FirstCaribbean International Bank

Public Private Partnerships (PPP)- “The Financial Perspective”

October 2014

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PPP Financing Overview

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Broad Categories of Infrastructure PPPs Proposed in Region

Economic Infrastructure

Transportation

- Roads/Highways
- Airports
- Parking Authorities
- Ports, Port Terminals

Power and Utilities

- Energy Generators
- Non-Renewables/Renewables
- Distribution/Transmission
- Water/Wastewater

Social Infrastructure

Healthcare

- Hospitals
- Other Health Care Facilities

Other Accommodation Facilities

- Social Housing
- University Accommodation
- Courthouses
- Prisons
- Government Buildings

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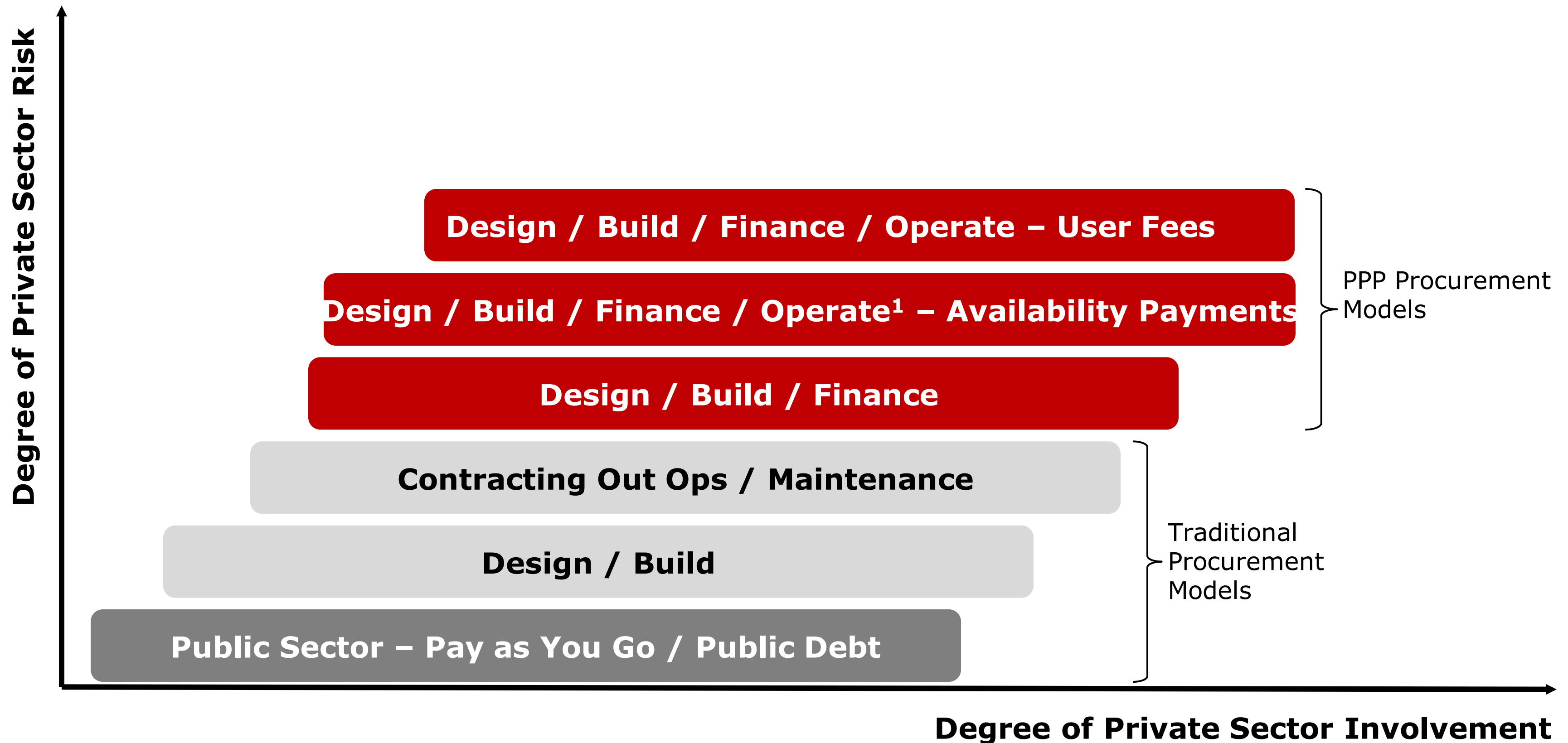
PPP Financing Overview

Different Degrees of Private Sector Involvement and Risk Transfer



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PPP Financing Overview

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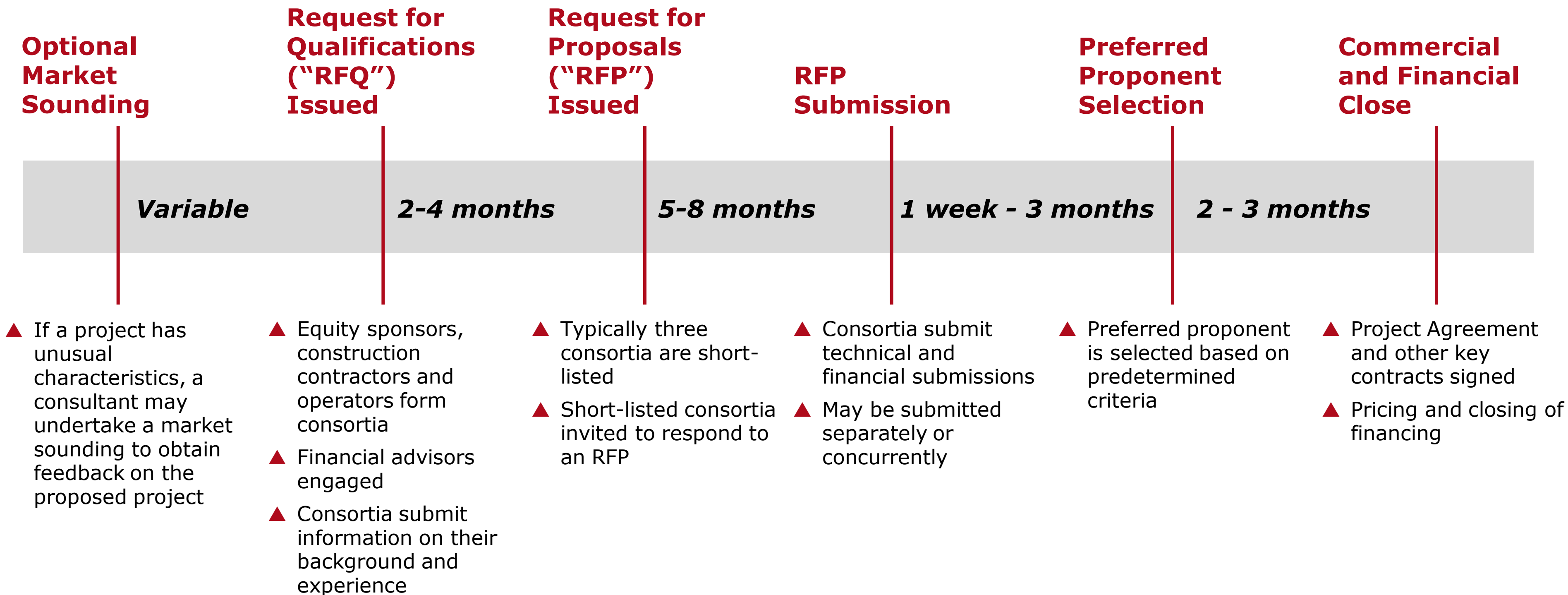
Procurement Process

- Larger P3 projects typically take 10 to 18 months to procure from issuance of the RFQ



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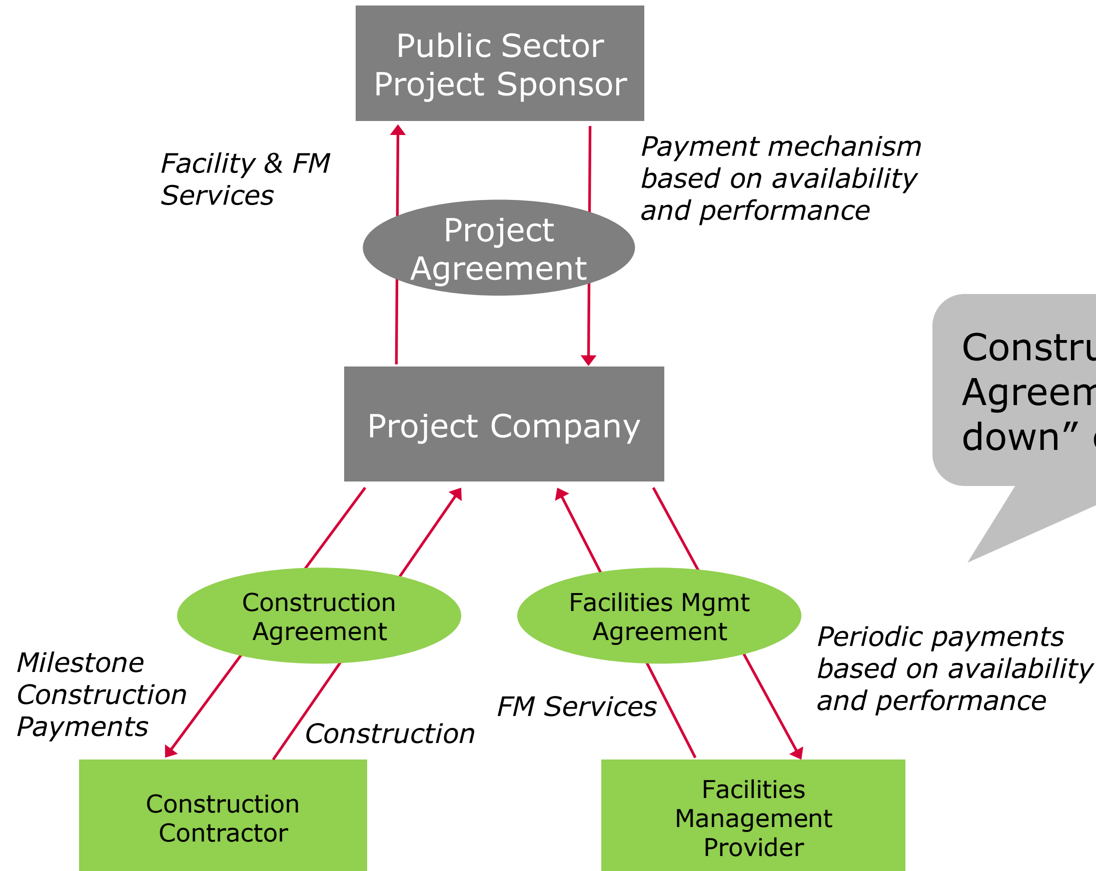
PPP Financing Overview

Typical DBFM PPP Structure



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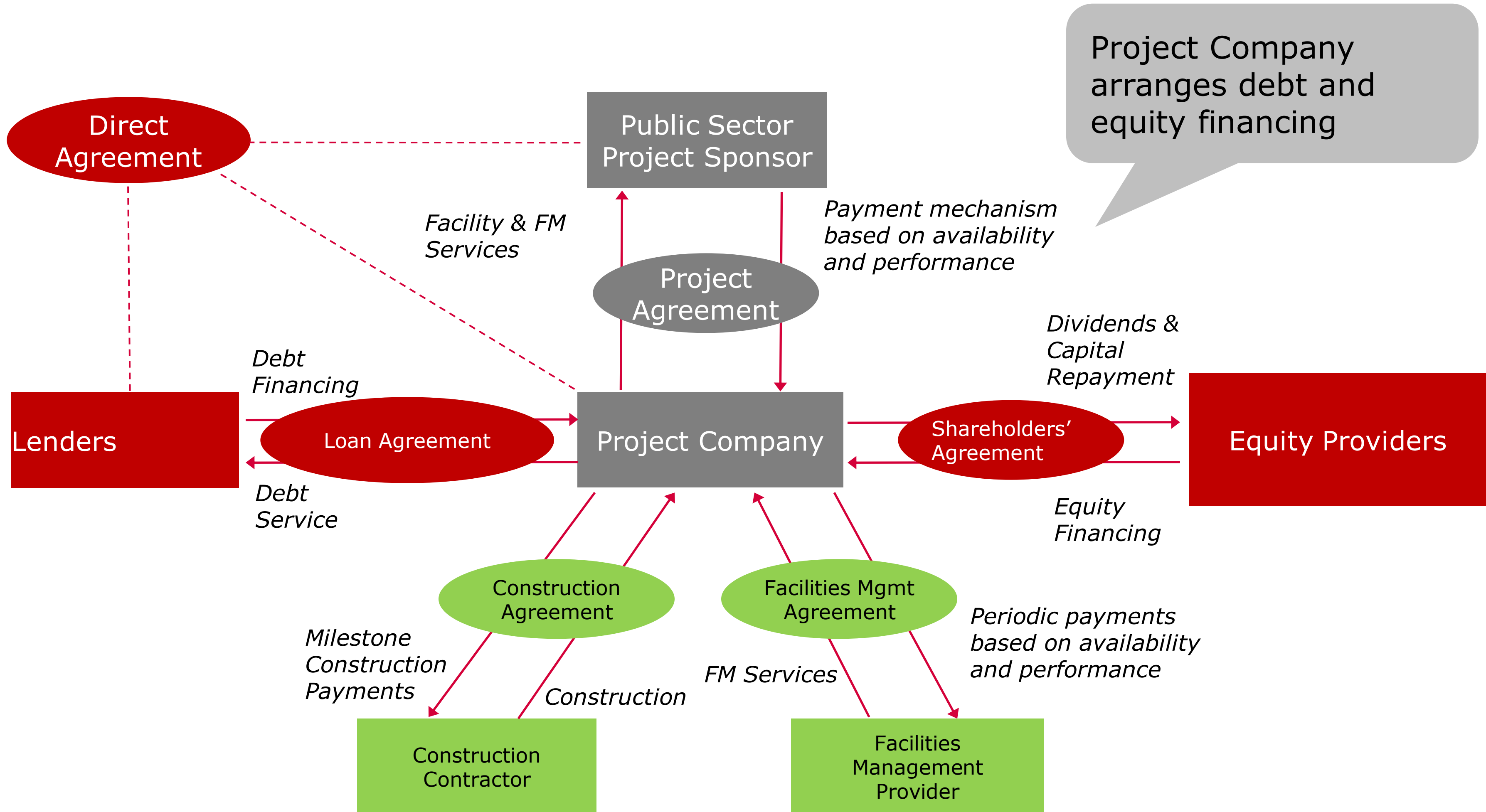
PPP Financing Overview

Typical DBFM PPP Structure



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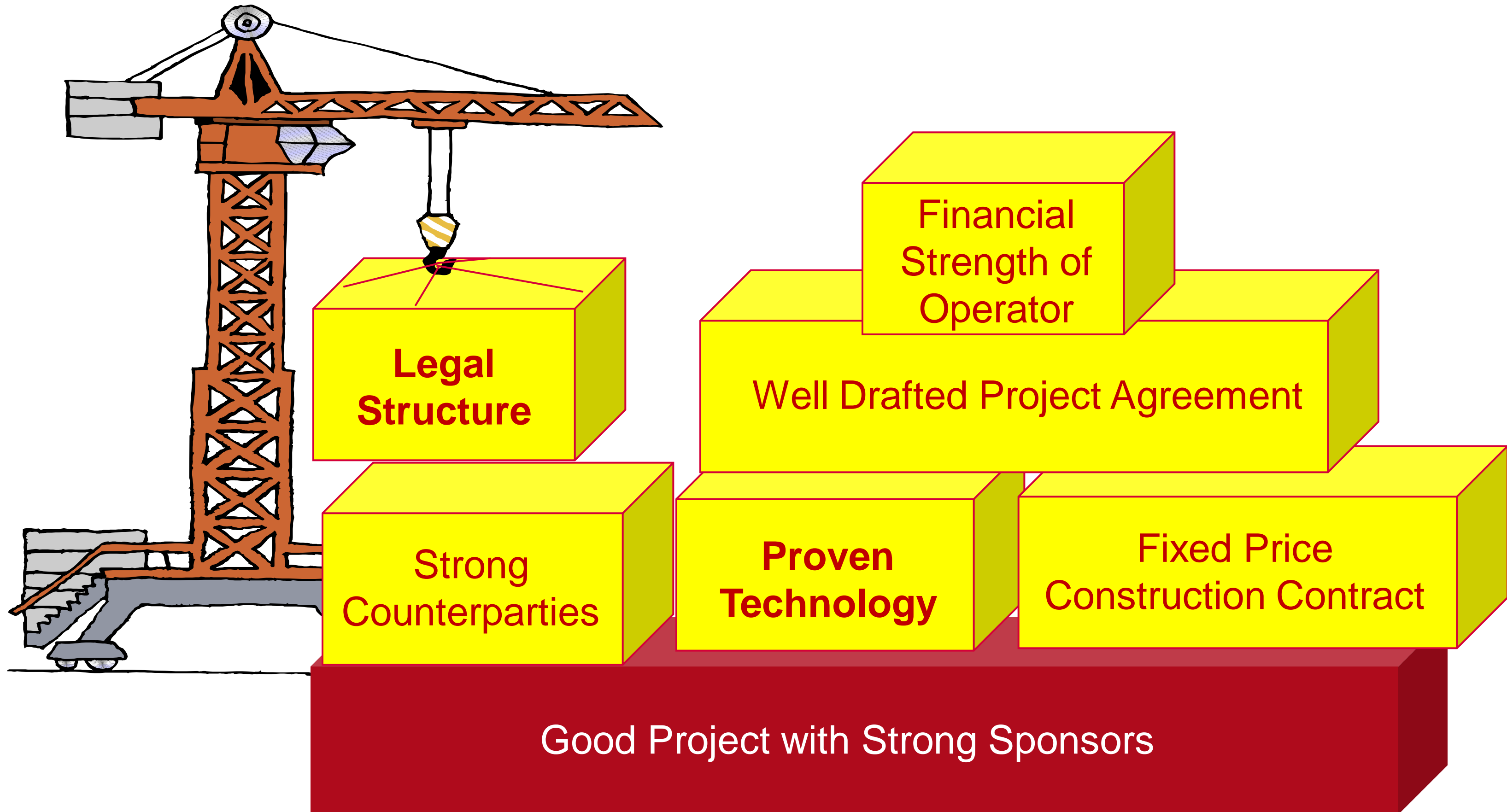
Typical Lender Requirements



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Typical Lender Requirements

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Lender Appetite For Infrastructure Financing

- Overall strong -user-pay sometimes preferred given financial condition of some governments
- If government risk is an issue seek credit enhancement from multilateral agencies
- Pricing tied to various factors
  - Project risks,
  - Offtaker strength (investment grade ideal)
  - Tenor/term of the debt
  - Repayment profile
  - Overall financial market conditions

Lender Role in RFP Bids

- Best engaged at outset to work in partnership throughout project cycle, especially in due diligence and review and negotiation of documentation
- Financial advisors can also assist with the financial modelling and determination of the economics and valuation of the deal (mainly how much to bid, understand returns etc)
- Value of a good lender is not just pricing but also in their knowledge of how an infrastructure project should be procured, managed and operated to protect lenders/sponsors

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Typical Lender Requirements

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Types of Financing Structures

- Financing structures can be customized for a specific project – most common i) bridge loan (temporary financing); ii) short term ("mini –perm") loans; iii) long term loans/bonds
- Bank deals/loans can be syndicated to other banks/financial institutions
- Bank deals tend to be shorter term ("mini-perm") with slightly longer repayment terms (15 years) and therefore a larger amount (balloon payment) to typically refinance at maturity
- Project bond deals still not as utilized in Caribbean however rated projects can access international debt capital markets such as US Private Placement (USPP) market

What Makes a Project Bankable

- Fixed price construction contract
- Experienced consortium (equity, developer and contractor partnership) with good record and willingness to stand behind project (performance bonds, performance guarantees)
- Good alignment between public and private sector – acceptance that private sector needs to make a reasonable return, lenders need to be repaid and appropriate risk transfer/allocation
- Transparent identification of risks and responsibilities
- Appropriate Capital Structure (Hard Equity & Debt Limits)

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What Makes a Project Bankable (cont'd)

- Strong government support (Guarantees, Direct Tariffs etc)
- Strong economic profile which supports the repayment profile with adequate coverage
- Credit enhancement (export credit guarantees and multilateral support) where necessary – presence of multilateral agencies – IFC, IADB, MIGA etc is attractive for Banks
- Termination provisions under the Project Agreement – termination compensation for developer under the Project Agreement is a major part of the PPP risk allocation
- Strong contracts with reputable counterparties (construction firms, advisors, engineers etc)
- Project agreement(s) which at a minimum covers the repayment term (all contracts: concession agreement, operations and maintenance agreement etc)
- Other: Proven technology; established operating history; monopoly-like characteristics; strong legal & regulatory framework, public acceptance and strong political commitment

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PPP Project Challenges –Lender Perspective

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Scarcity of Equity

- Failure to launch due to lack of equity to complete the project financing
  - Mezzanine type financing returns of 15% to 30% are difficult for projects to support
  - Conflicts between bank senior lender and mezzanine terms

Construction Risks

- Typical structures have Government taking over project build on successful completion
  - Requires sponsor guarantees, performance bonds/performance guarantees

Governments' Financial Condition

- Many sovereigns no longer investment grade
  - Bank's already have high exposures to many sovereigns in region
  - Social infrastructure is additional heavy burden on governments

Weak Procurement & Due Diligence Processes

- Projects collapse after being very far along in the procurement process
  - Inadequate planning leading to inability to meet project timetables
  - Initial due diligence/requirements on private sector partners not sufficient

Term Structure of Bank Lending versus Term of Project Agreements

- Difficult for some sponsors to accept refinancing risk due to shorter bank term

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Final Thoughts – Building on Early Lessons

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- Enhance technical assistance for the public sector to identify, structure and procure PPPs

- Structuring with credit enhancement to support transactions is important
    - Export credit agency participation
    - Multilateral (MIGA, IFC, IDB, EIB) participation
    - Agencies such as OPIC participation

- Need available, patient and reasonably prices sources of equity for projects
    - National Infrastructure Funds?

- Develop alternative funding/capital market options for infrastructure projects
    - Pension funds and other funds need to be able to participate

Note however that not all infrastructure projects will have to be financed as PPPs

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