Ad Hoc Expert Meeting on

Addressing the Transport and Trade Logistics Challenges of the Small Island Developing States (SIDS): Samoa Conference and Beyond

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Financing infrastructure in small islands Can public private partnerships (PPP) deliver value-for-money?

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Financing infrastructure in small islands
Can public private partnerships (PPP) deliver value-for-money?

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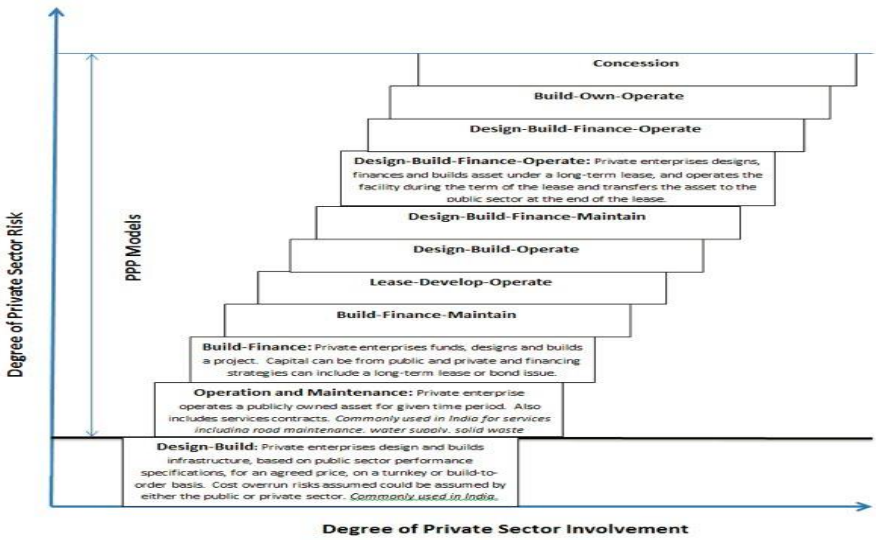
What are Private Public Partnerships?

Contractual arrangements under which governments work with the private sector to :

- Capitalise or co-capitalise
- Design
- Build
- Operate
- Maintain

Public infrastructure and services

There are many times of PPP arrangements:

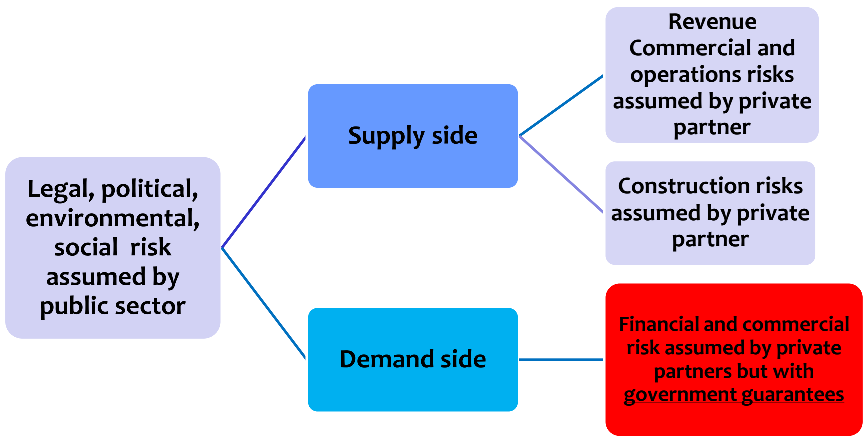


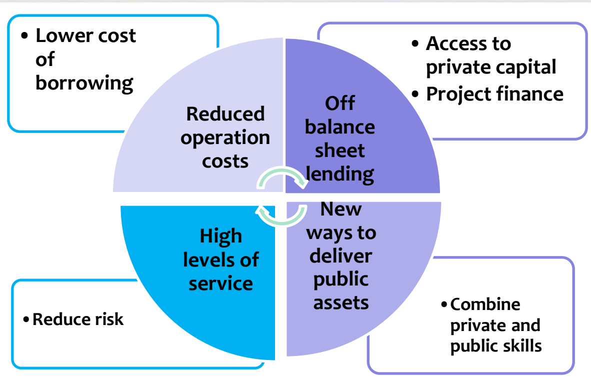
There are many times of PPP arrangements:

- Concession Agreement
- Build, Operate and Transfer (BOT)
- Design, Build, Finance, Operate (DBFO)
- Design, Build, Finance, Maintain (DBFM)
- Design, Build, Operate (DBO)
- Build, Finance, Maintain
- Operate, Maintain (O&M)
- Design, Build

complex and long-term

PPPs are 'risk sharing' arrangements between public and private entities





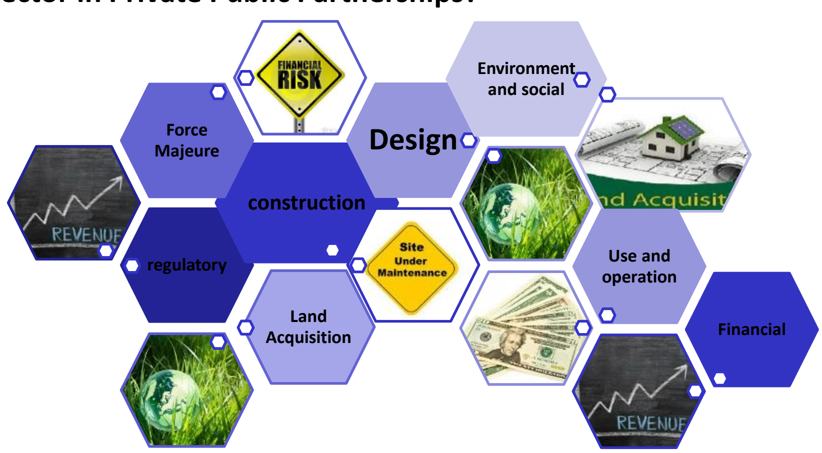
Benefits of PPPs

An optimal strategy to meet the pressing demands for public services and infrastructure?

The PPP sophistication picture

High	Medium	Low and rising
UK	Canada	China
Australia	USA	India
Ireland	Japan	Hungary
Netherlands	Germany	Latvia
Spain	Italy	Slovakia
France	New Zealand	Czech Republic
	Japan	Bulgaria
	Portugal	Croatia
	Greece	South Africa
		Mexico
		Brazil

What the 'risks' that are shared between the public and private sector in Private Public Partnerships?



Financing arrangements/deal structuring of PPPs" Critical to make the project 'bankable'

- Set up SPV to structure deal and raise funds
- Financing stages: construction and operation
- Project Finance: financial feasibly/lending is based projected revenues and cash flow rather than on the balance sheet of the PPP promoter

Financing arrangements/"deal structuring of PPPs" Critical to make the project 'bankable'

- Subordinated loans
- High ratio of debt to equity. Theoretically, need to maintain a minimum level of equity to raise debt for a reasonable costs. Equity is 10% to 30% of the total capital costs of a project.
- Lending to DFBO projects are eligible to off balance sheet borrowing

Institutional arrangements for PPPs:

Most PPP contracts in transport are designed as <u>concession agreements</u> .

Institutional structure:

- **PPP Unit Ministry of Finance**
- **Mirror unit and Ministry of Transport**
- **Transparent and formal procurement processes**

Revenue streams are realised through:

- **User fees such as fares, rates and tolls from consumers and users.**
- **Rental and service provision at transport hubs.**

Why are PPPs are not delivering:

Not all public assets/services are suitable for PPP arrangements
Can public bodies become skilled deal makers?

Value for money the tax payer

Future revenues are hot as high as expected.

Public sector foots the bill for construction delays.

Can all public entities afford PPPs?

Are the gains in lowered operating costs and higher service quality higher than the costs of servicing the PPP loans.

Whole life value and green growth for society

Are PPPs embedding environmental and social criteria and triggering multiplier green economic gains?

Let us dispel the myths about PPPs

Many funders and investors:

WB Group, ADB and the EU (EIB/EPEC). Very few private investors.

A quick fixed for cash-strapped countries:

- Few success stories world over.
- WB study of 25 Toll Projects in Africa : traffic flows were highly overestimated.

All public infrastructure projects can be developed as PPPs:

- Calibrate optimum level of risk sharing between private and public players. . Specific to each deal.
- Baseline: future revenue streams and the extent to which it is predictable.

Policy makers can orchestrate PPPs:

Policy makers are not deal makers. A new mindset and skills set are needed.

Public entities can get a better deal on PPPs

- There must be an economic and social need for the public asset.
- To some extent, base the deal on tried and test technologies?
- PPP related credit reimbursement must be lower than the gains made by the PPP arrangements
- Ensure sufficient size for private sector to be interested.
- The public entity entering into the PPP must be credit worthy.
- There are risks that only the public sector can assume.
- PPPs need to embed environmental and social risks and serve as a catalyst for Sustainable Development

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- Advisory and implementation services to Governments, International Organizations and Companies.
- Themes: water, energy + climate change, procurement and infrastructure, subsidies, investment, industrial development, commodities.
- Offices in Canada, USA, Switzerland, China, Brazil.
- MOU supported partners in 45 countries.
- Supported by Norad, DANIDA, SECO, SDC, CIDA, SIDA, UNEP, AusAID, NZAid, OECD, AFD, GIZ …
- Third in the Financial Times/Foreign Policy ranking of influential think tanks.
- Advised 20 countries on Sustainable Procurement and PPPs

Thank you

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