
Private Sector Forum
May 2011

Stuart Broom
EPEC
Vision
• Demonstrate where State Guarantees might be needed and help the public sector produce good value guarantees

Aim of this workstream
• Track the use of State Guarantees across EPEC Members
  • Mixed success in meeting sometimes fuzzy policy objectives
• Build up collective knowledge on State Guarantees
  • Nothing new under the sun but suffers from a lack of clarity
• Provide guidance on implementing State Guarantees
  • Some examples of poor implementation need supporting principles

Target Audience
• Public Sector: EPEC Members at all levels
• Especially EU 12 and Accession Countries
Problem Tree

What problem is trying to be solved that might require a State Guarantee?

What type of State Guarantee might solve this problem?

How should a State Guarantee be implemented?
Drivers for State Guarantees

- à la carte – no single reason
- Il buono, Il brutto, Il cattivo – reasons may not be completely virtuous
Public Sector Policy Drivers

- Building up confidence
  - Immature markets
- Accelerating Implementation
  - Unblocking projects
- Safeguarding Credibility
  - Protecting the programme
Financial Drivers

- Leveraging additional finance
  - Improving credit quality enabling more banks to lend
- Reduce cost of capital
  - Allow higher leverage
  - Improve vfm (at face value)
- Addressing Market-wide Instability
  - As seen in the recent credit crisis
- Getting the asset built without paying for it
  - Shhhh
- Tapping new sources of funds
  - Might enable bond finance and new players
Project Risk Drivers

- Going beyond the “Standard risk allocation”
  - What is this?
  - In the eye of the beholder!

- Tackle Project Specific Risks to make projects bankable

- Policy
- Macroeconomic
- Technology
- Sub-Sovereign
- Demand/Usage
- Residual Value
- Construction
What type of State Guarantee might solve this problem?

- Loan Guarantees and Refinancing Guarantees
  - Most common used but!

- Are they acceleratable?
- Are they partial or full?
- How does Government rank?
- Is any money paid given as loans or grants?
PPP Contract Provisions

- They often walk and talk like a State Guarantee

- Revenue or Usage Guarantee
- Change of Law undertakings
- Guaranteed minimum service charges
- Debt Assumption Undertakings
- Residual value payments
- Termination payments
Sub-Sovereign guarantee

- Inherit the central government guarantor creditworthiness
- Can improve vfm but need to be supervised and accounted for properly

Diagram:
- Private Sector
- PPP Project
- Sub-Sovereign Contracting Authority
- Sovereign Guarantee
Success depends how it is implemented!
- Paper offers Guidance on key issues
Before…

- Establish vfm
  - For the programme and the project

- Protect the Market
  - Avoid Moral Hazard and Implicit Liabilities

- Get advice
  - Technical legal and financial issues which Authorities may not be well-skilled to handle
During...

- Get the Governance right
  - Have a clear proposition for resolving conflict
    - Both in government and in the project
  - Answer the key questions now and engage with the Market, not wait until problems happen

Decision-Making?  
Timing?  
Accelerated?  
Security Package?  
Loss-Sharing?  
Step-In?  
Control?  
Decision-Making?
Charging

- Government is acting as an insurer...so should act like one
  - Price the risk and charge a market rate
  - Income is compensation for this risk
  - Helps with accounting, budgeting, state aids, vfm and governance!
  - Might enable earlier exit
Last but DEFINITELY not least!

- Accounting and Budgeting
  - Register the obligations, don’t hide them
  - Understand the implications and manage them

- State Aids
  - Tackle them early
After…

- Make sure you know how you are going to get out of this!
Next steps

- Use Report to inform bilateral engagement with EPEC Members
- Consider further work depending on demand e.g. charging for Guarantees, encouraging new sources of finance
Thanks for listening…

Stuart Broom

broom@eib.org

* * * *

European PPP Expertise Centre

epec@eib.org

www.eib.org/epec