	Competitive process following receipt of initial proposal
Current status of the project	Operational
SPV/project company established	Yes
Private partner(s)	Fresenius (since 2009)
Date contract signed/commercial close	2001 (two centres) + renewal in 2009 (additional six centres)
Duration of the PPP/concession	7 years + 15 years
Equity providers	Inel Med Ltd as representative of B Braun Avitum AG (Germany)
Debt providers	N/A

Note: N/A – Information not available

Bosnia and Herzegovina – District Heating System, City of Sokolac	
Project description	Construction and operation of new district heating facilities fed by biomass
Awarding authority	Municipality of Sokolac
National/Sub-national	Sub-national
Region/City	Municipality of Sokolac
Sector	Energy
Sub-sector	District heating
Availability-pay or User-pay	User-pay
Project value (CAPEX)	EUR 7.7 million
Project preparation process	
Technical, financial and legal feasibility studies conducted	Yes
Cost-Benefit Analysis	Yes
Environmental and social impact assessment	Yes
Rationale for the project and its procurement as a PPP	Identified social need to upgrade outdated district heating infrastructure PPP presented opportunity to access private sector expertise and experience
Involvement of PPP unit, MDBs or other international agencies	Yes – EBRD
<i>Details: the EBRD appointed and funded external advisers</i>	
Transaction advisers assigned	Yes
<i>Details: GreenMax Capital Advisers (Fin), CETEOR d.o.o., Sarajevo (Tech), CMS d.o.o., Sarajevo (Leg) prepared a feasibility study</i>	
Procurement process	
Unsolicited proposal	No
Tender process	Two-stage competitive tender (with pre-qualification)
Current status of the project	Re-tender
SPV/project company established	Not yet appointed
Private partner(s)	Not yet appointed
Date contract signed/commercial close	Not yet reached
Duration of the PPP/concession	N/A
Equity providers	Not yet appointed
Debt providers	Not yet appointed

Note: N/A – Information not available

Bosnia and Herzegovina – Corridor 5C Highway	
Project description	New/upgraded highway transport corridor
Awarding authority	Ministry of Transport
National/Sub-national	National
Region/City	Republika Srpska
Sector	Transport
Sub-sector	Roads
Availability-pay or User-pay	Availability-pay
Project value (CAPEX)	EUR 500 million (estimated)
Project preparation process	
Technical, financial and legal feasibility studies conducted	Yes
Cost-Benefit Analysis	Yes
Environmental and social impact assessment	Yes
Rationale for the project and its procurement as a PPP	Part of European 5C corridor PPP offered access to private and MDB finance, private sector experience and expertise in road design and management PPP also develops public sector expertise
Involvement of PPP unit, MDBs or other international agencies	Yes – EBRD
<i>Details: the EBRD funded the appointment of external advisers</i>	
Transaction advisers assigned	Yes
<i>Details</i>	
Procurement process	
Unsolicited proposal	No
Tender process	Two-stage competitive tender (with pre-qualification)
Current status of the project	Cancelled at preferred tender stage
SPV/project company established	Private partner was planned, tender cancelled
Private partner(s)	N/A
Date contract signed/commercial close	N/A
Duration of the PPP/concession	N/A
Equity providers	N/A
Debt providers	N/A

Note: N/A – Information not available

Kosovo* - Pristina International Airport	
Project description	Construction of new terminal building and ancillary facilities, maintenance and operation of the airport
Awarding authority	PPP Unit
National/Sub-national	National
Region/City	City of Pristina
Sector	Transport
Sub-sector	Airports
Availability-pay or User-pay	User-pay
Project value (CAPEX)	EUR 105 million
Project preparation process	
Technical, financial and legal feasibility studies conducted	Yes
Cost-Benefit Analysis	Yes
Environmental and social impact assessment	Yes
Rationale for the project and its procurement as a PPP	Provision of additional capacity PPP offered access to private finance and brought efficiency gains in maintenance and operation
Involvement of PPP unit, MDBs or other international agencies	PPP Unit USAID
<i>Details: USAID provided financial and other support to the PPP Unit.</i>	
Transaction advisers assigned	Yes
<i>Details</i>	
Procurement process	
Unsolicited proposal	No
Tender process	2-stage competitive tender (with pre-qualification)
Current status of the project	Operational
SPV/project company established	Yes
Private partner(s)	Limak-Kosovo International Airport JSC
Date contract signed/commercial close	2010
Duration of the PPP/concession	20 years
Equity providers	Limak (EUR 20 million)
Debt providers	Turkish bank (EUR 85 million)

Note: N/A – Information not available

Montenegro – Bar-Boljare Highway Corridor	
Project description	New road connecting coastal region with northern part of country and Serbia
Awarding authority	Ministry of Transport, Maritime Affairs and Telecommunications
National/Sub-national	National
Region/City	Cross-regional
Sector	Transport
Sub-sector	Roads
Availability-pay or User-pay	Mixed availability-pay with user-pay (hard tolling)
Project value (CAPEX)	EUR 2 billion (estimated)
Project preparation process	
Technical, financial and legal feasibility studies conducted	Yes
Cost-Benefit Analysis	No
Environmental and social impact assessment	Yes
Rationale for the project and its procurement as a PPP	Support and improve regional and cross-border connectivity PPP expected to provide access to private finance and private sector expertise
Involvement of PPP unit, MDBs or other international agencies	IFC
<i>Details: IFC acted as Lead Adviser to the Government of Montenegro</i>	
Transaction advisers assigned	Yes
<i>Details: Scott Wilson (Tech), GIDE, IFC, Louis Berger, Ecorys</i>	
Procurement process	
Unsolicited proposal	No
Tender process	Competitive tender
Current status of the project	Cancelled
SPV/project company established	SPV was planned, but tender cancelled
Private partner(s)	N/A
Date contract signed/commercial close	N/A
Duration of the PPP/concession	30 years
Equity providers	N/A
Debt providers	N/A

Note: N/A – Information not available

Montenegro – Krnovo Wind Farm	
Project description	72 MW wind farm (first such project in the country)
Awarding authority	Ministry of Economy
National/Sub-national	National
Region/City	Niksic/Krnovo
Sector	Power
Sub-sector	Renewable energy
Availability-pay or User-pay	Feed-in tariff paid by energy market operator
Project value (CAPEX)	EUR 120 million
Project preparation process	
Technical, financial and legal feasibility studies conducted	Yes (by private partner, verified by public sector)
Cost-Benefit Analysis	No
Environmental and social impact assessment	Yes (by private partner, verified by public sector)
Rationale for the project and its procurement as a PPP	Institutional framework designed to promote public-private partnerships in renewable energy projects
Involvement of PPP unit, MDBs or other international agencies	MDBs (EBRD, KfW)
<i>Details:</i> EBRD assisted in funding project preparation stages and external transaction advisers	
Transaction advisers assigned	Yes
<i>Details:</i> Cleary Gottlieb Steen & Hamilton (Legal)	
Procurement process	
Unsolicited proposal	Yes
Tender process	Competitive tender
Current status of the project	Operational (2017)
SPV/project company established	Yes
Private partner(s)	Akuo Energy (France)
Date contract signed/commercial close	2015
Duration of the PPP/concession	20 years + 5-year option
Equity providers	Akuo Energy (Akuo Energy SAS and Ivica Consulting GmbH)
Debt providers	EBRD, KfW, KfW IPEX-Bank GmbH

Note: N/A – Information not available

Montenegro – Kotor/Lovcen/Cetinje Cable Car	
Project description	A cable car between Kotor and Cetinje (tourism project)
Awarding authority	City of Cetinje
National/Sub-national	Regional
Region/City	Cetinje/Kotor
Sector	Recreation
Sub-sector	Tourism
Availability-pay or User-pay	Mix – Availability-pay and user-pay (toll fee collection)
Project value (CAPEX)	EUR 40 million
Project preparation process	
Technical, financial and legal feasibility studies conducted	Yes
Cost-Benefit Analysis	No
Environmental and social impact assessment	Yes
Rationale for the project and its procurement as a PPP	Promote tourism through modern transport infrastructure PPP offers access to private finance and expertise
Involvement of PPP unit, MDBs or other international agencies	EBRD
<i>Details of involvement:</i> Technical assistance during project development stages	
Transaction advisers assigned	Yes
<i>Details</i>	
Procurement process	
Unsolicited proposal	No
Tender process	Competitive tender
Current status of the project	Re-tender
SPV/project company established	Not yet appointed
Private partner(s)	Not yet appointed
Date contract signed/commercial close	Not yet reached
Duration of the PPP/concession	N/A
Equity providers	Not yet appointed
Debt providers	Not yet appointed (EBRD expected)

Note: N/A – Information not available

Serbia – City of Topola Street Lighting	
Project description	Upgrade and extension to municipal street lighting infrastructure, including replacement of lamps and luminaires with LEDs
Awarding authority	Municipality of Topola
National/Sub-national	Regional
Region/City	Topola
Sector	Power
Sub-sector	Street lighting
Availability-pay or User-pay	Availability-pay
Project value (CAPEX)	EUR 1.5 million
Project preparation process	
Technical, financial and legal feasibility studies conducted	Yes
Cost-Benefit Analysis	No
Environmental and social impact assessment	No
Rationale for the project and its procurement as a PPP	Upgrade and extension of existing street lighting infrastructure to reduce energy and maintenance costs PPP offers access to private experience in infrastructure management
Involvement of PPP unit, MDBs or other international agencies	
<i>Details</i>	
Transaction advisers assigned	No
<i>Details</i>	
Procurement process	
Unsolicited proposal	No
Tender process	Single-stage competitive tender
Current status of the project	Operational
SPV/project company established	No
Private partner(s)	Not available
Date contract signed/commercial close	2015
Duration of the PPP/concession	15 years
Equity providers	Not known
Debt providers	Not known

Note: N/A – Information not available

Glossary of main terms and expressions

Affordability

Affordability relates either to the ability of the public authority to make performance-based payments to the private partner from the public budget (in a *government-pay PPP*) or the ability and willingness of users to pay the tariffs/tolls charged by the private partner (in a *concession*).

Availability payment (and availability-based PPP)

In an availability-based PPP (a type of *government-pay PPP*), the public authority pays the private partner for the provision and use of public infrastructure and related public services. Payment is linked to the availability of the asset and/or the services for the duration of the PPP contract (the *availability payment* or *unitary payment/unitary charge*). The availability standards and service requirements of the public authority are defined in the PPP contract.

In most contracts of this type, payment to the private partner only starts once the construction phase is complete and the services can be delivered.

Bankable (and bankability)

A PPP project is considered bankable if lenders are willing to finance it.

Candidate

A company or group of companies (usually in the form of a consortium or joint venture) that submits a response to an invitation to pre-qualify for a project as part of the procurement process.

Concession

A concession (sometimes called a *user-pay PPP*) is a type of PPP in which the public authority grants a private partner the right to generate revenues from the provision of a service. The private partner is paid by the users of the service and normally assumes the risk of any change in the users' demand for the service. The service requirements of the public authority are defined in the concession contract. (e.g. keeping a bridge open to traffic, collecting tolls from users of a bridge).

Conditions precedent

Conditions that need to be fulfilled before the PPP contract becomes effective or before drawing on the debt. Either party might be responsible for fulfilling the conditions in a particular PPP contract, but the private partner usually has a greater responsibility in this respect.

Contract close (and commercial close)

Contract close (sometimes called *commercial close*) is the point at which the PPP contract is signed by the public authority and the private partner. The main terms of the PPP contract will be completed at financial close.

Credit enhancement

The credit profile of a project finance structure can be improved by various forms of credit enhancement; for example:

- **credit support** in the form of guarantees by the sponsors relating to the performance of the SPV's obligations, financing facilities that provide temporary liquidity to deal with specific risks and insurance against certain project related risks.
- **public sector support** such as direct funding through a capital contribution (e.g. from national, regional or other funds) or contingent support or guarantees for certain types of risks which cannot otherwise be effectively managed or mitigated by the SPV, lenders or subcontractors.

Default (and event of default)

A material breach of contract by one party (including persistent breach) which entitles the other party to terminate the contract. The PPP contract will often define defaults by reference to precise contractual provisions.

Direct agreement

A direct agreement is a contract, linked to the PPP contract, which creates a contractual relationship between participants in the project whose main contractual relationships are with the private partner. The principal direct agreement is between the public authority, private partner and lender and allows the lender to exercise step-in rights to the PPP contract. The public authority may also have direct agreements with the private partner's sub-contractors that allow it to step-in to the sub-contract in an event of private partner default.

Economic Cost Benefit Analysis (ECBA)

The ECBA assesses whether the benefits brought to society by a particular public investment justify and outweigh the implementation costs. It will usually consider the social, environmental, and economic advantages and disadvantages of the investment as well as to the actual monetary costs and revenues generated by the project.

Equity (and equity investors)

The equity in a PPP is the portion of the project's CAPEX that is contributed as share capital in the SPV (i.e. pure equity) and subordinated debt (usually through shareholder loans and sometimes also called *junior debt*). The equity investors (also sometimes

called *equity providers, sponsors or shareholders*) usually hold both the pure equity and subordinated debt and generally control the SPV. Some equity investors may not take an active role in the management of the PPP contract.

The public authority may sometimes provide equity to the SPV, either directly or through a public investment fund. Public participation in the equity of the SPV (including any rights of control) can influence the statistical treatment of the PPP contract.

Financial close

Financial close is the point at which the financing documents for the PPP contract (including the direct agreement between the lenders and the public authority) are signed and the financing becomes available for the project. It is usually the point at which the interest rate for the project is fixed using an *interest rate swap*. Financial close usually happens at either the same time as or shortly after contract close.

Fiscal risk

PPPs create long-term financial commitments that could (over time and when considered with other commitments) challenge the coherence of the public budget process and ultimately a country's fiscal sustainability and macroeconomic stability. Fiscal risks can exist when the actual and contingent commitments on PPPs are not clearly recognised or understood and where they have not been reported and budgeted for centrally.

Lenders

The term *lenders* in these WBIF EPEC Guides generally refers to the organisations who provide finance to the PPP in the form of senior debt to the private partner. They can include commercial banks, multilateral and bilateral development banks and finance institutions, and institutional investors such as pension funds and insurance companies.

Life-cycle costs (and whole-life costs)

This is the total cost of creating an asset and managing it to the end of its useful life (or for the duration of the PPP contract). It includes the initial cost of construction and the cost of all subsequent maintenance works that ensure that the asset continues to perform at an acceptable or minimum standard. The PPP contract defines the minimum standard of performance to be met by the private partner.

Needs assessment

Assessment of the gap between an agreed set of objectives and existing arrangements that the investment aims to address.

Net Present Value (NPV) and discount rate

The NPV is the discounted value of a project's cash inflows minus the discounted value of its cash outflows. It is calculated based on a *discount rate*. This subject is discussed more fully in the *WBIF EPEC Guide to the qualitative and quantitative assessment of Value for Money in PPPs*.

On and off balance sheet (statistical) treatment of PPPs

A public contract is recorded as either on or off the central government's balance sheet according to the national system of accounts (commonly referred to as the *statistical treatment* of a contract). The treatment of a PPP contract within the government's balance sheet can be an important consideration in the preparation of the project.

Optimism bias

Optimism bias is the systemic behaviour of public authorities (based on project experience) to both i) underestimate the duration of the construction phase of a project and its CAPEX and OPEX and ii) to overestimate the benefits/revenues it will produce.

Output specification (and user requirements)

These are the public sector's requirements defined as a clear set of outputs that are directly measurable in accordance with quality performance standards. The output requirements (sometimes also *user requirements* or *authority requirements*) can include technical requirements and service requirements. They are a distinctive feature of PPP projects in comparison to the input requirements normally used in traditional project procurement.

Payment mechanism

The payment mechanism is the principal means or mechanism within the PPP contract for remunerating the private partner. In a government-pay PPP the two main types of payment mechanism are

- *availability-based*, in which the payments made by the public authority to the private partner are linked to the infrastructure being available for use and services being performed as defined by the PPP contract. The *availability payment* is subject to deductions if the infrastructure is unavailable or where the services are performed poorly. The public authority takes the risk of variation in the demand for the services; and
- *demand-based*, where the payments to the private partner are linked to the level of usage of the infrastructure.

In a concession, the payment mechanism might regulate the basis on which the private partner is entitled to charge users and otherwise generate revenues.

Persistent breach

A persistent breach occurs when the private partner consistently fails to observe provisions of the PPP contract, e.g. fails to comply with the same provision on a repeated number of occasions or accumulates financial or contractual penalties over a defined period.

PPP contract

This is the main contractual document between the public authority and the private partner. It sets out the responsibilities of the private partner for the design, construction, finance, operation and maintenance of the asset and the delivery of the associated public services. The PPP contract allocates project risks between the parties and contains the payment mechanism.

The PPP contract is described more fully in the WBIF EPEC *Guide to the main provisions of an availability-based PPP contract*.

PPP unit

A specialised public organisation that provides PPP expertise in the public sector. This can include advice and support to public authorities in devising and implementing PPP projects and/or PPP policy. It may also have an assurance or approval role. It is usually a part of a government ministry or central public agency, such as the ministry of finance.

Preferred tenderer

The tenderer who has submitted the best compliant tender for a PPP project and with whom the public authority intends to sign the PPP contract. The preferred tenderer becomes the *private partner* when the PPP contract is signed.

Private partner

The private sector company that enters into the PPP contract, with responsibility for delivering and maintaining the public infrastructure and related public services for the duration of the contract. It usually takes the form of an SPV.

Procurement procedure

EU Directive 2014/24/EU (the 2014 Directive) provides four procurement procedures:

- the open procedure;
- the restricted procedure;
- the competitive dialogue procedure; and
- the competitive procedure with negotiation.

The 2014 Directive reforms and supersedes Directive 2004/18/EC (the 2004 Directive). It covers public procurement in general, laying down the principles that should apply to all works, supplies or services contracts. Legislation addressing public procurement within the Western Balkans Region conforms, in large part, to the 2004 Directive.

Procurement process

The WBIF EPEC guides use this expression to describe the steps and activities that the public authority adopts to implement its chosen procurement procedure. In defining the procurement process the public authority will consider matters such as timetable for the procurement (including key milestones), numbers of tenderers to pre-qualify, number and format of meetings with tenderers.

Project cycle

The project cycle is used in the WBIF EPEC guides to describe the series of steps that is followed by a typical PPP project from the time that the project scope is initially defined, through to its completion and delivery of the related services. The project cycle is divided into four phases:

- Phase 1: Project identification phase
- Phase 2: Project preparation phase
- Phase 3: Project procurement phase
- Phase 4: Project implementation phase

Project finance (and project finance structures)

PPP projects are generally financed using *project finance* structures. A project finance structure seeks to optimise the availability of finance and underpin the allocation of risks to the parties best able to manage those risks.

The project assets and revenues are usually ring fenced within an SPV. The SPV's lenders and investors rely either exclusively (i.e. *non-recourse* financing) or mostly (i.e. *limited recourse* financing) on the cash flow generated by the project as their security for the repayment of their loans or to earn a return on their investment. This is in contrast to corporate finance where lenders rely on the strength of the borrower's balance sheet as security for repayment of their loans.

Project identification phase

The identification phase is the first phase of the *project cycle*. At the end of this phase the public authority determines whether the selected project can (and should) be further developed as a PPP and whether to proceed to the project preparation phase.

Project implementation phase

The implementation phase is the fourth and final phase of the *project cycle*. It follows financial close and includes the management of the PPP contract and regular monitoring of the private partner's performance.

Project preparation phase

The preparation phase is the second phase of the *project cycle*. It includes the development of the potential project in readiness for the project procurement phase. The public authority will establish the project's governance structure (i.e. project team and steering committee), conduct further detailed assessments of the project and prepare relevant documents for the procurement phase. The assessments include the detailed affordability analysis, risk allocation and VfM assessment. The public authority defines the preferred procurement procedure and process, evaluation criteria and draft PPP contract.

Project procurement phase

The procurement phase is the third phase of the *project cycle*. It follows the preparation phase and starts with the publication of the procurement notice. It includes all the activities associated with the procurement process up to the award of the PPP contract through to contract close, and ends with financial close.

Public authority

The public sector body (sometimes called the *procuring authority* or *contracting authority*) that plans to enter into a PPP contract with a private sector partner. In an availability-based PPP, it is also the public body who is responsible for paying the availability payment to the private partner.

Public-Private Partnerships (PPP)

The term PPP describes a long-term contractual arrangement in which a public authority and a private partner collaborate to deliver public infrastructure (or assets) and related services. Under a PPP contract, the private partner bears significant risks and management responsibilities. The two main types of PPP contract are a *government-pay* PPP (which includes *availability-based* and *demand-based* PPPs) and a *concession* (sometimes called a *user-pay* PPP).

Public sector comparator (PSC)

The PSC is a risk-adjusted cash flow model of delivering a project using a traditional public procurement option (sometimes called the *public sector benchmark*, *PSB*). A comparison of the net present values of the PSC and PPP options for a particular project may be used as part of a quantitative VfM assessment.

Qualitative and quantitative VfM assessments

A *qualitative VfM assessment* often involves testing the PPP project delivery option against a set of pre-defined suitability (i.e. qualitative) criteria to determine the potential for the PPP option to provide VfM.

A *quantitative VfM assessment* usually involves estimating and comparing the costs of a PPP project delivery option with a traditional public project delivery option (i.e. a PSC) where the project risks have been valued. The estimated cost of each delivery option is calculated on a present value basis using an appropriate discount rate.

This topic is discussed more fully in the WBIF EPEC *Guide to the qualitative and quantitative assessment of Value for Money in PPPs*.

Risk management

Risk management is a process that helps to identify, analyse, price and allocate project risks. It starts during the project identification phase and continues for the duration of the PPP project (including the monitoring and review of risks during the implementation phase). This topic is discussed more fully in the WBIF EPEC *Guide to the qualitative and quantitative assessment of Value for Money in PPPs*.

Senior debt

This is the main form of debt raised by the private partner and ranks above other forms of debt (e.g. junior or subordinated debt). The senior debt lenders usually have first priority for loan repayment by the private partner and (in an event of default) over its assets or revenues. The senior debt lenders also have priority of decision-making powers if they exercise rights to step in.

Suitability (as a PPP)

Suitability refers to the appropriateness of using the PPP option to deliver a particular project. A project is, in principle, considered suitable as a PPP if it possesses certain project specific characteristics and the national legal, institutional and market environments are supportive. This topic is discussed more fully in the WBIF EPEC *Guide to the qualitative and quantitative assessment of Value for Money in PPPs*.

Special Purpose Vehicle (SPV) or Special Purpose Company (SPC)

See *private partner*. A legal corporate entity whose sole purpose is to implement the PPP project and which is generally incorporated in the country where the project is located.

Step-in rights

A step-in right is a contractual provision that allows someone to step into the place of a party that has defaulted on its obligations so that the party *stepping in* may rectify the default (and prevent termination of the contract). The two principal types of step-in

rights in a PPP are those given to the public authority and those given to the project's lenders.

Subordinated debt

Debt that is generally provided by the shareholders of the SPV and in the same proportion to their respective shareholdings. This debt is subordinated to other debt (i.e. ranks below senior debt).

Supervening event

A supervening event is an event that occurs during the course of the PPP contract that is outside the control of either party. Such events are treated in the PPP contract as either a *compensation event*, a *relief event (or delay event)* or as a *force majeure event*. These events are described more fully in the WBIF EPEC *Guide to the main provisions of an availability-based PPP contract*.

Tenderer

A company or group of companies (usually in the form of a consortium or joint venture) that has been pre-qualified (and perhaps also shortlisted) by the public authority as a candidate in the procurement process for the PPP project with the intention of being invited to submit a tender.

Traditional public procurement or delivery

A traditional public procurement or delivery approach involves the provision and funding of public infrastructure and related services by the public authority. The public authority is responsible for the long-term operation and maintenance of the infrastructure. The public authority also bears most of the risks associated with the integration and optimisation of the various activities within the project.

The most commonly-used traditionally procured contracts are:

- a build (or construction) only contract (usually with a separate contract for the design of the infrastructure);
- a design-build contract;
- an engineering, procurement and construction (EPC) contract; and
- an operations and maintenance only contract.

Value for Money (VfM)

VfM is considered as the relative balance between the *value* and the *cost* of the different delivery options that are available (i.e. as between a traditional delivery approach and a PPP approach), where:

- the *value* aspect comprises the quality and quantity of the service (i.e. the performance level) of the different options, delivered over the period of the PPP; and
- the *cost* aspect usually represents the cost to the payer (i.e. the public authority and/or end-user) over the same period to deliver the different options (including the cost of managing the risks).

A *VfM assessment* will identify the delivery option that represents the best balance of long-term risk-adjusted value and cost.

This topic is discussed more fully in the WBIF EPEC *Guide to the qualitative and quantitative assessment of Value for Money in PPPs*.



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