SUCCESSFUL PPP PROGRAMMES

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BACKGROUND AND CONTENT OF PRESENTATION

- INTRODUCTORY COMMENTS – SHARING THE MISTAKES OF THE PAST
- THE COMPONENTS OF A SUCCESSFUL PROGRAMME
- A CASE STUDY
- SOME COMMENTS ON DEVELOPMENTS IN THE FINANCING / FUNDING MARKET

VARIETIES OF PPP

- PPP/ PFI HUGELY SUCCESSFUL AND EVOLVING GLOBAL BRANDS
- APPLIED TO JOINT VENTURES, PARTIAL PRIVATISATIONS, OUTSOURCINGS.
- MY COMMENTS LIMITED TO “ORIGINAL” DBFO BASED VERSION- an arrangement whereby a public body contracts to purchase services on a long term basis associated with ….constructing infrastructure

COMPONENTS

- CLEAR GOVERNMENT OBJECTIVES FOR THE PROGRAMME
- LEGAL/CONSTITUTIONAL/BUDGETARY ISSUES DEALT WITH
- VISIBLE CONSISTENT LIQUID PIPELINE
- DELIVERS PRODUCTS THAT INVESTORS NEED AND WHICH BEHAVE IN A STABLE AND APPROPRIATE WAY
- DELIVERS OPPORTUNITIES THAT THE CONTRACTOR COMMUNITY WANT AND CAN CONVERT

COMPONENTS (*continued)*

- DEAL FLOW MANAGED TO REFLECT LIMITED MARKET CAPACITY, GOVERNMENT PRIORITIES, ETC.
- THE PROCUREMENT AND NEGOTIATION PROCESS IS MANAGED, PREDICTABLE AND CONSISTENT
- SUITABLE SECTOR SELECTION
- SUITABLY TRAINED AND EXPERIENCED TEAMS
- THE RIGHT INSTITUTIONAL FRAMEWORK

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A CASE STUDY OF WHAT NOT TO DO

- LOCAL MANAGEMENT PREPARES POORLY RESEARCHED BUSINESS CASE FOR THE CAPEX WHICH IS APPROVED
- ADVISORS/CONSULTANT TEAM HIRED ON THE BASIS OF PRICE AND PROXIMITY
- THE PROCUREMENT IS STARTED BEFORE ALL DETAILS RESOLVED AND WITH POOR/INCOMPLETE DOCUMENTATION
- NO SERIOUS PLAYERS RESPOND – NOT SURPRISINGLY
- THE TEAMS BATTLE ON FOR 18 MONTHS SPENDING MONEY AND GETTING NOWHERE
- THE CENTER INTERVENES, CANCELS THE PROJECT
- EVERYONE IS DAMAGED

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FUNDING AND FINANCING

- NO FREE LUNCHES
- WHO WILL BRIDGE THE FUNDING GAP?
  - USER CHARGES
  - ASSET REALISATIONS
  - CENTRAL GOVERNMENT
- BRIDGING THE FINANCING GAP
  - COMMERCIAL BANKS
  - DCM
  - DEBT FUNDS
  - SWFS / INSURANCES / PENSION FUNDS
  - HEDGE FUNDS

SOME FINANCIAL STRUCTURES

Aims	• Economic efficiency and value for money • Deliverability at financial close, minimise execution risk • Price certainty (bank versus bond) • Refinancing risk versus refinancing gain • Credit enhancement and costs • Creditor involvement and voting mechanics
Unwrapped Bonds	+ Simple; more equity and corporate support (90/10 leverage is now 80/20) + Deliverable in most jurisdictions + Accesses LT capital at close, no refinancing risk – Relatively expensive for Authority and sponsors risk – No obvious controlling creditor solution – Recent UK issuance
Wrapped Bonds	+ Well understood and easy credit analysis + Cost efficient as spreads may be lower (for Governments not monolines) + Single creditor voice for normal operations + S2 and regulatory arbitrage; an unintended consequence – Monoline downgrade risk – Capacity constraints (investor appetite or Sovereign balance sheet) – Investor allocation (rates versus credit) – Crowding out and no strategic benefit

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SOME FINANCIAL STRUCTURES

Bank Guarantees or Bank to Bond	+ Banks manage construction risk (control the process) + Investors provide long term cash funding + Deliverable and seems attractive – Regulatory treatment of a contingent liability – Pricing of a 3-5 year or a 30 year commitment (guarantee release conditions) – Investor appetite for bank risk versus project risk (counterparty risk) – Lack of depth of DCM and national diversity creates refi risk (this is not the US)

Credit Enhancement	+ Many mezzanine style structures currently being considered to;
	    + Change the upfront capital structure (funded)
	    + Improve the liquidity during the life of the project (unfunded)
	+ Potentially higher rating for the senior bonds
	+ Proven higher rated for bonds supported by unfunded mezzanine (liquidity + uses advantages)
	– Managing conflict of interest
	– Increased cost to equity if drawn + fees
	– Limited availability or local target audience

Institutional Debt Funds	+ A new development from large life insurers managing their funds and third party capital + Can buy bonds, PPs, loans + Can commit in advance and do extensive due diligence – Commitment and PP format has a higher cost – Illiquidity premium is opaque but high – Does not offer transparency of a bookbuild and open market process (the price for a commitment) – Recent negative experiences

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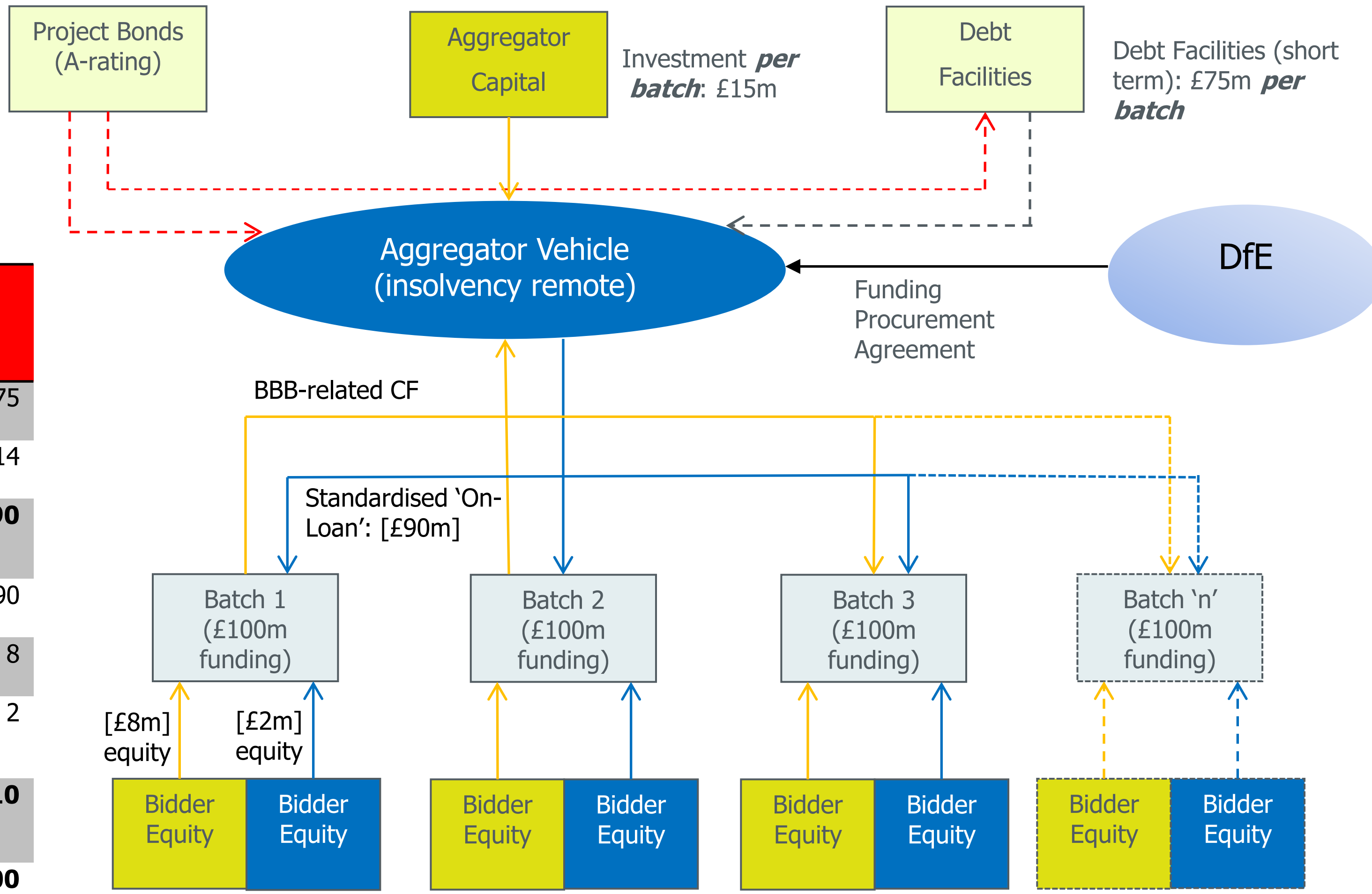
AGGREGATOR /FUNDING VEHICLE

Example Only Funding Sources	
Senior Debt	75
Aggregator Equity	14
Total Aggregator	**90**
On-loan	90
Bidder Equity	8
Public Sector Equity	2
Total Batch Equity	**10**
Total Funding Per Batch	**100**



CONCLUSION

- ANY QUESTIONS?

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