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

Presentation by

Ms. Oshani Perera
Programme Leader, Public Procurement and Infrastructure Finance
International Institute for Sustainable Development (IISD)
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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:

- 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
PPPs are ‘risk sharing’ arrangements between public and private entities

**Supply side**
- Revenue
  - Commercial and operations risks assumed by private partner
- Construction risks assumed by private partner

**Demand side**
- Financial and commercial risk assumed by private partners but with government guarantees

Legal, political, environmental, social risk assumed by public sector

Benefits of PPPs

- Combine private and public skills
- Reduce risk
- Off balance sheet lending
- New ways to deliver public assets
- Lower cost of borrowing
- Access to private capital
- Project finance
- High levels of service
- Combine private and public skills

An optimal strategy to meet the pressing demands for public services and infrastructure?
The PPP sophistication picture

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

- Force Majeure
- Design
- Environment and social
- Use and operation
- Financial
- Land Acquisition
- BFE Under Maintenance
- Revenue
- Regulatory
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 feasibility/lending is based projected revenues and cash flow rather than on the balance sheet of the PPP promoter

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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 concession agreements.

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

A quick fix 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.
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- 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

Oshani Perera
Programme Leader
Public Procurement and Infrastructure Finance
International Institute for Sustainable Development

operera@iisd.org

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