

# Private sector participation in MEI: a review



European Bank  
for Reconstruction and Development

EBRD Evaluation department  
2014

This evaluation study assesses the Bank's objectives and activities supporting private sector participation in municipal and environmental infrastructure and services sector ("MEI") between 2001 and 2012. It explores the various channels through which these efforts were made, how strategy and operations evolved over the period, and how experience and results compared with expectations.

## Approach

The report's main focus is on the private sector support dimensions of sector policies and country strategies, MEI operations classified as private and those classified as public with private sector components, and Technical Cooperation (TC) activities related to these. The report is built upon analysis at three different levels: a close review of Bank's strategic priorities and operational activities over the Evaluation Period, during which two different sector operations policies were in effect, and broken into three discrete periods; a review of relevant MEI-specific evaluation work already available; and, supplemental lighter desk evaluations of selected additional MEI operations.

Overall, the performance of the Bank's private sector participation MEI projects was found to be *'partly successful'*, primarily on account of the *'satisfactory'* achievement of transition impact objectives, *'satisfactory'* efficiency, and the low success rate of achieving private components in MEI public projects.

The full report is available at:  
[www.ebrd.com/evaluation](http://www.ebrd.com/evaluation)

## Challenges

MEI private sector participation in the Bank's countries of operations is well below that observed in other regions, and overall has changed relatively little since transition began. For a variety of historical, policy and structural reasons the climate for private sector participation remains very difficult.

## Use of strategies and policies

The strategic importance given by the Bank to increase private sector participation through MEI sector policies has declined over the past 15 years. After being one of several explicit priorities in the late 1990s, it is now of a lesser strategic importance to the Bank.

In contrast, a higher level of stated emphasis on private sector participation is found in selected country strategies, suggesting disconnect among sectorial and country-specific policy objectives.

Generally disappointing results from a few specific private sector participation promotion initiatives in the 1990s and 2000s appears to have sharply reduced the Bank's ambitions and expectations; operational work with a private sector dimension has become limited, cautious and highly selective.

## Volume and execution of private sector participation

From 2001 to 2012 the Bank signed 29 private operations for €942 million (25 percent of volume) and 52 public sector projects with private components, accounting for 28 per cent of total public sector project number. While the absolute number and volume of MEI's public projects increased significantly over the period, comparable indicators for private sector projects remained low and largely constant in relation to public projects.

Project design in the early 2000s saw increased integration of private components into public sector projects, which contributed to stronger transition potential ratings. However actual execution of these components was disappointing: fully achieved only in 13 per cent of cases, partly achieved in 35 per cent, and not implemented at all in 52 per cent of cases.

Integration of private sector components into MEI's public sector operations subsequently dropped significantly and remained low, while their execution rates dropped further.

## Usage of TC

A total of about €3 million of TC funds was committed to promote or support projects with private sector participation over the period, accounting for only two per cent of

the total TC funds committed in the MEI sector. Much was spent in the early years of the period on two large TCs which were largely viewed as unsuccessful. This early experience of using TC to "create a market" for private sector participation appears to have been decisive in the Bank's subsequent approach, which has largely been waiting for opportunities to emerge, rather than trying to pro-actively influence the market to create them.

## The EBRD a significant player

The Bank has been a significant player in the limited regional market, providing financing to about half of all private MEI transactions which achieved financial closing from 2001 to 2012.

The Bank's approach to promoting private sector participation in MEI may be characterised as pragmatic, selective and reactive. Unlike in other sectors, countries do not have private sector participation strategies for the municipal sector, leaving it mainly to municipalities to decide whether they want to engage private operators or not. This makes it difficult for the Bank to develop a coherent strategy for promoting and financing it, forcing a reliance mainly on opportunities as they arise.

## 2001 to 2004

Private sector participation projects from 2001 to 2004 were focused on the water and waste water sector and financed international operators, mainly in more advanced transition countries.

The availability of European Union (EU) pre-accession and post-accession grants displaced a number of private sector participation initiatives in central and then southern Europe. Substantial challenges became evident due to confusion about eligibility of projects for EU grant co-financing.

---

## 2005 to 2008 and the EU

From 2005 to 2008 opportunities to finance private sector participation projects deteriorated, due to the combined effect of the EU grants in more advanced countries, the lack of adequate public private partnership legislation in the less advanced countries, and the more cautious approach of international investors.

To remain involved in private projects, the Bank increasingly turned towards local infrastructure operators, particularly in Russia, signing several transactions with them. Although all of them required derogation from the Bank's concession policies, some of these projects achieved good transition impact.

---

## 2009 to 2012

The number of private sector participation projects doubled, although one third were expansions of existing projects). The average size of private sector participation projects shrank. The Bank expanded its geographical reach, signing its first MEI private sector participation projects in an Early Transition Country, Central Asia and Turkey, and also tapped into new sub-sectors such as parking and ferry services.

---

## Policy dialogue

There are noteworthy examples of policy dialogue with selected cities and several central governments, which contributed to better understanding of the PPP (PPP) concept at municipal level and the development or amendment of PPP-enabling legislation. However, these examples are relatively few, confirming difficulties with replicating such initiatives.

---

## Recommendations

### Project proposals

Proposals for new public sector MEI projects should include a focussed section discussing the existing "gap" in private sector participation in MEI. They should discuss the content and status of the Bank's efforts on the subject including its track record with the same client or others in the same country. They should also include a summary of related private sector participation activities by other actors, if any. Such a section in the project's approval documents should explicitly describe what specific proposals for private sector participation the Bank pressed with the client and what the outcome of these discussions was.

### Tackling displacement of private operators

Any project proposal that may result in reduced private sector participation (that is displacement of active private operators) should identify this clearly in the project approval documentation and summarise the factors weighed by the team.

### Covenanted private sector components where possible

Private sector components in public projects should be covenanted (where legally feasible) in order to be counted as contributing to the project's assessed transition impact potential.

### Bus fleet renewals

Financing for bus fleet renewals of public transport companies should ordinarily require explicit commitment by municipal authorities to allow or expand private sector participation in the sector.

### Identifying an enabling specialist

The MEI group should consider identifying a dedicated private sector participation enabling specialist within MEI to promote private sector participation at both the project and strategy levels.

### Reducing institutional and legal obstacles

The Bank should examine ways to intensify efforts to reduce institutional and legal obstacles to private sector participation in MEI, through either an expanded Legal Transition Team programme of work or through a dedicated TC focused on policy dialogue rather than producing a pipeline).

### Monitoring to mitigate risks

The Bank should consider providing longer-term assistance to cities to monitor/regulate public private partnership contracts during the first years of a their operation (complementary to the support currently provided for private sector participation/public private partnership tender/contract preparation) to help mitigate implementation risks associated with institutional capacity.

### Working with public procurement agencies

The Bank may wish to consider working with the public procurement agencies of several key countries to develop standard public private partnership procurement documentation and concession contracts.

### Analysis of transition gaps in MEI private sector participation

The MEI group and the Office of the Chief Economist could produce a short analysis of the status of transition gaps in the MEI sector in respect of private sector participation and identify possible Bank initiatives to more effectively reduce those gaps.

### Annual reporting on private sector participation support activities

A system of annual reports to the Board on the implementation of all private sector participation-supporting activities, including policy dialogue, private projects and status of public projects with private components could be useful to identify progress and address issues.

---

## Contacts

### European Bank for Reconstruction and Development

One Exchange Square  
London EC2A 2JNUK  
Tel: +44 20 7338 6000  
Fax: +44 20 7338 7848

### Joe Eichenberger

Chief Evaluator, Evaluation department  
European Bank for Reconstruction and Development  
Tel: +44 207 338 6107  
Email: [eichenbj@ebrd.com](mailto:eichenbj@ebrd.com)

### Further information

[www.ebrd.com/evaluation](http://www.ebrd.com/evaluation)

---