R1 Expressway PPP Case Study

A successful Partnership between the Slovak Government and a private consortium (VINCI Concessions & Meridiam) for a 51 km expressway

Key messages – Why is R1 a best practice?
- nothing special -> easily replicable
- simple but demanding project for both parties
- in operation for nearly 5 years
- contribution to 10 SDGs
1990 – 2005 context: a transition country

FROM
- Communist period and Czechoslovakia as a one country
- Planned economy

TO
- Slovak Republic and its integration policy to EU (2004) and international institutions
- Market-driven economy

Macroeconomic indicators of success of the structural policies run during transition

- Unemployment decreased
- Inflation rate decreased
- Foreign investment increased
- Not an aid receiver from the World Bank anymore

But there were some intermediary stages

Slovakia’s economic catch-up called for some efforts towards trade, exchanges and mobility.

Having some new expressway sections was seen as “a way” to meet this need.

Drivers for PPP option:
- Get the expressway rapidly, with high technical and safety requirements
- Get, in fine, a less expensive project (proven by public sector’s value for money analysis)
- Increase capabilities in the public sector (demanding tender, know-how transfer, result orientation)
People first => improve mobility exchanges, mobility, safety, reliability

Users + Public Partner + Private partner = 3 initially diverging objectives

Make a priori diverging objectives converge to design a lively win-win-win project

1 strategic objective
1 problem
1 path to solve the problem

Make sure the project meets socio-economic needs
Find some funding sources for the project ...
... and some refunding sources for return on investment without excluding users
Securing the private partner
Incentivizing the private partner to the benefit of users

-> Political change but no project change
-> Funding sources = bank consortium + EBRD
-> Separation of infrastructure from tolling. Toll operator for trucks and an annual stamp for cars already existed. So refunding = availability charge
-> Adaptation of the legal framework + signature at worse moment of financial crisis = confidence of all stakeholders
-> Strong performance indicators. 1 penalty point = 5000 EUR deducted from the availability payment
Some key figures

**About the project**
- 1st PPP project (availability type) in Slovakia
- Financial close achieved at the highest point of the financial crisis (2009)
- Construction costs: 900 million EUR
- Works started on site 5 months after FC. Open to traffic 2 years later
- O&M during 30 years.
- 1st central Europe infrastructure with a refinancing through bonds: benefits shared between the Government and the private partner

**About construction**
- More than 2,000 drawings prepared
- More than 450 utilities relocations
- Earth works in a volume of more than 5 million M3
- 1,100,000 m² of pavement
- 78 bridges
- 10 interchange crossings
Hindsight / impacts

*Answers form a survey*

More than 500 people living in areas through which cadastral territory R1 passes, answered a survey.

- 83% said their **access** to work, school and free time activities improved
- 100% noticed a decrease in **fuel consumption** and time savings
- 52% assessed an increase in the **value of their land**
- 96% believe the PPP resulted in maintenance improvement (cleaning, snow plowing, mowing of verge) => increase in **road safety**
- 43% think **unemployment rate decreased** after the opening of R1 expressway

*Other figures*

- Around 20 000 vehicles per day.
- 25% of heavy traffic, among which 50% are not Slovak = improvement of regional exchanges
- Local companies involved in the construction: 30% of works
- The O&M team in charge of R1, 5 years after commissioning: 61 people = 60 Slovak people + 1 expatriate

What does that mean?

**People** have seen their living conditions improve

**Planet** was taken into account through environmental criteria

**Prosperity**: R1 has resulted in shared growth

**Partnership**: public sector capacity building & know-how transfer both to local companies and to the international one

**Peace**: Expressway as a freedom, free trade and safety vector. PPP as a tool promoting transparency
<table>
<thead>
<tr>
<th>SDGs</th>
<th>SUSTAINABLE DEVELOPMENT GOALS</th>
<th>no impact</th>
<th>some impact</th>
<th>high impact</th>
<th>describe impact</th>
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<tbody>
<tr>
<td>1</td>
<td>end poverty</td>
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<td>end hunger</td>
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<td>Safety improvement, time savings, access to services</td>
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<td>Capacity building, know-how transfer</td>
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<td>economic growth &amp; decent jobs for all</td>
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<td>Job access (indirect), creation of qualified jobs (direct)</td>
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<td>resilient infrastructure, sustainable industrialization, foster innovation</td>
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<td>At the heart of the project</td>
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<td>reduce inequalities within and among countries</td>
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<td>Improvement of regional exchanges and of local access to services</td>
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<td>cities inclusive, safe, resilient and sustainable</td>
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<td>No discrimination for access, resilient to climate change, safe infra</td>
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<td>responsible consumption by all</td>
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<td>combat climate change</td>
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<td>Led to a decrease in fuel consumption (lower distances, less traffic jam)</td>
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<td>protect the ocean</td>
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<td>Natural species protected</td>
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<td>16</td>
<td>peaceful and inclusive societies, justice for all, accountable institutions at all levels</td>
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<td>Commitment and transparency in public sphere</td>
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<td>mechanisms and partnerships to reach the goals</td>
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<td>Fair risk allocation. Fair balance between incentives and control</td>
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R1 as a source of inspiration for other projects in the region

- D4R7 (Bratislava bypass): preferred bidder has just been selected
- The Ministry of Transport has announced other forthcoming PPP in Slovakia
- In Czech Republic also: R4 PPP project (South of Prague) is about to be launched

Key success factors for scalability & replicability

- Success first comes from the intrinsic interest of the project (socio-economic need), regardless of the delivery option
- PPPs in road sector: a good type of project to start with because demonstrated success (don’t start with too unique/complex/unproven success projects)
- Project with a sufficient size: efficiency gains (compared to traditional procurement) > transaction costs associated with PPPs (learning costs, tendering costs, financial costs, etc.)
- Successful PPP project = demanding for the public sector: elaborate and monitor during the whole lifespan of contract some credible and binding performance criteria for the private partner
- Successful PPP project = exchange of skills among private companies: local companies provide context knowledge and international companies provide PPP engineering skills. Win-win situation
Sound governance and management teams at the heart of success

- Project led by the Ministry of Transport, Construction and Regional Development
- A strong and qualified PPP Unit attached to that Ministry
- Technical, legal and financial advisors are always necessary for the public side

 Egyptians they organized a fierce competitive tender (4 pre-qualified bidders), and they succeeded in finding the right balance between transparency and dialogue. They finally selected a private consortium who cared for its good reputation in the long run

As a Management Team of future PPPs in your country, you are key to projects contributing to SDGs

Because we are convinced that Prior Project Preparation and Planning Promote Performance, the UNECE and its Business Advisory Board (BAB) are willing to help you engage in:

- Capacity building
- Project prioritization in infrastructure program
- Prefeasibility studies
- Implementation of Value for money methodology
- Zero tolerance to corruption programs