

פרויקטי תשתית תחבורה בשיתוף המגזר הפרטי (PPP)
בישראל: סקירה וניתוח

PPP in Transportation Infrastructure Projects in
Israel: Review and Analysis

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April 30th, 2018

Introduction

This paper is an initial step towards a more comprehensive research aiming at understanding the efficacy of infrastructure delivery modes in Israel. The objective of the broader research will be, based on actual data, to assess whether government infrastructure policy involving the private sector has been effective in terms of specific objectives such as risk transfer between public and private sector; accelerated delivery time; monitoring of capex cost, completion time, off-balance sheet treatment.

Today's presentation will review the major projects completed or under completion in the Israeli Transport market, analyse the evidence found, and suggest proposals to improve infrastructure delivery.

Preliminary evidence gives mixed indications of the effectiveness of PPP, at least in terms of «completion time» and «within budget» objectives, and indicates the need for an improvement in policies regarding PPP in order to streamline the process and reduce the time from project inception to financial close.

What is PPP

PPP is a financing methodology initially developed in the 1980's in the UK where Government involves the private sector for a quicker and more efficient delivery of infrastructure projects. In the most common such structure, the private sector designs, builds, and finances the project, maintains and operates it for 25-30 years, and then transfers it to the government after that time.

Rationale: increasing quality; accelerating implementation; better management and efficiency; better assessment and monitoring of capital expenditures; financing through long term payments from the budget current account, rather than tapping budget capital account.

Today: In countries with budget constraints (including most developed countries), private sector involvement is primarily used to circumvent those constraints, and therefore the search for financing tends to overcome the search for efficiency, quality, and experience from the private sector. This enables governments to look at «off balance sheet» solutions to infrastructure development and financing.

Major PPP in Israel

	PROJECT	CAPEX EX ANTE	CAPEX EX POST	COMPLETION TIME EX - ANTE	COMPLETION TIME EX - POST	RENEGOTIATION	PPP/CONCESSION	BUDGET	GOVERNMENT GUARANTEE OR GRANT AND/OR RISK SHARING	UNBUNDLED
כביש 6	ROUTE 6	1.2 BLN \$	NIS 4,8 BLN 1.3 BLN \$	2000	2002	NO	YES/30 YEAR CONCESSION	NO	YES	NO
הרחבת כביש 6	ROUTE 6 EXT.	NIS 2.5 BLN	UNDER CONSTRUCTION	2016	UNDER CONSTRUCTION	NO	YES	NO	GRANT	NO
רכבת ירושלים תל רביב	HSR TLV-JERUSALEM	NIS 3.1 BLN	NIS 7 BLN	2008	2018	NO	NO	YES	NO	YES
הקו האדום של הרכבת הקלה בתל אביב	NTA TEL AVIV METRO	NIS 7 BLN	NIS 15 BLN	2015	2021	YES	FAILED	YES	NO	YES
כביש 531	ROUTE 531	NIS 2.4 BLN	NIS 4.7 BLN	2012	2018	YES	FAILED	YES	NO	YES
כביש 431	ROUTE 431		NIS 2.5 BLN	2008-2009	2008/2010	NO	YES	NO	SHADOW TOLL + GRANT	NO
המסלול המהיר בכניסה לתל אביב	MANAGED LANE ROUTE 1		NIS 0.8 BLN	2011	2011	NO	YES	NO		NO
רכבת חיפה בית שאן	HAIFA - BEET SHEIT SHEAN		NIS 4 BLN	2007/2010	2016	NO	NO	YES	NO	YES
הקו האדום של הרכבת הקלה בירושלים	JERUSALEM LRT	NIS 2.2 BLN	NIS 3.8 BLN	2009	2011	YES	YES/30 YEAR CONCESSION	NO	COMPENSATION SAFETY NET	NO
כביש 16	ROUTE 16	NIS 1.5 BLN WAITING FOR AWARDING	-	2019	NOT YET STARTED CONSTRUCTION		YES	NO	YES	NO
מנהרות הכרמל	CARMEL TUNNEL	NIS 1.2 BLN	NIS 1.5 BLN	2010	2010 (6m. early)	NO	YES	NO		NO
רכבת קלה חיפה-נצרת עילית	HAIFA NAZARETH ILLIT	NIS 6.5 BLN	-	2025				YES	NO	YES

PPP in Israel

The table shows the main transportation projects in Israel over the last 2 decades, where PPP started in 1993/95, when government passed a law allowing toll roads in Israel (Route6). Several other PPP projects followed, from the Jerusalem LRT to the Carmel tunnels to the Tel Aviv Metro

The table, based on data gathered from the web and from official sources, shows:

- a) The ex-ante and ex-post capex
- b) The ex-ante and ex-post completion time
- c) The project renegotiation
- d) The contractual framework (PPP concession or traditional procurement)
- e) Budget financing
- f) Government support
- g) Traditional Procurement (or unbundled approach)

Main Findings

We divide our findings into 3 categories:

- Institutional Issues
- Cost minimization
- Finance

Institutional Issues

1. **Israel has a different, and more dynamic, approach to PPP** – using a range of different types of PPP in similar cases, as opposed to the world where the same scheme is generally standardized by project type.
2. **Accessing official data** (both financial and contractual) is difficult.
3. **Long delays** between initial project proposal and actual tender time; long delays between tender offer submission, concessionaire selection, and financial close
4. **Time to tender seems shorter in traditional procurement relative to PPP.** A possible reason is that there are too many bodies involved in the decision making, from central governments to planning authorities to local authorities.
5. **Completion time under PPP could be shorter (or more certain),** provided that the contractual penalties are at appropriate (delay disincentivising) levels and are effectively applied. **Delays in completion of government funded** projects are sometimes due to the **government temporarily freezing funding.**
6. **Off balance sheet considerations** should be properly weighted with the **contingent liabilities** created by the guarantees offered to the concessionaires (and the implicit liabilities on the government in case of project failure).

Cost & Time Performance

1. **Costs are higher than initial estimates**, in both conventional procurement and large PPP. Small projects seem more likely to stay within CAPEX and completion time targets. Delays in actual completion time are not necessarily linked to the contractual arrangement **but larger PPP are more likely to face completion delays**.
2. **Increased costs in PPP could be due to under-bidding by private sector**, hoping to recoup the price reduction during renegotiation, or over optimistic bias by government.
3. Among the reasons for increased costs and delays in completion time, both under PPP and traditional procurement:
 - i. Difficulties assessing adequate competition for pre-qualification
 - ii. Long delays between project announcement, bidding stage and actual completion
 - iii. Poor preliminary design of the project (corrections to technical issues)
 - iv. Over optimistic project budget assumptions
 - v. Conflicts within Central government and between Central and local governments about project (design, funding, compensation, land expropriation, rights of way, etc.)
 - vi. Strong political interference (political and project cycle)
 - vii. Changes in the scope of the project
 - viii. Fragmentation in decision making bodies or financing methods (budget versus private sector) and not necessarily transparent methodology in support of decisions.

Finance

1. Financial close seems to be achieved in a 12/15 month range: a further acceleration (6-12 months) could be achieved using standardized contracts and loan agreements, and greater support by lending banks. Delays in financial close may also be due to unwillingness of the banks to finance projects where they believe the bids do not reflect market prices. Limited bank competition may also explain this behavior.

2. Government support given is based on grants, demand guarantees, and/or government preparatory work, often with the goal of enhancing the project's bankability. Government looks at PPP in large projects to achieve better efficiency and quality, but tends to also be interested in an «off balance sheet» approach.

3. Renegotiations and contract termination:
 - i. Three contracts have been renegotiated (two also terminated)
 - ii. Reasons for termination: inability to reach financial close
 - iii. Reasons for renegotiation: more funding requested from the public sector, and with fewer conditions attached.

Suggestions for the Future

Considering Infrastructure Plan 2030, it is worth trying to exploit the experience and competence so far acquired in applying PPP structures (the Israel Dynamic approach to PPP) enabling allocation of budgetary resources to economic sectors or programs where government has more competence, experience or comparative advantage, over the private sector (better use of fiscal space).

However actions must be taken to improve and accelerate infrastructure project delivery and ease financing issues.

To help resolve many of the problems discussed in the findings, we have suggestions in 2 categories:

Building institutional knowledge and flexibility

Exploring more financing options

Building Institutional Knowledge and Flexibility

- a) Building a single centralized decision making point for all the large projects
- b) Creating a competent centralized PPP unit with power to decide and implement best delivery modes for the project. (More detailed information in the tender documentation is beneficial in reducing information assymetry between public and private sector, which may lead to reduced contract prices and accelerated delivery time.
- c) Establishing a debating body between central and local government bodies to streamline permitting and compensation approvals. Use it for discussions on project feasibility with potential bidders (Examples: the Debat Public in France and similar arrangements in US and Canada)
- d) Use of fiscal tools such as tax credits to encourage private participation (particularly in large projects)
- e) Greater flexibility in the use of public funds: from least present value of revenues (Chile) to first loss structures (EIB) in support of the project bonds or securitization.

Exploring more financing options

1. Using long term loans from the government at market or below market rates. Could be more beneficial than grants from a budget perspective
2. Encouraging creation of a capital market for infrastructure projects. Demand guarantees or availability payments can enhance access to capital markets abroad (where there is great liquidity and a shortage of Israeli securities), and enable securitization techniques and/or the issuance of project bonds.
3. Encouraging greater participation of foreign banks to increase the limited competition and credit limits currently observable in the Israeli infrastructure loans market. More competition may bring innovative solutions and could reduce the cost of credit and accelerate financial close
4. Better use of government grants where available. Creating a monoline insurer to facilitate the funding of the project, enabling SPV concessionaire to issue bonds and not only rely on banks loans. This could open up the project bond market to retail investors.
5. Using land value capture techniques to increase revenues and enhance financing or cost recovery for the government. Population density and land shortage should encourage joint ventures between government and developers. (increase in land value, property taxes,sharing agreements,etc)

Thank you

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