



“ALL STARS” Conference

Gerhard Bruckermann, Chairman of DEPFA Bank plc

26th/27th March 2007

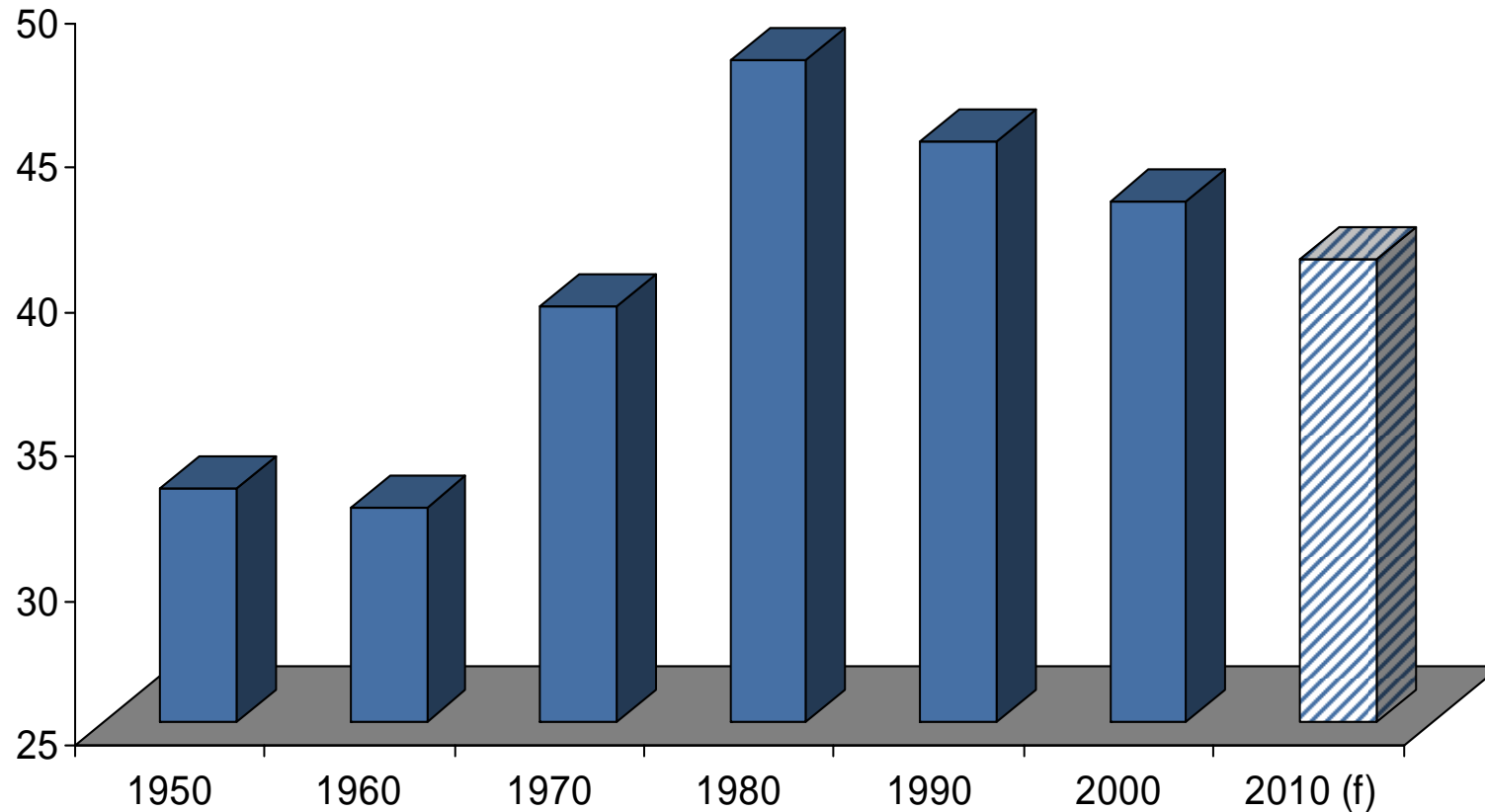
 **DEPFA BANK**

- **How is the Public Sector Changing?**
- **The Trigger for Change: Budget Constraints**
- **Implications for Infrastructure Finance**
- **PPP's and Germany**
- **DEPFA and Infrastructure Finance**
- **Conclusions**

Public Spending in Germany

Decline is expected to continue

Government Expenditure as % GDP



Source: OCED, Tanzi and Schuknecht (2000)

What is driving Public Sector Change?

- **Current Economic philosophy**

- ▶ Liberalisation / privatisation / globalisation are dominant trends

- **Increased Budget Constraints**

- ▶ Current: Medium term sustainable fiscal strategies, Maastricht criteria etc.
- ▶ Future: Ageing population and age related spending e.g. Health, Social Security, Pensions

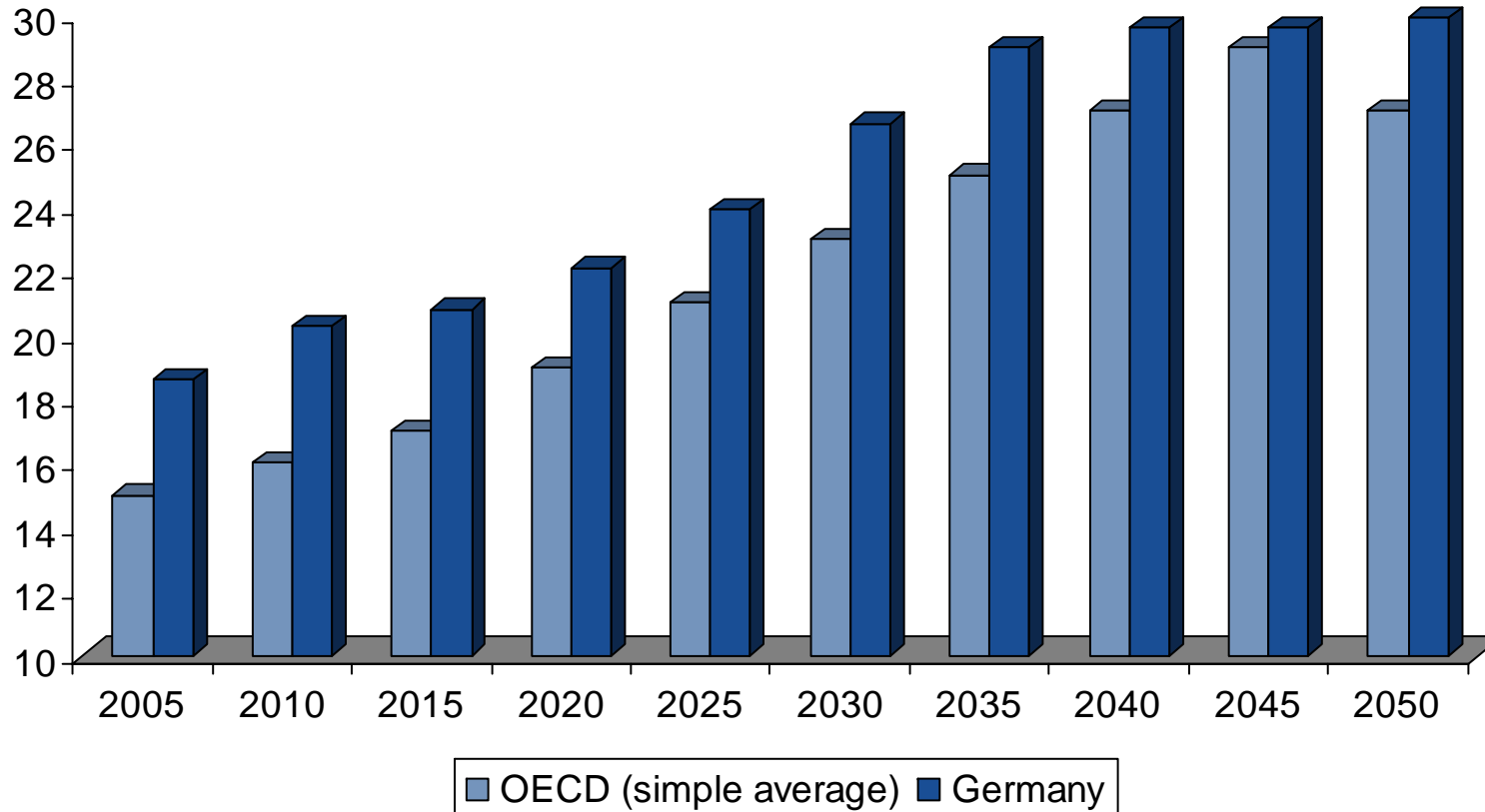
- **New Technology**

- ▶ Knowledge intensive economy facilitates greater private participation

The Trigger for Change

Future Budget Constraints

% of Population Over 65 Years of Age

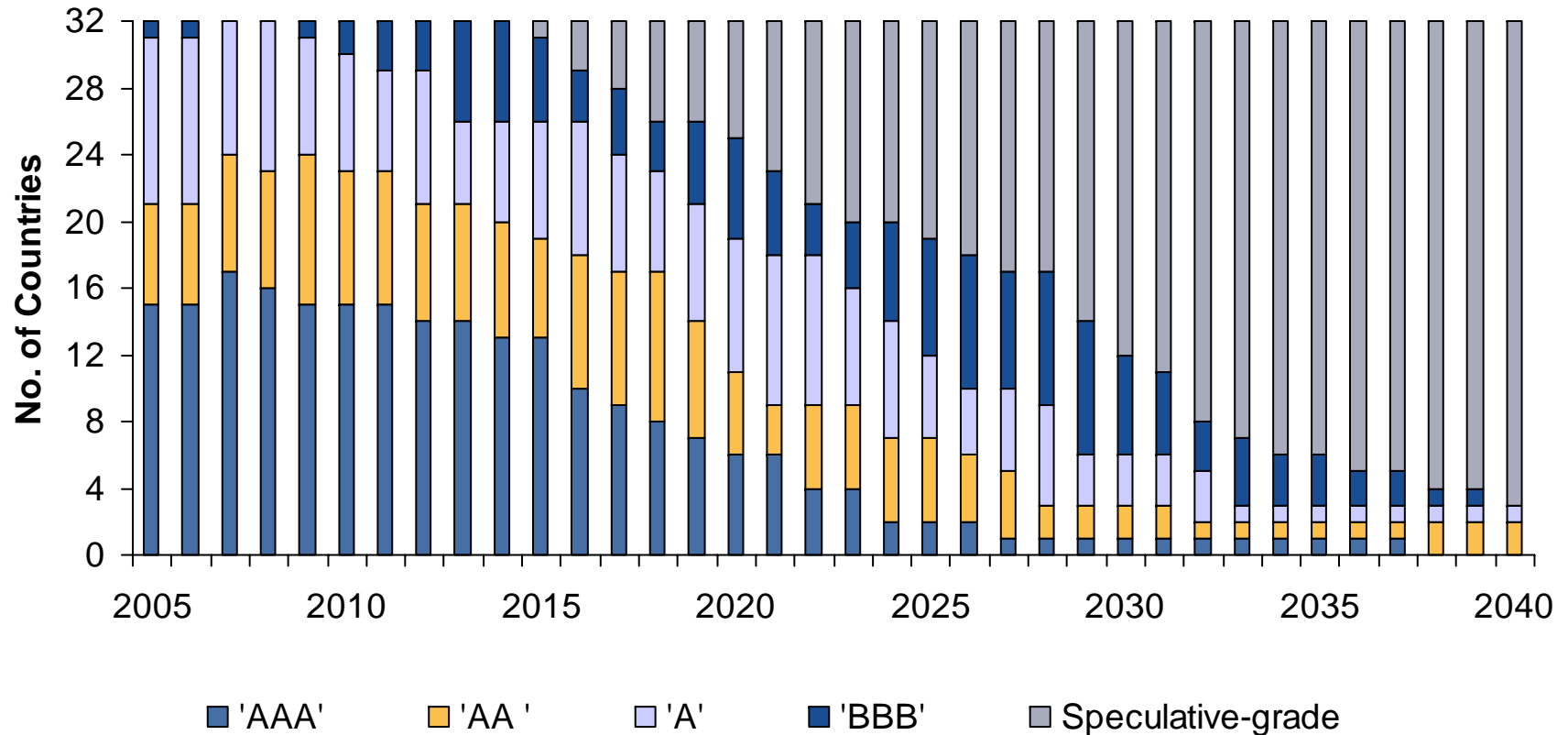


Source: OECD, IMF, Standard and Poor's, European Commission

Effects of Ageing

.....if no action is taken

Hypothetical Long-Term Sovereigns Ratings Distribution (with no Government Action)

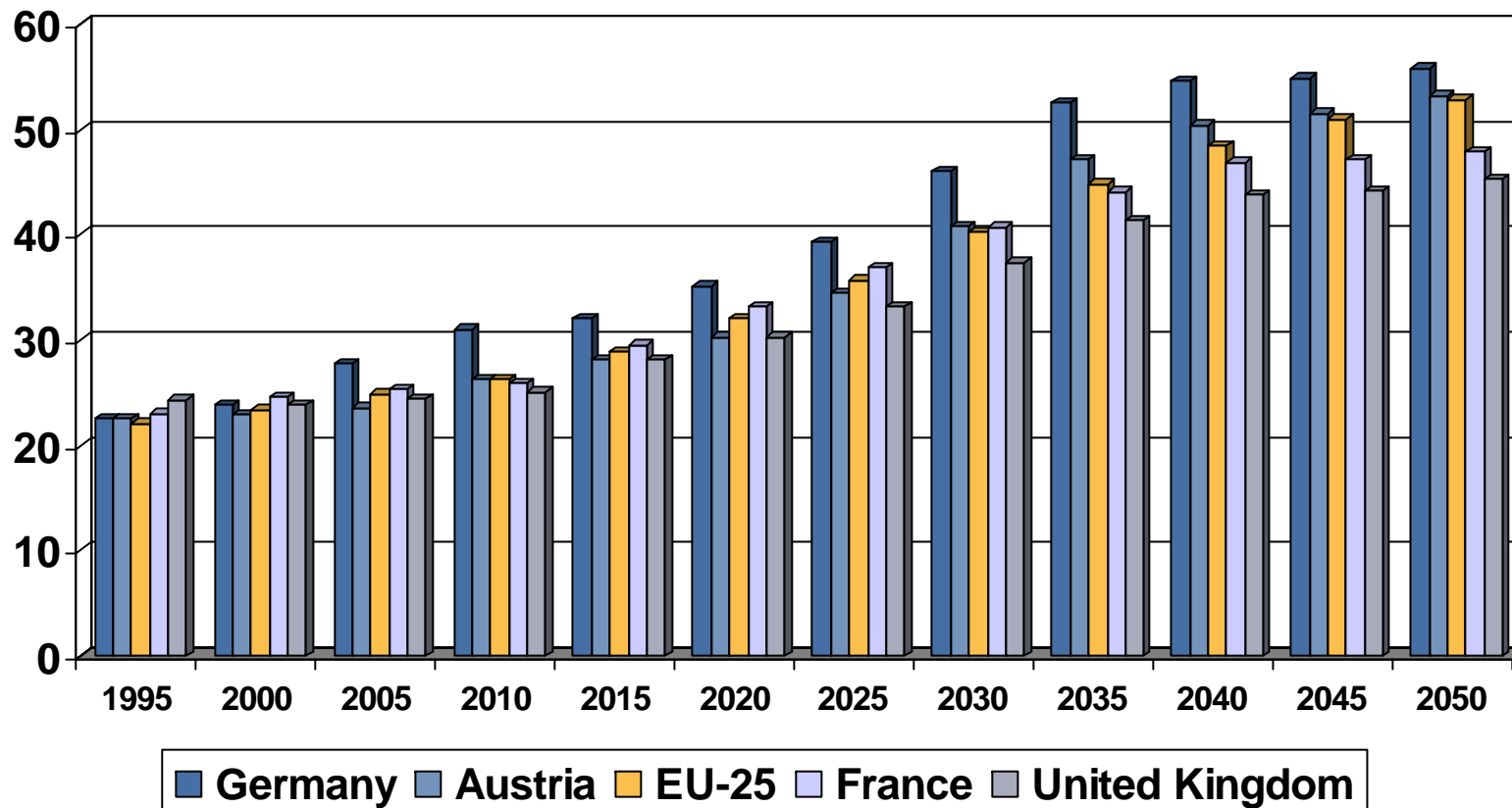


Source: Standard & Poor's(2006)

Germany's Demographic challenges

...more than most

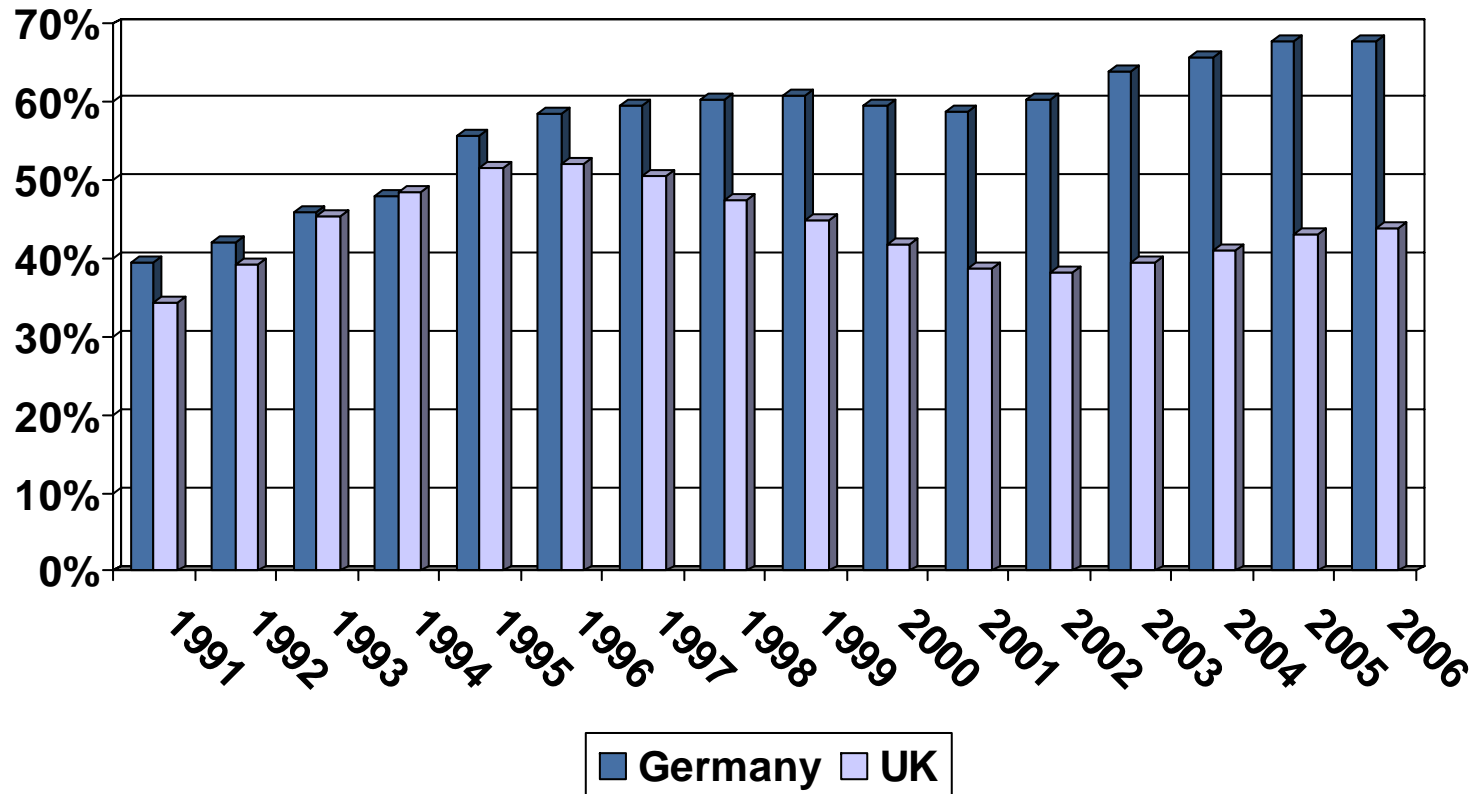
Old age dependency ratio



Source: European Commission

.....As is its Debt Burden

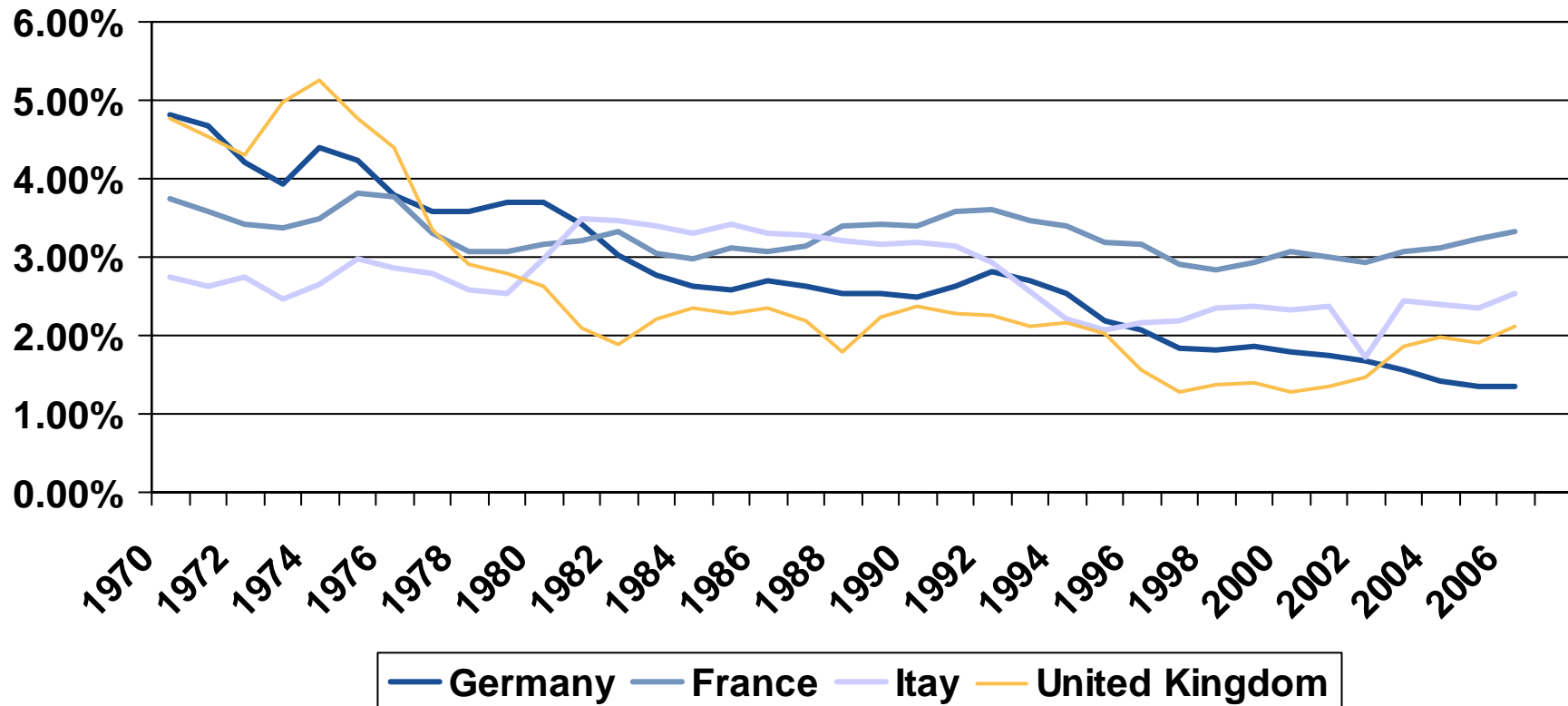
Public Debt as % of GDP



Source: European Commission

Declining Trend in Public Investment

Public Fixed Investment (%GDP)

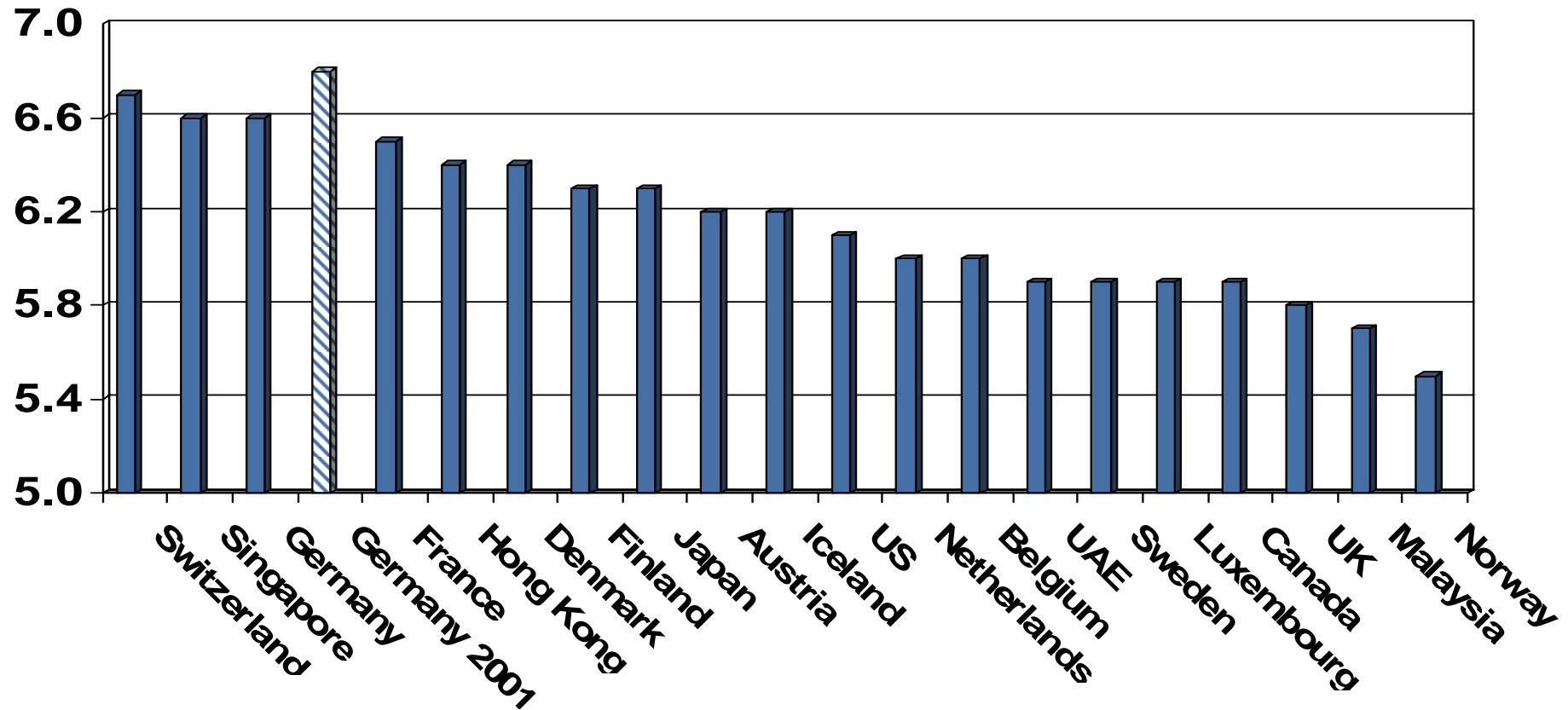


Source: European Commission

German Infrastructure

...compares favourably but deteriorating

Overall Infrastructure Quality (1 = underdeveloped, 7=fully extensive and efficient)

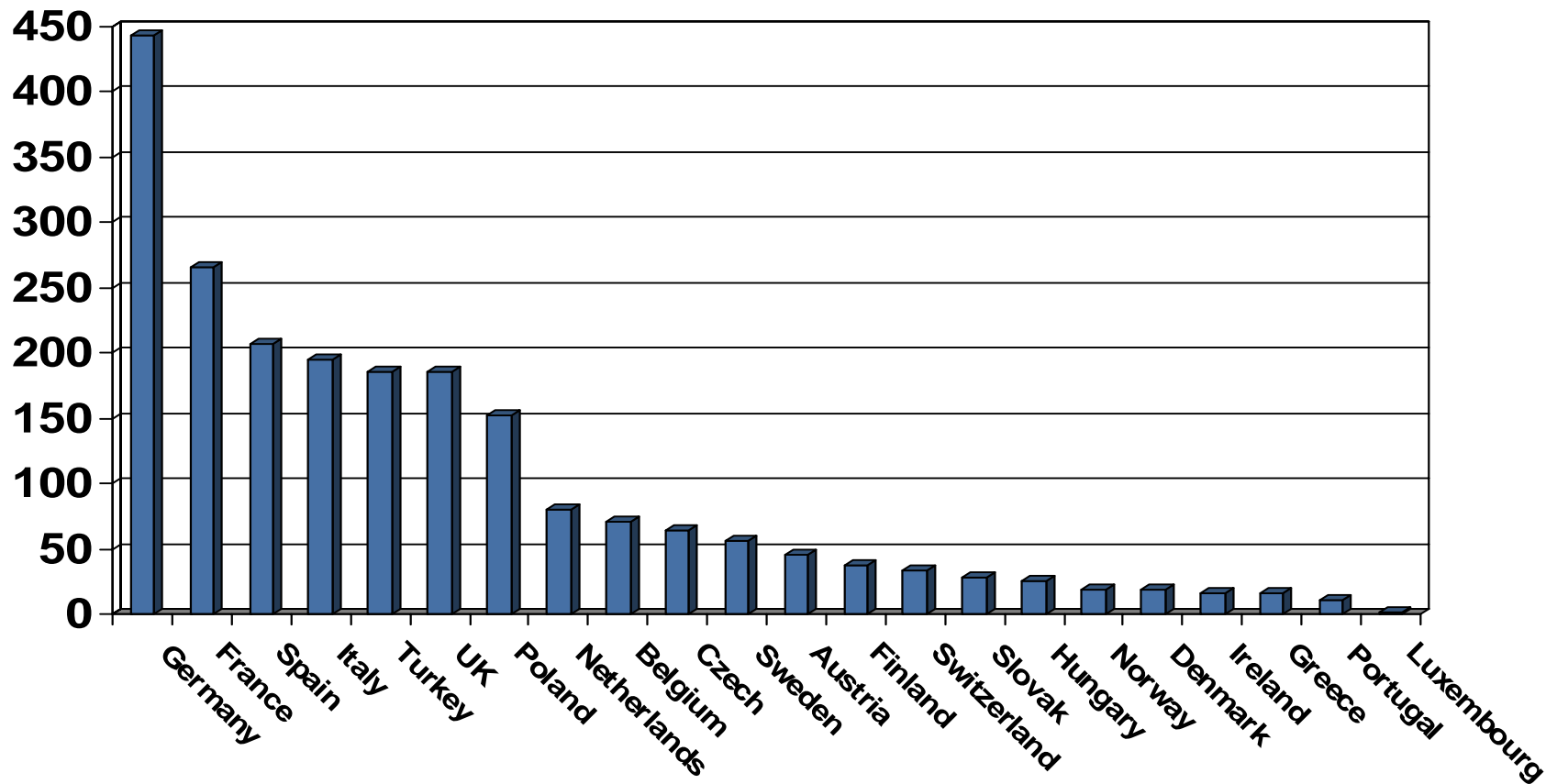


Source: WEF Global Competitiveness Report 2006/07

German Infrastructure

Needs to be (and stay) that good

Total Inland Freight (billion tonne kilometres)



What action is required?

Aging infrastructure with need for maintenance / refurbishment and huge demand for new infrastructure development

- **... but Public Sector facing scarce financial resources**
- **PPPs are a way to meet current and future infrastructure gaps**

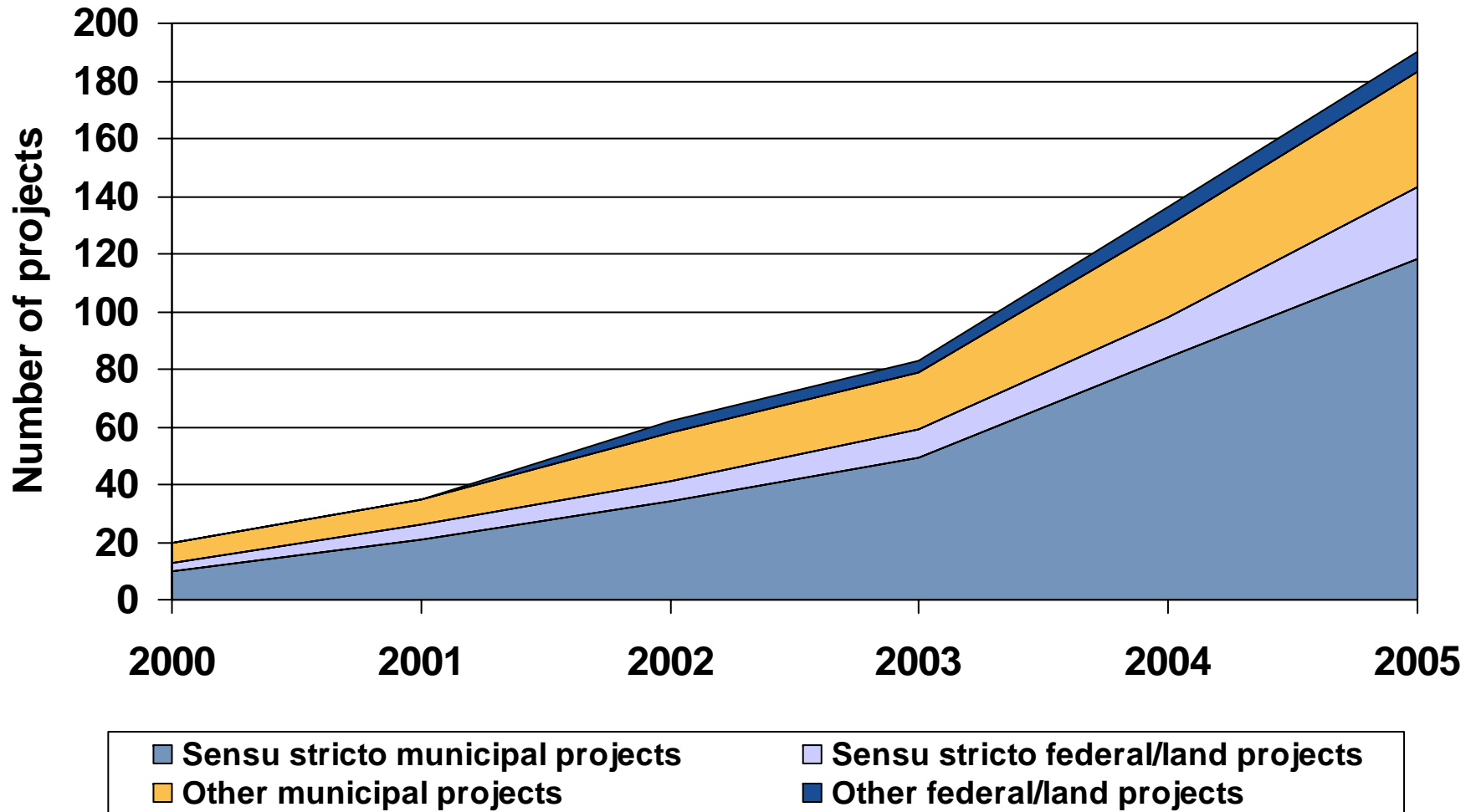
Public Private Partnerships (PPPs)

- **As the pace of privatisations has slowed down, PPPs have come to the forefront of Public Sector change**
- **PPPs imply some sharing of costs, risks and benefits**
- **Attractive to Governments as they support infrastructural investment which is needed for sustainable growth without immediately adding to government borrowing and debt**
- **Net Present Value of such payments are often less than the upfront cost, meaning current resources can be put to more productive use.**
- **In the most developed contracts, the optimum distribution of risks is attained when each party assumes the burden for those risks that it is best able to quantify, monitor or control.**
- **Increased partnership between the sectors should ensure that the service and infrastructure gap, which does exist in Germany, can be filled**

- **Conducted by the German Institute of Urban Affairs on behalf of the PPP task force at the Federal Ministry of Transport, Building and Housing.**
- **Comprehensive and up-to date review of PPP projects at a federal, Land and municipal level.**
- **The Survey targeted 1500 cities municipalities and Landkreise.**

Existing PPP Projects in Germany

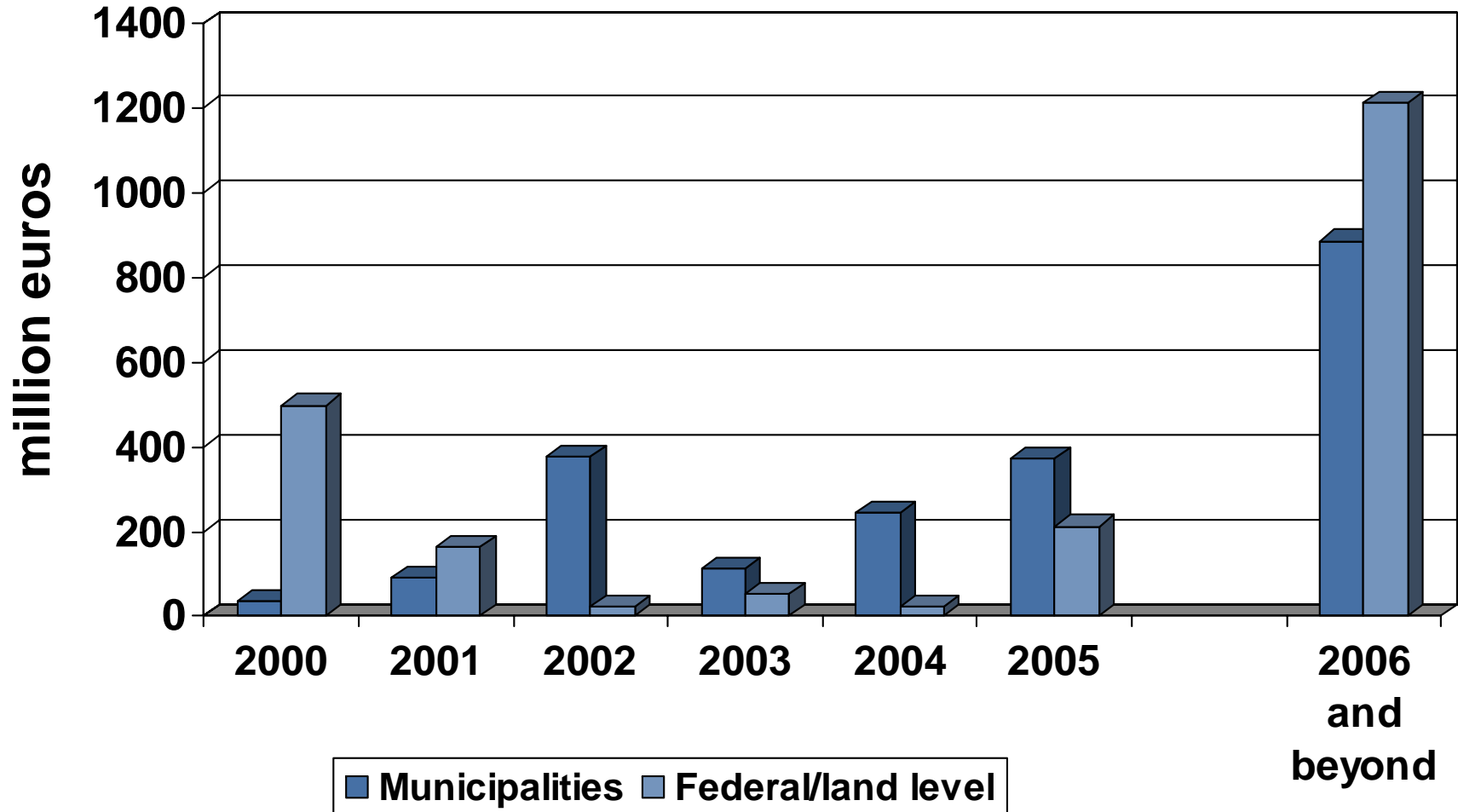
(according to year agreement was concluded)



Source: The German Institute for Urban Affairs

Investment in German PPP Projects

(according to year agreement was concluded)

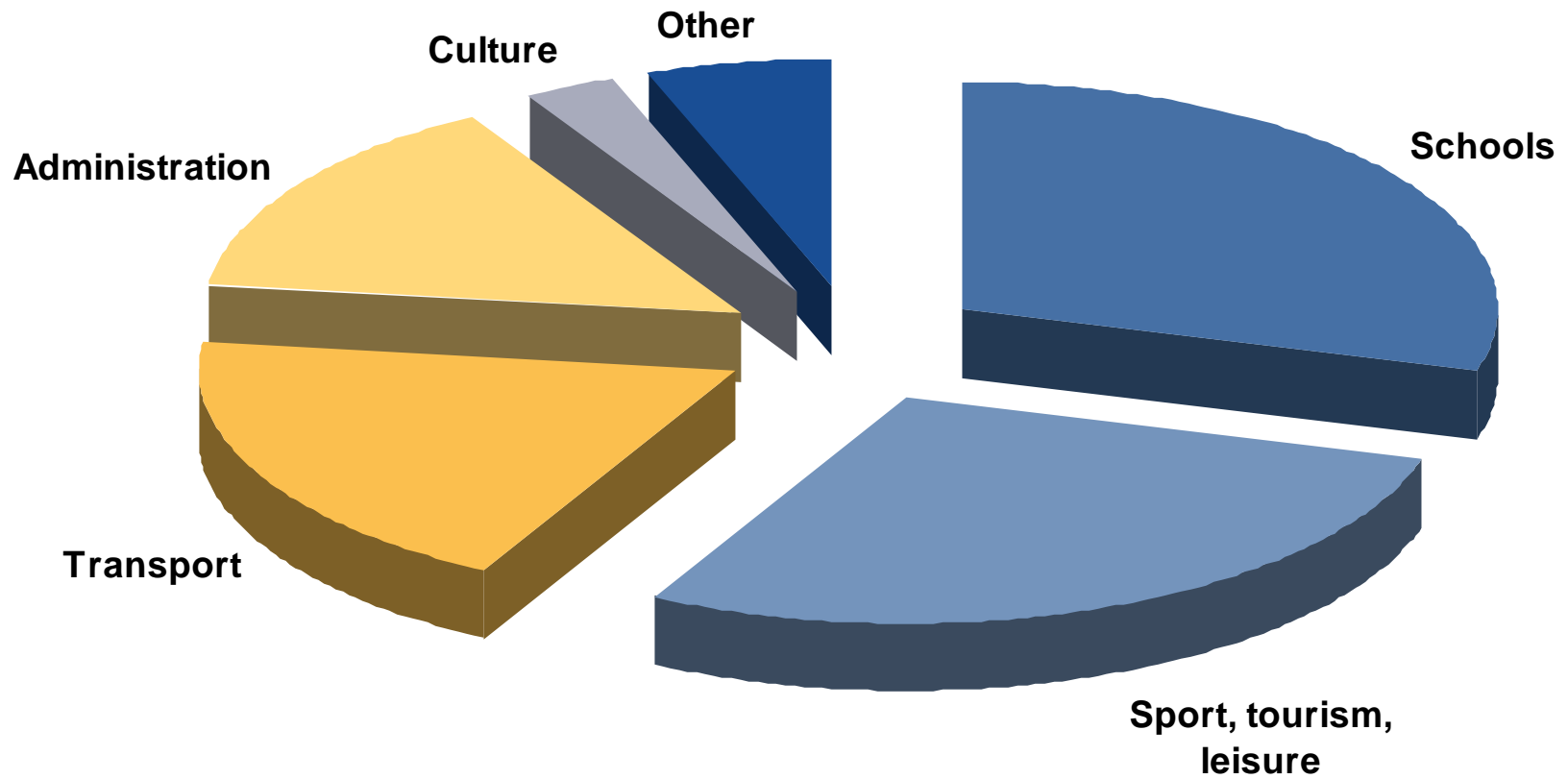


***only based on sensu stricto PPP projects for which investment data are available (159)

Source: The German Institute for Urban Affairs

Distribution of current PPP

...by volume of investment



*PPPs in the broader sense

Infrastructure Investments

International Comparison

	Transport	Schools	Hospitals	Prisons	Environment	Defence
UK	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
Ireland	Blue	Blue	Light Blue	No experience	No experience	No experience
Portugal	Dark Blue	No experience	Light Blue	No experience	Blue	No experience
Spain	Dark Blue	No experience	Blue	No experience	Dark Blue	No experience
Italy	Blue	No experience	Blue	No experience	Blue	No experience
Scandinavia	Blue	Blue	Light Blue	No experience	Light Blue	No experience
Netherlands	Blue	Blue	No experience	Light Blue	Blue	No experience
France	Light Blue	No experience	Light Blue	Light Blue	Light Blue	No experience
Germany	Blue	Blue	Light Blue	Light Blue	Blue	Light Blue
Hungary	Blue	No experience	No experience	Light Blue	No experience	No experience
Poland	Blue	No experience	Light Blue	No experience	Blue	No experience

-  Many years experience
-  First projects signed
-  Projects in planning Stage
-  No experience

Other Important Findings

Beyond the statistics

- **Expectations of higher efficiency and faster implementation are the driving force behind increased popularity of PPP in Germany.**
- **There can often be problems with legal technicalities, frequently regarding public procurement and contract law.**
- **Generally speaking, and irrespective of individual areas, all respondents anticipated a further, clear increase in the significance of PPP.**
- **PPPs are becoming fixed items on the agendas of the large cities, half of which opt for this strategy.**
- **Over three quarters of municipalities have yet to implement a PPP project.**

“In conclusion, although PPPs have not yet become broadly established, they will surely play a greater role in the future in fulfilling public-service tasks. For this reason we must learn from both good and bad practice examples.”

Challenges in Implementing PPPs in Germany

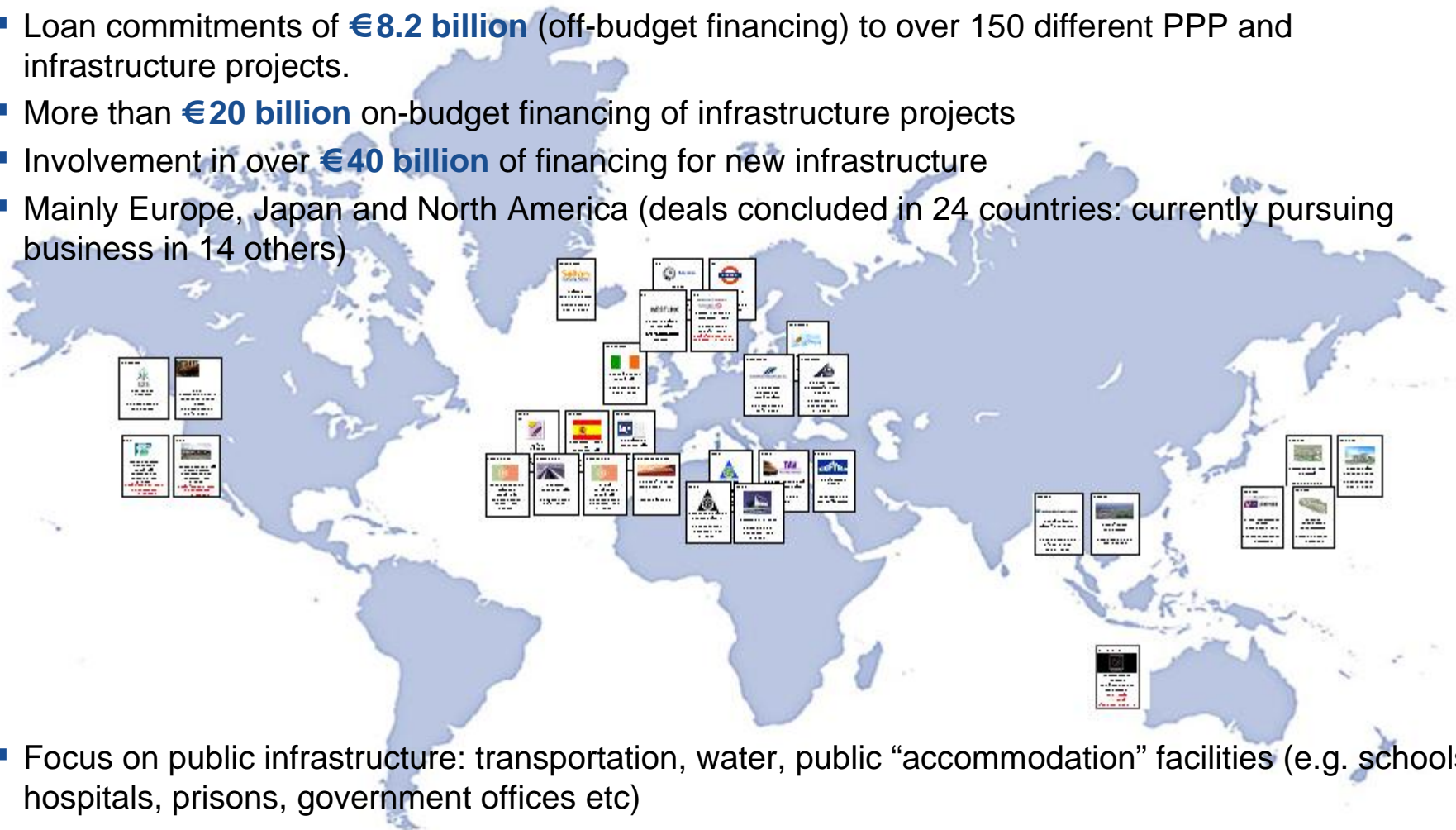
..not all plain sailing

- **In general the central government does not actively encourage PPPs (unlike the UK)**
- **Critical project size and bundling of projects**
- **Standardisation of contractual documents and processes**
- **Participation of SMEs (Mittelstand) in leading roles in PPPs**
- **Fierce competition leads to a maximisation rather than an optimisation of risk transfer with potential negative consequences for the whole sector.**

DEPFA and Infrastructure Financing

Long Standing Expertise in Infrastructure Finance

- Loan commitments of **€8.2 billion** (off-budget financing) to over 150 different PPP and infrastructure projects.
- More than **€20 billion** on-budget financing of infrastructure projects
- Involvement in over **€40 billion** of financing for new infrastructure
- Mainly Europe, Japan and North America (deals concluded in 24 countries: currently pursuing business in 14 others)



- Focus on public infrastructure: transportation, water, public “accommodation” facilities (e.g. schools, hospitals, prisons, government offices etc)
- Existing business relationship with all major international project developers and contractors

Conclusions

- **Germany's current and future budget constraints are greater than its peers.**
- **Size of government is falling, especially spending on Infrastructure.**
- **The economy needs to maintain its high level of infrastructure to facilitate future growth.**
- **As well as the aging infrastructure, which needs maintenance, there is a huge demand for new infrastructure development**
- **In the face of scarce financial resources, PPPs can meet current and future infrastructure gaps**
- **Strong PPP growth over the past two years but it remains behind many of its European peers.**
- **There is huge potential, although one of the main constraining factors is a lack of knowledge and expertise, especially at municipal level.**
- **DEPFA can use its vast experience across the globe to fill this knowledge gap, although challenges will remain.**