

PPPs in CEE/CIS
Is the king naked?
Is world of consultants ready for a new
challenge?

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Budapest 2006



Content

1. Setting the scene
2. PPPs - solving all problems?
3. Tendering consultants = “nightmaring” consultants?
4. Case studies



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Setting the scene

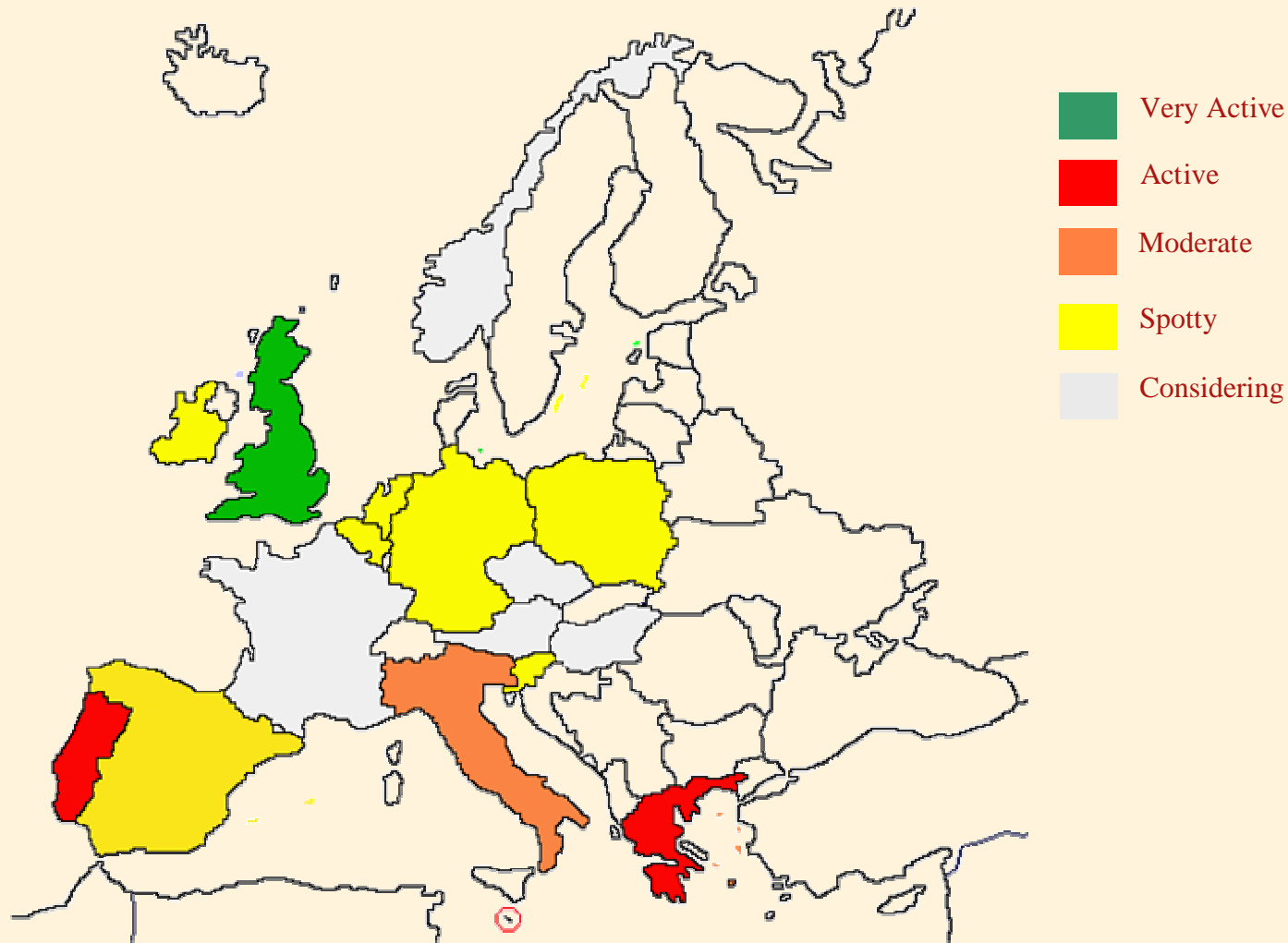
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European PPPs – 5 years ago

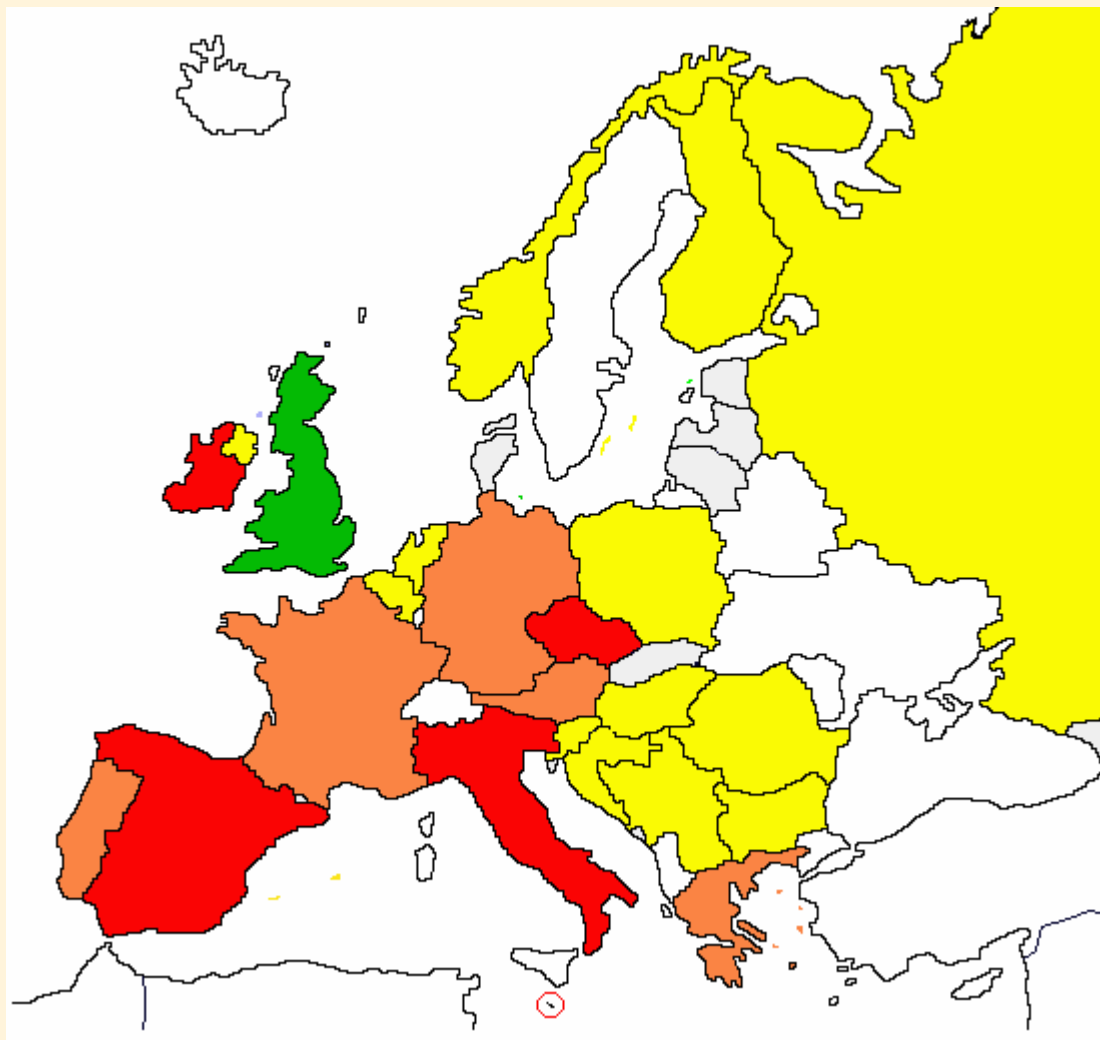




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European PPPs – Making progress? Today



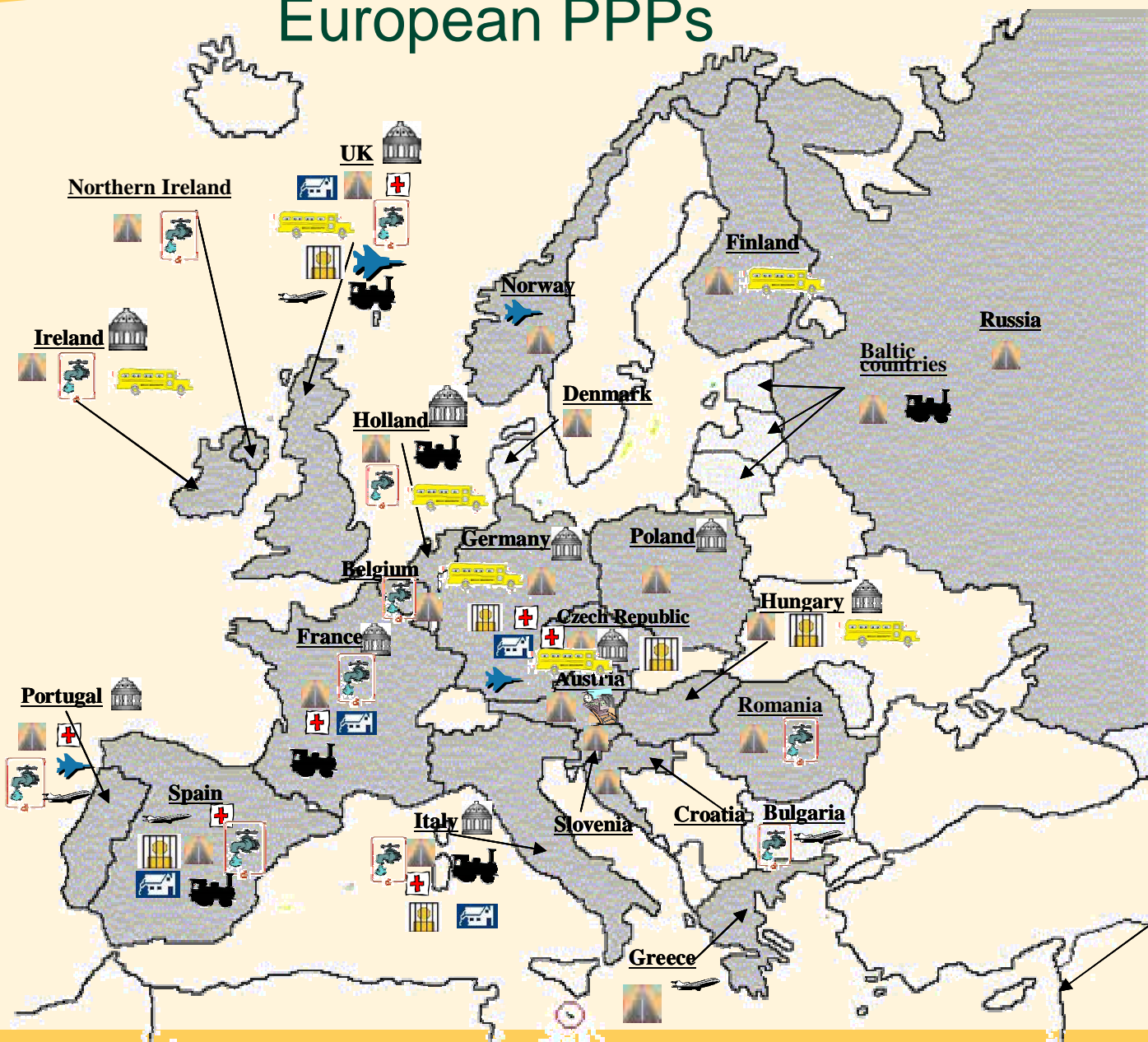
- Very Active
- Active
- Moderate
- Spotty
- Considering



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European PPPs



-  Roads
-  Rail
-  Airports
-  Water/Waste
-  Hospitals
-  Schools
-  Prisons
-  Accommodation
-  Defence
-  Government Task Forces



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PPPs - solving all problems?

2



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All for or all against or ambivalent

Public sector institutions and their representatives in CEE/CIS...

- » There are governments that believe PPPs will solve all problems (e.g. Czech Republic) and want to use PPPs in many sectors
- » There are government that do not believe in PPPs (Poland)
- » There are governments that are yet to form a view (Slovakia)
- » There are governments using PPPs for fraction of industry, mainly transport infrastructure (Romania, Bulgaria)

...have almost nothing in common in terms of supporting PPPs



So, why above is the case?

Is it about trust, distrust, ignorance, low understanding...

Trust

governments that run significant budget deficit tend to look at another alternatives which they believe are off-balance sheet. But are they really?

Distrust

governments that are deficit sensitive may be afraid of PPPs due to “hidden” long term commitment

Ignorance

governments that want to protect local entrepreneurs may not be interested in PPPs at all

Low understanding

many governments have not yet fully realized all “tricks” such as risk sharing, concept of value for money, bank-ability, etc

...or something else? The truth is in the middle



Examples – local deals

It has to be emphasised that PPPs were not yet properly tested...

Czech Republic		Poland	Serbia
» prisons	» sporting/leisure	» highway	» highway
» justice courts	» highway	» prisons?	
» 2 hospitals	» campus	» schools?	
Hungary	Bulgaria	Russia	Estonia
» highway	» airports, ports	» ring roads	» schools
	» highway		

...in the CEE/CIS region given most projects are yet to be marketed



Examples – EU deals

High diversity of subjects, high level of administration...

Montenegro

Institutional capacity building, legal advisory assistance and implementation support for establishment of public private partnerships (PPPs) aimed at creating an enabling framework for attracting investments in strategically-important sectors of the Montenegrin economy, including support for implementation of at least 2 concrete high-priority PPP projects promoting sustainable tourism development on the Montenegrin Coast and the Skadar Lake.

Romania

This technical assistance is required in order to develop efficient, financially viable and performing final beneficiaries and implementation structures to increase sustainability of EU co-funded assets, and to strengthen the management of the investments in the water sector through regionalisation of operating structures.

Indicatively, the list of final beneficiaries includes the following areas: Dambovita, Covasna, Harghita, Bacau, Hunedoara (Valea Jiului), Botosani, Ialomita, Braila, Vrancea, Mures, Iasi, Prahova, Alba, Timis, Dolj and Valcea.

Albania

The wider objective of the project is to strengthen the capacity of the Ministry of Public Works, Transport and Telecommunication (MoPWTT) to manage the sector and thus to contribute to the economic development of Albania.

...time consuming and requiring a lot of patience



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Tendering consultants = “nightmaring” consultants?

3



Public tenders requirements

Usually, single consultant is not able to meet the requirements...

Scope

all or nothing i.e. financial, technical and legal scope tendered in one package

Credentials

extensive credentials both corporate and individual are required for qualification

Risk management issues

unlimited and joined and several liability and extensive penalties (e.g. for failure to meet deadlines)

Fees

single - all inclusive - prices; no success fee in most cases

Criteria

price very often the only criteria; cheapest take it all

Vague project definition

procurer's definition of subject very often unclear and subject to time consuming clarification

...and partnering in various forms is the only way to succeed



Consultant's survival kit

Not much we can do to meet the requirements and potentially win...

- » Educate procurers
- » Try to influence preparation of the ToR so that they did not contain onerous requirements
- » Use sub-contracts if possible internally and if allowed by the ToR
- » Create consortia if risk management issues can be sorted out (limitation of liability, joined and several liability)
- » Do not under-price
- » Do not participate on public procurement if procurer's budget does not justify appointment of credible advisers

...if risk management issues overwhelm the project attractiveness



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Case studies

4



“Roads to prisons”

Czech Republic - D3

- » subject = advisers to select private investor to build and operate the highway; payment mechanism on the basis of an availability payment
- » full scope of technical, financial and legal works tendered as one package
- » limited but joint and several liability
- » At least one member of advisory consortium:
 - Total liquidity > 1.5
 - ROE > 8%
 - Equity > EUR7m
 - Total annual turnover from PPPs min of EUR3.5m over last 3 years
 - ISO 9001 or similar
 - OHSAS 18001
 - EMS 14000
 - extensive PPP experience required for local and international experts

Serbia – Horgos/Pozega

- » subject = advisers to select private investor to build and operate the highway; real toll payment mechanism
- » full scope of technical, financial and legal works tendered as one package
- » Unlimited, joint and several liability
- » Large tender guarantees to guard advisers' conduct and performance

Key project risks:

- » Ambitious procurement timetable
- » First road concession in Serbia
- » No government guarantee
- » Real toll risk
- » Political, inflation and exchange rate risks
- » Low level of transparency of process
- » Onerous requirements on bidders complicating the bidding (eg. large guarantees)



“Roads to prisons”

Czech Republic – Homolka

- » subject = advisers to select private investor to design, construct, finance and maintain a seven-floor hospital building and a car parking facility for 300 cars.
- » full scope of technical, financial and legal works tendered as one package
- » limited but joint and several liability
- » Advisory contract proposal to be in compliance with the tough Trade Terms and Conditions given by the Procurer
- » At least one member of advisory consortium:
 - Total annual turnover at least EUR 3 m over last 3 years
 - Liability insurance – at least EUR 3 m
 - extensive PPP experience required for local and international experts
 - List of references – only completed projects over past 3 years count, subcontractors’ credentials not considered (legal uncertainty)

Czech Republic – Ponava

- » subject = advisers to carry out the OBC stage of PPP project DBFO sports-leisure center Ponava in Brno
- » full scope of technical, financial and legal works tendered as one package
- » limited but joint and several liability
- » Advisory contract proposal to be in compliance with the tough Trade Terms and Conditions given by the Procurer
- » At least one member of advisory consortium:
 - Total annual turnover at least EUR 3 m over last 3 years
 - Liability insurance – at least EUR 3 m
 - extensive PPP experience required for local and international experts
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THANK YOU FOR ATTENTION



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5