



**REPUBLIC OF CROATIA**

**Ministry of the Sea, Tourism, Transport and Tourism**

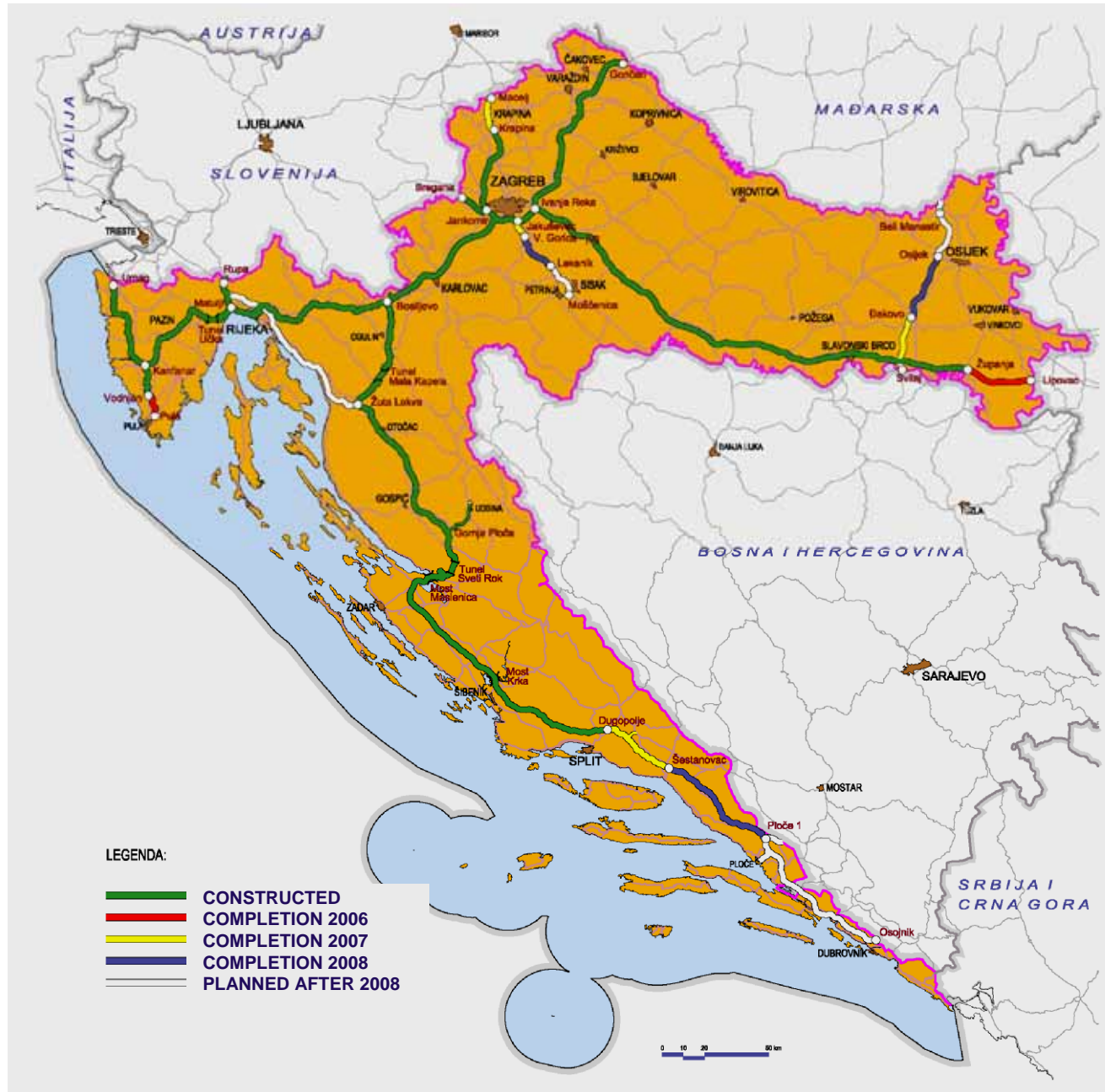
# **CROATIAN PPP EXPERIENCE IN MOTORWAY CONSTRUCTION**

**Mate Jurišić**

**Assistant Minister**

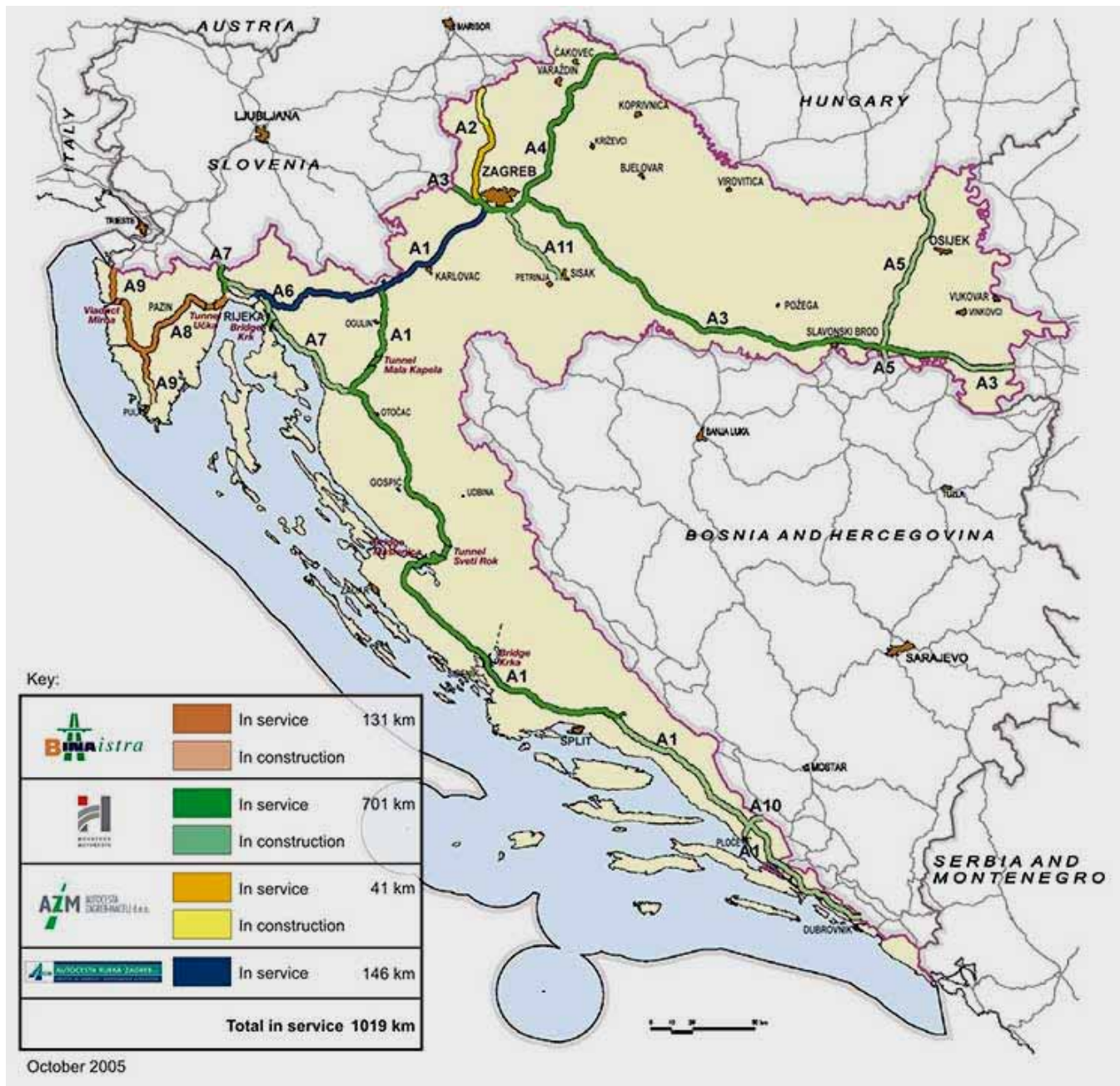
PPP workshop in Ohrid on 22nd and 23rd of March

# CROATIAN MOTORWAY NETWORK



- PLANNED: 1 501 km
- CONSTRUCTED: 1 065 km
  - Motorway: 853 km
  - Semi-motorway: 212 km
  - Network density:
    - 1.86 km / 100 km<sup>2</sup>
    - 24.20 km / 100.000 inhabitants
  - Turnover on the road border crossings (in thousand):
    - total: 19 995 vehicles
    - foreign: 13 287 vehicles
    - domestic: 6 708 vehicles





**HRVATSKE  
AUTOCESTE d.o.o.**

701 km

**CONCESSIONAIRES:**



131 km



41 km



146 km

REPUBLIC OF CROATIA



MINISTRY OF THE SEA, TOURISM, TRANSPORT AND DEVELOPMENT

# DEVELOPMENT OF PPP PROJECTS IN THE REPUBLIC OF CROATIA

- 1988 REPUBLIC OF CROATIA AND REPUBLIC OF SLOVENIA STARTED NEGOTIATIONS WITH THE AUSTRIAN-GERMAN CONSTRUCTION CONSORTIUM OVER ZAGREB – ŠENTILJ MOTORWAY AT THE TRANS-EUROPEAN CORRIDOR Xa
- 1990 ZAGREB – ŠENTILJ PROJECT ABANDONED
- 1991 CROATIA ISSUES AN INTERNATIONAL TENDER FOR CONCESSION OF 9 ROADS AND ONE BRIDGE (CROATIA MET WITH LITTLE RESPONSE)
- 1994 REPEATED INTERNATIONAL TENDER
- AT THE TENDER ISSUED IN 1994 BOYGUES WAS SELECTED FOR THE CONSTRUCTION OF THE ADRIATIC MOTORWAY IN ISTRIA
- 1995 CONCESSION AGREEMENT SIGNED WITH CONCESSIONAIRE BINA ISTRA FOR ADRIATIC MOTORWAY IN ISTRIA



# DEVELOPMENT OF PPP PROJECTS IN THE REPUBLIC OF CROATIA

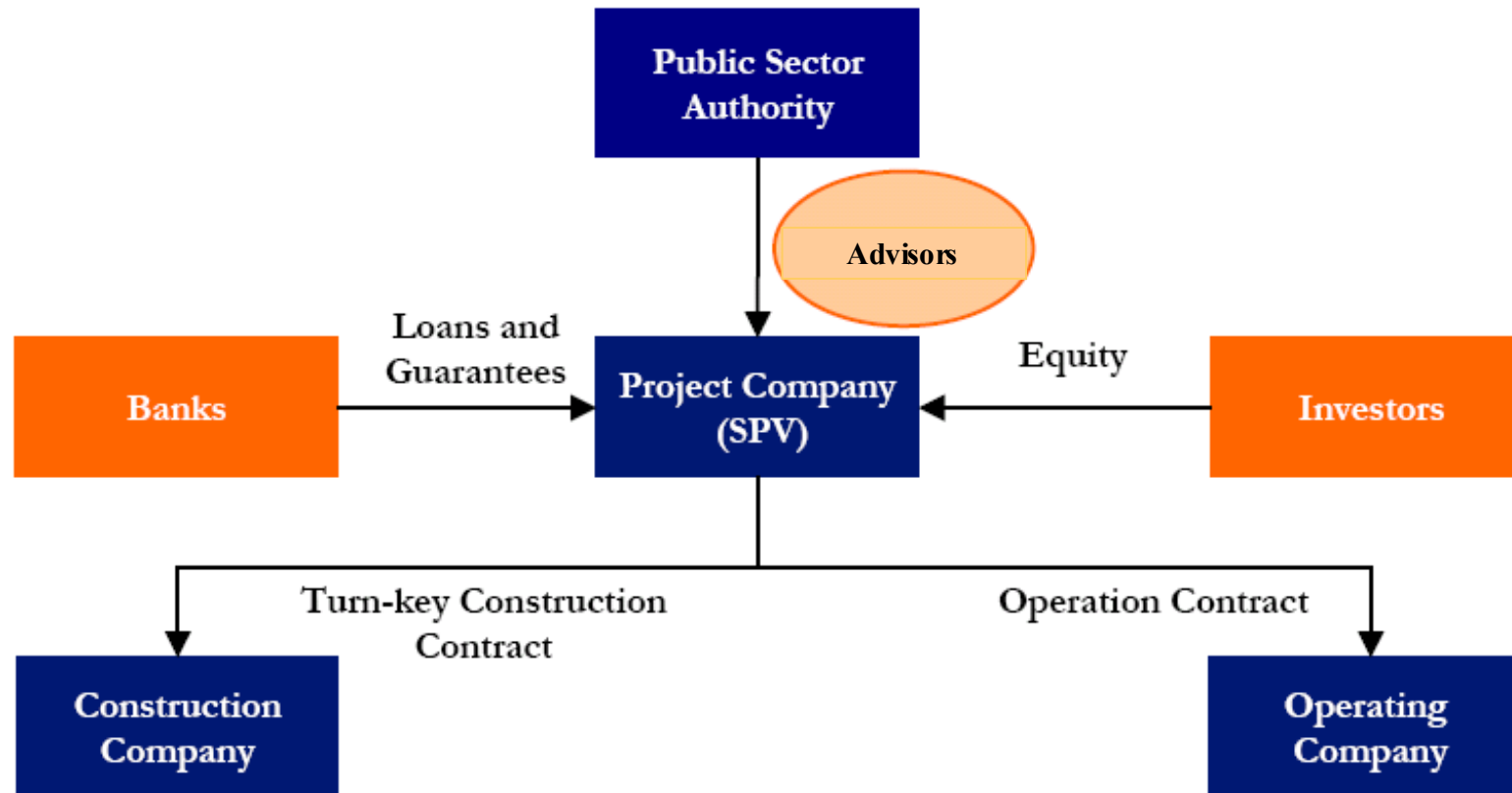
- 1996 ISSUES AN INTERNATIONAL TENDER FOR THE ADRIATIC MOTORWAY  
MASLENICA / ZADAR / DUBROVNIK
- 1997 THE CROATIAN GOVERNMENT AND WALTER BAU AG SIGNED THE  
AGREEMENT ON REALIZATION OF THE ZAGREB – MACELJ  
MOTORWAY ACCORDING TO BOT MODEL
- 1997 CONCESSIONAIRE BINA ISTRA ACHIEVED THE FINANCIAL CLOSING
- 1998 THE CROATIAN GOVERNMENT FOUNDED AUTOCESTA ZAGREB –  
RIJEKA COMPANY AND AWARDED THE CONCESSION FOR THE  
ZAGREB – RIJEKA MOTORWAY
- 2003 CONCESSION AGREEMENT SIGNED WITH CONCESSIONAIRE  
ZAGREB – MACELJ MOTORWAY
- 2004 FINANCIAL CLOSING ACHIEVED FOR ZAGREB – MACELJ MOTORWAY



# WHAT IS PPP

- ❖ Long term partnership based co-operation between the public and private sector for delivering traditional public services
- ❖ PPPs come in a variety of form (from simple contract to full privatization)
- ❖ Generally accepted principle is that better value for money may be achieved through the exploitation of private sector competencies and the allocation of risk to the party best able to manage it

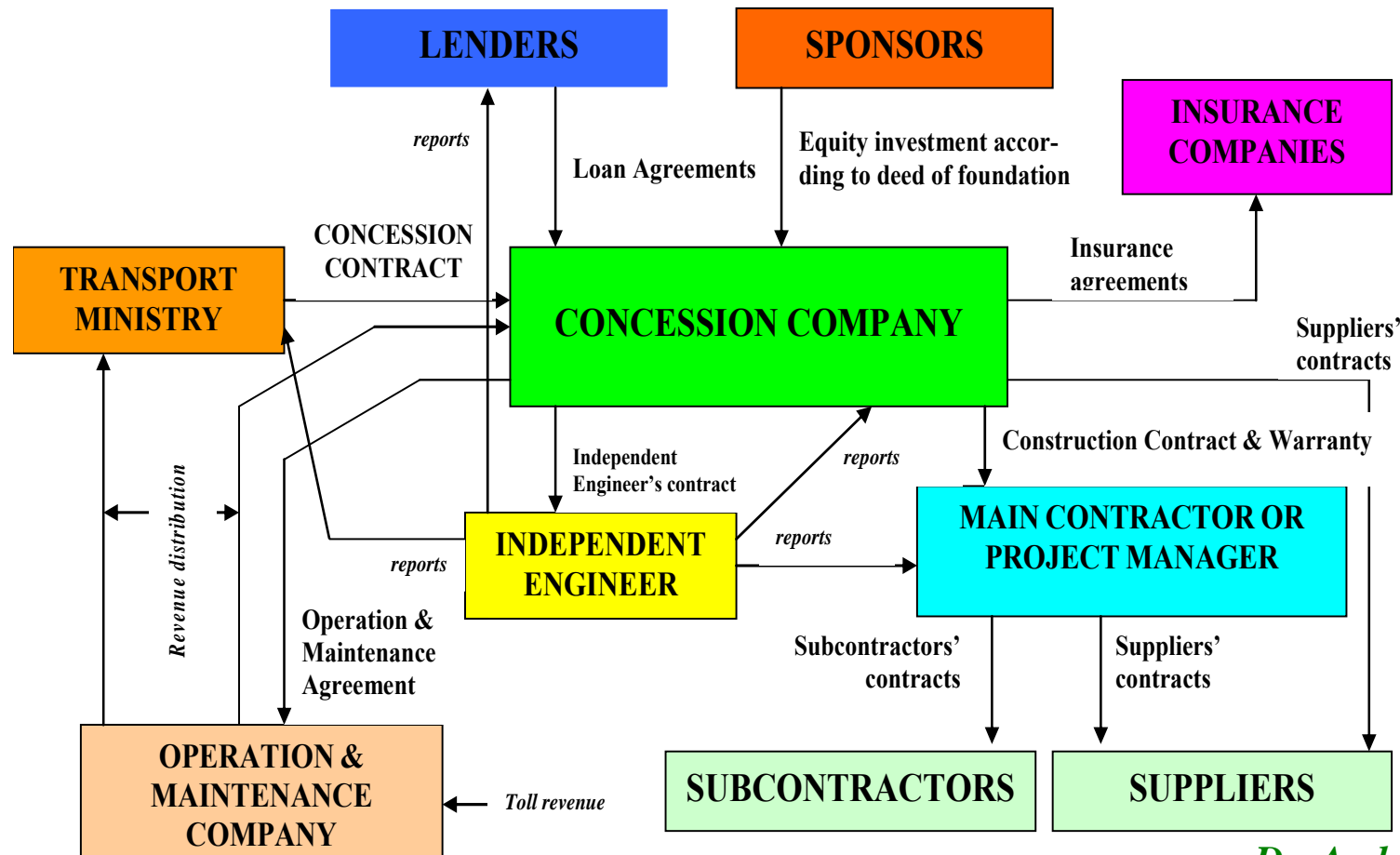
# PPP STRUCTURE



*Dr. András TIMÁR*



# A TOLL MOTORWAY CONCESSION

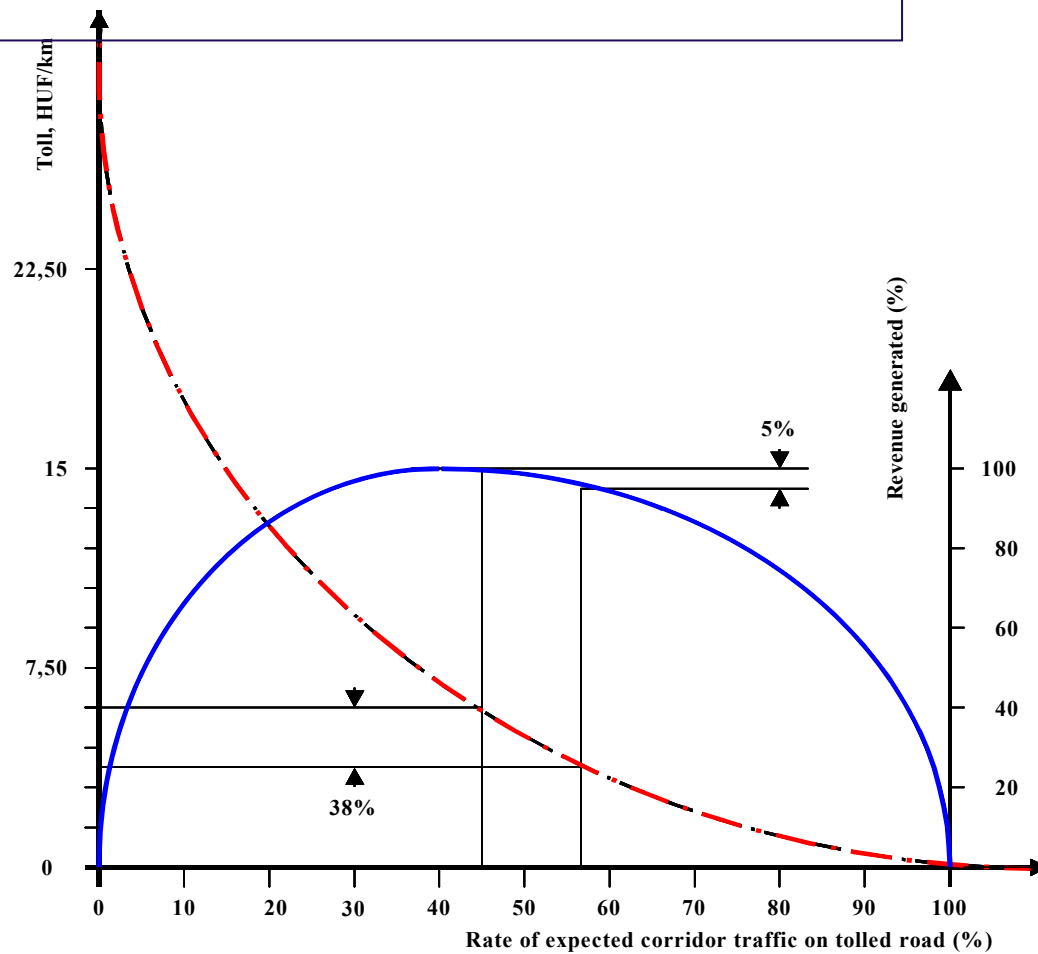


*Dr. András TIMÁR*





# TOLL REVENUE FUNCTION

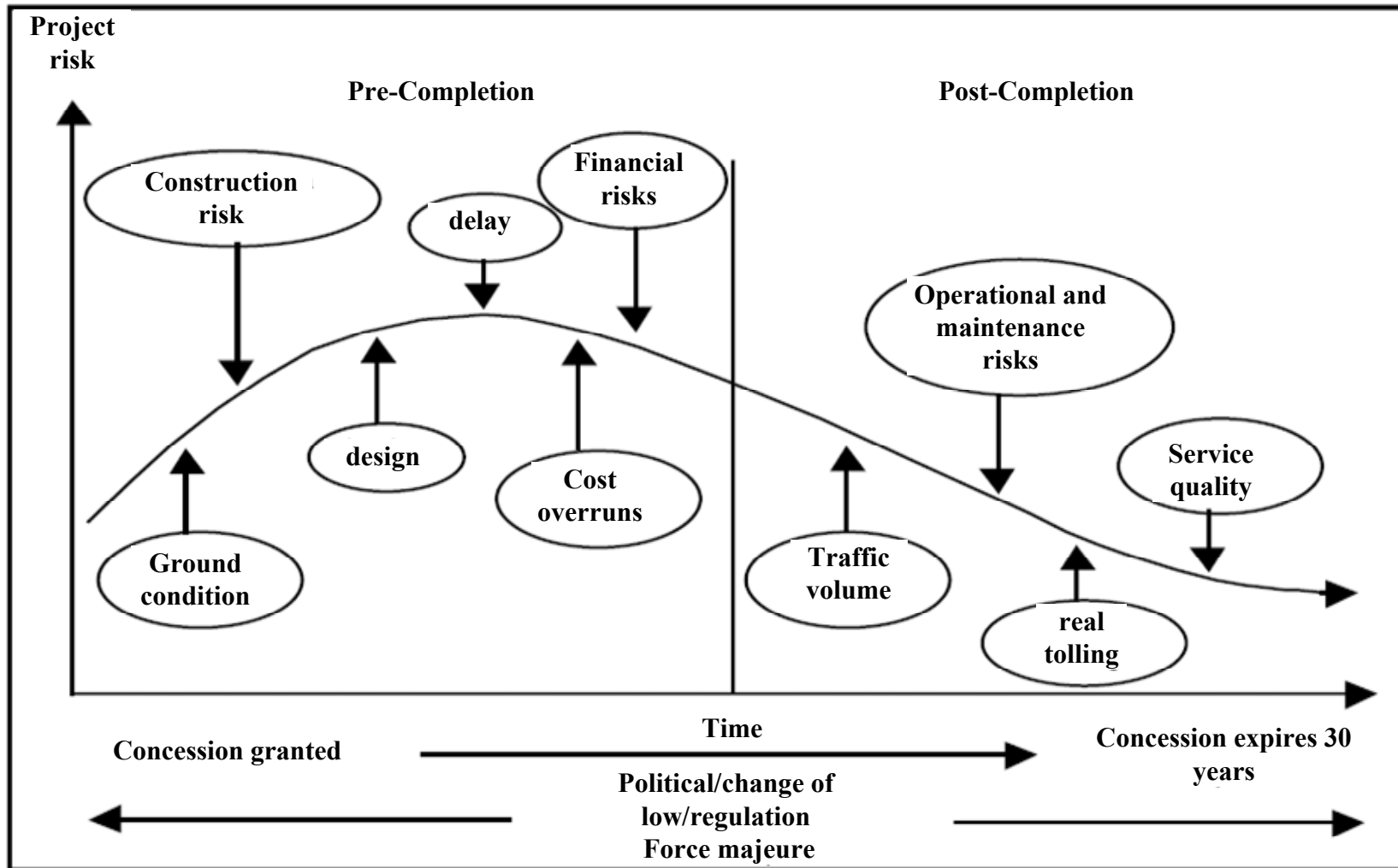


*Note:* reduction of revenue maximizing toll rate down to optimal one (-38%) reduces revenues by only -5%

*Dr. András TIMÁR*



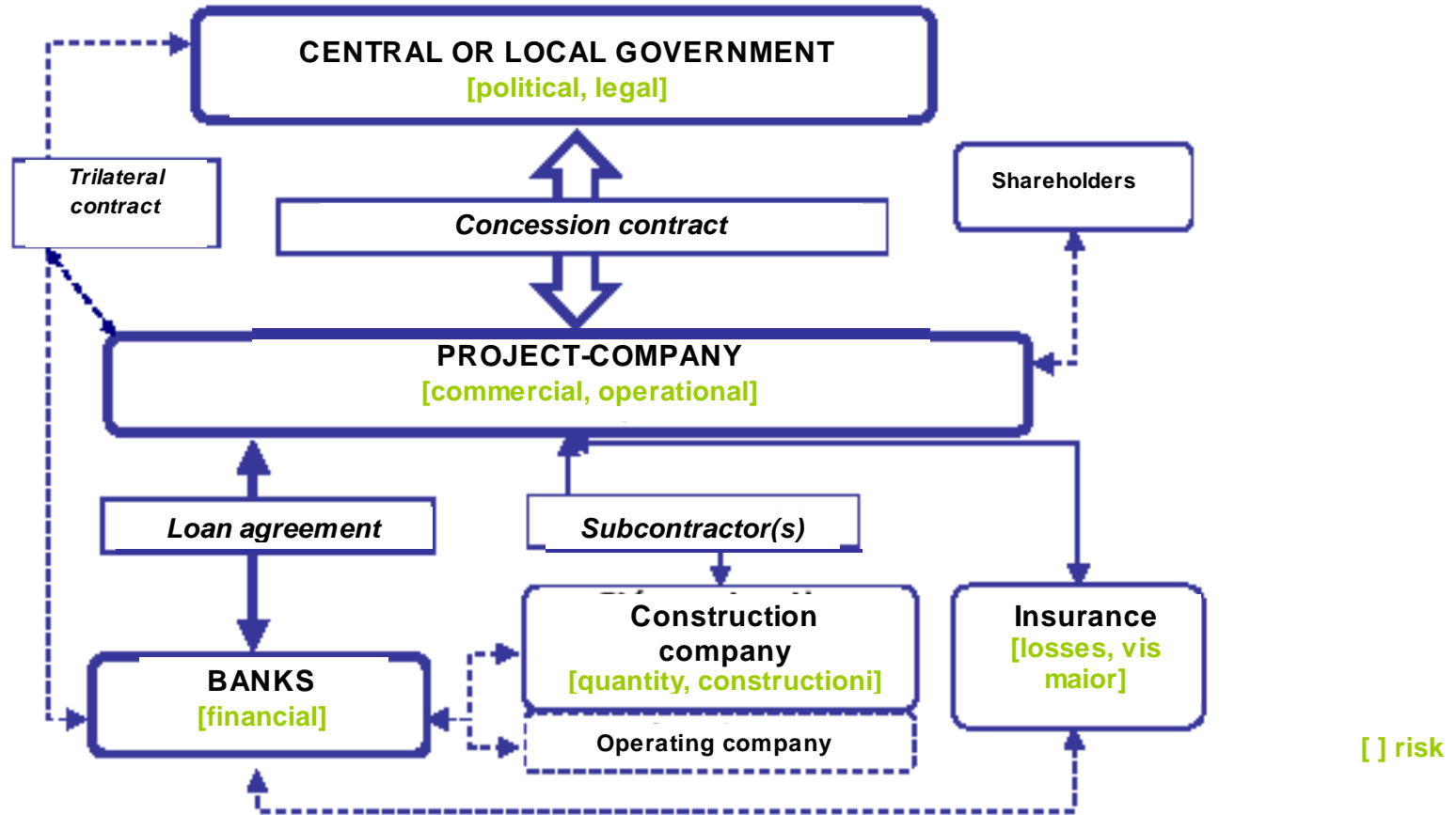
# RISK PROFILE OF A TRANSPORT PPP PROJECT



*Dr. András TIMÁR*



# RISK ALLOCATION

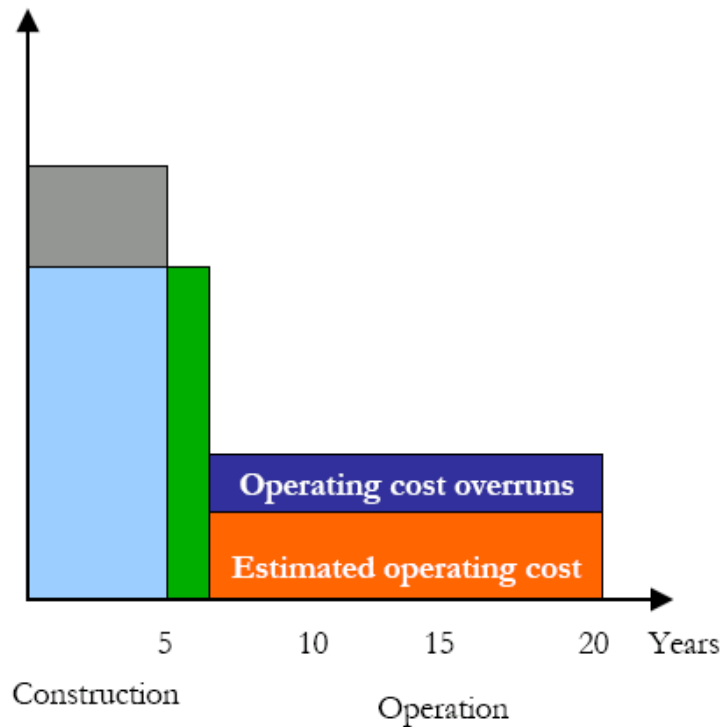


*Dr. András TIMÁR*



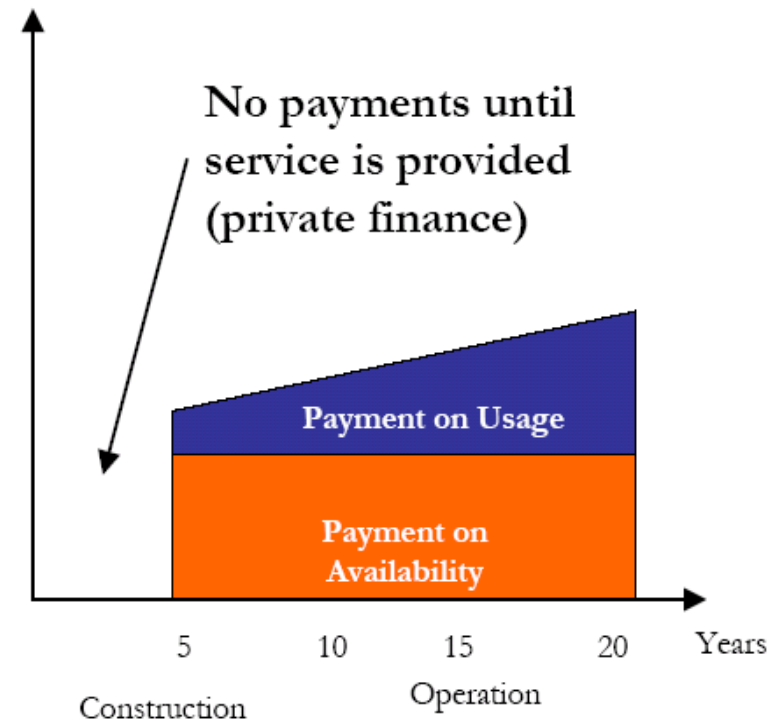
# PUBLIC PAYMENTS' DISTRIBUTION IN A TRANSPORT PPP

Conventional public procurement



■ Estimated Capital Cost   
 ■ Cost Overruns   
 ■ Time Overruns

PPP procurement  
Payment Profile for the Public Sector



*Dr. András TIMÁR*



# ADRIATIC MOTORWAY IN ISTRIA

Public



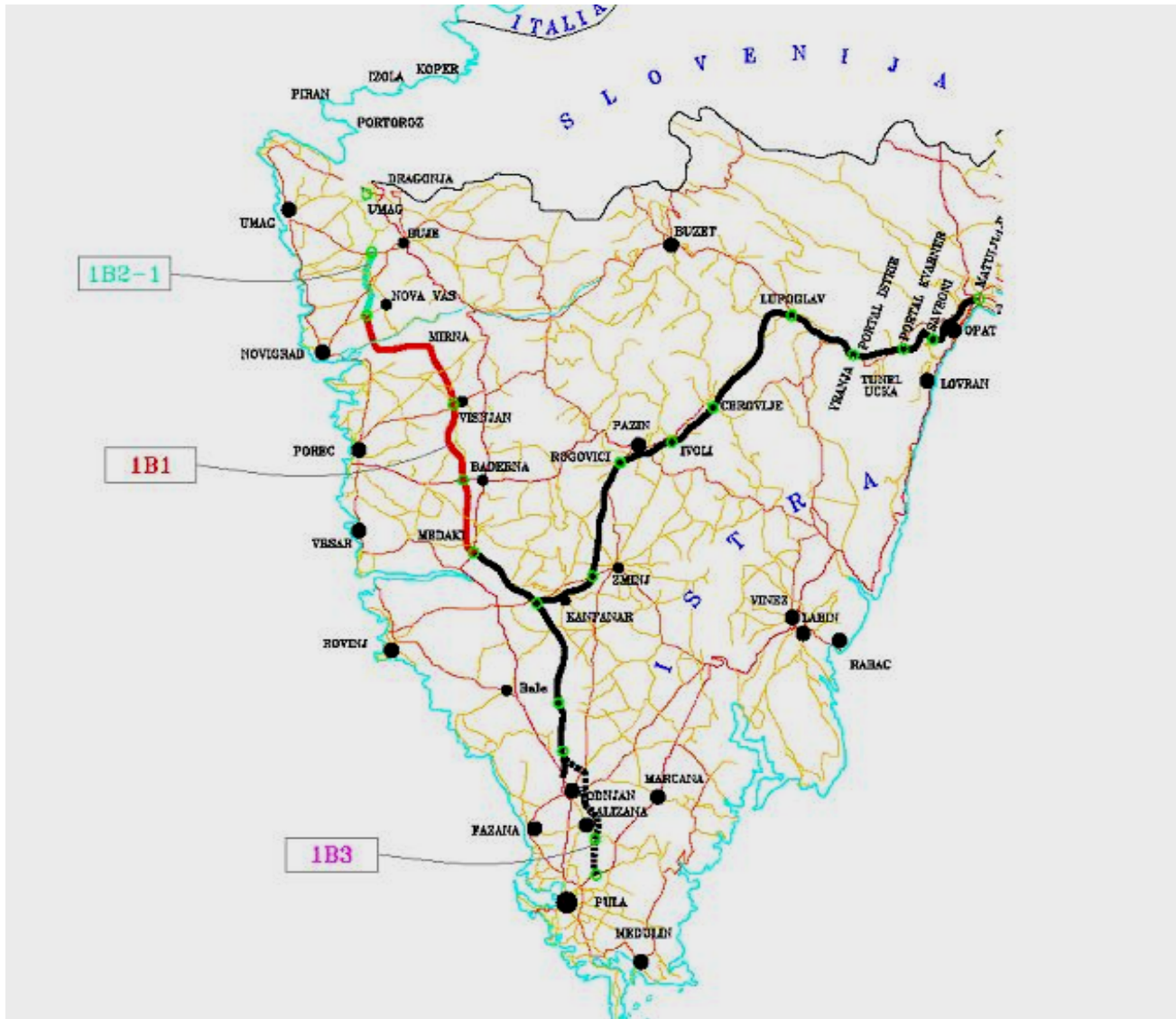
Private



Partnership

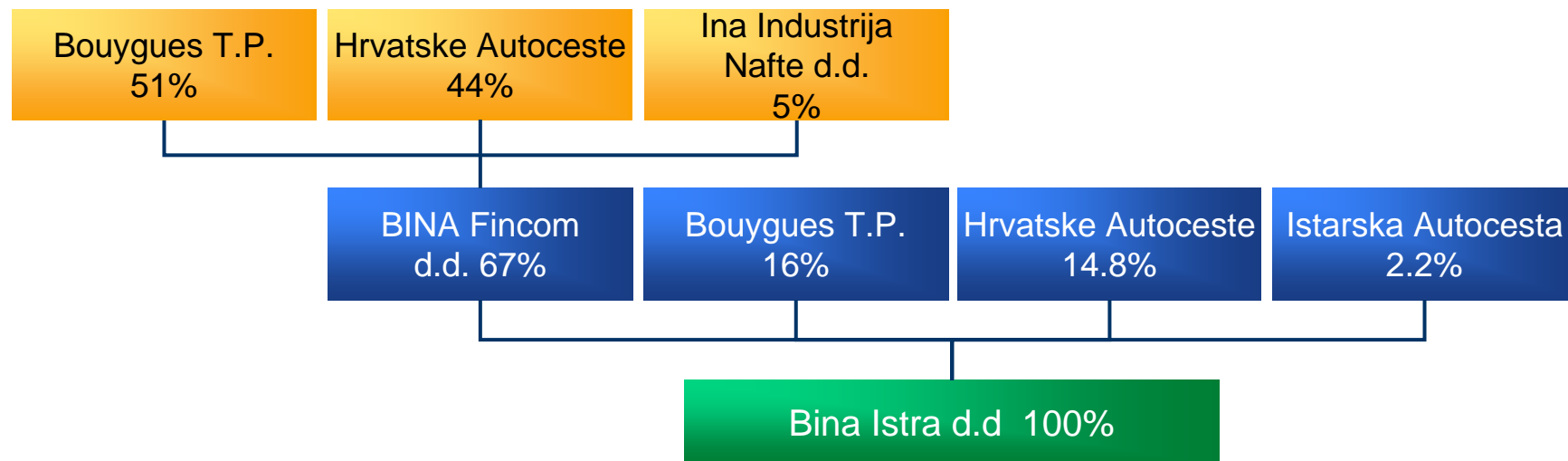


# ISTRIAN EPSILON



# PARTNERSHIP STRUCTURE

- ❖ **BINA-Istra has two main shareholders**
  - Bouygues Travaux Publics with 51%
  - Hrvatske autoceste (Croatian Motorway Authority) with 44%
- ❖ **Collectively, the state-owned shareholders: (HAC and INA) hold 47%**
- ❖ **INA is a state-owned oil company**
- ❖ **Istarska Autocesta is owned by a number of regional municipalities and banks**



# KEY PROVISIONS OF THE CONCESSION AGREEMENT

## Legal

- ❖ The Concession is granted for 32 years as maximum (reduced if all section are not completed)
- ❖ The infrastructure is handed over for free to the Grantor at the end of the Concession period

## Financial

- ❖ The Grantor set the Toll
- ❖ The Financial Balance Concessionnaire/Grantor is ensured through subsidy/profit sharing mechanisms



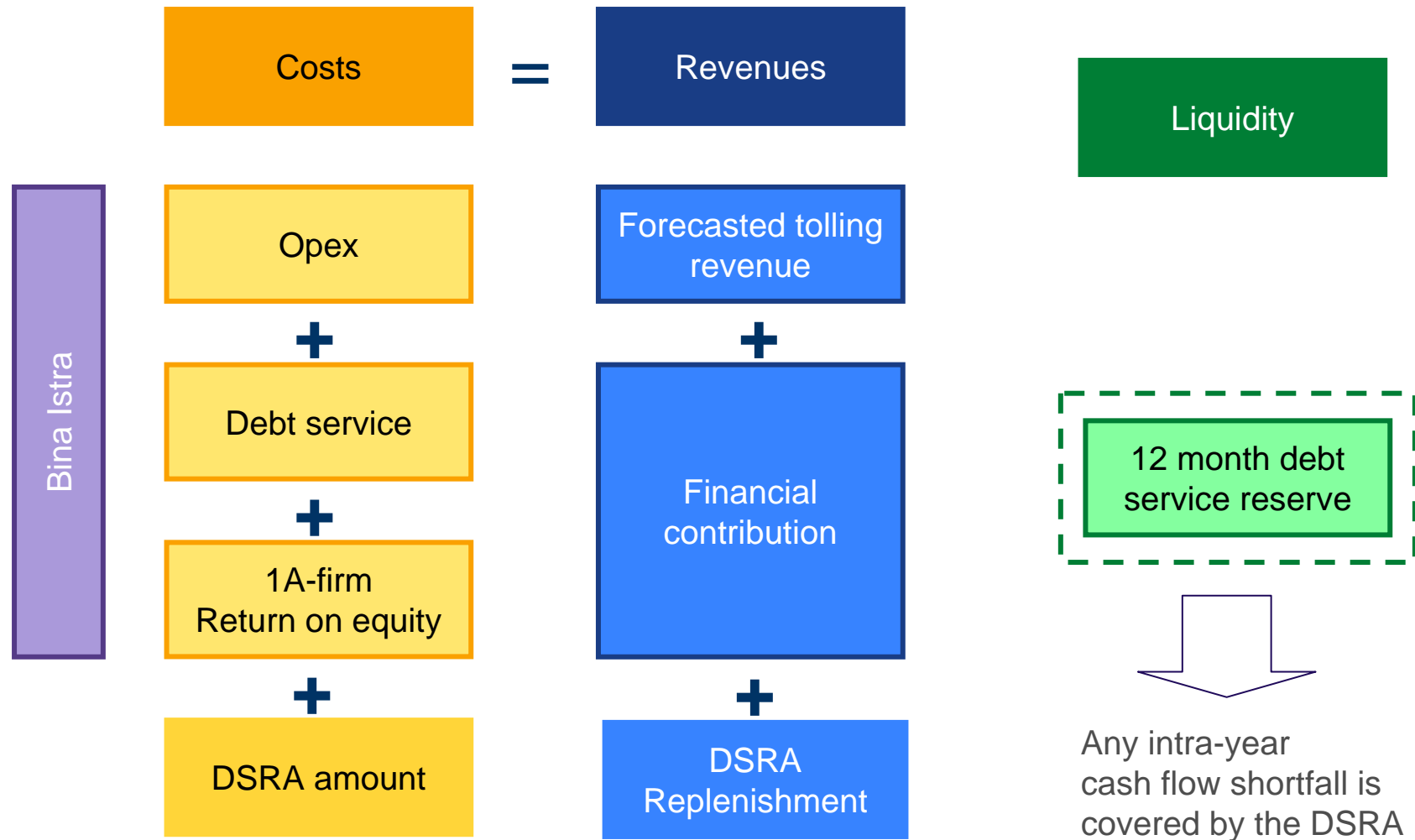
# KEY PROVISIONS OF THE CONCESSION AGREEMENT

## Technical

- ❖ The Grantor acquires the land, the Concessionnaire designs, finances, builds and operates the motorway
- ❖ All the Operation and Maintenance as well as Renewal is ensured by the Concessionnaire
- ❖ The infrastructure is handed over for free to the Grantor at the end of the concession period



# COMMERCIAL STRUCTURE



# KEY FACTORS OF SUCCESS

- ❖ Croatian good image on Financial Market
- ❖ Strong involvement of the Grantor
- ❖ Sponsor has a large experience in developing PPP contracts
- ❖ Traffic and Revenue risk mitigated by the fact that 70 % of toll revenues are expected from the Ucka tunnel (in operation since 1981)
- ❖ A win-win contract : The interests of the Grantor and the Concessionnaire are well balanced through the Concession agreement.



# THE DIFFICULTIES

## Administrative

- ❖ Long procedures (construction permits and land acquisition)

## Political

- ❖ An equilibrium had to be found between the Local Authorities that were reluctant to toll and the Grantor who was seeking for a self supporting project.

## Media

- ❖ The project has been and remains a very sensitive issue, linked to the image of tolls in the general opinion and an overall poor knowledge of concession projects.

# MOTORWAY ZAGREB – MACELJ

Public



Private

**STRABAG**

Partnership

**AUTOCESTA  
ZAGREB-MACEJ d.o.o.**

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# MOTORWAY ZAGREB - MACELJ

- ❖ Duration of the concession 28 years
- ❖ Concession Agreement signed July 2003.
- ❖ The financial closing achieved in July 2004.



# KEY PROVISIONS OF THE CONCESSION AGREEMENT

## Legal

- ❖ Concession is granted for 28 years
- ❖ Infrastructure is handed over for free at the end of the concession period

## Financial

- ❖ The toll is set up in Concession Agreement
- ❖ TSCA / Traffic Shortfall Contribution Agreement / Certain level of revenues based on the of traffic study is guaranteed
- ❖ Special contribution in the value of paid VAT on tolls during the concession period
- ❖ The RoC will pay the agreed amount to the concession company during the construction and during the first four years of opening the motorway to traffic.
- ❖ The amount will be treated as Preferred capital



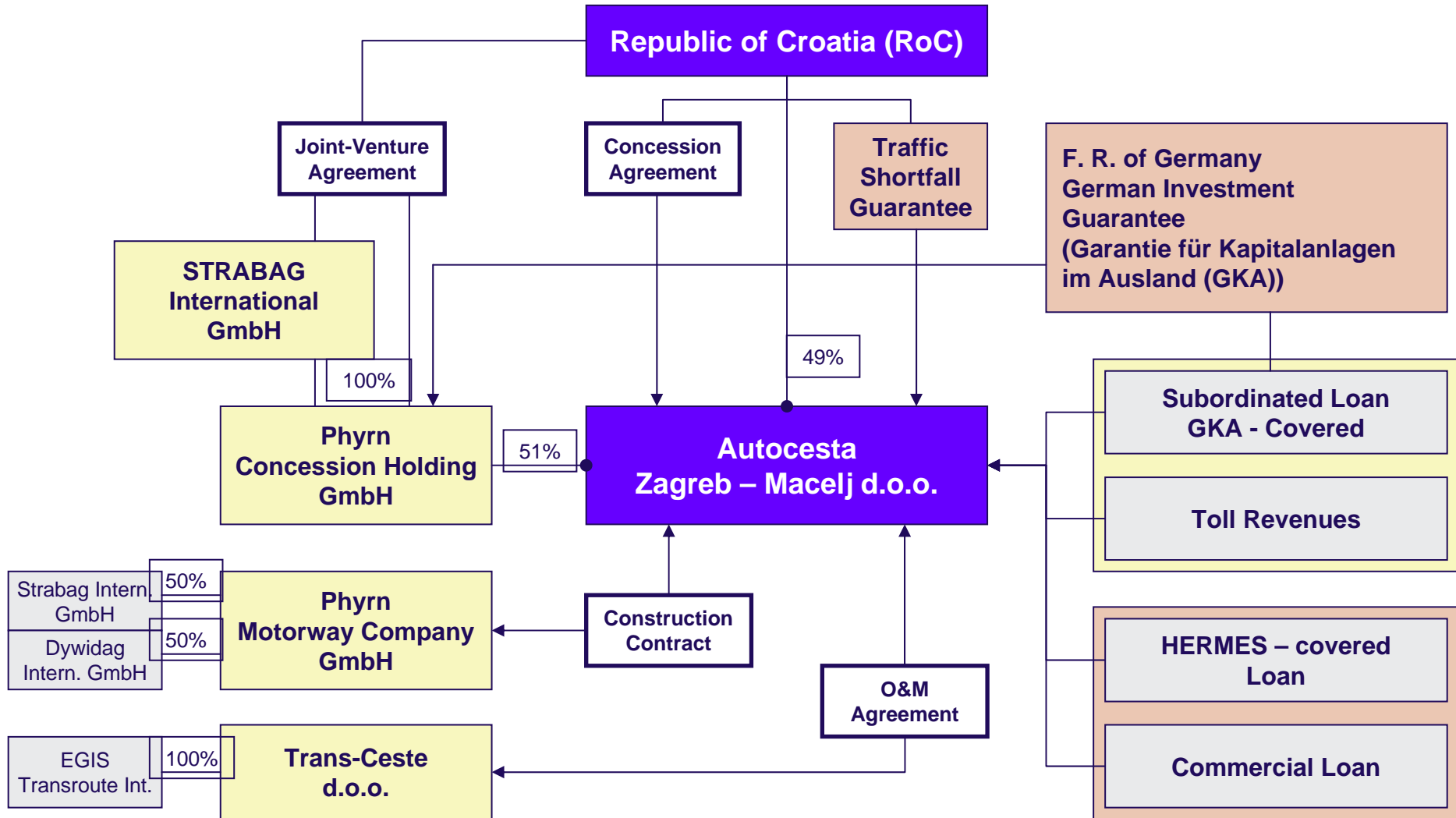
# KEY PROVISIONS OF THE CONCESSION AGREEMENT

## Technical

- ❖ The Grantor acquires the land, prepares the main design, hands over 40 km of the constructed tolled motorway and semi-motorway
- ❖ The concessionaire finances, builds and operates the motorway
- ❖ The entire operation and maintenance is ensured by the concessionaire



# PROJECT STRUCTURE



# CROATIAN EXPERIENCE

## THE KEY ELEMENT OF SUCCESS PARTICIPATION OF STATE:

- ❖ State participation is of crucial significance for all PPP projects.
- ❖ It provides four main types of support:



# CROATIAN EXPERIENCE

## 1. CONCESSION COMPANIES ARE GRANTED THE RIGHT TO USE AND OPERATE THE EXISTING ROAD AND MOTORWAY SECTIONS

- ❖ BINA ISTRA  
road sections and the 5 km long tunnel tolled
- ❖ AUTOCESTA RIJEKA – ZAGREB  
motorway sections – 45 km tolled
- ❖ AUTOCESTA ZAGREB – MACELJ  
motorway sections – 34 km tolled

# CROATIAN EXPERIENCE

## 2. SUBSIDY IN CASE OF INSUFFICIENT TRAFFIC OR TRAFFIC SHORTFALL

### ❖ BINA ISTRA

each month, the State provides to the Concessionaire the subsidy (which is reimbursable) in case toll revenues are insufficient for the functioning of the company

### ❖ AUTOCESTA ZAGREB-MACELJ

subsidy in form of subordinated loan

# CROATIAN EXPERIENCE

## 3. FINANCIAL CONTRIBUTION

- ❖ **AUTOCESTA ZAGREB-MACELJ**  
Preferential capital during construction and after the motorway is opened to traffic
- ❖ **AUTOCESTA RIJEKA-ZAGREB**  
The State repayed the loans taken for motorway construction

# CROATIAN EXPERIENCE

## 4. TAX REDUCTION

- ❖ BINA ISTRA exempted from VAT payment
- ❖ AUTOCESTA ZAGREB-MACELJ  
State contribution in the value of paid VAT on tolls



# LESSON LEARNED

- ❖ No two projects are alike
- ❖ Budgetary restraints – one of the main reasons for PPP application
- ❖ Projects are medium sized: €270-380 million
- ❖ Very long period of time used for project development
- ❖ No significant difficulties were noted during PPP project implementation



# LESSON LEARNED

- ❖ Realization of PPP motorway Projects provides a good basis for development of much more complex PPP infrastructure facilities and other projects (railways, airports and social projects)
- ❖ Realization of PPP projects facilitates the adjustment of the Croatian economy to economic standards applied in the EU





# LESSON LEARNED

- ❖ Implementation of PPP models has greatly contributed to the development of local economies
- ❖ Foreign companies bring their experience and hence contribute to the development of domestic companies



# FINALL CONCLUSION

## 1 GENERAL PRECONDITIONS

- Ensure true Government Support
- Create a PPP Task Force
- **Enhance Country Legal Framework**  
(Accounting, Taxes, Procurement)

## 2 PROJECT PREPARATION

- Put in place sound procurement strategy
- Present comprehensive, reliable project documentation
- **Provide for a steady and secure payment mechanism**
- **Agree on affordable level of tariffs**

## 3 TENDER PROCESS

- Use **Pre-qualification** of bidders
- **Ensure Transparency & Confidentiality** throughout process
- Present **clear award criteria**
- **Reimburse Bidding Costs**
- **Unsolicited Bids ??? (Outside EU)**

## 4 RISK MITIGATION

- Provide for optimal risk identification & allocation
- Invite financial risk mitigation through IFIs, ECAs, etc.

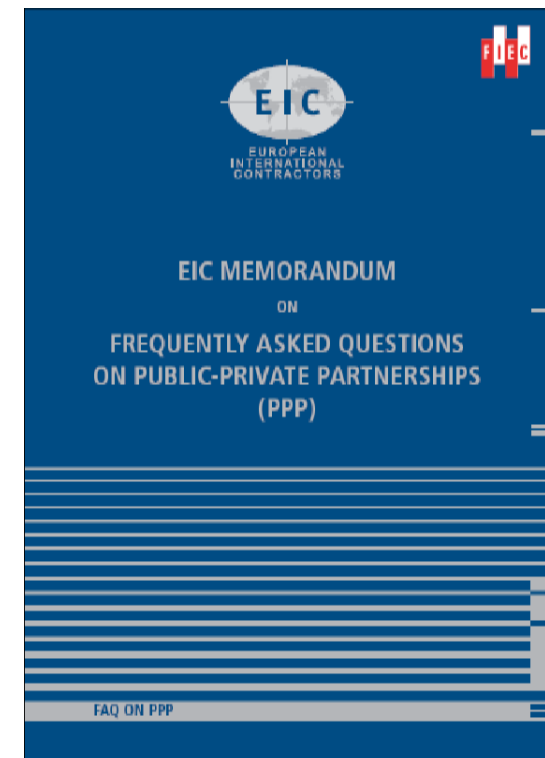
*Frank Kehlenbach*



# FINALL CONCLUSION

## ◆ Political Arguments on PPP

•Value for Money ?	–	Life cycle approach
•Off-balance Financing?	–	Not always
•Government Flexibility?	–	Public duties
•Government Control ?	–	Retained
•Public Sector Comparator?–	–	Reliable?
•Complexity & Costs?	–	Can be limited
•Re-negotiations in PPP ?	–	20-30 years
•(Increase of) Tariffs ?	–	Right Blend
•State Subsidies?	–	non-viable PPPs
•Role of SMEs?	–	Important
•Role of architects & consultants ? –	–	dito
•Labour rights ?	–	state responsibility
•Sustainability of PPPs?	–	Definitely



*Frank Kehlenbach*



# FINALL CONCLUSION

## Challenges for PPPs

- Public sector skills
- Legal and regulatory sector-specific framework
- Steady revenue flows
- Transaction costs, right blend of public and private funds (Role of IFIs/EU)
- Political & Economic risks

## Benefits of Benefits of PPPs

- Project life-cycle approach
- Project completion on time + on budget
- Project operation according to pre-defined standards
- Risk transfer to the private sector (e.g. interface risk)
- Additional private funds

*Frank Kehlenbach*





**Thank you for your attention**

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