**UNESCAP** Asia Pacific Forum on **Public Private Partnerships for** Transport Infrastructure Development A Banker's Perspective on Transport PPP Projects Andrew Kinloch Logie Group Limited Bangkok, 22 January 2015

## GEOGRAPHICAL COVERAGE

Each country is different ...

Australia	the most sophisticated market in the region but has at times taken significant commercial risk
Korea	the leading example of government support, suitably rewarded; now mainly domestic with major outbound
Japan	mainly domestic; major outbound
India	largest Project Finance market globally in recent years with almost all domestic funding; but structures need revisiting
Malaysia & Mid East	active capital markets and banks taking quasi sovereign risk
China	niche sectors only such as water and wind farms
Philippines	leading SE Asia in its thinking on PPPs
Indonesia	great potential; making some progress

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# FUNDING SOURCES - EQUITY

Equity

- Developer investors
- □ Project counterparties looking to create a customer
- Multilaterals
- □ Institutional investors

#### FUNDING SOURCES - DEBT

Debt

- Export Credit Agencies
- Multilaterals
- Capital markets
- Mezzanine
- International banks
- Commercial banks

# BANKS NEED 1) A PROPERLY PREPARED PROJECT

Effective legal and regulatory framework

- □ Bidding and negotiations post award of Preferred Bidder status
- □ When bidding is unrealistic: unsolicited bids and negotiated contracts
- Mechanism to increase tariffs automatically
- Government powers of eminent domain
- □ Sharing of benefits with formal and informal occupants
- □ Consistency across projects and coordination of ministries via PPP Center

That asset's position in the greater picture

- Delivery of traffic to asset from elsewhere and completion of journeys
- □ Reliance on other projects: e.g. Manila LRT 1 xtn
- □ Consistency in specifications e.g. airports and ports

#### BANKS NEED 2) APPROPRIATE RISK SHARING

Allocation of risk to party best able / most willing to take it.

Political risk (incl breach of contract and denial of justice) shared when necessary with Export Credit Agencies & Multilaterals and / or Political Risk Insurance via MIGA or private market

Approvals, tax and regulatory, legal, corruption are not defined as political risks

Balance of risk and reward:

- Regulated versus unregulated revenue streams when asset cannot be thus split
- □ Monopoly versus cut throat competition in e.g. ports
- Reward via real estate development opportunities for taking unknown traffic risk
- □ If extent of risk is unknown, Govt should keep it

# BANKS NEED 3) APPROPRIATE GOVERNMENT SUPPORT - 1

If project is not viable on a standalone basis, Government support is justified by benefits generated elsewhere but not captured by ProjCo such as

- Less congestion on other routes
- □ Cleaner air, etc
- □ Increase in value of real estate can be shared with ProjCo

Tools

- □ Viability Gap Funding (VGF)
- □ Contribute equity
- □ Tender only the less risky component e.g. Manila LRT 2
- □ Availability payments
- □ Revenue support via floors and collars

# BANKS NEED 3) APPROPRIATE GOVERNMENT SUPPORT - 2

Support from where?

- □ Injections of cash or land pursuant to Viability Gap Funding & equity contributions
- □ MOF guarantees
- Indirect MOF support via its support for State Owned Enterprises e.g.
  MOF reimbursement mechanism of PLN shortfalls per Public Service
  Obligation in Indonesia
- Quasi sovereigns such as IIGF and SMI / IIFF in Indonesia

Enhancements

- Contingent support can fall away when no longer needed, releasing capital for other projects
- □ Shadow tolls allow upside and downside risk sharing

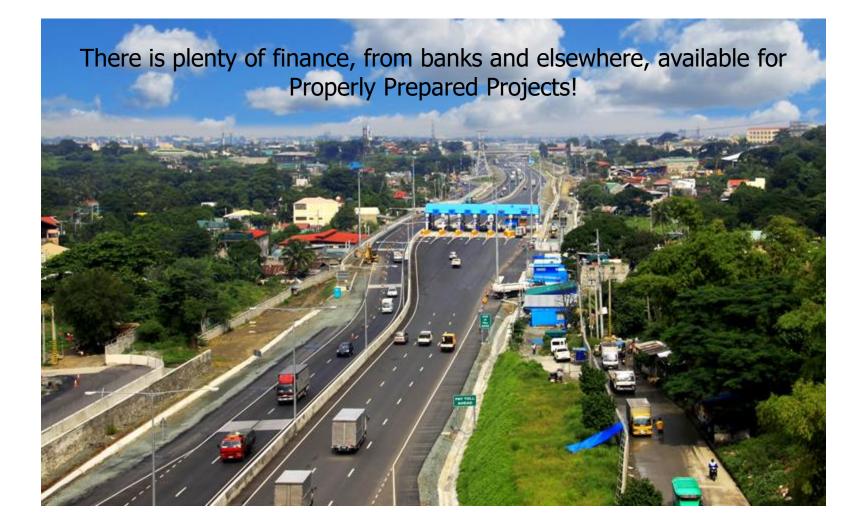
## BANKS NEED 4) REASONABLE PROJECT ECONOMICS

- □ Sufficiency of funding
- Reasonable Debt Service Cover Ratios (DSCRs) in Base Case cash waterfall
- Acceptable DSCRs in a wide variety of downside sensitivities there should be no surprises!
- □ If DSCR <1.0, scope should exist within the concession to reschedule debt service profile (Project tail)
- □ Tax incentives

## **PPPs OFFER**

- □ Sufficiency of funding
- □ Encourages greater due diligence and contract discipline
- □ Access to more favourable financing
- □ Agreed mechanisms for resolution of disputes
- □ Introduction of new technology and processes

#### A BANKER'S PERSPECTIVE - CONCLUSION



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