The Future of PPP Financing

“New Challenges facing Old Problems“

A contractor´s view

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Private Sector Forum on Financing Future Infrastructure

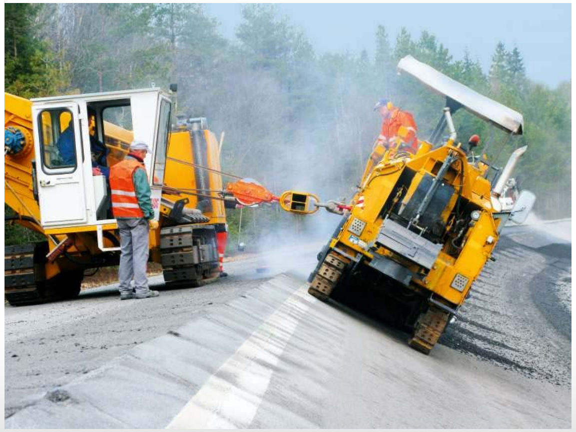
Brussels, June 6th 2012

AGENDA

- Introduction
- Tender Requirements
- Risk Allocation
- Complexity of Tender

INTRODUCTION

- Any discussion around how to tackle the different aspects of delivering successful PPPs rests on the “Value for Money“ proposition
- The ability of the PPP procurement method to provide a more economic proposition than normal procurement (holistic view) is key to its future acceptance
- Competitive and innovative funding structures play a key component of the value for money equation and carefully evaluating the merits of different financing options is a crucial component of the value for money excercise.



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INTRODUCTION

- This presentation tries to approach the "Future of PPP Financing"from a slightly different angle. Rather than evaluating the merits of different funding structures / sources it will focus on the hurdles still to be overcome for the introduction of new financing concepts.

- The issues considered revolve around the risk allocation between the parties and the increasing complexity of tender structures.

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TENDER REQUIREMENTS

PUBLIC SECTOR TO ACCOMMODATE FOR CAPITAL MARKET REQUIREMENTS IN TENDER DOCs

- Tender documents often do not allow for compensation of bond pricing movements between bid submission and financial close. Compensation limited to base rate movements but no inclusion of bond credit margin (per se is also market rate)
- Evaluation of fully committed bank-financing at FC vs indicative bond pricing
- Termination payment as required by bond investors (make-whole or spence)
- Tenor of concession periods

New market requirements conflict with proven structures at the expense of certainty for parties

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RISK ALLOCATION (I)

REFINANCING

- Current dominance of short term debt structures (either driven by regulatory matters or financing institution constraints)
- The allocation of the Refinancing Risk in view of a long term capital market take out is a key concern in a) managing the pricing of investment and b) finding competitive (alternative) funding
- Currently the Private Sector predominantly absorbs this risk – but this solution has its limits because of balance sheet constrains or rating requirements

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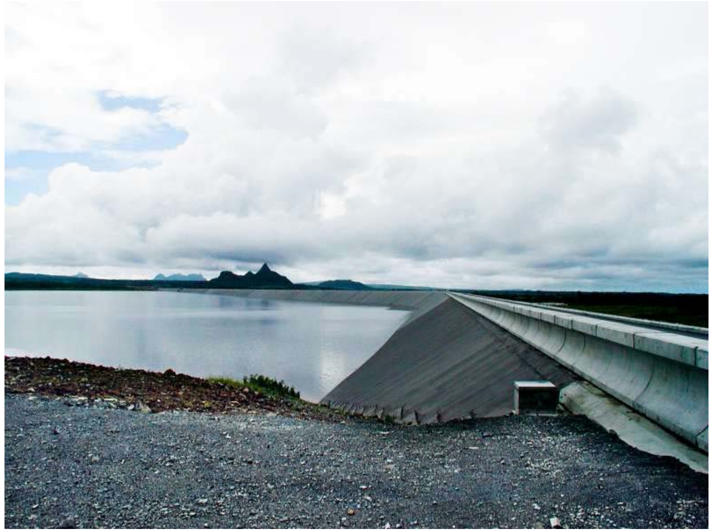
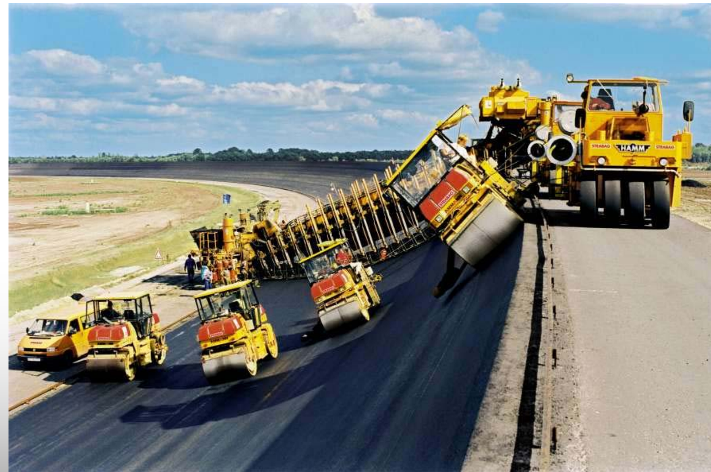
RISK ALLOCATION (II)

THE PARTY WHO CAN BEST CONTROL OR MANAGE SHOULD RETAIN IT



- Permit risk
- Ground risk
- Tender cancellation / Bidder compensation



Certain risks/costs because of its nature should be rather borne by the public sector than private party to enhance financiability

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COMPLEXITY OF TENDER

OVERBURDENING OF TENDER STRUCTURES

- Requirement of refurbishing of ancillary infrastructure which will not form part of the assets from which revenues will be generated

- Expansion of the infrastructure at a given point in time rather than at a given level of demand

- Future capex expenditures at the discretion of the granting authority

Wish-list versus simple straight forward structures will impact on availability of financing alternatives as well as pricing

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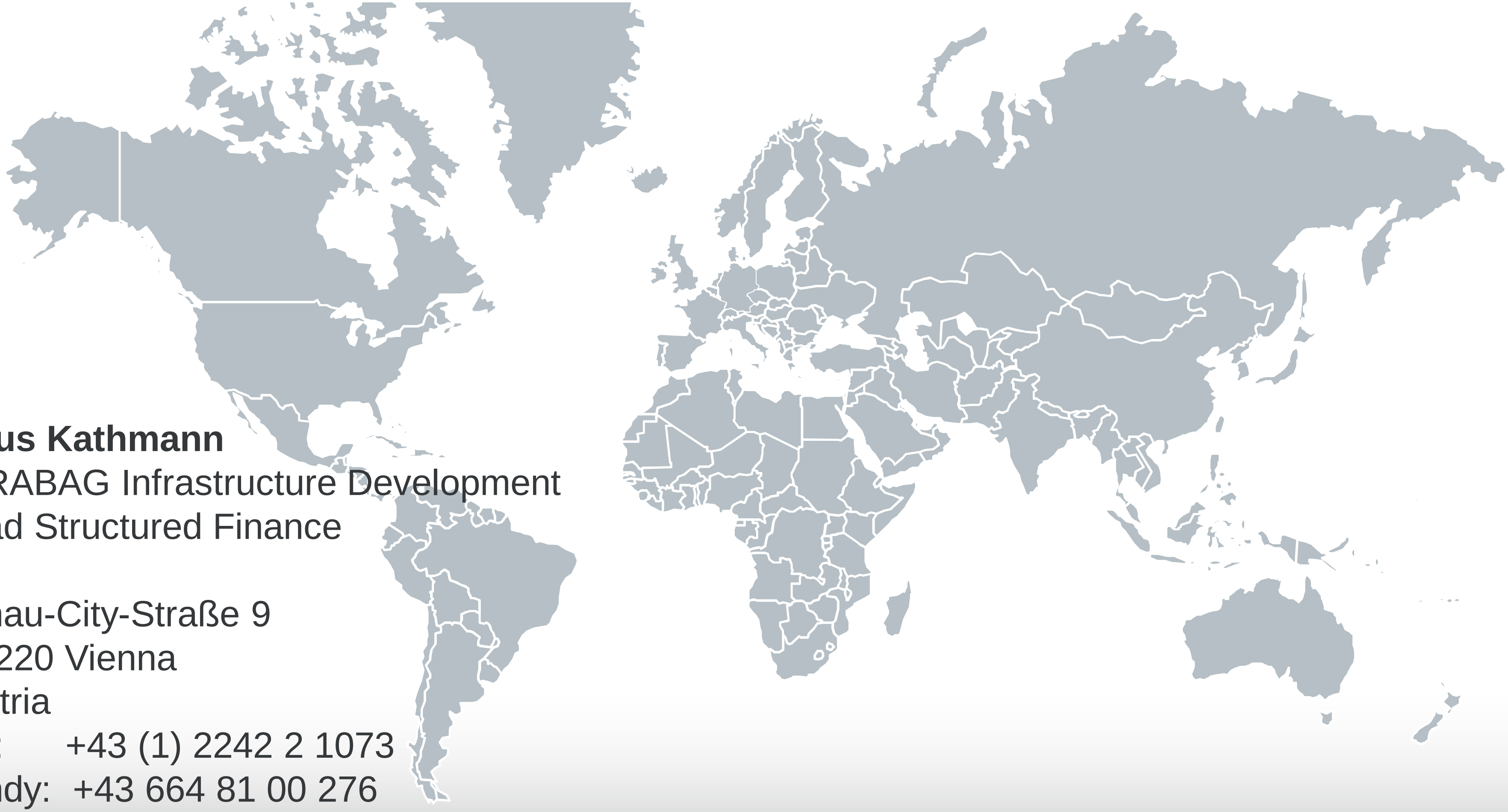
Thank You!



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