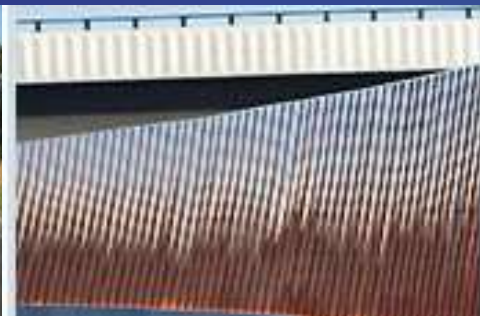


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# *The Enabling Environment: How can governments encourage PPPs? Recent Australian Initiatives*

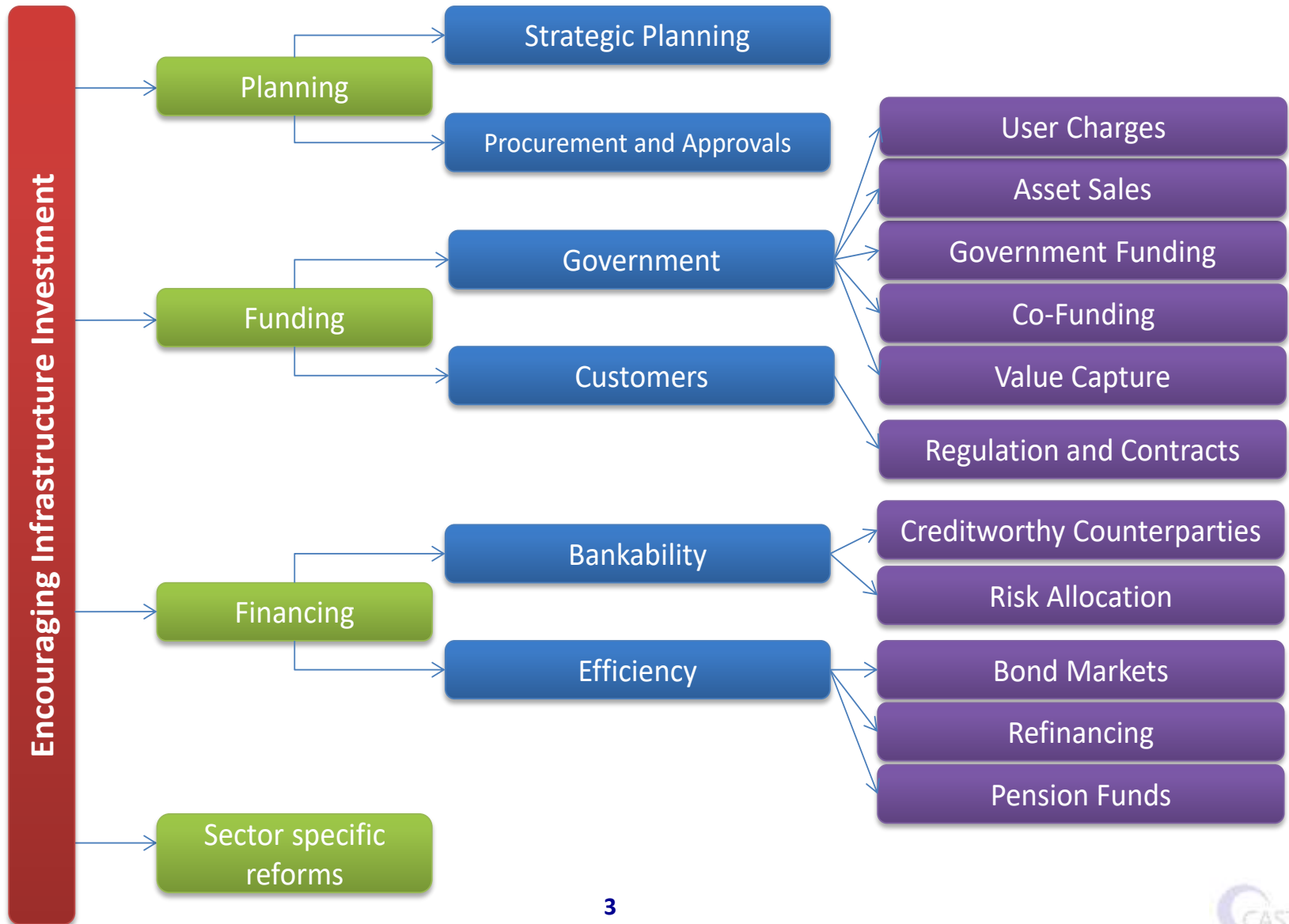


*Michael Schur, November 2014*

# ***AGENDA***

- Governments require broad enabling framework supportive of both public and private investment
- Long term planning: integrating PPPs into government budgets and strategies
- Funding vs financing
- Innovative ways to increase funding capacity
- Requirements for efficient financing
- Need for sector specific reforms

# How can Governments encourage infrastructure investment?



# *Long term planning means integrating PPPs into government budgets and strategies*

- The decision to procure a project as a PPP should be:
  - Proceeded by an investment decision – is this a good project, regardless of how it will be procured
  - Integrated into government’s budget track
- In Australia this is undertaken by jurisdictional and national infrastructure (service delivery) agencies in consultation with Treasuries / Depts of Finance
  - These agencies apply a PPP “Budget Rule”
- Project viability, funding, government support etc. are locked down before the PPP is procured
- Infrastructure co-ordination agencies prioritise across time, jurisdictions and sectors within known funding limits

# *Funding vs financing infrastructure*

- ***Funding*** refers to how infrastructure will be paid for over time.
- ***Financing*** refers to the need to deal with the mismatch in timing between upfront development costs and future revenues.
- The simple fact is that projects cannot be financed unless they are fully funded.
  - Taxpayers
  - Users

## *Some innovative ways to increase funding capacity*

- Long term funding – linked to long term planning
- Sweating assets – doing more with existing assets; price signalling
- Asset sales – capital recycling
- Inter-government funding - national government use leverage to force reforms at the State and Local level
- Subsidies conceal real cost of infrastructure to users in the form of taxes - greater funding from user charges required

# *How and when to use private sector finance*

- Bankability – even fully funded projects may suffer if there is a poor track record
  - *Improving the confidence of project appraisals*
  - *Providing temporary credit enhancement measures*
- Efficiency - availability, cost and tenor of debt is a challenge to infrastructure finance
  - Measures to promote an active commercial bond market will help expand the sources of debt available
  - Sensible way to deal with refinancing risk
  - Harnessing a greater level of pension fund participation
- Types of private sector capital are relevant at different stages in the lifecycle of a PPP – Westconnex type solutions

# *Sector reforms*

- Cross-sector reforms are necessary but insufficient for private sector investment
- Structural changes in specific sectors also required
- For example:
  - Unreliable government subsidies – consumer tariffs below cost-recovery combined with unreliable delivery of subsidies (water, power);
  - Issues around land acquisition;
  - Role of State Owned Enterprises (SOE) in the PPP market



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