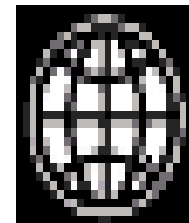


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***Economic and legal conditions of success of public private  
infrastructure projects in developing countries  
(workshop)***

**Concession PPP: renewal of the financial approach**

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# Global infrastructure needs

- Global needs of investment in infrastructure (OECD Project for the Future)
  - Developing Countries: 930.000 M€ up to 2015
  - OECD Countries: 310.000 M€ up to 2015
- Factors of demand
  - Population growth
  - Economic growth
  - Decades of insufficient investment
  - Growth of international trade
  - Trend to change to urban life in developing countries

# PPP's in infrastructure and public services sectors: a reality consolidated in the last decade

Since 1985 until 2008, a total of US\$ 1,188.5 billions have been planed following this distribution:

Roads.....	580,3 Billions
Railways.....	342,2 Billions
Water: Sewage and Treatment....	146,4 Billions
Offices , Hospitals, other .....	119,6 Billions

**But only 585,4 Billions \$ have reached a financial closure**

Source: PWF 2008

# Impact of the crisis on new PPP projects

- Developing countries require more intensive investment than developed countries
- The local capacity of savings is scarce
- Education and Health are a priority
- It is necessary “to prime” the pump
- Grants, Soft Loans, Private investment. Everything is necessary
- The role of multilateral and bilateral institutions is indispensable

# New scenario for PPP projects

- PPP projects reach financial closure but a slower pace than in the past
- Higher costs of financing, lower debt/equity ratios, reduced maturities, more conservative risk allocation structures
- Delays and cancellations
- Government payments easier to finance than user fees models

## Usual financial structure for PPP

- Influences coming from the project finance for industrial projects
  - Unsuitable objectives of profitability
  - A fast pay-back
  - Acceleration of the debt repayment
  - An unbalanced transfer of risks

# New scenario for PPP projects

- Misfit with the PPP concession delivering services of general interest
  - Badly recover the financial socio-economic characteristics and the externalities of these projects
  - Takes insufficiently into account
    - The quality of urban or territorial insertion
    - Environment and sustainable development
  - Do not correctly reflect the evolution of the users capacity and willingness to pay

## Proposals for a new financial structure for PPP

- A better organization of the relationship between the parties
  - Seek for a better financing safety:
    - Reforms of the regulatory framework
    - Rebalancing of the risks transfer: States and MDB' s guarantees
  - A counterpart: a better allocation of the upside to the public body

# New scenario for PPP projects

- An other financial architecture taking into account
  - Socio, economic and financial specificities of the projects
  - A reasonable level of equity
  - Long, even very long maturities
  - The rhythm of the cash the flows' generation
    - A very progressive debt amortization
    - Increasing rates of interest
  - Research and maximization of additional earnings

# New scenario for PPP projects

- New award's criterion
  - Socio-economic benefits/positive externalities
  - Sharing of the upside
  - Urban or territorial insertion
  - Environment and sustainable development
  - Capacity of adaptation to the risks
  - Impact on employment and local development

# New scenario for PPP projects

- The search for other classes of investors/lenders (I)
  - A basic principle: moderation of the financial requirements versus an increased safety
    - Rebalancing of the risks allocation
    - Financing resilience
  - Long term players
    - Pension funds
    - Insurer-life
    - Saving funds, etc

# New scenario for PPP projects

- The search for other classes of investors/lenders (II)
  - Mobilization of the local and migrants saving
  - Fluidity in the evolution of the shareholding
    - A composition of the shareholding corresponding to the various phases of the project
    - Distinction between contractors /operators and financial investors

# New scenario for PPP projects

- Refocusing of the commercial banks
  - Primacy of the role of advisor/arranger
  - Provide financing only on the short/medium term
  - To work to the improvement of the rating: an alternative to the disappearance of the credit enhancement

# New scenario for PPP projects

- Detailed studies and works to undertake to achieve these goals
  - Acceptability by other categories of investors/lenders
  - To justify the intervention of the MDB's in financing and guarantees
  - New principles of the risks sharing
  - A reasonable level of equity
  - Demonstration of the financing resilience
  - Methodology for the evaluation of the new award criterion
  - Actions to reinforce of the regulatory framework and the training of the staff of the ministers and executive agencies