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# PPP Funds

East Asia Department  
25 November 2014



# Introduction

# MOF: Government contributions

User pays  
projects are  
to be  
prioritized

But

other PPP  
models are  
also accepted

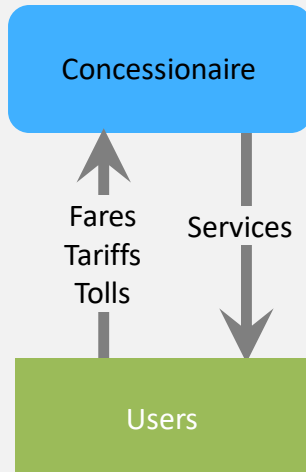
MoF will actively explore the use of existing special transfer payments to provide capital support for demonstration projects

Local finance departments at all levels may offer upfront cost subsidies, capital grants or other forms of financial support to demonstration projects based on your own fiscal strength and specific needs of projects

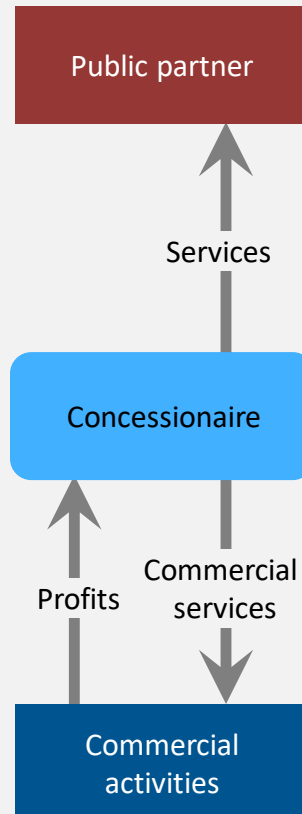
Local finance departments ...shall gradually shift away from “subsidizing construction” to "subsidizing operation" and explore the establishment of a dynamic subsidy mechanism. The subsidies and other expenditure items shall be included in the government budget....

# Sources of revenue

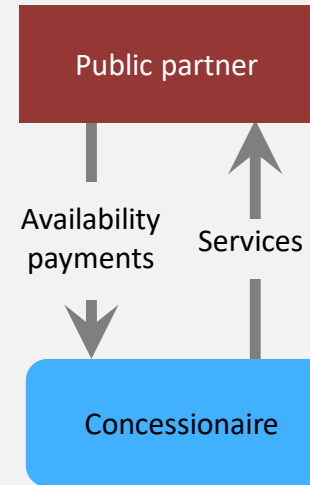
**USER PAYS**  
eg, toll roads and power stations with full cost recover from users



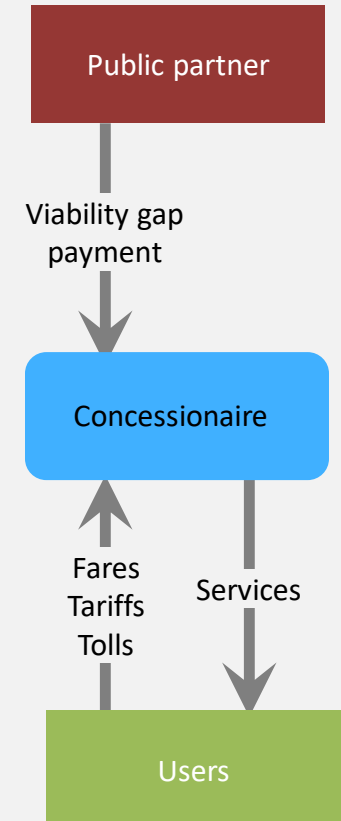
**VALUE CAPTURE**  
eg subways in Hong Kong, China, rail stations in the US



**GOVERNMENT PAYS**  
eg, UK's Public Finance Initiative, social services and urban roads in Australia and Canada



**VIABILITY GAP PAYMENTS**  
eg, viability gap funds in India and Pakistan



# Government contributions to PPPs

## 1 Equity

Reassures investors of the government commitment to the project, and provides the government good information flows on profits etc. Can create a conflict of interest.  
eg PRC's JVs, Europe's institutional PPPs, UK's PF2

## 2 Debt and guarantees

Government loans share project risk to catalyze other lenders, while guarantees reduce the risk borne by the private partner. Can create a conflict of interest.  
eg European Project Bond, IIFCL (India), IIF (Indonesia), UK

## 3 Viability gap payments

Upfront capital payments reduce the private partner's financing requirement. The private partner normally finances the portion of costs that can be serviced from user revenue.  
eg Korea, and VG funds in India, Pakistan, Bangladesh

## 4 Project revenue

Trend away from the transfer of demand risk to the private partner. Governments instead provide project revenue, making financing easier  
eg UK PFI and PFI2, social sector PPPs in Australia and Korea, non-toll roads in Europe, US, Canada, and Australia

# Examples

# Infrastructure funds: Examples

## 1 Government-supported funds

### IIFCL—India Infrastructure Finance Company Limited

Provides long term, commercial loans, up to 20% of total capital costs, as part of a bank-led consortium. Also provides advisory services and a pilot guarantee scheme. Prioritizes PPPs. Partly financed by ADB loans (\$1.2b).

### IIF —Indonesia Infrastructure Finance

Private non-bank financial institution under MOF with independent management. Provides loans, guarantees and advisory support. Part financed by loans from ADB and other IFIs and bonds.

### Marguerite 2020 Fund

Provides equity and quasi-equity to PPPs and other infrastructure investments in Europe in climate change, energy security etc. A joint initiative of the EC, the EIB, and other public financial institutions.

### JESSICA

A joint venture between the EC and EIB, JESSICA provides financing as loans, equity and guarantees to municipal PPPs in Europe. Can also offer quasi-equity to reduce the credit risk for senior lenders.

### Infrastructure Development Corporation (Karnataka), Tamil Nadu Urban Infrastructure Financial Services, etc

India has established many State-level entities to provide local government with the project development, structuring and financial skills to do PPP projects at the local level and to manage VG and other PPP funds

# Infrastructure funds: Examples

## 2 Market-initiated funds

### CP3—Climate PPP Fund

Will provide equity, debt, and grant facilities to climate- and environment-related sectors in ADB DMCs. Managed by ADB and two independent fund managers. ADB (\$100m) and UK Government acted as anchor investors.

### PINAI— Philippine Investment Alliance for Infrastructure

Funded by investments from pension funds from the Philippines and the Netherlands, and ADB, with independent management. Provides equity and quasi-equity financing in core infrastructure in the Philippines.

### Greater China Infrastructure Fund

Established by China Everbright Limited and Macquarie Bank Limited for non-PRC, non-retail investors targeting core infrastructure the PRC and elsewhere. Secured finance from pension funds and other institutions.



IIFCL has provided \$5.2b in assistance to 299 projects worth \$80b since 2006

Set up to act as a 'project finance' institution under the direct control of the government

IIFCL partners with other banks and financial institutions as a consortium to fund up to 20% of a project's debt

Also provides refinancing to banks and financial institutions, take-out financing and partial credit guarantees, and advisory support

IIFCL Mutual Fund raised \$50b in early 2014 via a private placement for its maiden Infrastructure Debt Fund Scheme

Received substantial technical support from ADB

€320m has been invested in 10 road, airport, wind, and waste to energy projects worth more than €4b

A long term equity fund targeting greenfield transport & energy infrastructure in EU 27

The Fund operates on market principles with an independent advisory team responsible for project origination, appraisal, execution, monitoring and asset management

All investments and disinvestment decisions are made by an Investment Committee

Six core sponsors (eg, KfW) have one representative on a Management Board, which also includes independent members and staff

A Supervisory Board oversees the fund

Funded in 2013 with €2 billion from the EU, it will grow to as much as €8b by 2020

The fund is a vehicle for investing EU grant funds in PPPs and other investment projects

Equity investments, loans and/or guarantees, are delivered to projects via Urban Development Funds or Holding Funds which invest in several funds

Areas of supports include urban infrastructure, heritage or cultural sites, university buildings, medical, facilities, and energy efficiency improvements

Returns from investments are reinvested in new urban development projects

# Concept

# What does a PPP fund do?

Plays a catalytic role in market development by leveraging resources and specialized skills

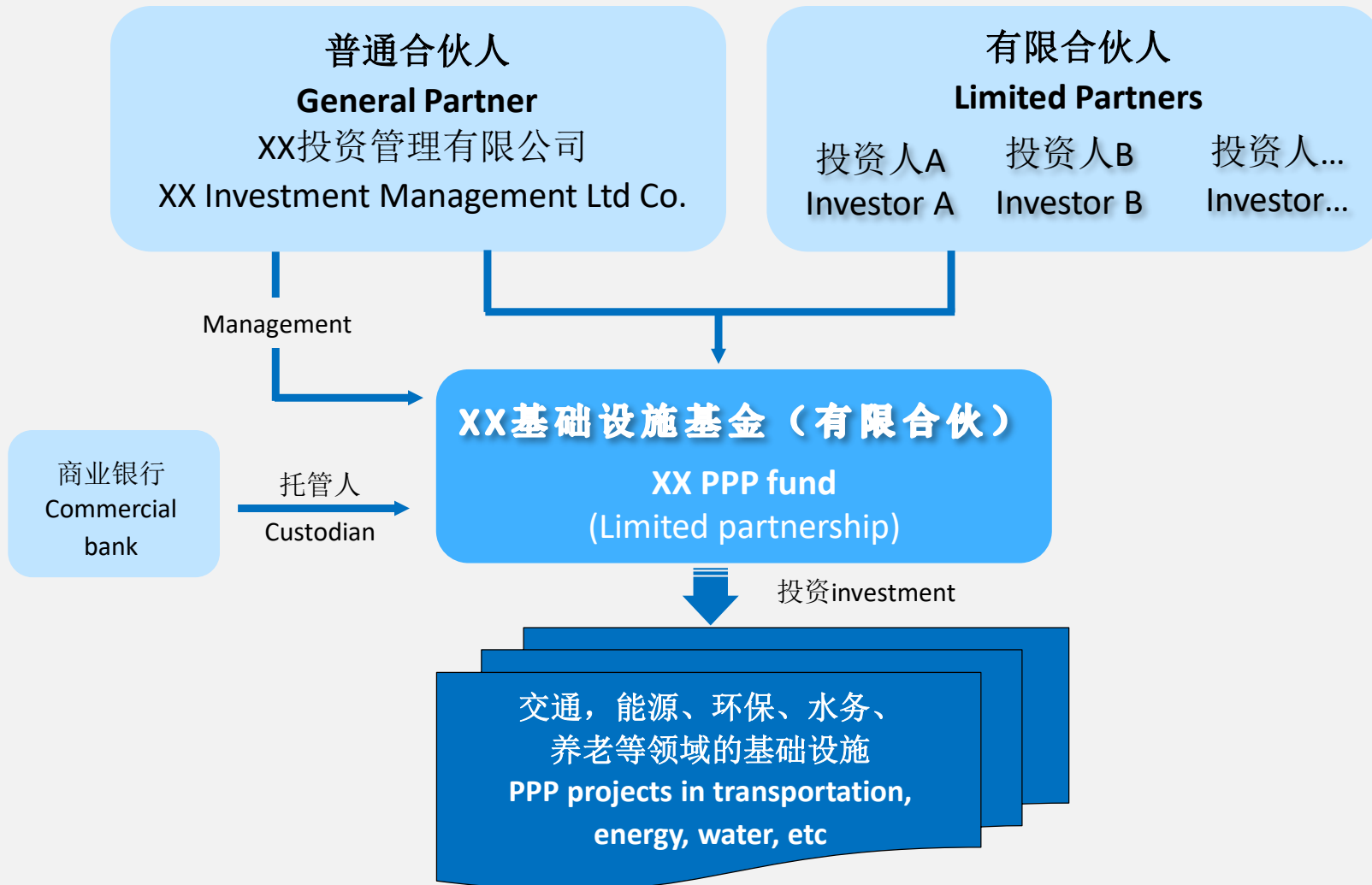
Takes on an intermediary role, providing a technical team that identifies and examines projects on behalf of potential investors

Builds relationships and market knowledge to develop a portfolio of projects against criteria identified by investors

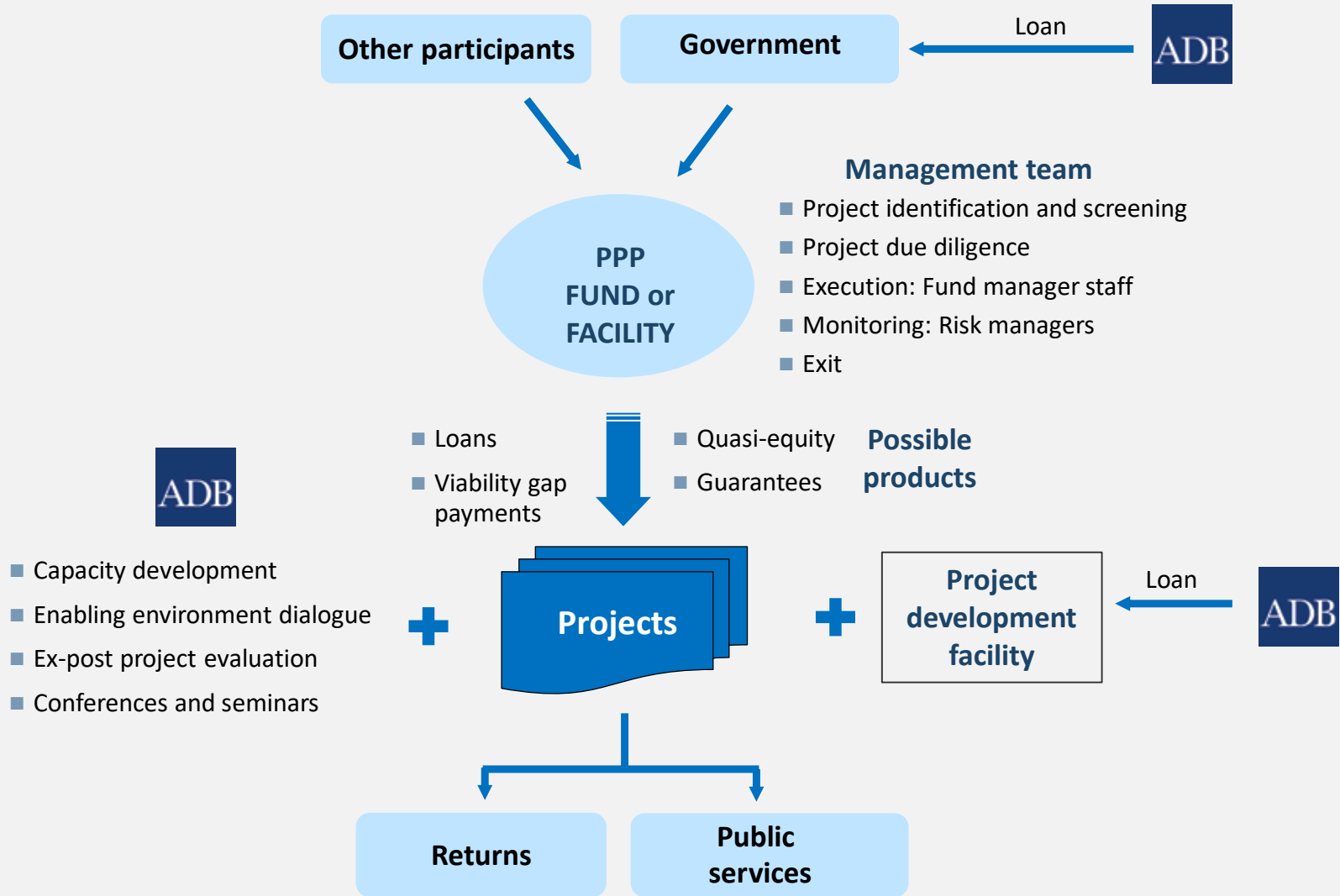
Shares costs across investors, lowering the costs they would face if acting individually

Consolidates financing from investors otherwise deterred by high bid costs, long preparation processes, large required investments, and the 'patchy' deal flow of PPPs

# PPP fund: A simple structure



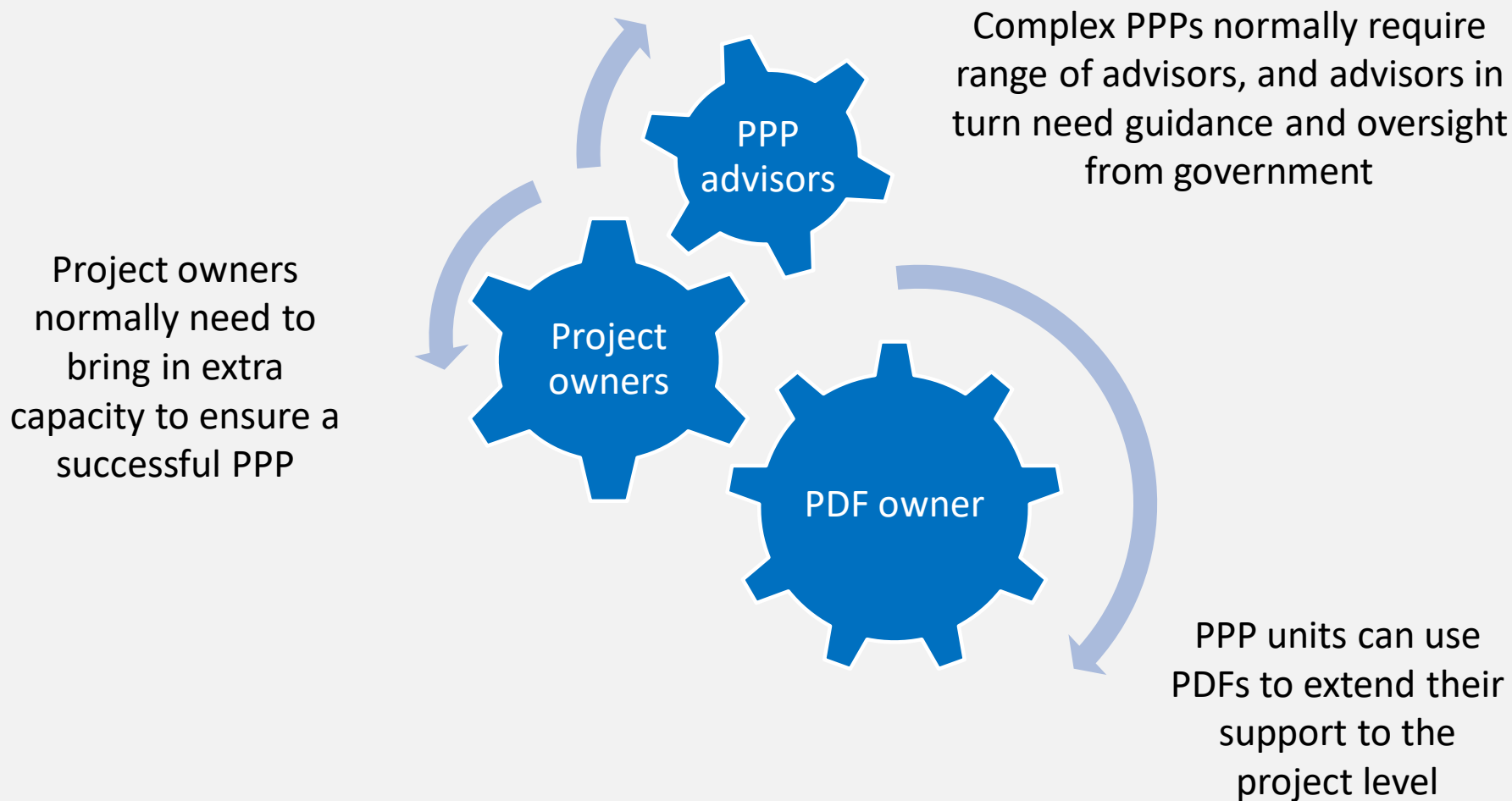
# Integrated support



# PPP Project Development Facility (PDF)



# The PDF: a partnership



Good project preparation is at the heart of a sound PPP program

A project development facility (PDF) helps governments prepare bankable PPP projects

The facility pays the up-front costs of project development, which are typically recovered from the winning bidder and re-used

Normally supported by a panel of advisors under retainer contracts, who are selected for projects on a competitive basis

Helps set market standards by implementing sound procedures and demonstrating good practices

Run by a PPP unit or part of a PPP fund

To help  
prepare  
bankable  
PPP projects

Improve the quality of projects through better studies and transaction advisory support

Offsetting the cost to governments of preparing projects so it is affordable

To give good potential private partners the confidence to bid for PPPs and financiers the confidence to invest

To build the standard of advisors

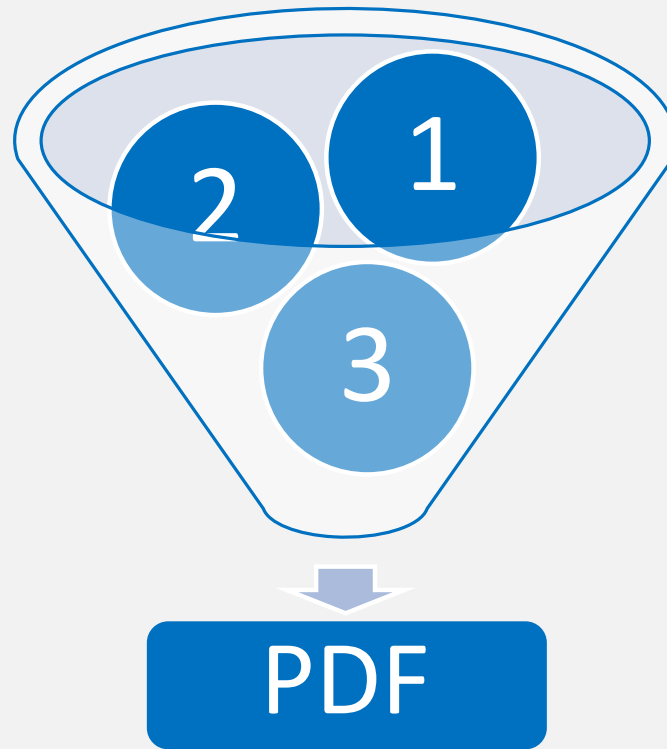
To lead by example

- A tool for a PPP unit to improve the overall quality of the PPP program through demonstration effects

PDFs have been used or are used at the national and sub-national level in many places

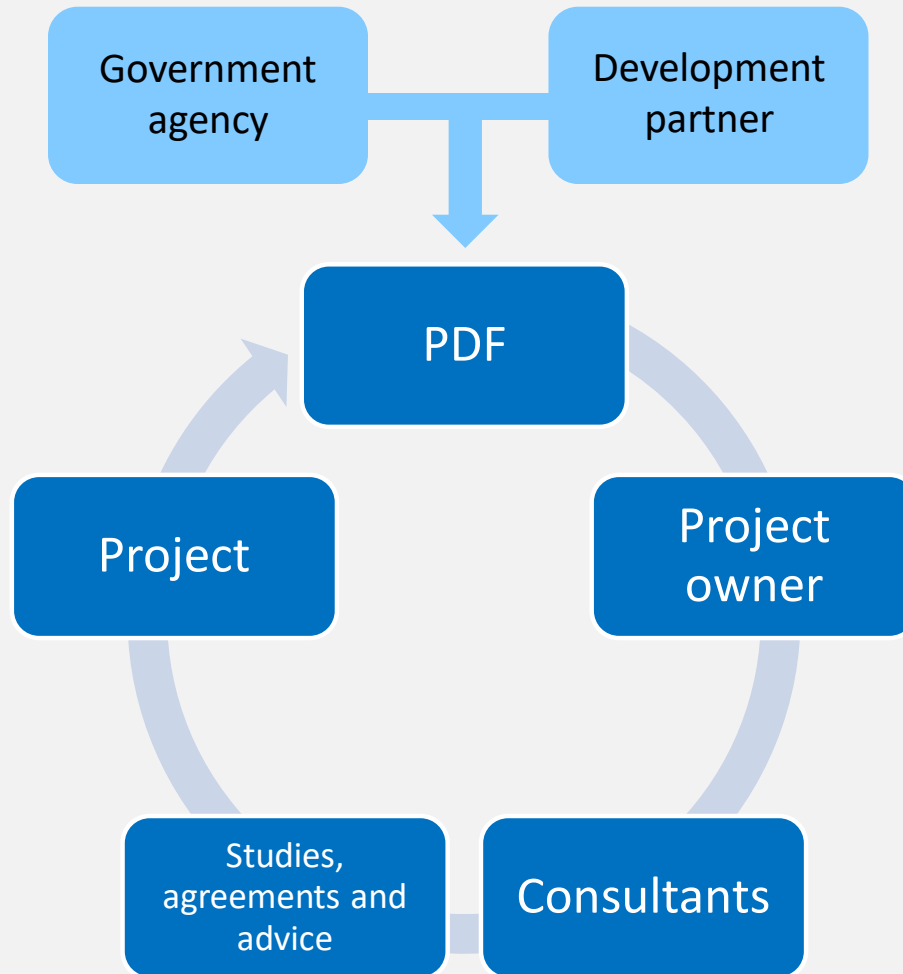
- India Infrastructure Project Development Fund
- Philippines Project Development and Monitoring Facility
- Government of Sindh, Pakistan Project Development Facility
- World Bank Global Infrastructure Facility
- ADB Asia Pacific Project Preparation Fund
- South Africa Municipal Infrastructure Investment Unit
- Indonesia Private Sector Participation Development Facility
- Egypt Private Sector Participation Project Development Fund
- Bangladesh Private Sector Infrastructure Development Fund
- Sri Lanka Private Sector Infrastructure Development Facility

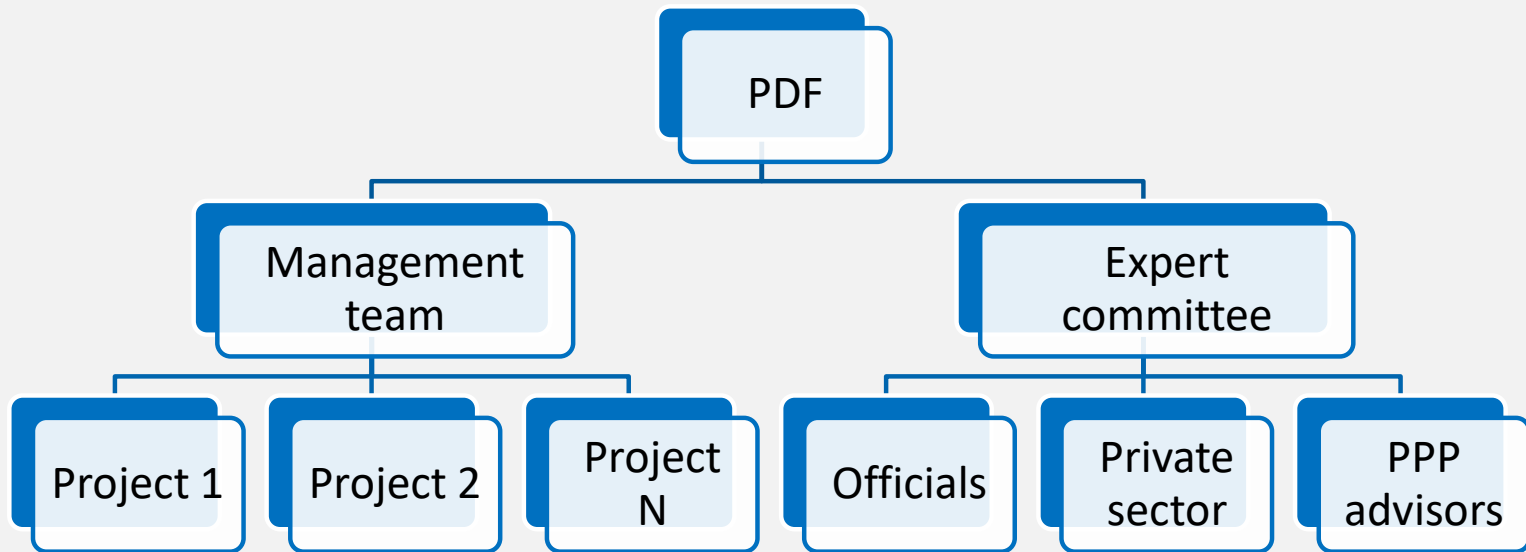
# The PDF: Leading by example



There are too many PPPs for all to go through the facility

Only some projects make it to the facility, and they set the standard for other projects





Eligibility criteria should help set market standards for PPPs

Consistent with PPP procedures and guidelines issued by MOF and other agencies

Will demonstrate good practices  
e.g. commitment to value-for-money, affordable , and appropriate risk allocation

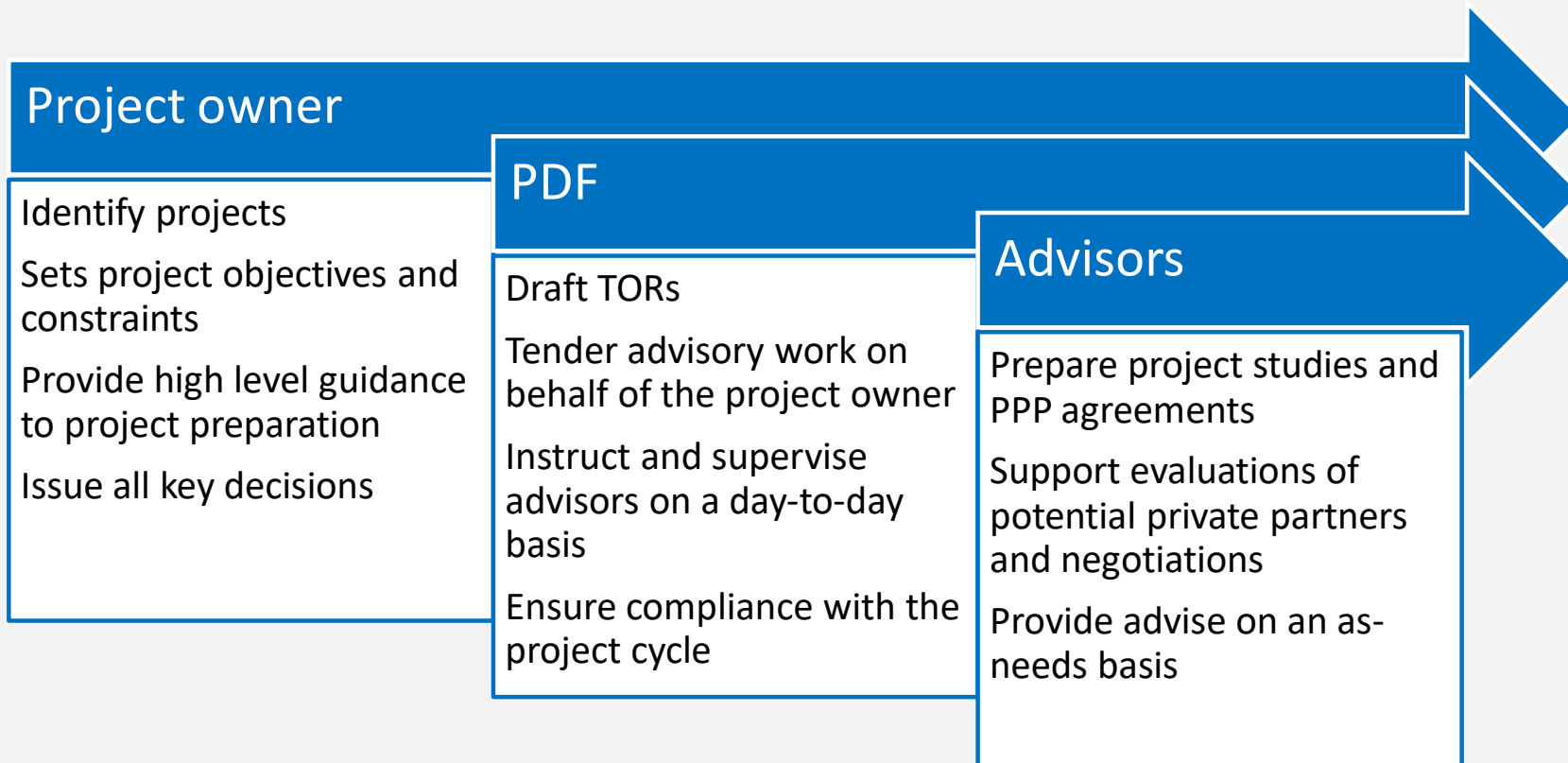
Relevant project approvals secured

Provides a representative sample of sectors and types of PPPs

Willingness to procure advisors competitively

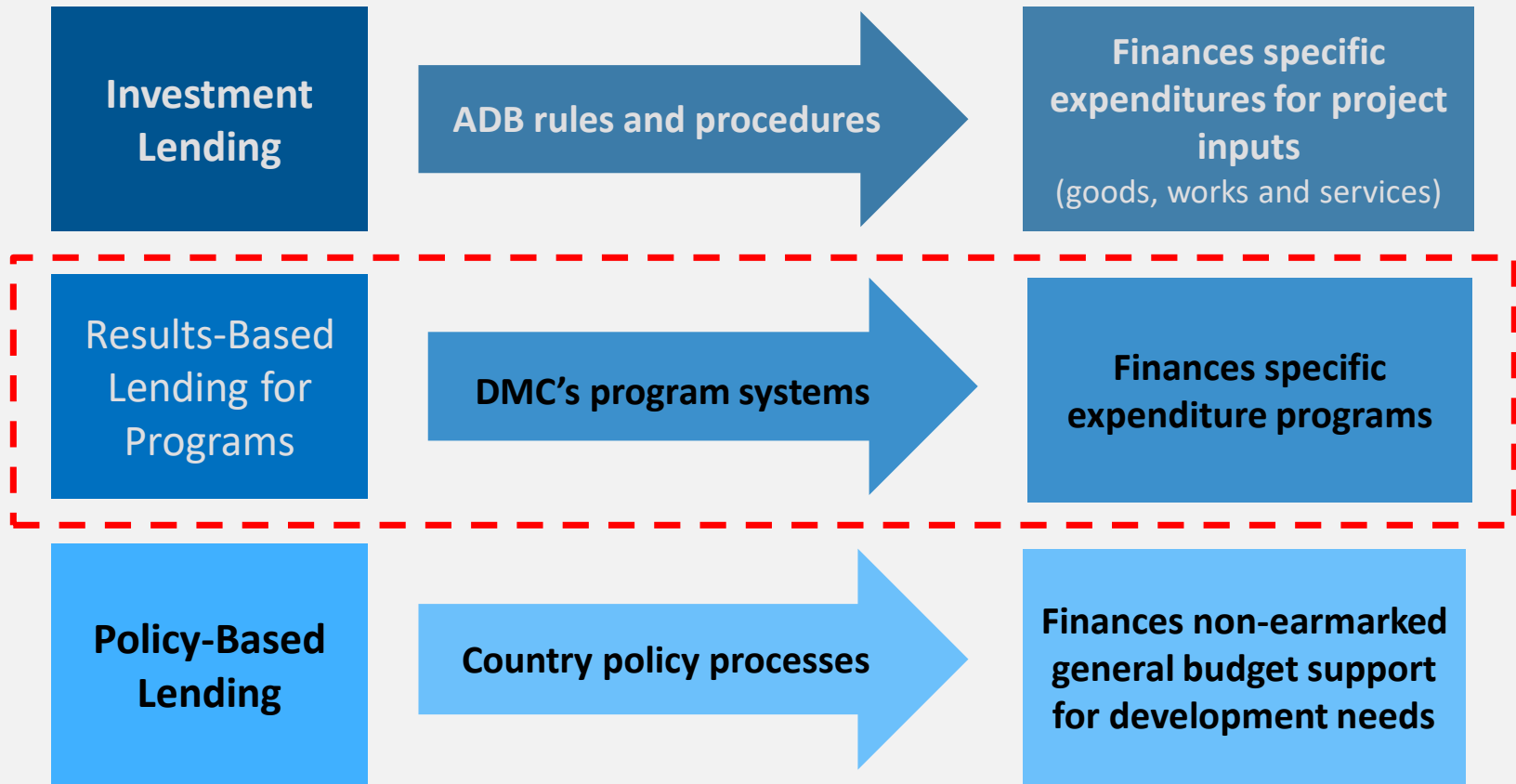
Good track record and willingness to make studies and contract documents public

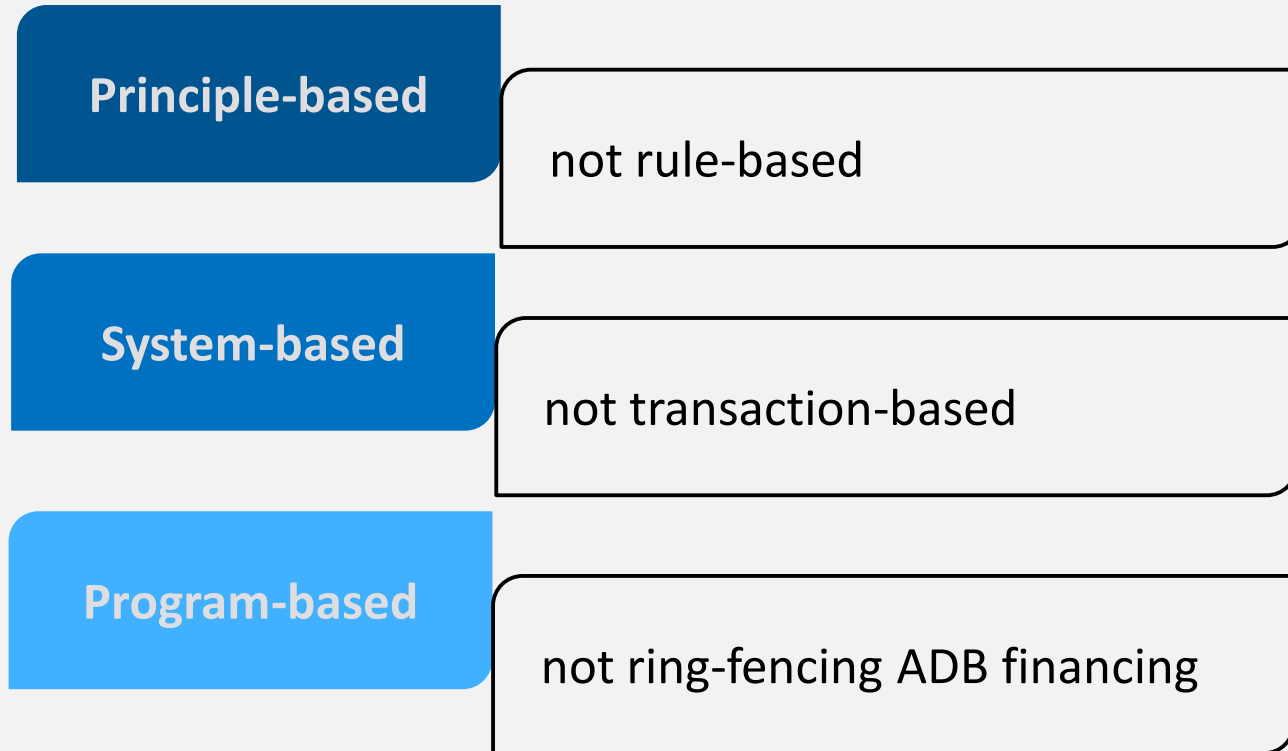




# Results-based lending

# Existing Tools

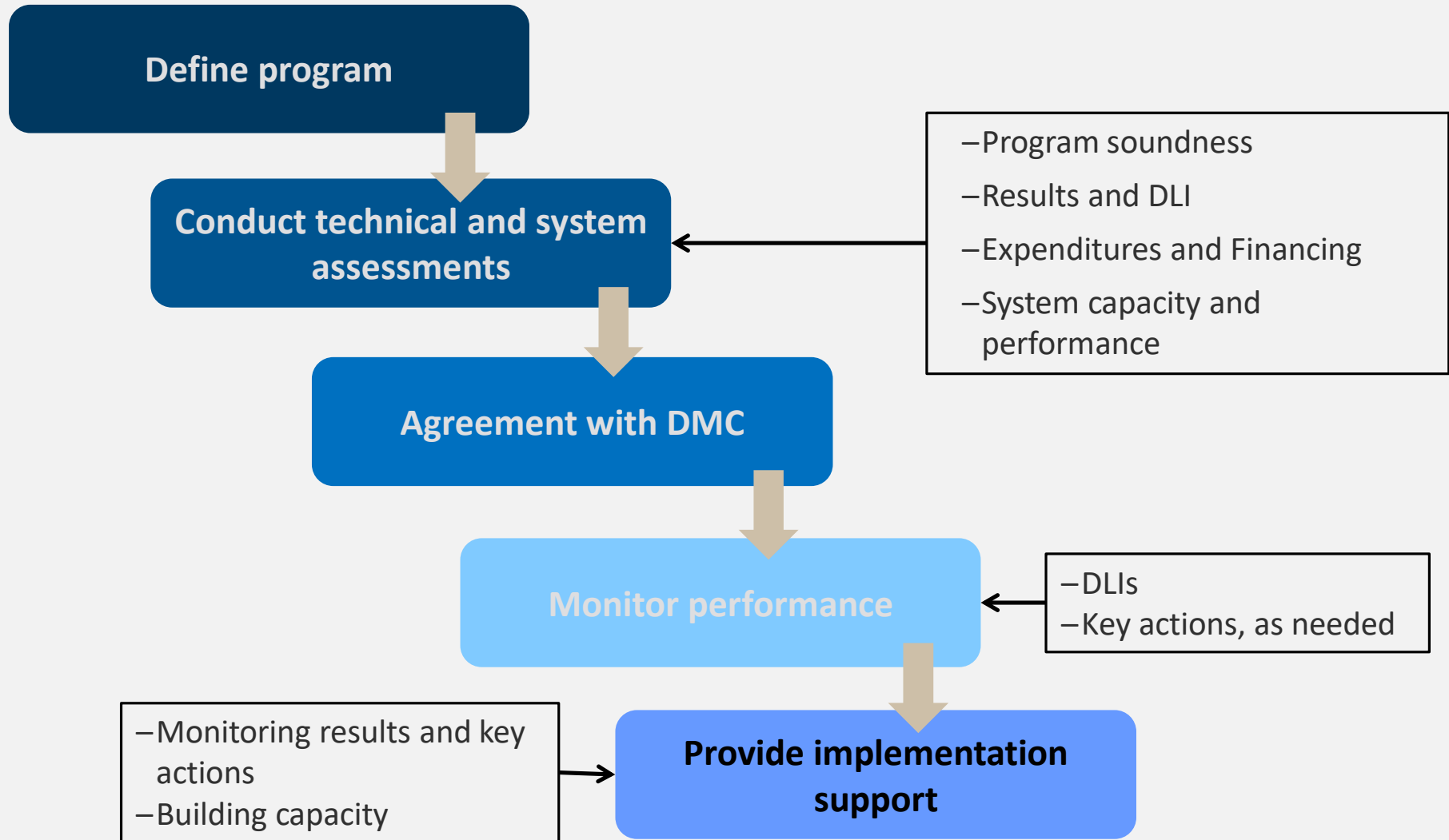




Follow the same principles in ADB's Procurement Guidelines, Consulting Service Guidelines, and Safeguard Policy Statements; but not the rules, procedures, and delivery processes in these.

- ✓ Supports government programs
- ✓ Links disbursements to results
- ✓ Finances expenditure programs
- ✓ Assesses, uses, and improves country systems for the program

# Key Steps in Design and Implementation



# Thank you