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Impacts of the credit crisis on the German PPP market?

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PPP in international usage

2000 UN Millennium Declaration

Strong partnerships with the private sector to achieve the UN's goals.

2002 Monterrey Consensus

Private investment and Foreign Direct Investment (FDI) for sustainable development.

IMF, UNECE, OECD and EU agree on the following understanding of PPP:

PPPs are used in the realization of infrastructure projects.

PPPs are used in project financing and implementation. They also have two other important characteristics in the field of public infrastructure:

- Investment by the private sector
- Significant transfer of risk from the public to the private sector

What is PPP?

Agreement on ...

Planning

+ **Building**

+ **Financing**

+ **Operation**

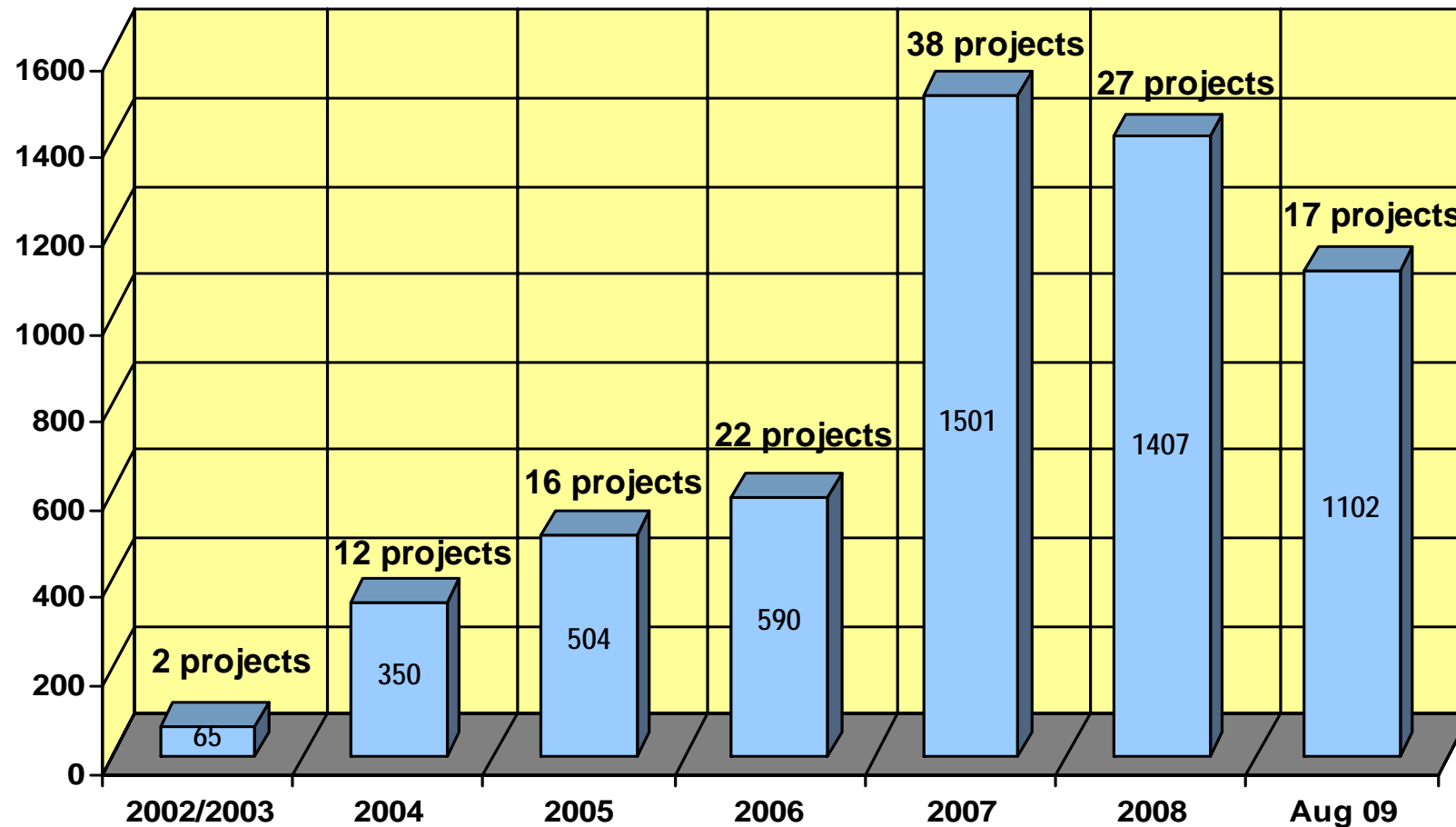
(+ **Post-contract life**)

... between public and private partners

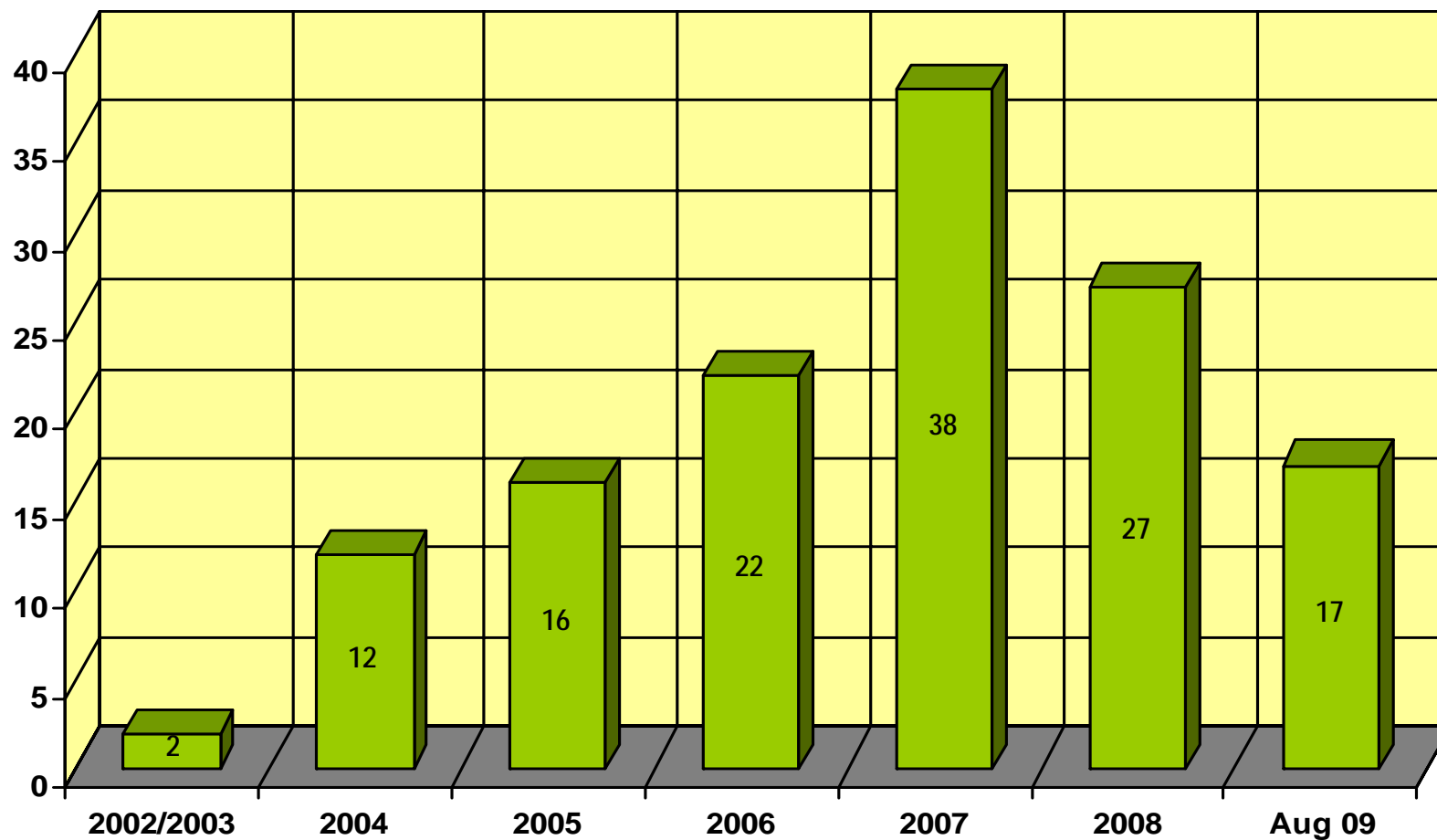
PPP sectors: construction, infrastructure

Annual development of the volume of investment in PPP projects (building & road construction)

in € million since 2002



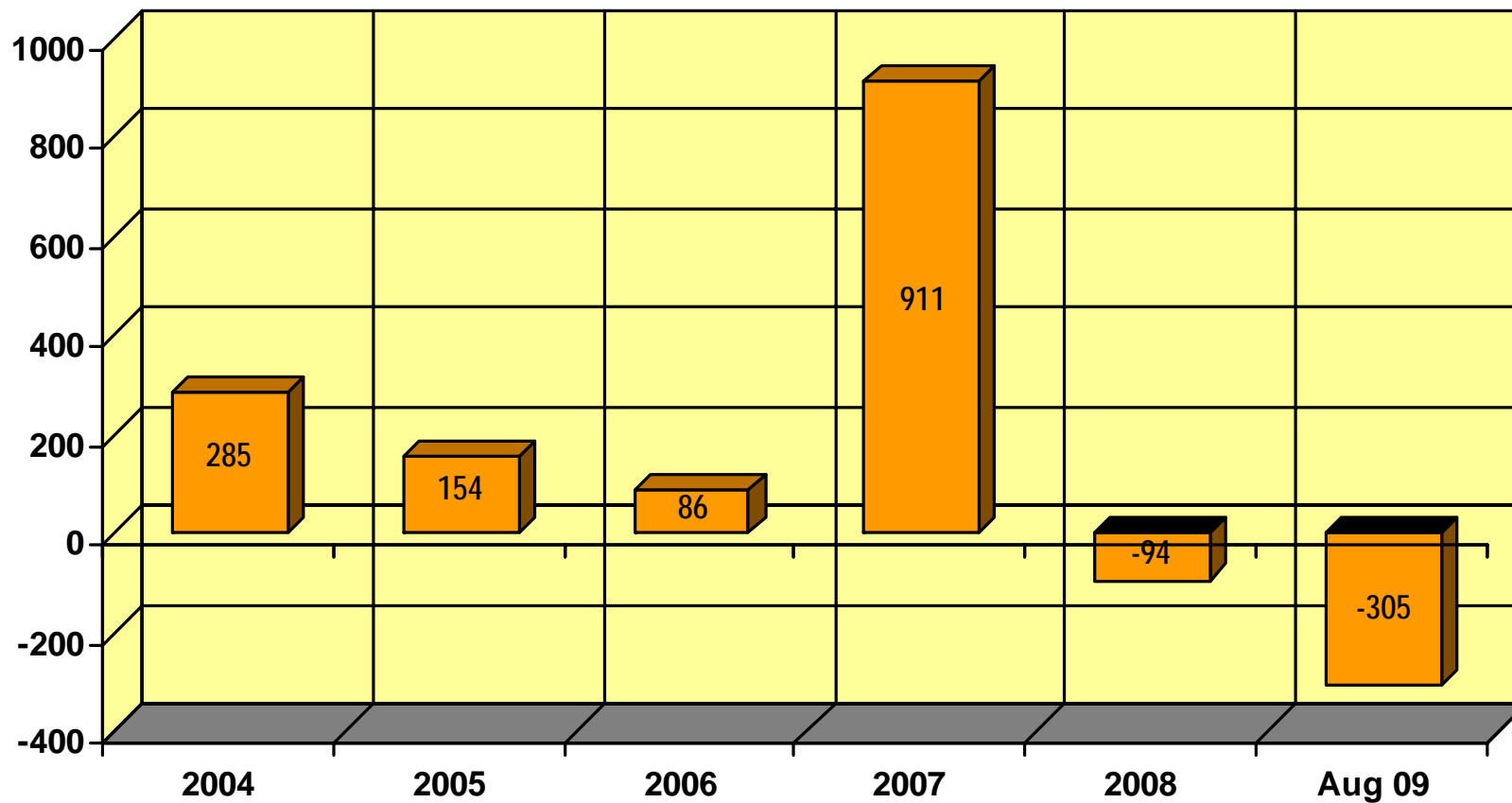
Development of the annual number of PPP projects (building & road construction)



Source: ÖPP Deutschland AG

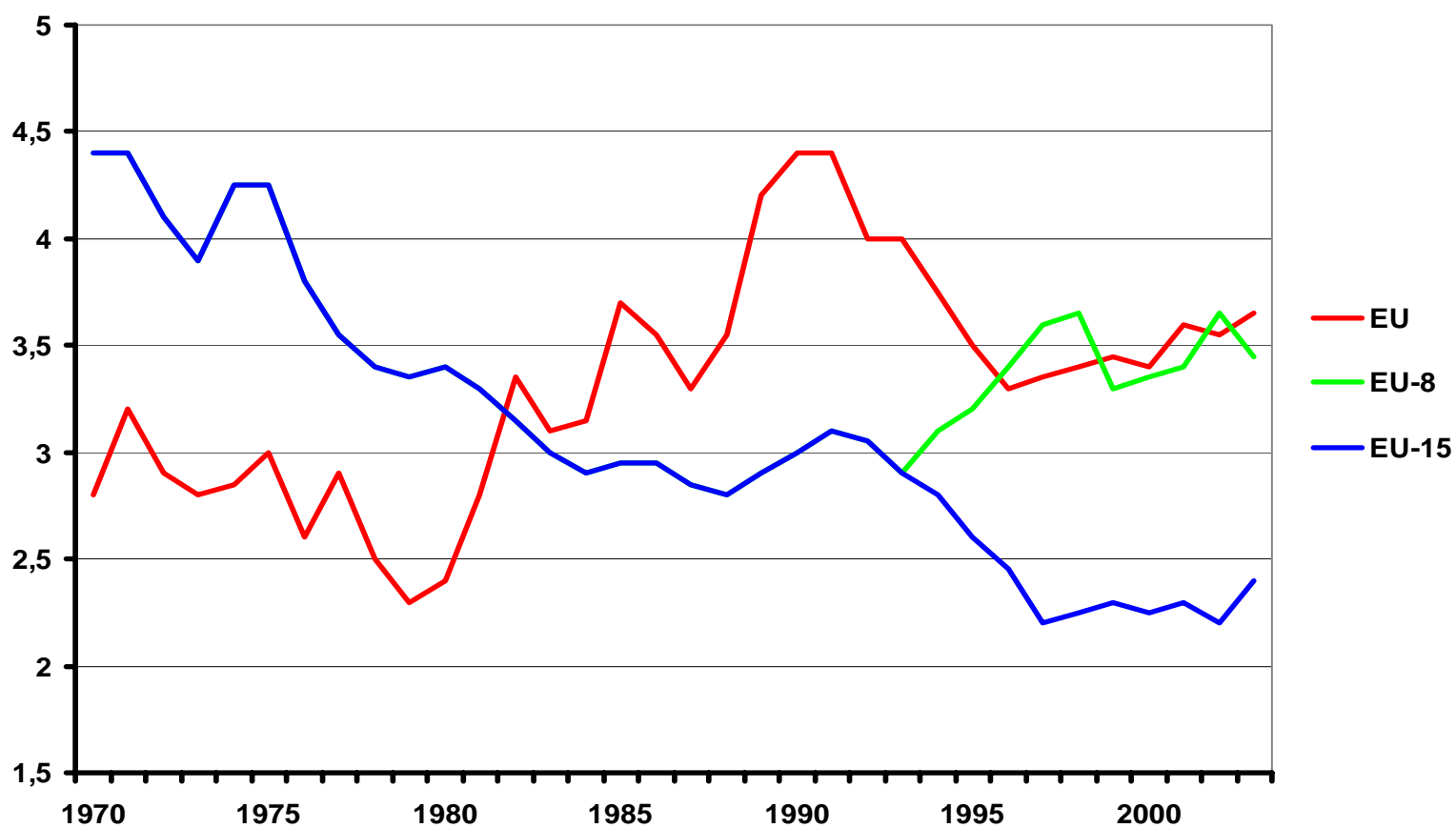
Annual change of the volume of investment in PPP projects (building & road construction)

in € million since 2003



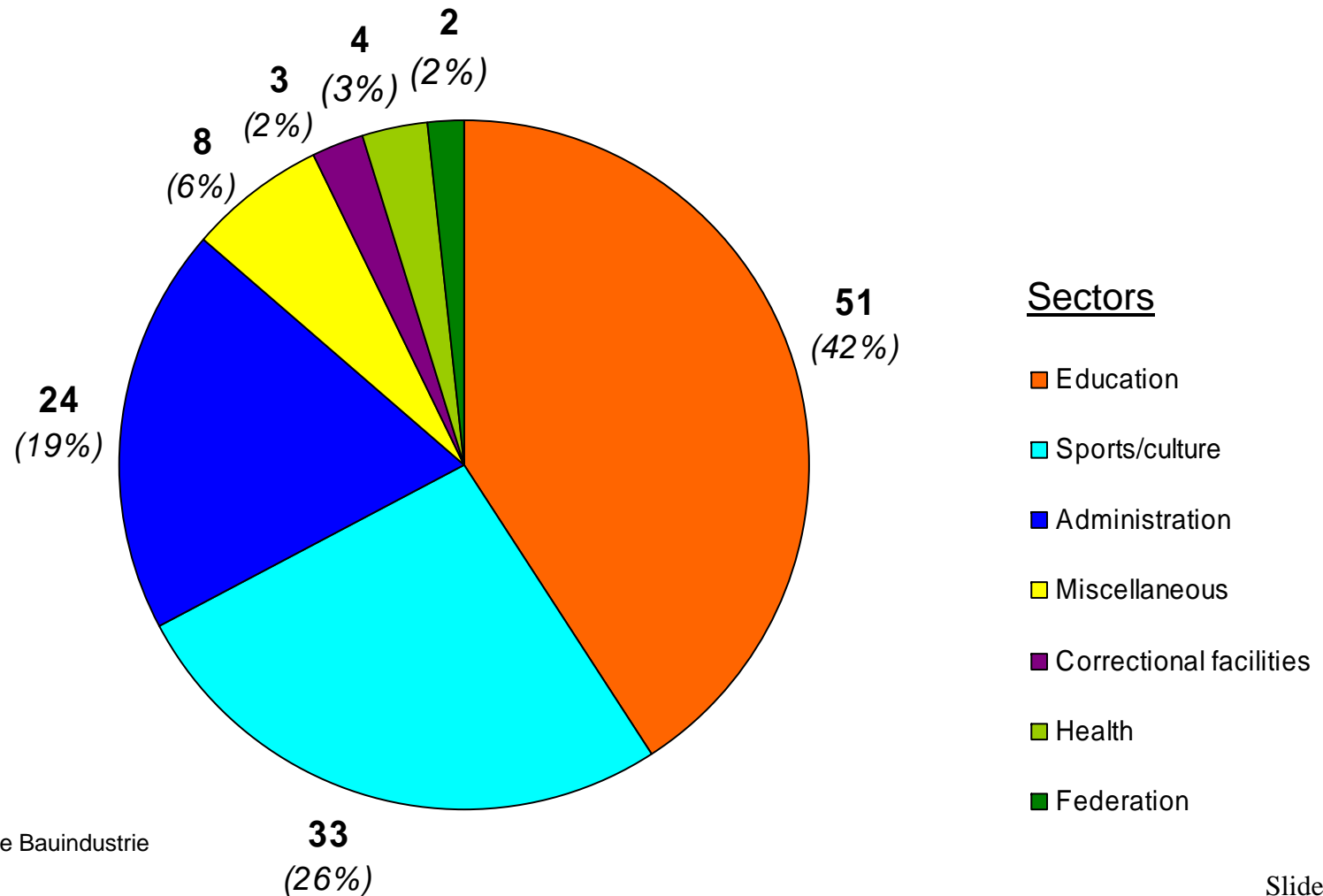
Public investment

Public investment in % of GDP (GDP weighted averages)



Distribution of PPP projects in public building construction by sectors

as of August 2009: **125** projects



Source: Die Deutsche Bauindustrie

Focus of PPP investments in public building construction works

as of August 2009

	Projects awarded	Projects in the pipeline	
	Investment volume in € million	Known investment volume in € million	Estimated investment volume in € million*
Schools / training centres	1,285	660	1,185
Administrative buildings	670	170	600
Correctional facilities	200	250	300
Hospitals	475	925	1,240
Sports / cultural facilities	610	395	645
Car parks / logistics centres / miscellaneous	105	170	270
Federal buildings (barracks)	305	55	680
Total in € million	3,650	2,625	4,920

* projected

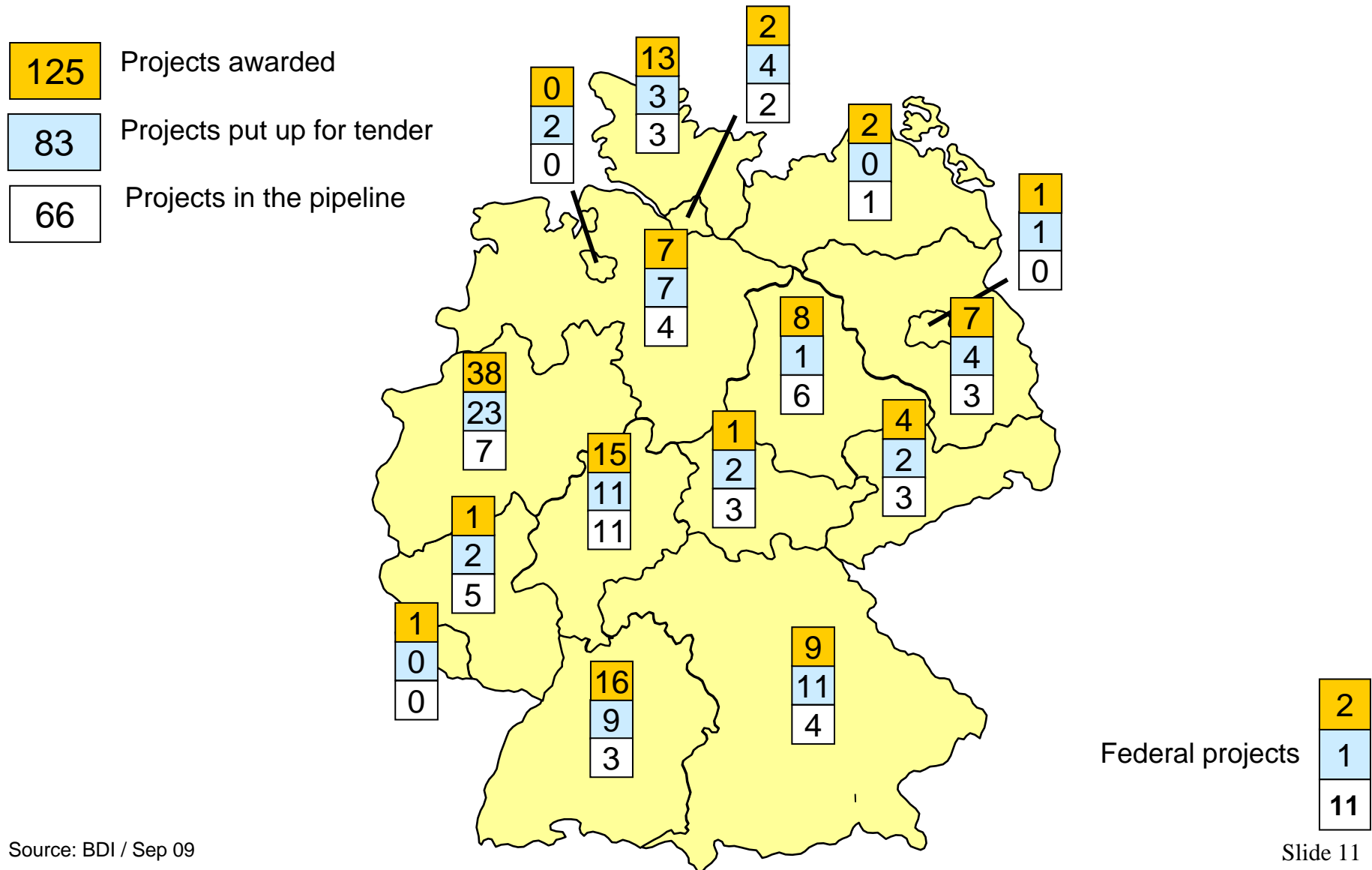
Source: Die Deutsche Bauindustrie

125 ongoing building construction projects

Examples:

	Sector	Project / location	Awarded
1	Sports / cultural facilities	Thermal baths in Wiesbaden	Jan 02
5	Education	Schools and sports halls in the Offenbach District (Los West)	Mar 04
6	Miscellaneous	Car park at Federal Administrative Court in Leipzig	Apr 04
9	Sports / cultural facilities	Leisure pool in Lüdinghausen	Jun 04
13	Administration	Town hall in Gladbeck	Sep 04
19	Miscellaneous	Logistics centre with car park at Dortmund Clinic	May 05
25	Miscellaneous	Helicopter training simulators, Bückeberg, Holzdorf and Fassberg	Nov 05
27	Education	Daycare centre, Münster-Roxel	Dec 05
33	Correctional facilities	Correctional facility, Stadelheim	May 06
34	Health	Proton therapy centre, Essen	Jun 06
40	Administration	Justice centre, Chemnitz	Sep 06
54	Sports / cultural facilities	Elbe Philharmonic, Hafencity Hamburg	Mar 07
61	Miscellaneous	Fire brigade stations, Marl	May 07
62	Sports / cultural facilities	Rudolf Harbig Stadium, Dresden	Jun 07
89	Health	University clinic, Schleswig-Holstein	Mar 08
95	Miscellaneous	Construction depot in Erlangen	Jun 08
121	Education	University Flensburg	Jun 09
124	Administration	Potsdam regional parliament	Aug 09

PPP in public building construction - current regional distribution -



Local community issues

- Organization -

Example: **Hagen**



	City council	Municipal company	PPP with private company
Electricity		●	
Gas		●	
Water supply		●	
Sewage disposal	●		
Waste disposal		Non-recyclable waste	Glass, paper
Local public transport		●	

Population: 192,177

Local community issues

- Organization -

Example: **Berlin**



	City council	Municipal company	PPP with private company
Electricity			●
Gas			●
Water supply		● 50,1 %	● 49,9 %
Sewage disposal		● 50,1 %	● 49,9 %
Waste disposal		Glass, paper	Packaging
Local public transport	●		

Population: 3,431,675

Hallmarks of the financial crisis

Q3 2008 – Q1 2009

- Syndicates no longer being created.
- Interbank trading ends.
- Fewer banks providing project financing.
- Remaining banks have less funds.
- Bank refinancing becomes more expensive.
- Stricter rules apply to the assumption of risks by banks.
- Reduction in loan maturity.

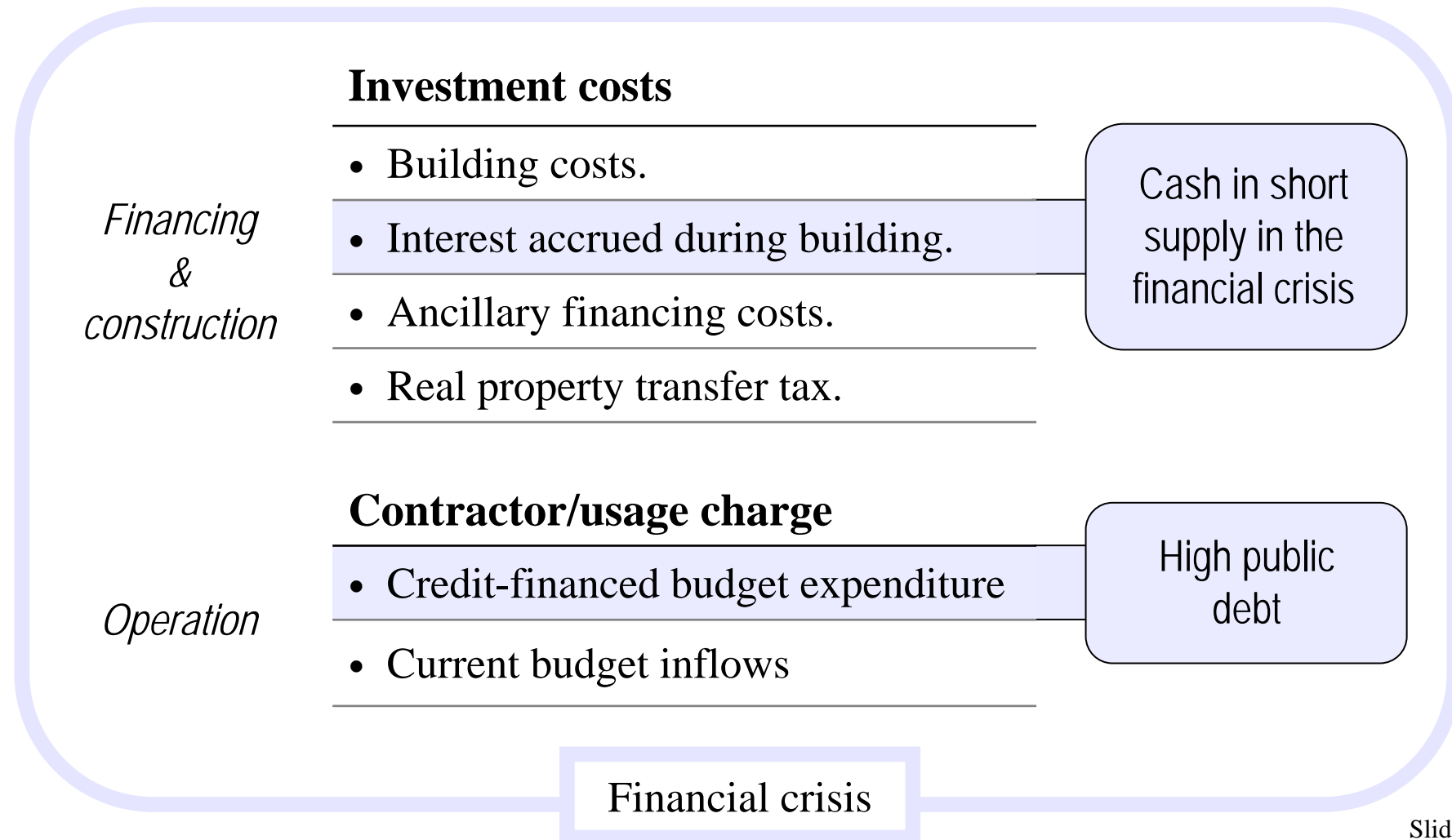
Hallmarks of the financial crisis

Q2 2009 – Q3 2009

- Still no syndicates – occasionally some club deals.
- Slight pick-up in interbank trading.
- Isolated cases of further banks offering financing.
- Capital to finance PPP remains in short supply.
- Bank refinancing becomes slightly cheaper.
- Risk assumption remains strictly regulated (G20 Summit in Pittsburgh).
- Long loan maturities generally back on offer.

PPP projects

Spending during project lifecycle



PPP and the financial crisis

General impact

- Share of GDP taken by public-sector investment has been falling since 1990.
- Award of public-sector contracts to companies has been declining over the long-term.
- Crisis in the real economy =
social security spending rises + municipal trade-tax revenue falls.
- As the largest PPP contractors, municipalities have less cash.

PPP and the financial crisis

Possible impact

- Construction phase may have become more expensive.
- Contractors' leeway for operation under new PPP may have declined.
- Supply of PPP projects is likely to fall as a result too.

PPP and the financial crisis

Specific impact?

- No proof of particular correlation between financial crisis and decline in PPP.
- PPP share in bank's risk mix could have fallen due to other projects with more attractive ROI (has also not been proved).

PPP and the financial crisis

Paths to recovery

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- Guarantees, loans and additional grants provided by stimulus programmes are helping PPP.
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- Federal Ministry of Finance Circular on the implementation of PPP projects as part of the Future Investments Act (Doc. 2009/0105487, 2 March 2009)
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- Do guarantees, loans or additional grants exist for projects that make PPP more attractive to banks?
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- Expert report from ÖPP Deutschland AG at the end of 2009.
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