



UNESCAP Asia Pacific Forum on  
Public Private Partnerships for  
Transport Infrastructure Development

A Banker's Perspective  
on Transport PPP Projects

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Bangkok, 22 January 2015

# GEOGRAPHICAL COVERAGE

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Each country is different ...

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|---------------------|--|
| 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

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## Equity

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

# FUNDING SOURCES - DEBT

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## Debt

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

# BANKS NEED 1) A PROPERLY PREPARED PROJECT

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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

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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
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# BANKS NEED 3) APPROPRIATE GOVERNMENT SUPPORT - 1

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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

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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

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- 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

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- 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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There is plenty of finance, from banks and elsewhere, available for Properly Prepared Projects!

