



Minutes of meeting

Second meeting of the PPP task force to promote PPP projects in SEE

Venue: Premises of the Stability Pact for South Eastern Europe
Rue Wiertz 50, 1040 Brussels

Date: 13th of December 2004, 10:30 – 16:30

Participants: (in alphabetical order)
Details including telephone and facsimile numbers as well as e-mail addresses of all participants are provided in annex A

Ambrosetti, Giorgio, Research Analyst, IFC
Bernucci, Massa Romualdo, Head of Division Western Balkans and Cyprus, EIB
Eckenschwiller, Conrad, Advisor to the Chairman, Business Advisory Council
Hutter, Oswald, Expert Working Table II, Stability Pact for South Eastern Europe
Mozur, Michael, Deputy Special Coordinator, Stability Pact for South Eastern Europe
Palei, Elena, Senior Underwriter, World Bank, MIGA
Sommer Dirk, Senior Infrastructure Specialist, World Bank
Snoy, Bernard, Director Working Table II, Stability Pact for South Eastern Europe
Valahu, Philippe, Global Head Infrastructure, World Bank, MIGA

Absent:

Meunier, Michèle, Director of Department of Research and Analysis
Russell, Henry, Deputy Director Municipal and Environmental Infrastructure, EBRD

1. **Opening remarks by the Deputy Special Co-ordinator of the Stability Pact for South Eastern Europe**

Michael Mozur emphasized in his opening remarks that the year 2005 will be a particularly important year for South Eastern Europe and despite the efforts already undertaken in the region, the lack of investment – domestic and international - could be a hindrance for the economic development of South Eastern Europe and consequently for the stability of the region. To promote Public Private Partnerships (PPP's) in SEE by helping to bring several projects to a tendering phase is certainly, alongside institutional building, an effective way to bring a new impetus for investment in SEE, especially considering the asset the personal involvement of Dr. Busek could be in such an effort. Concluding his opening remarks, Michael Mozur noted that the tendering of 2 to 3 projects within the next 12 to 15 months would be an outstanding achievement.

2. **Adoption of the minutes of meeting of the first meeting of the PPP task force (Paris, 22nd of July 2004)**

The minutes of meeting of the first meeting of the PPP task force in Paris on the 22nd of July 2004 were approved unanimously.

3. **Briefing on developments and introductory remarks by the partners of the Task Force**

Giorgio Ambrosetti indicated that the Bid Facility was almost operational, with headquarters located in Sofia. The General Manager should start his duties by January and would select the Investment Officers. The new date for opening for business should be April. The anchor-person in Washington DC will be probably Morgan Landy (to be checked by Giorgio Ambrosetti). The projects to be followed are those enumerated in the business plan. The extension of the IFC activities would follow the rules of SEED, DEFCO and the Infrastructure Department of IFC.

In his introductory remarks, Dirk Sommer mentioned the success of some PPP infrastructure deals in Central Europe, namely the example of the Czech Republic approach towards toll road highways. The exact role of the PPP Task Force was questioned. In general, PPP projects are useful when an off-balance sheet structure (which limits significantly the impact on the creation of new debts) are chosen. Traditionally, deals where the funding is not in the government budget, are seen as PPP projects (in the past mainly concession type PPP's). The World Bank has undertaken efforts to promote the idea of "private PPP funds leveraged by EU funds". However, the lack of institutional building, the problem of capacity building and the lack of appropriate regulatory framework make the realisation of PPP projects quite difficult ("a public servant does one PPP project in his life time").

Dirk Sommer also mentioned the Prague Forum, which took place in February 2004 in the Czech Republic and provided a platform for sharing international lessons of experience on PPP's with representatives from 15 countries of Central and South Eastern Europe. It also helped to put this issue on the agenda of the remaining accession and other SEE countries. The "Prague Public Private Partnership Platform ("the 5 P's) was set up in order to facilitate networking building among PPP experts and stakeholders in Central and South East Europe.

Romulado Massa Bernucci from the EIB pointed out that the selection of projects was the key issue for the success of PPP promotion efforts.

Conrad Eckenschwiller, representing the Chairman of the BAC, came back to the starting point of this task force, which was the lack of capacity to develop PPP projects. He referred to the programme proposed in this area by the Bled School of Management, Slovenia, but noted that the first results of this programme would take several years to materialise. Meanwhile, practical work on the ground ("training on the job") had to take place, ideally by facilitating one PPP project per country, each of a different nature (water, waste water, solid waste, public lighting, co-generation) and each of medium size, and by bringing these projects to a tendering phase. Decisions had to be taken regarding which projects would be facilitated.

Philippe Valahu and Elena Palei both from MIGA explained that MIGA has now moved to a sector based (water, transport, telecommunication) approach. However, there was a need to get closer to the customer and to realise PPP projects. The repercussions of rescheduling in the Paris Club need to be taken into consideration when country credit risk assessments are being done. Examples of positive PPP projects were given, namely Maritsa 3 in Bulgaria, water projects in Romania and a BOT project in the city of Moscow (BOT over 15 years). Consideration was given to insure not only political risk but also payments risk in the recovery phase of a PPP project.

Bernard Snoy reported on the Southeast Europe Economic Forum, which took place in Sofia early in November. The Forum had taken as its theme the "Development of Public Private Partnerships". Among the many presentations made, he singled out the presentation of a recent report by price Waterhouse Coopers on "Developing PPP's in new Europe" by Adrian Howcroft.

The briefing on PPP Task Force given at the meeting of the Business Advisory Council for SEE in Istanbul, dated 14th of September 2004 is enclosed.

4. Reaffirmation of the objectives of the Task Force

The task force's primary focus on identification, facilitation and promotion of a few concrete PPP projects in the region with a strong replication and demonstration effect was reaffirmed.

A discussion started on the choice of projects to be followed, especially regarding the size and the type of the projects. Medium size projects (30 to 50 million €) are probably easier to develop, but the transaction costs for larger projects are not significantly higher than for medium sized projects. Furthermore, the choice has to be made primarily within the "simpler" sector of infrastructure and municipality facilities (not in the health sector). Structuring PPP projects by including governmental subsidies was probably the key to success in some areas of infrastructure, especially in the sanitation area. It was recommended to approach the IFIs at an early stage of the projects to reduce the lead-time and to start discussions with the interlocutors.

5. Defining the list of pilot PPP projects in SEE to be facilitated and promoted by the Task Force

The following projects were defined to be eligible in the first round. However it was noted that the list could be too short due to the mortality rate of PPP projects.

| PROJECT | SECTOR | CITY | COUNTRY |
|-----------------------------|--------------------|-------------|------------------|
| Solid Waste Treatment Plant | Environment | Bucharest | Romania |
| Public Lighting | Energy/Environment | Sofia | Bulgaria |
| Co-generation plant | Energy | Skopje | FYR of Macedonia |
| Waste Water Treatment | Environment | Dubrovnik | Croatia |
| Waste Water Treatment | Environment | Belgrade | Serbia |
| Motorway bypass | Transport | Sofia | Bulgaria |
| Public Lighting | Energy/Environment | Timisoara | Romania |

A special case was the new thermal power plant and the lignite mine in Kosovo. A PPP structure could be established under the condition that all parties involved would negotiate an agreement with the support of the European Union, IFIs and the Stability Pact for South Eastern Europe, such as to make it possible to ensure the political risk for the potential investors. The World Bank has already done an economic pre-feasibility study (attached). However, a feasibility study would only make sense, when the political will of all parties to reach an agreement was clearly expressed.

6. Complementary activities

Complementary activities of the Task Force were welcomed if added value in the form of improving the legal and regulatory framework was created. The identification and removal of obstacles would be a useful by-product and sometimes a condition for bringing a PPP project to a tendering phase.

7. Conclusions and next steps

- The list of projects under item 5 would form a preliminary first list; it is of a revolving nature due to the mortality rate of PPP projects. Suggestions for additional projects by all partners of the Task are welcome.
- The added value for the IFIs is that the Task Force would try to identify new potential PPP projects and that the replication effect would take place in and beyond the countries concerned.
- A side effect would be the development of institutional capacity during this process.
- Following the formal adoption of these minutes of the meeting, joint visits by the members of the Task Force to the respective governments and public authorities could be organised to sensitise the governments and/or public authorities about potential PPP's, encourage them to seek a PPP solution to their specific investment needs and help them secure funding for the pre-feasibility and feasibility studies, as a basis to seek IFI financing. In this endeavour, the Task Force may work on a case-by-case basis closely with the BIDFacility, as soon as it is open for business in Sofia.
- 2 to 3 projects on the way to tender within 12 to 15 months would be considered to be a respectable achievement, considering the difficult economic and political situation in South Eastern Europe nowadays.

8. Next meeting

Next meeting should take place in Sofia. Tentative date is April 2005, when the BIDFacility office should be operational.

Attached: Briefing on PPP Task Force, Istanbul, 14th of September 2004
Pre-feasibility study on a new thermal power plant in Kosovo
list of Participants