

*PPP –  
The Financial Perspective*

Presentation to the  
Bahamas Society of  
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## ***Topics covered***

- ✓ Why projects are undertaken as PPP
- ✓ How governments pay for PPP
- ✓ PPP success factors
- ✓ Comparison of the Canadian and Caribbean PPP Markets
- ✓ Challenges for developing PPP in the Caribbean

# *Why projects are undertaken as PPP*

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## ***Why projects are undertaken as PPP***

- ✓ A project should be undertaken as a public-private partnership if it can be delivered better than under traditional design-bid-build procurement:
  - Delivered faster
  - Designed/built better
  - Operated better
  - Maintained better over the long term
  - Designed, built, operated and maintained at a lower cost
- ✓ A PPP should not be undertaken as a way to keep debt off of government's books

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## ***When should a project be undertaken as a PPP***

- ✓ When it fulfills a well defined need
- ✓ When it is affordable
- ✓ When it provides Value for Money (VfM) to the public authority

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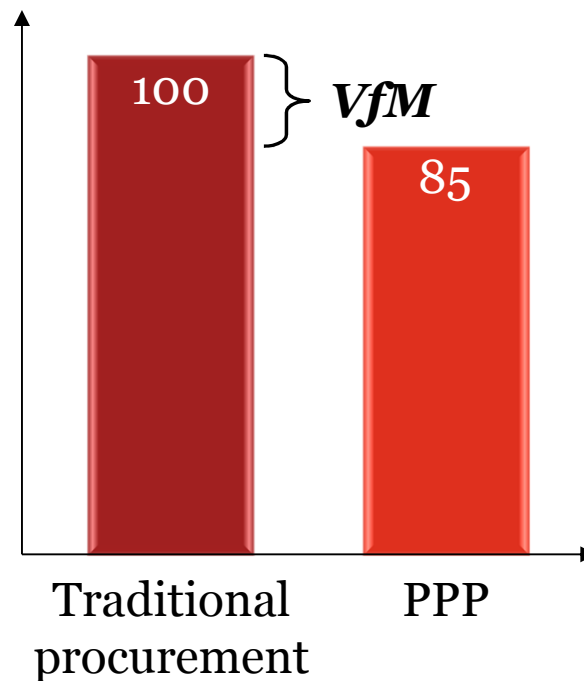
## ***What is VfM and why is it important***

- ✓ A PPP project yields VfM if it results in a net positive gain to society which is greater than that which could be achieved through an alternative procurement route (Guide to Guidance, European PPP Expertise Centre)
- ✓ VfM should be analyzed because
  - It is the best method for choosing the appropriate procurement approach
  - If properly carried out, it provides a good review of a project's risks
  - It is project governance best practice

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## *How VfM is analyzed*

- ✓ VfM is usually determined by comparing the long-term cost of a project under traditional procurement to its cost as a PPP



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## *How VfM is analyzed (cont'd)*

- ✓ The long term cost of a project includes:
  - Initial design and construction costs
  - Operations and maintenance costs, including lifecycle maintenance
  - Risks, both public and private sector
  - Financing costs (for the PPP)
- ✓ These costs must be estimated for a period equivalent to the duration of the putative PPP, typically 30 to 40 years
- ✓ These costs must be expressed in terms of their net present value
  - Choosing the right discount rate is important
  - The discount rate is usually based on the public sector's long-term cost of financing



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## ***Risks: always present, often unrecognized***

- ✓ The proper analysis and quantification of risks is the basis of a good VfM analysis
- ✓ Risks usually have a different cost whether they are managed by the public or the private sector
  - The private sector can manage many (but not all) risks at a lower cost than the public sector
- ✓ Risk analysis is not easy if you've never done it
  - Risks tend to be minimized if not completely ignored by the public sector (optimism bias)
- ✓ Risk analysis and quantification must be based on the specifics of the project
  - The quantification cannot be based on averages taken from studies or precedents although these can be used as a reality check

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## *How is VfM achieved?*

- ✓ The cost of a PPP includes the cost of private long-term financing, which is more expensive than public financing in most cases
- ✓ Despite this additional cost, PPP often provides VfM because of:
  - Greater up-front planning, which leads to better execution
  - Private sector efficiency arising from the integration of design and construction activities
  - Design which seeks to lower operating and maintenance cost, including lifecycle maintenance
  - Lower cost of risks, if adequately transferred, through better risk management
  - Better cost and calendar control, which leads to less cost overruns and delays
  - Innovation resulting from competition during the bidding process

# *How governments pay for PPP*

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## *How governments pay for PPP*

- ✓ A PPP can only be paid for the same way as any government project
  - By government payments (including grants from multilateral agencies) and/or
  - By user fees
- ✓ A particularity of a PPP is that all or a significant portion of the design and construction costs are privately financed
  - By a combination of debt and equity
  - This private finance must be repaid over time

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## *How governments pay for PPP (cont'd)*

- ✓ Undertaking a project as a PPP does not usually create significant new sources of revenue
  - Which is why the project must be paid for by government payments and/or user fees
  - Which is why the project must be affordable
- ✓ Nevertheless, carrying out a project as a PPP may result in some marginally higher revenue from new or existing sources such as:
  - Better collection of user fees
  - Excess capacity being used for commercial purposes
  - Advertising
  - Additional services to users

# *PPP success factors*

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## *Why have PPP been very successful in Canada?*



***High Credit Quality  
Government  
Counterparties***



***Consistent PPP Deal  
Flow***



***Committed  
Governments***



***Deep Financing  
Markets***



***Strong Legal  
Framework***



***Expertise Developed  
in Market***



***Knowledge Developed  
at Governments***



***Standardized  
Documentation***

# Canadian PPP Market – Success Factors

## High Credit Quality Government Counterparties

- ✓ Investors and lenders take a close look at the credit worthiness of the public authority underpinning the PPP
- ✓ The credit rating of a well structured PPP is typically one or two notches below the credit rating of its government off-taker
- ✓ Many lenders will only lend to projects which are investment grade
- ✓ The Canadian PPP market benefits from the good credit ratings of Canada’s federal and provincial governments

Canadian Credit Ratings	
Name	Credit Rating
	<i>(Moody's / S&amp;P / Fitch)</i>
Ontario	<i>Aa2 / AA- / AA</i>
Quebec	<i>Aa2 / A+ / AA-</i>
Alberta	<i>Aaa / AAA / nr</i>
British Columbia	<i>Aaa / AAA / AAA</i>
Saskatchewan	<i>Aa1 / AAA / AA</i>
Manitoba	<i>Aa1 / AA- / nr</i>
Nov a Scotia	<i>Aa2 / A+ / nr</i>
New Brunswick	<i>Aa2 / A+ / nr</i>
Newfoundland & Labrador	<i>Aa2 / A+ / nr</i>
Prince Edward Island	<i>Aa2 / A / nr</i>
Northwest Territories	<i>Aa1 / nr / nr</i>
Yukon	<i>nr / AA / nr</i>
Nunavut	<i>Aa1 / nr / nr</i>
<b>Canada</b>	<b><i>Aaa / AAA / AAA</i></b>



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## ***Canadian PPP Market – Success Factors (cont'd)***

### **Committed Governments**

- ✓ Procuring projects as PPPs is disruptive for both public authorities and local bidders
- ✓ The public doesn't always understand the advantages of PPPs and misinformation abounds
- ✓ Governments must be committed to a PPP program for it to succeed
  - To convince the public of the benefits
  - To attract international bidders
  - To convince local bidders to develop the needed expertise
- ✓ The most successful governments have a PPP champion

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## ***Canadian PPP Market – Success Factors (cont'd)***

### **Strong Legal Framework**

- ✓ Canada and its provinces have a strong legal framework in areas such as commercial law, property law, financing law and insolvency law
- ✓ Governments have put in place specific laws enabling the use of PPPs for the provision of public infrastructure and services
- ✓ Governments have also developed the procurement policies which allow for greater interaction between public authorities and bidders, which is typical of PPPs

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## ***Canadian PPP Market – Success Factors (cont'd)***

### **Knowledge Developed at Governments**

- ✓ Starting a PPP program is usually difficult for governments
  - New ways of procuring
  - New ways of contracting
  - New ways of managing infrastructures and services
  - Perceived loss of control
- ✓ Jurisdictions which have successfully implemented PPP programs in Canada have set-up dedicated PPP resources, either as PPP units within ministries or as specialized agencies

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## ***Canadian PPP Market – Success Factors (cont'd)***

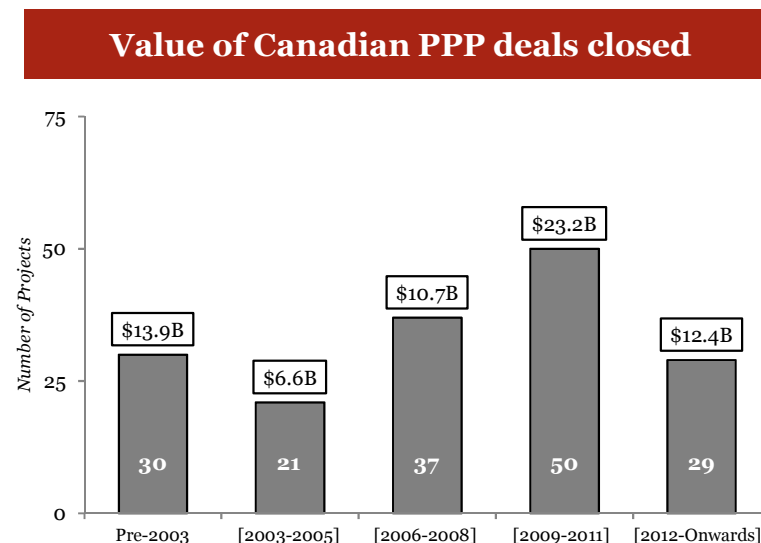
### **Knowledge Developed at Governments (cont'd)**

- ✓ Having specialized PPP resources:
  - Shortens the learning curve
  - Helps disseminate PPP best practices throughout the government
  - Encourages the use of standardized documents
  - Helps communicate the purpose and advantages of PPPs to the public

## Canadian PPP Market – Success Factors (cont'd)

### Consistent PPP Deal Flow

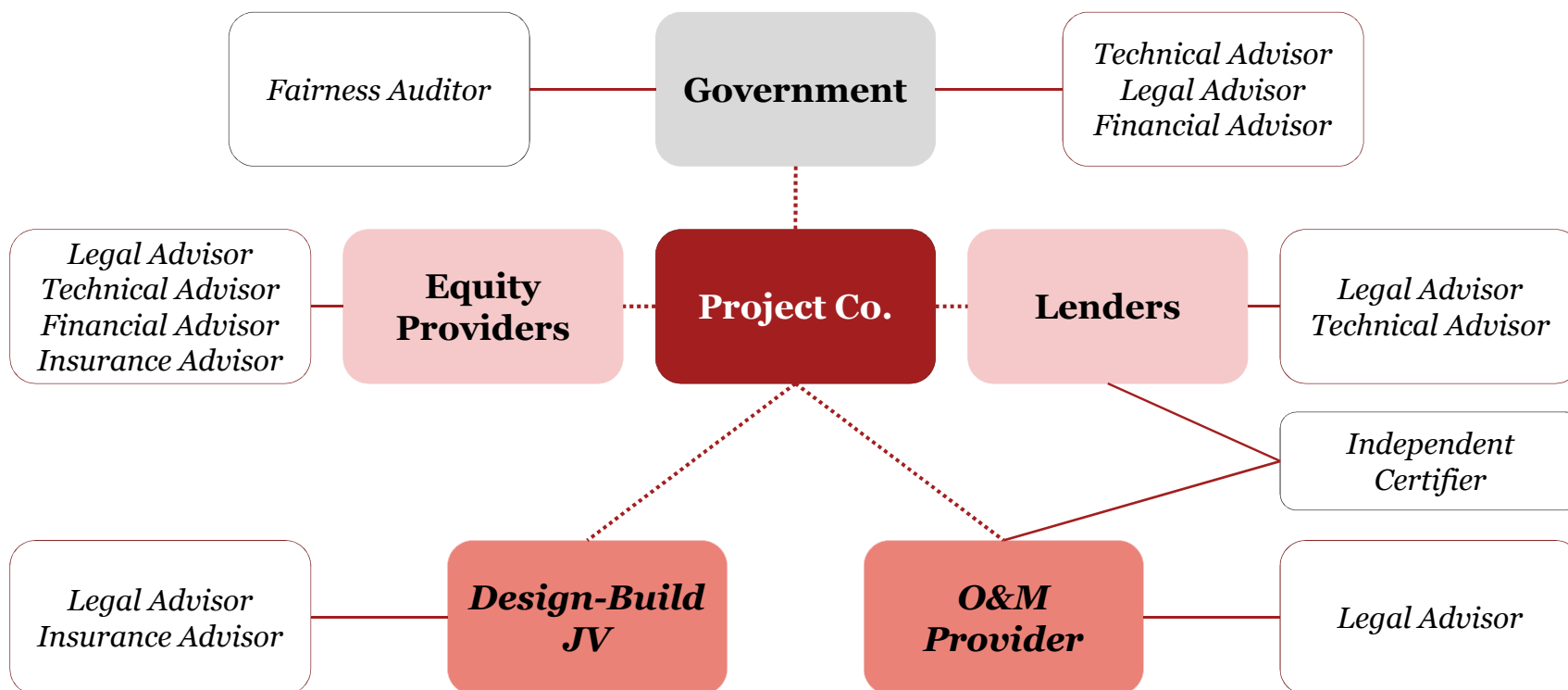
- ✓ The Canadian market has benefited from a fairly steady flow of PPP transactions over the past 10 years
- ✓ This steady deal flow keeps international bidders interested in Canada, ensures an active financing market and allows advisors to maintain their expertise



# Canadian PPP Market – Success Factors (cont'd)

## Expertise Developed in Market

- ✓ PPP require numerous participants



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## ***Canadian PPP Market – Success Factors (cont'd)***

### Deep financing markets

- ✓ Canada has very well developed banking and capital markets
  - 6 major banks and other lending institutions
  - Well established investment banks with international experience
  - Deep capital markets for both public and private bond placements
  - Many pension funds and life insurance companies seeking stable, long term returns
- ✓ Canada's early PPP financing were dominated by European banks
- ✓ Following the 2008 financial crisis, most of these banks retreated to their home markets
- ✓ Canada's capital markets seized the opportunity and the PPP bond market developed quickly
  - Today most long-term PPP debt in Canada is in the form of bonds, not bank debt
- ✓ Innovation continues, notably the development of shorter term bonds for construction period financing

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## ***Canadian PPP Market – Success Factors (cont'd)***

### Standardized Documentation

- ✓ As more and more PPP transactions are concluded, standardized documentation is developed for both procurement documents and legal documents
- ✓ This is beneficial for everyone:
  - For governments, who can issue more quickly the procurement documents
  - For bidders and lenders, who know what to expect and who can concentrate on any “off-market” terms
  - For both governments and bidders, since less time is spent in meetings to discuss document terms



# *Comparison of the Canadian and Caribbean PPP Markets*

# Country Comparison

## Gross Domestic Product

### GDP and Population

Name	GDP <i>(in US\$ B)</i>	Population <i>(in '000s)</i>
Ontario	\$636.4	13,135
Quebec	\$333.3	7,929
Alberta	\$273.0	3,733
British Columbia	\$208.2	4,466
Saskatchewan	\$64.1	1,051
Manitoba	\$53.5	1,221
Nova Scotia	\$37.5	942
New Brunswick	\$30.4	753
Newfoundland & Labrador	\$29.4	522
Prince Edward Island	\$5.3	142
Northwest Territories	\$4.8	43
Yukon	\$2.3	35
Nunavut	\$2.0	33
<b>Total</b>	<b>\$1,680.1</b>	<b>34,005</b>

Name	GDP <i>(in US\$ B)</i>	Population <i>(in '000s)</i>
Puerto Rico	\$98.8	3,600
Cuba	\$68.2	11,047
Dominican Republic	\$55.7	10,349
Trinidad & Tobago	\$23.6	1,224
Jamaica	\$14.4	2,900
Martinique	\$11.5	385
Guadeloupe	\$11.0	405
Bahamas	\$7.9	322
Haiti	\$7.3	10,000
Bermuda	\$5.6	69
Curacao	\$5.1	147
Barbados	\$4.4	289
US Virgin Islands	\$4.4	104
Cayman Islands	\$3.3	55
Aruba	\$2.6	110
<b>Total</b>	<b>\$323.6</b>	<b>41,006</b>

Sources: The World Bank, StatsCanada, Bloomberg

# Country Comparison (cont'd)

## Credit Ratings

Credit Ratings		Credit Ratings	
Name	Credit Rating	Name	Credit Rating
	<i>(Moody's / S&amp;P / Fitch)</i>		<i>(Moody's / S&amp;P / Fitch)</i>
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Quebec	<i>Aa2 / A+ / AA-</i>	Cuba	<i>Caa2 / nr / nr</i>
Alberta	<i>Aaa / AAA / nr</i>	Dominican Republic	<i>B1 / B+ / B</i>
British Columbia	<i>Aaa / AAA / AAA</i>	Trinidad & Tobago	<i>Baa1 / A / nr</i>
Saskatchewan	<i>Aa1 / AAA / AA</i>	Jamaica	<i>Caa3 / B- / B-</i>
Manitoba	<i>Aa1 / AA- / nr</i>	Martinique	<i>nr / nr / nr</i>
Nova Scotia	<i>Aa2 / A+ / nr</i>	Guadeloupe	<i>nr / nr / AA-</i>
New Brunswick	<i>Aa2 / A+ / nr</i>	Bahamas	<i>Baa1 / BBB / nr</i>
Newfoundland & Labrador	<i>Aa2 / A+ / nr</i>	Haiti	<i>nr / nr / nr</i>
Prince Edward Island	<i>Aa2 / A / nr</i>	Bermuda	<i>A1 / AA- / AA-</i>
Northwest Territories	<i>Aa1 / nr / nr</i>	Curacao	<i>nr / A- / nr</i>
Yukon	<i>nr / AA / nr</i>	Barbados	<i>Ba3 / BB- / nr</i>
Nunavut	<i>Aa1 / nr / nr</i>	US Virgin Islands	<i>Baa2 / nr / BBB</i>
<b>Canada</b>	<b><i>Aaa / AAA / AAA</i></b>	Cayman Islands	<i>Aa3 / nr / nr</i>
		Aruba	<i>nr / BBB+ / BBB</i>

Sources: Bloomberg

# *Challenges for developing PPP in the Caribbean*

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## *Challenges*

- ✓ The Caribbean needs infrastructure and PPPs can be part of the solution
- ✓ PPP have been successfully implemented in many Caribbean countries but the market is not sufficiently developed
- ✓ Major challenges include:
  - Enhancing the credit quality of PPP projects
  - Maintaining sufficient deal flow to attract bidders, lenders and advisors
  - Developing sufficient PPP knowledge within governments

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## ***Challenges (cont'd)***

- ✓ Possible steps to be taken include:
  - Having credit support for PPP projects from multilateral institutions
  - Developing the Caribbean as a regional PPP market, including common documentation throughout the region and coordinated marketing of the region's PPP opportunities
  - Developing a common PPP centre of expertise for governments in the region, perhaps in collaboration with a regional institution such as the CDB