

Public Private Partnership Projects for advancing the Sustainable Development Goals

CONCEPTS AND PROJECT DEVELOPMENT
CREATING ENABLING CONDITIONS

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Key segments to the session

- ▶ This session provides a brief reference guide to initiating SDG focused PPP projects in a country.
 - ▶ Understanding infrastructure and the need for PPPs as a route to SDGs
 - ▶ Structures and options available to define PPPs
 - ▶ Enabling conditions for a robust pipeline of PPP projects
 - ▶ Suggests routes to harness resources – especially technical expertise and finance - towards the programme
 - ▶ Ensuring design of PPP Projects integrate into and programmes towards achieving Sustainable Development Goals

BASIC
CONCEPTS

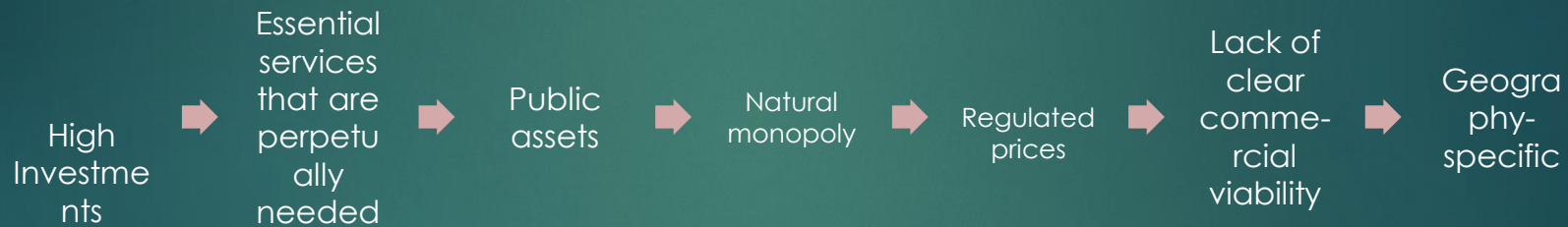
SDG, Infrastructure, and the need for PPP

Infrastructure



The physical systems that deliver services or physical goods that enable economic and social activity that aids development

Characteristics of Infrastructure



The above list refers to what is found frequently, but not always. For example, it is possible to have a “sorting, grading and cold storage” facility for small farmers in a village, that may not be “high investments” as commonly understood, but requiring investments far greater than the community can afford.

Infrastructure related to SDGs

Priority sectors for Sustainable Development (SDG-related sectors)

Priority Sector	Related SDG	Type of investment required
<u>Food security</u>	<u>SDG 2</u>	<u>Investment in agriculture, research, rural development, safety nets, etc.</u>
Health	SDG 3	Infrastructural investment, e.g. new hospitals
Education	SDG 4	Infrastructural investment, e.g. new schools
<u>Power</u>	<u>SDG 5</u>	<u>Investment in generation, transmission and distribution of electricity</u>
<u>Water and sanitation</u>	<u>SDG 6</u>	<u>Provision of water and sanitation to industry and households</u>
Transport	SDG 8,9,10	Investment in roads, airports, ports and rail
<u>Telecommunications</u>	<u>SDG 8,9,10</u>	<u>Investment in infrastructure (fixed lines, mobile and internet)</u>
<u>Climate change mitigation</u>	<u>SDG 13</u>	<u>Investment in relevant infrastructure, renewable energy generation, research and deployment of climate-friendly technologies, etc.</u>
<u>Climate change adaptation</u>	<u>SDG 15</u>	<u>Investment to cope with impact of climate change in agriculture infrastructure, water management, coastal zones, etc.</u>
<u>Eco-system biodiversity</u>	<u>SDG 15</u>	<u>Investment in conservation and safeguarding ecosystems, marine resource management, sustainable forestry, etc</u>

Source: Adapted from UNCTAD, World Investment Report 2014: Investing in the SDGs – An Action Plan, available at http://unctad.org/en/PublicationsLibrary/osg2015d3_en.pdf

SDGs and Partnerships

Goal 17:

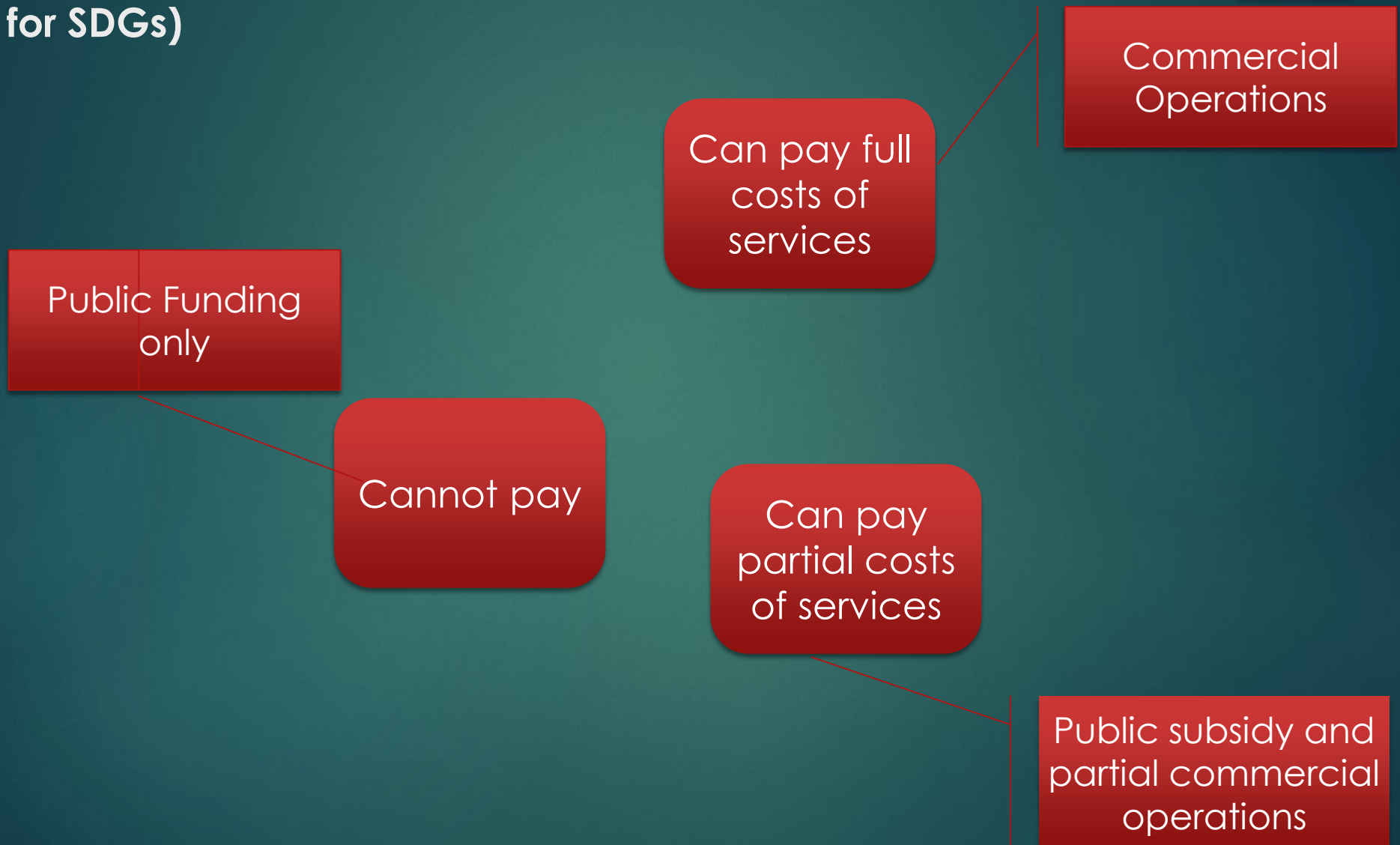
Revitalise the global partnership for sustainable development

A successful sustainable development agenda requires partnerships between governments, the private sector and civil society. These inclusive partnerships built upon principles and values, a shared vision, and shared goals that place people and the planet at the centre, **are needed at the global, regional, national and local level.**

SDG features relevant to Infrastructure and PPPs

- ▶ Universally needed services – sanitation, health, education
- ▶ Frequently not backed by user paying ability for market prices.
- ▶ Commercially less attractive for pure private investments leaving large segments deprived of the service
- ▶ Most services itself not directly income-generating, while facilitating income-generation or long term economic gain. Eg. health care, sanitation, education
- ▶ Government handicapped by
 - ▶ Funds available to scale up to provide universal services
 - ▶ Often lack access to sufficient professional expertise in services operations
 - ▶ Lack “customer” orientation affecting quality, access, and availability
 - ▶ Handicapped by its own laws and regulations e.g slums deemed “illegal” can’t obtain water, electricity connections

**Project Structures are frequently defined
based on paying capacity of end users (especially relevant
for SDGs)**



What is a PPP

- ▶ “A long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility and remuneration is linked to performance.”
 - ▶ Source : PPIAF, The World Bank Group
- ▶ Encompasses contracts in many sectors and for many services, **provided**
 - ▶ **There is a public interest in the provision of these services** and
 - ▶ The **project involves long-life assets linked to the long-term nature of the PPP contract.**
- ▶ Encompasses PPPs that provide for **both new and existing assets (now managed, operated and developed by PPP) and related services;**
- ▶ **Includes** PPPs in which the private party is **paid entirely by service users**, and those in which a **government agency makes some or all payments;**

Considerations for PPP

- ▶ PPP represents ONE of the procurement options for Government. The options include :
 - ▶ Complete investments and operations by government (public)
 - ▶ E g schools, primary health care centres
 - ▶ Co-investments and co-operation with a private sector partner (PPP)
 - ▶ Urban waste landfills, toll roads, old age homes, environmental infrastructure (wastewater treatment)
 - ▶ Complete investments and operations by private sector subject to regulations (may or may not be PPP depending on the asset and service)
 - ▶ Banking, telecommunications services (non-PPP) - regulated
 - ▶ Management contract to operate hospitals that provide free medical services (PPP)

- ▶ Considerations to effect PPPs include
 - ◀ Potential for risk allocation between partners
 - ◀ Amenability of services to measurement – so its outcome linked
 - ◀ Large investments requirement needing private capital
 - ◀ Must provide better outcomes than normal procurement methods of which “value for money” may be one outcome

Typical issues in existing Infrastructure services delivery

- ▶ **Lack of domestic expertise for a sustainable Enterprise.** Infrastructure services are
 - ▶ frequently operated by government in non-commercial frameworks –
 - ▶ pricing is not linked to costs and deficits are met from general budgets.
 - ▶ Service standards are not actively enforced by government entities or consumers.

Existing service providers thus lack expertise in establishing a financially sustainable enterprise.

- ▶ **Lack of financial depth in the local economy.** Infrastructure projects
 - ▶ are of long-tenure and require patient equity and long dated debt, given revenue constraints due to regulated pricing and basic paying ability.
 - ▶ Commercial finance for normal business rarely exceeds a maximum of 7 to 10 years
 - ▶ Long term funds sources such as insurance and pension funds are frequently less developed.
 - ▶ High capital requirements may mean local investors/banks may reach credit limits required for prudent lending, as per international banking norms. Thus, international sources are critical to meet the gap.
- ▶ **Significant project risks for local economy.**
 - ▶ projects are subject to interest rate risk and currency risk.
 - ▶ Domestic financial markets may lack the availability of suitable hedging instruments or depth in such markets.
 - ▶ Added to this are other operations risks associated with a long-tenure service that domestic players may have no experience of undertaking.

Characteristics of Infrastructure delivery “Enterprises” in PPP



- ▶ Infrastructure pricing is regulated – limits on revenue upside from user charges
 - ▶ These are “essentials” and must be affordable to all
 - ▶ For SDGs, these are particularly relevant
- ▶ Pricing is almost always in domestic currency
 - ▶ Lends clarity to users
 - ▶ Ensures that enterprise cannot “profiteer” by exchange rate fluctuations
- ▶ Long tenures to meet financial costs and returns
 - ▶ Given limits on annual revenue increases, tenures are extended to enhance viability – often to 25 or 30 years
- ▶ Conditional Ownership
 - ▶ Lock-in period for promoters of the PPP
 - ▶ Conditionalities on ownership/management transfer to ensure participation of committed private sector partners

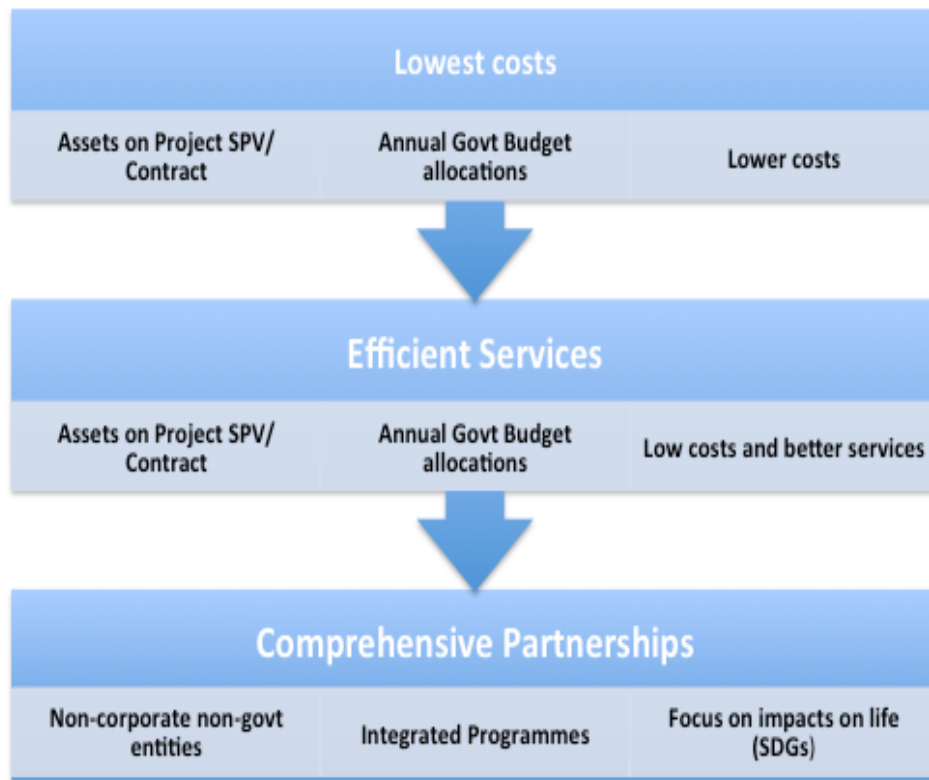


EVOLUTION of PPP and structures

BACKGROUND TO PPP PROJECTS

What has driven governments to PPPs

Evolution of PPPs



Budgetary constraints of Government for creating assets

- Lower delivery costs
- Standardised quality of services

- Developmental outcomes
- Integrated programmes – infrastructure plus related non-project vehicle programmes
- Community involvement for comprehensive partnership with govt and private operator – ensure quality, improve services, environmental and social goals

The Continuum of PPP project structures

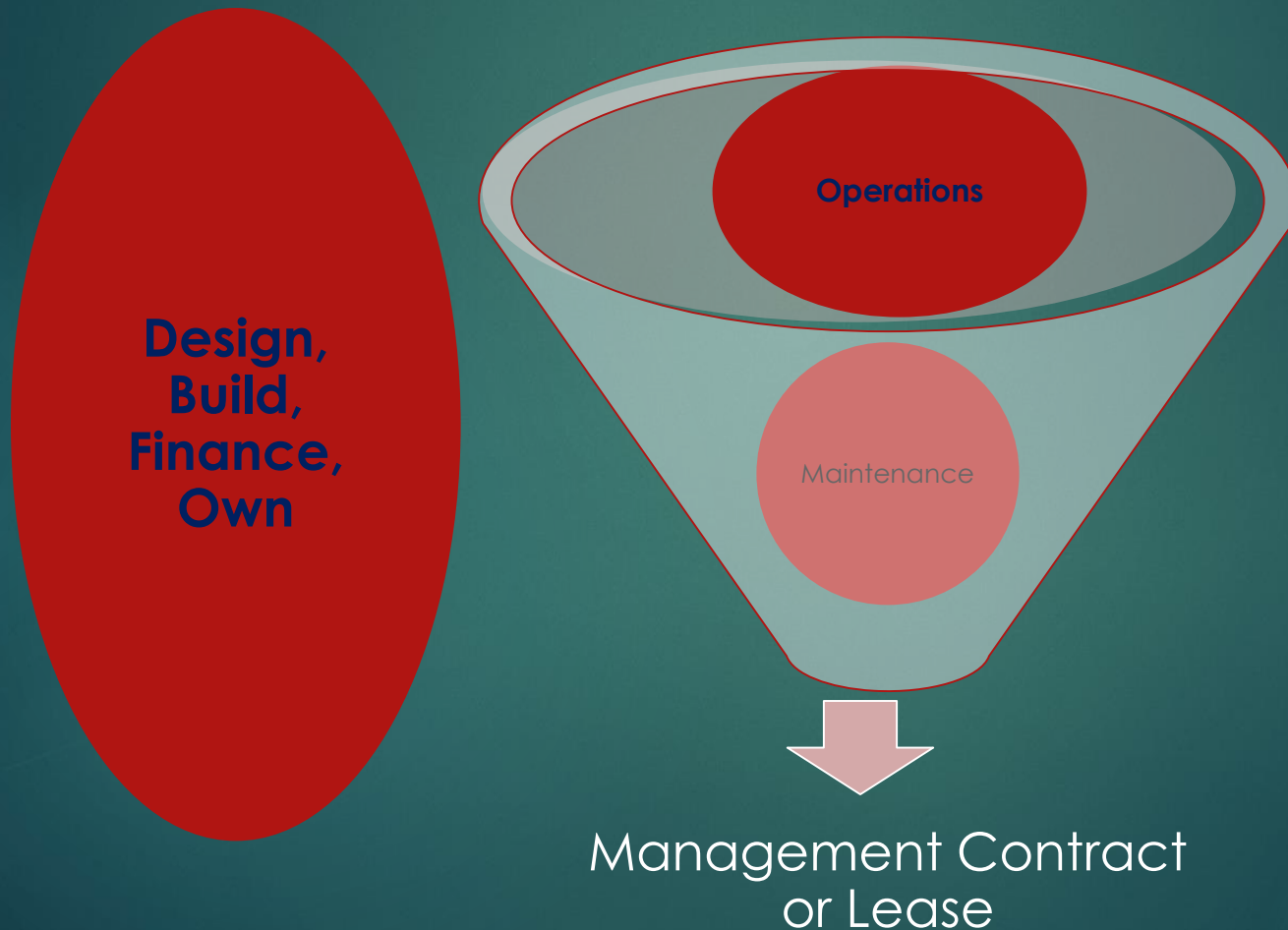


This also represents the spectrum of choices available on the vehicle for infrastructure services

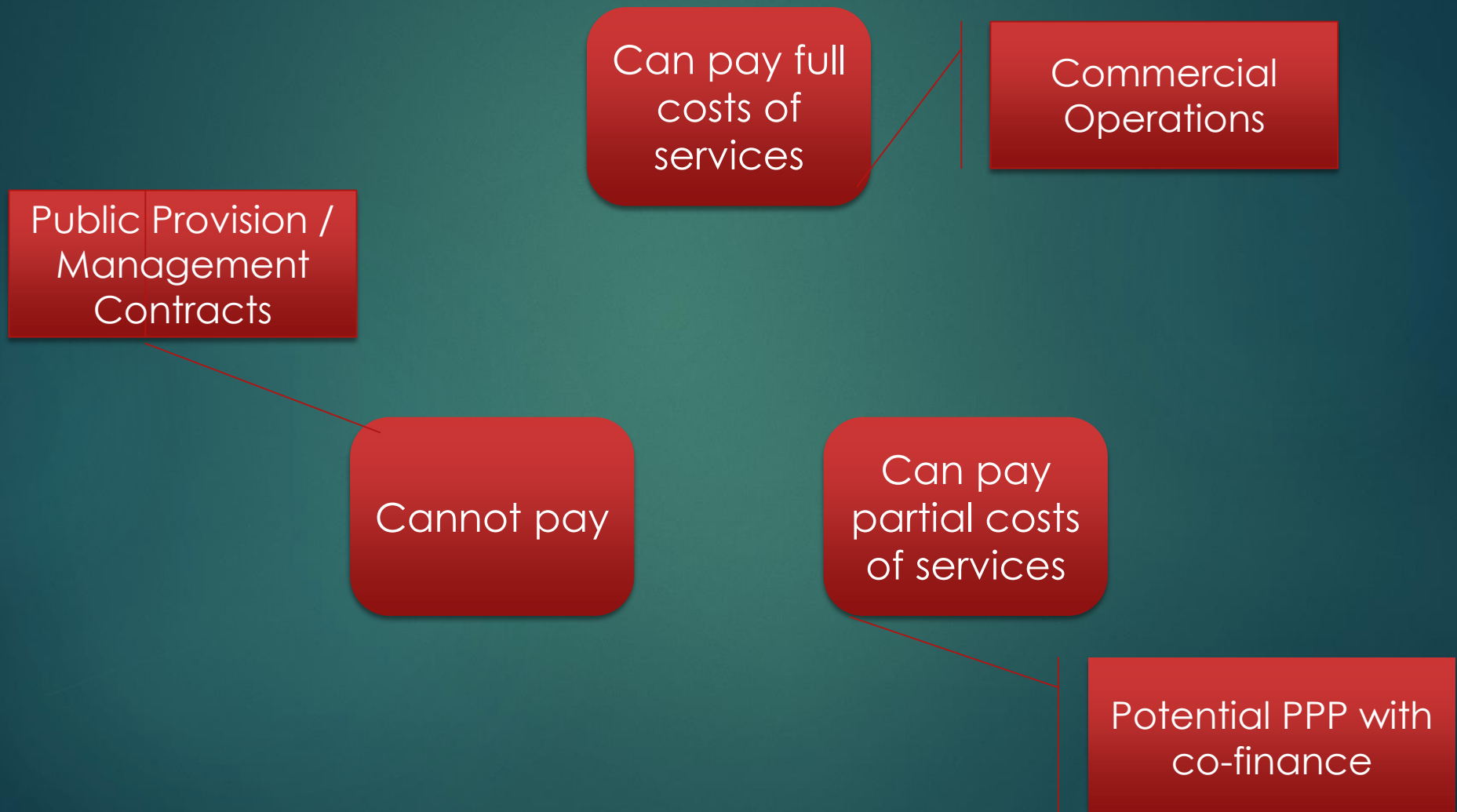
Appropriate Structure (example)

Government

Project SPV



Project Structures relate to paying capacity of end-users





Developing the Project

CONCEPT TO AN IMPLEMENTABLE PROJECT

Typical glitches in development and operations of a PPP Project

Concept

Traffic / demand dropped compared to expectations (now that its priced) – **REVENUES FAR BELOW FORECAST**

Government subsidy of usage overwhelming governments annual budgets – **THIS PROJECT EATS UP ALL GOVERNMENT FUNDS**

Contract

So can we link alternative revenues streams arising from Project benefits? Or reduce costs through financial mechanisms?

LACK OF INNOVATIVE FINANCING for project beyond user fees and government subsidies

Litigation on contracts, pricing, rights to provide service etc. Time bound dispute settlement and legal mechanisms – **NO TIME BOUND LEGAL RESOLUTION PROCESS**

Construct

Approvals from government aren't coming on time, unclear which department handles what – **ADMINISTRATIVE DELAYS and MULTIPLE GOVERNMENT JURISDICTION**

"I'm sorry, but what is the development benefit for the public in real and meaningful terms? Better health, lower commuting times, more savings, what?" – **NO LINKAGE TO DEVELOPMENT AND OUTCOMES**

Contribute

and so **LOW POLITICAL AND COMMUNITY SUPPORT**

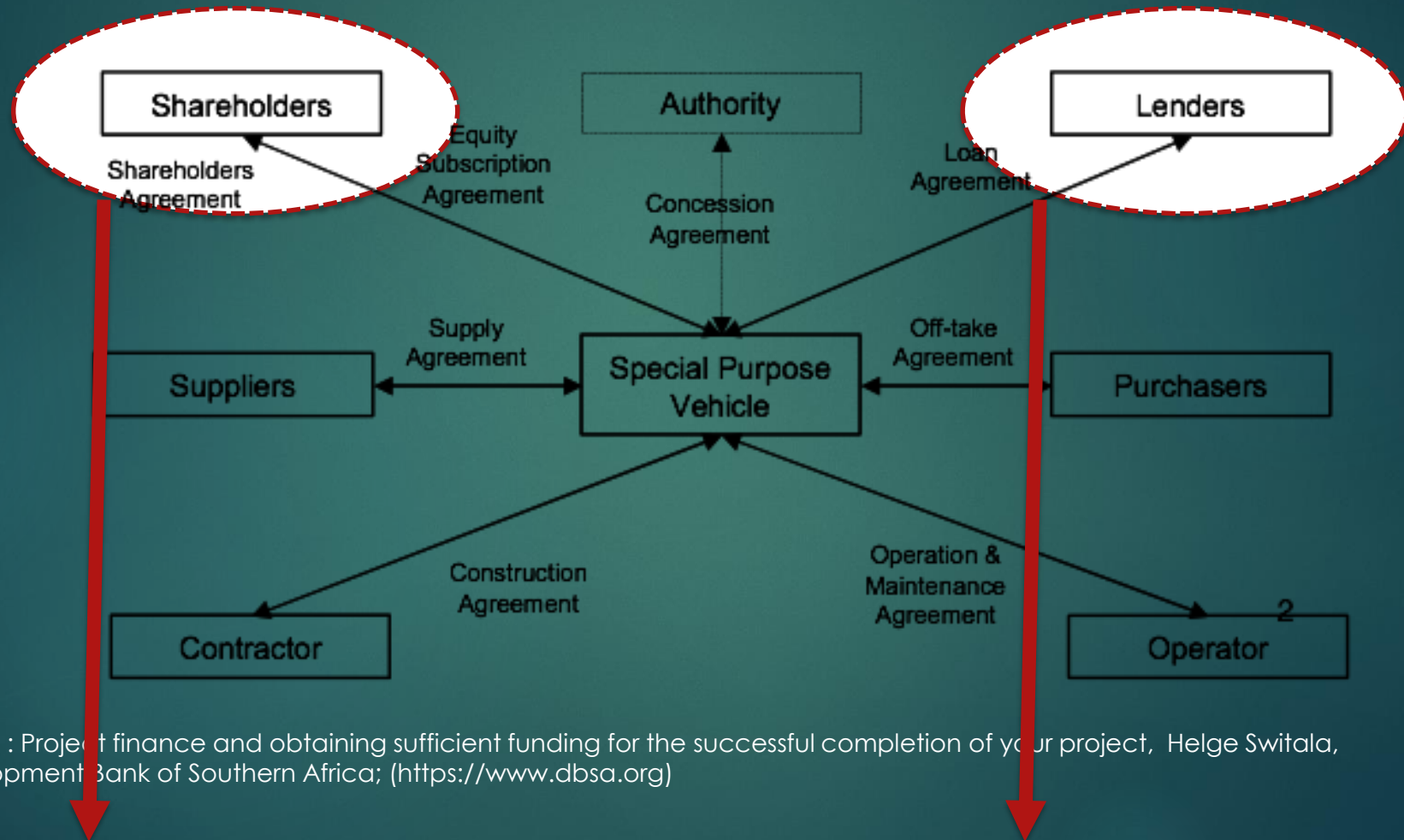
Private partner offered unrealistic "bid" price to win contract, now seeking concessions

Creating Project Vehicle :

The Special Purpose Vehicle (SPV)

- ▶ A specific company incorporated to undertake the specific PPP project, normally created after the award of contract by the winning bidder (PPP partner)
- ▶ Features :
 - ▶ Insulates Private Sector parent company from project risks
 - ▶ Lenders, investors base investments on Project merits alone and its cash flows
 - ▶ Insulates Project Failure risk due to sponsor company, as SPV can be transferred to new owner with all legal responsibilities and liabilities
 - ▶ Enables easy transfer of asset back to government after contract or concession period

A typical SPV – Project Finance Structure



Source : Project finance and obtaining sufficient funding for the successful completion of your project, Helge Switala, Development Bank of Southern Africa; (<https://www.dbsa.org>)

So why will commercial funds flow to this SPV? Accessing Finance



A PPP Enabling Environment

POLICY AND PRACTICE TO SUPPORT SUCCESSFUL SDG
SERVICES DELIVERY PROJECTS

Enabling Policy

- ▶ Investments approvals and decision making
 - ▶ Time bound approval process
 - ▶ Transparent rules that spell out “Qualification”, not discretionary
 - ▶ Exceptions on grounds of national security etc to be made explicit
 - ▶ Alignment with International laws and treaties to avoid future litigation and provide confidence to investors

Enabling National Policy Through notifications or legislation

Investments



Right to Invest to private sector

- Permission for international investments (FDI/Portfolio) and borrowings (external debt) into the Economy
- Classification and qualification of "Infrastructure"
 - Classification can be an open list that can be modified and added to later.
 - Same list must be basis for rules in banking, capital markets and fiscal (tax regimes) to ensure non-conflict of interpretation
 - Process to approve changes/projects can be constituted at apex level in government
- Permission for private sector investments including FDI in "Infrastructure"

Enabling Environment

Legal



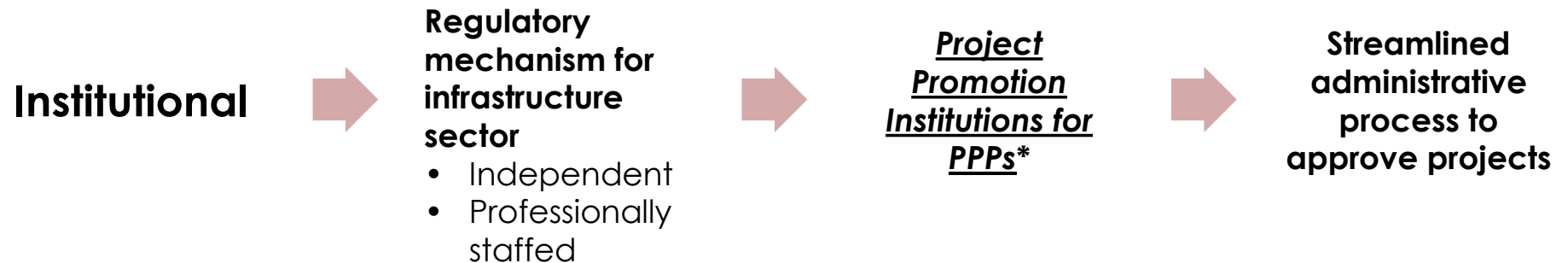
**PPPs entail Legal
Contracts between
Government and
Project Vehicle
(SPV)**



**Time bound Infrastructure
Contract Adjudication for
qualifying PPP projects**

- Special court/arrangement of existing court system for fast track resolution (preferably) but time-bound process (predictable)
- Acceptance of Arbitration/Including International Arbitration under domestic laws subject to Constitutional laws
- Emphasis on:
 - Time Bound resolution
 - Professional expertise relevant to sector/project accessed

Enabling Environment



Enabling Environment



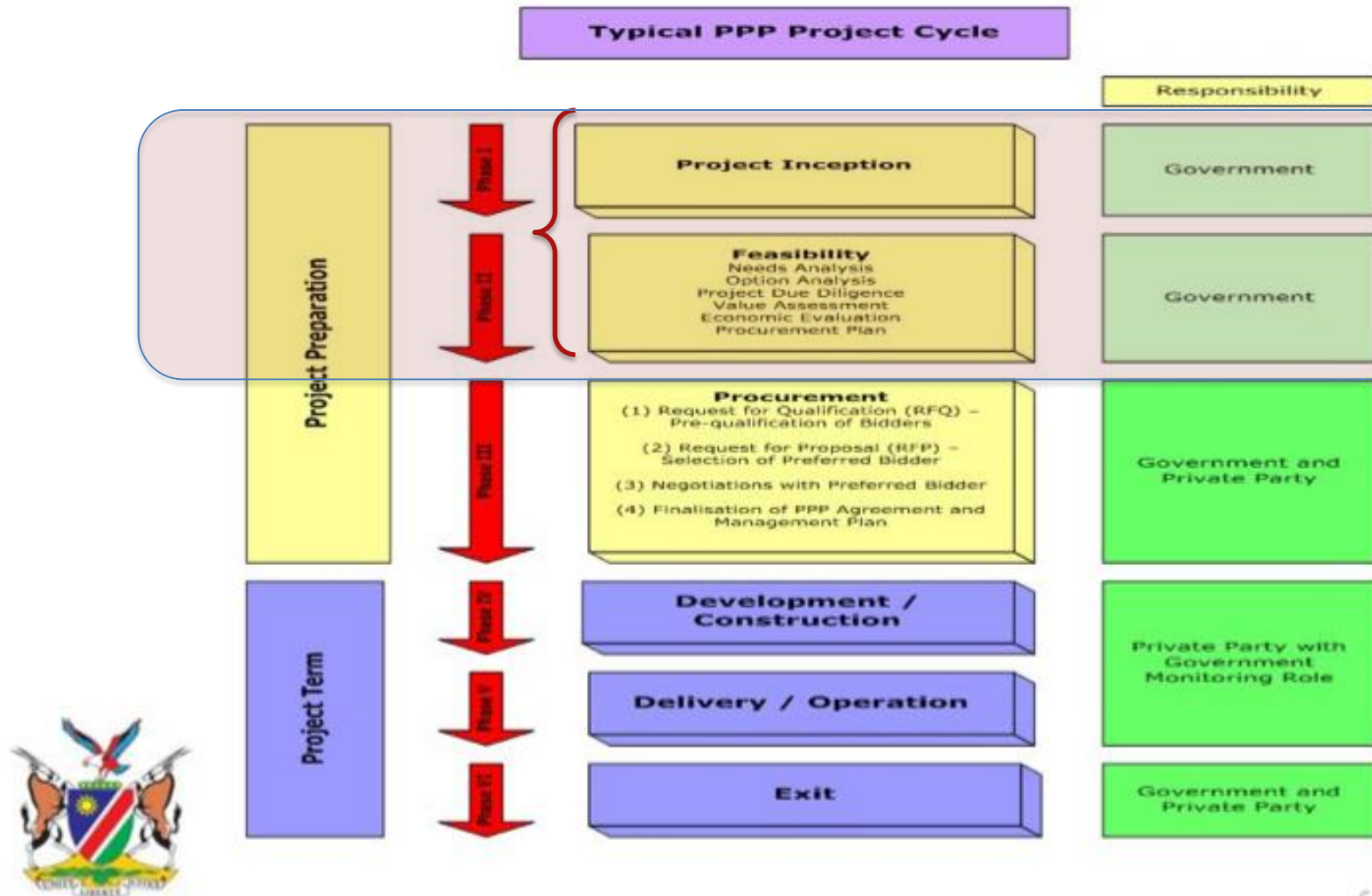
Institutional Mechanisms – Project Promotion

- ▶ Empowered IPA's to work closely with PPP Cell
- ▶ PPP Cell at national government – empowered to:
 - ▶ Approve PPP projects for development and support
 - ▶ Administer a Project Development Fund to create Projects
 - ▶ Qualify expert institutions to assist govt as Transaction Advisors
 - ▶ Promote PPP programme development through designated officers
- ▶ Manage the PPP programme in country including Knowledge Management, Capacity Building, Legislation and regulatory recommendations

Breadth of Promotional Responsibility of a PPP Cell/IPAs



Typical PPP Project Cycle



Source: Namibian Ministry of Health and Social Services;
Presentation at "Health Public Private Partnerships Conference – Dec 8, 2014)

Reach a stage where this is
An investible Project with a
DPR prepared with Experts

Empanelment of Transaction Advisors

- ▶ Rationale for Transaction Advisors :
 - ▶ There is lack of in-house expertise on Financial (commercial finance), Legal and some Technical aspects of PPP projects that tend to be complex in nature
 - ▶ Government departments / Sponsoring Authorities do not have resources – personnel and time especially – to pursue Project Development
 - ▶ Recruiting expertise enhances chances of successfully implemented projects. “Independent” credible professional view of a commercial proposition
 - ▶ Expertise normally needed on 3 facets:
 - ▶ Financial
 - ▶ Legal (and Regulatory)
 - ▶ Technical (relevant to the domain of the sponsored PPP)



ACCESING FINANCE

APPROACHES TO ENHANCE FINANCE AVAILABILITY IN A
DEVELOPING COUNTRY CONTEXT

Coverage of this section

Why is financing infrastructure a challenge?

Which are the key sources that can be tapped?

Approach to handling the challenge

Examples of the above

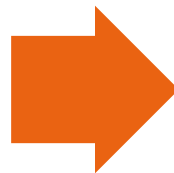
Enabling key policy and regulation agenda that emerges

How do I finance the initial “concept development” process?

Creation of Project Development Fund at a national level.

- Covers costs of TA and other costs up to Project Award
- Some costs could be recovered from successful bidder/awardee of the contract

MDBs/DFIs could be partners



PPP Promotion cell advises arms of all levels of government to initiate projects with priority of “national development plan”

- Capacity Building and knowledge sharing
- Standardised documentation and centralised database
- Simplified process to access PDF to create projects

Main channels of Infrastructure Finance

Government

- Allocation of “taxes” from budgets
- Direct Borrowing by Government

Banks / Institutional

- Direct lending to Projects – SPVs
- Investments in Government bonds
- Investments in capital market funds

Retail/non-financial companies

- Infrastructure Investment Funds
- Mutual funds
- Subscribe to equity / debt issues

What constrains Financing initially?

- ▶ Issues relating to Capital – investment/lending for Infrastructure
 - ▶ **Longer tenure of finance** – related to project cash flows compared to normal business
 - ▶ 10 years and more up to 30 year Concession Periods for viability
 - ▶ Typical bank lending for shorter tenures about 7 years
 - ▶ **Restricted upside of project revenues**
 - ▶ Prices are normally capped and regulated given the nature of “essential” services for SDGs, so **risk-return norms** are different from commercial investments
 - ▶ **Non-recourse “Project Finance”**
 - ▶ Investors/lenders lend to SPVs without recourse to promoter finances
 - ▶ **Risks relating to “government finances”** and ability to meet commitments over long tenures of PPPs, e g, 30 years.

Issues relevant to Financing

- ▶ Operations of SPV
 - ▶ Ability to meet recurring government commitments to cash flows of SPV (e g subsidy for economically weaker section users)
 - ▶ Fluctuating exchange rates where SPV needs imported inputs for operations – frequently for technology oriented projects and / or energy inputs
 - ▶ Fluctuating Interest rates over project tenure affecting “pricing”

These issues arise when initiating PPPs. They are in addition to a spectrum of financial risks for ongoing projects.

Key issues affecting each Finance availability

Government

- Insufficient funds from “taxes”
- Limits to direct borrowings



Banks

- Tenure of “long term” loans
- Limits by risk/ “asset class” in investments in “bonds”, “funds”



Retail / Non-financial institutional sources

- Individuals can invest only small amounts
- Cost to “SPV” of handling large number of “investors”



Initial PPPs “unproven” projects
High financial risks in complex project structures

Steps to overcome issues

Government Guarantees

- Reduces “sovereign risk”
- Lowers cost of borrowings for SPV
- Conveys Government commitment to Project success

Infrastructure as asset/Investment class for banks

- At par with investment in govt bonds – bank ratings don’t suffer
- Enables investments in securities/innovative instruments besides direct loans

Capital Markets

- Mobilizes “small investors” for Infrastructure Finance
- Enables co-investments by non-banking institutional players including Insurance/Pension Funds

Examples of such measures

- ▶ Government guarantees
 - ▶ Government of UK guarantee scheme for qualifying Infrastructure Projects (described later in this section)
 - ▶ Government promoted and owned apex Infrastructure institutions/banks. (Examples of India and Indonesia described later in this section)

Channeling Funds for Infrastructure

- The Initial Government Investment Vehicle

- ▶ A national fund dedicated to raising capital for SDG focused PPPs in infrastructure
- ▶ Flexibility to raise different capital from different sources – capital markets, banks, pension funds/insurance funds, grants-in-aid from government, non-government sources
- ▶ Guarantees by the national government – automatically brings risks within acceptable limits for lenders – based on “sovereign risk”. This is critical given the limitations of commercial operations of such projects

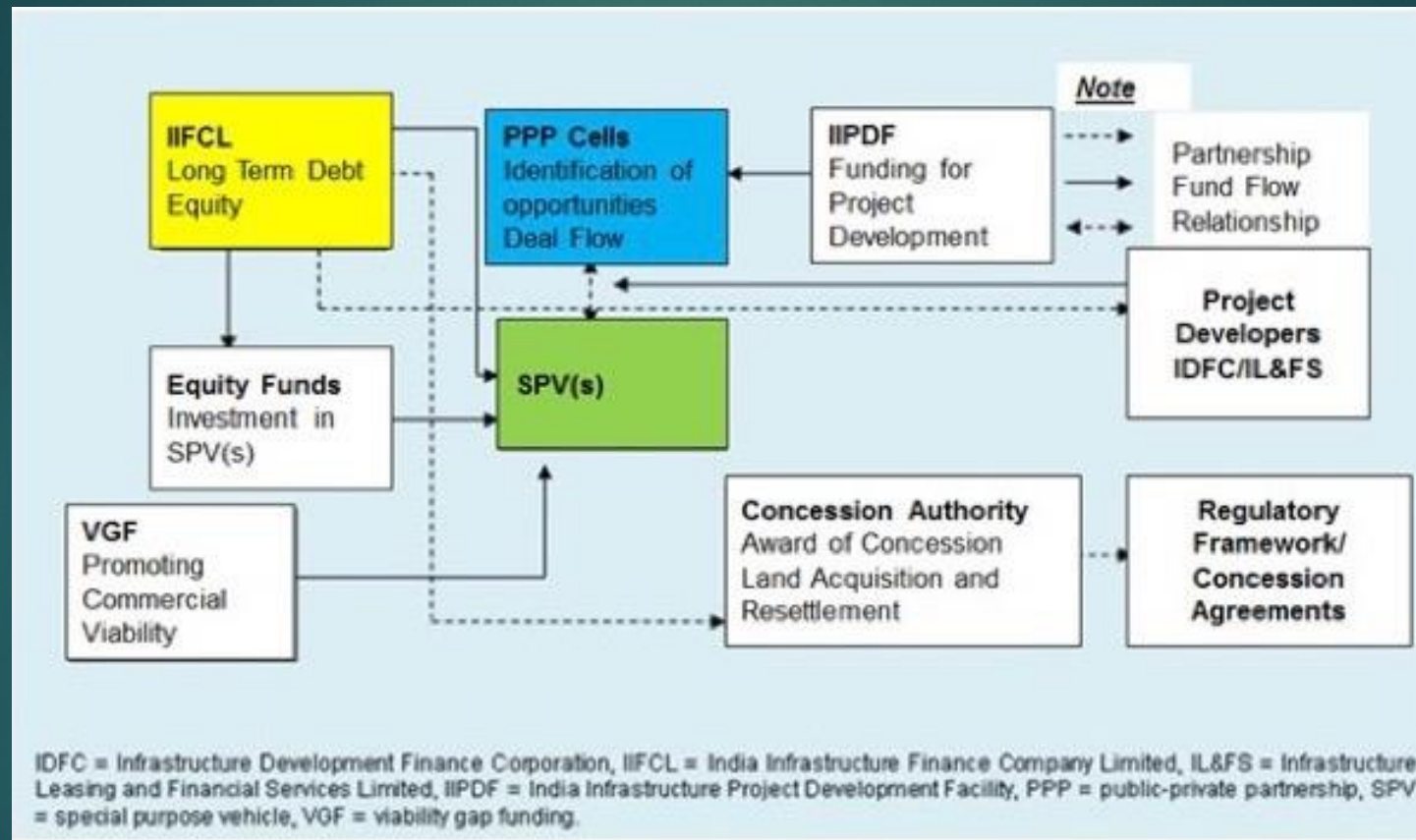
The apex Infrastructure Fund



- ▶ Lends / invests directly in approved PPPs through various routes
- ▶ Re-finances other lenders, who may be better positioned to evaluate project investments
- ▶ Provides guarantees, as needed, for borrowings
- ▶ Has necessary financial clout in markets to raise funds closer to government borrowing rates thus lowering financing costs

Structuring in India

The India Infrastructure Financing Company Limited (IIFCL)



Sources of “Long term Finance”

- ← Pension Funds – and similar savings instruments for post-retirement financial stability
- ← Education endowments
- ← Life Insurance Funds
- ← Individual investors seeking stable returns over longer periods

Specialised infrastructure Finance entities can access the above funds for Infrastructure Projects and channel them to SPVs

Raising “funds” from retail investors or multiple institutional investors becomes too costly and difficult to manage for a Project SPV. However, this could be managed and facilitated by an apex institution



PRACTICAL ISSUES FOR SDG FOCUSED INFRASTRUCTURE
PROJECTS

SDG OUTCOMES

Infrastructure is an enabler Its not the ONLY enabler

- ▶ Infrastructure constitutes an enabling mechanism
- ▶ The SDG outcomes are frequently attained ALSO because of such infrastructure, not ONLY because of it. To illustrate:
 - ▶ Sanitation : Solid and Liquid waste management infrastructure (sewage system) contributes to better health outcomes – lower illness related absenteeism, water borne diseases, mosquito borne diseases etc.
 - ▶ Health Care: Robust Primary Health Centres/medical services/emergency services reduce mortality, prevent disease through effective immunisation programmes etc.,
 - ▶ Agricultural cold chains reduce wastage and reduce volatility in prices, that aids economic and social development and also enhances food security

Project Service Level Outcomes may not be equal to SDG Outcome

- ▶ Direct Service Level of Projects outcomes may not capture “Developmental Outcomes”.
- ▶ Efficiency of waste collection (Contract clause) doesn’t measure Public Health Improvement (Developmental outcome) – that has to be tracked separately
- ▶ Public Health Improvement may ALSO require other programmes that aren’t managed by the SPV. Discussed next.....

Integration of SPV Project with Other related Programmes

Integration of related programmes with Project often vital

- The SPV limits itself to a bankable project. Some costs, not related to the infrastructure creation and operations, may be difficult to load to the project costs – as it may render the service unviable. For example,
 - Supply of potable drinking water, and adequate supply of non-potable water – both contribute to successful SDG outcomes of Public Health and Environment for a Sanitation Programme.
 - The SPV may not be defined to supply water
 - Behavioural Change requires community interactions and other measures. These could be long term in terms of results. These activities may be addressed in a limited way through the Project SPV

SDG outcomes are best achieved
when government Integrates
related Programmes with the SDG
infrastructure/service provided by
Project SPV

Project Outcomes in SDG terms illustrative list

- ▶ Direct Outcomes that can be spelt out in Project documents
 - ▶ Education: (a PPP school)
 - ▶ Reduction in school drop outs
 - ▶ Attendance and school completion rates
 - ▶ Educational attainment levels
 - ▶ Sanitation :
 - ▶ Waste Collection volumes as proportion of total normative waste generation
 - ▶ Water discharge quality post treatment; and recycling
 - ▶ Health Care:
 - ▶ Immunisation coverage
 - ▶ Emergency response time for ambulance services

Project Outcomes in SDG terms - 2

- ▶ Indirect Outcomes
 - ▶ Health:
 - ▶ Reduction in absenteeism caused by “minor” illness – frequently related to water borne diseases, etc..
 - ▶ Reduction in epidemics, vector borne diseases
 - ▶ Education
 - ▶ Continuation of further education post school
 - ▶ Employment /income gains through completion of education. Needs post-project tracking, through sample surveys/other methods; even if 100% tracking is not possible

Summary of approach - SDGs

- ▶ These outcomes need to be stated as project goals
- ▶ They will entail coordination with other government programmes and measures in tandem with infrastructure PPP. These too could be committed within Government
- ▶ Measurement may entail statistically relevant sample “surveys” that can be budgeted for as part of the project or linked to projects
- ▶ These studies feed into government’s larger developmental agenda and form a basis for gaining community participation and acceptance of future projects

THANK YOU

