PPP, innovative financing and project development for SIDS

Marcel Ham, Director
RebelGroup
PPPs leverage private sector skills and capital...

• PPPs are:
  - an arrangement between government and private sector
  - one of several delivery models for infrastructure projects
  - all about efficient risk allocation and incentives

• PPPs are NOT:
  - privatization
  - free money
  - the right solution for every project

PPP is a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance.


5/30/2018
"Financing the Resilience of SIDS" — Antigua, May 21/22
...but governments still have a key role to play

Private Role:
- Innovation, technology
- Project Management
- Design, Build
- Maintain, Operate
- Lifecycle optimization
- Financing

Private performance that is driven by profit / risk taking can generate benefits to society…

Public Role:
- Securing the public interest
- Policy & planning
- Competitive procurement
- Compliance management & regulation

… but only when the public manages the process effectively
There are two main types of PPPs

<table>
<thead>
<tr>
<th>User Fee PPPs</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Private partner collects revenues directly from users</em></td>
</tr>
<tr>
<td>Characteristics:</td>
</tr>
<tr>
<td>▪ Private delivery of public service</td>
</tr>
<tr>
<td>▪ Users pay private partner</td>
</tr>
<tr>
<td>▪ Transfer of revenue and performance risks</td>
</tr>
<tr>
<td>▪ Shortfall (may be) paid by government</td>
</tr>
<tr>
<td><em>Examples: toll roads, cruise port, airport terminal, desal plant</em></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Availability Payment PPPs</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Government pays private partner for services</em></td>
</tr>
<tr>
<td>Characteristics:</td>
</tr>
<tr>
<td>▪ Private delivery of public service</td>
</tr>
<tr>
<td>▪ Government pays private partner</td>
</tr>
<tr>
<td>▪ Transfer of performance risk</td>
</tr>
<tr>
<td>▪ Payments depend on performance (availability)</td>
</tr>
<tr>
<td><em>Examples: roads, prisons, hospitals, locks and dams</em></td>
</tr>
</tbody>
</table>
### Resilient PPPs and PPPs for resilience

#### Building resiliency into PPPs for infrastructure

**Examples:**
- Parking garage used for storm water retention
- Elevation of road to serve as dam
- Sports arena designed as hurricane shelter

**Mechanisms:**
- Resiliency in planning process
- Resiliency in minimum requirements
- Resiliency in evaluation criteria

#### PPPs for resiliency

**PPPs for dedicated resiliency projects**

**Examples:**
- Storm water PPP in Prince George’s County, Maryland
- Locks & Dams PPPs in Belgium and the Netherlands
PPPs are promising...

- Private sector efficiency and innovation
- Improving project and service delivery
- Lack of fiscal space
...yet challenging to implement successfully

• Most PPPs never get off the ground
• Mistakes in risk allocation invariably fall into the government’s financial lap
• Too many governments get into PPPs while lacking the required expertise
• Governments are at risk of being taken advantage of
• But good advice is expensive
• PPPs can quickly become political hot potatoes, especially around election time
The good news: there are clear best practices

- Support from the highest levels of government, with political champions
- PPP expertise and experience on all stages in the PPP project life cycle
- Robust PPP tools, regulations, policies, and procedures
- Funding for project preparation and PPP structuring
Financing is not the problem

• Financing needs to be repaid, for which we need funding / revenues
• There is more than enough capital, not enough financeable projects

• What we need:
  1. Funding for project development
  2. Innovative funding for project implementation
  3. Innovative project initiation and development approaches
Funding for project development is available

• Various multilateral, bilateral and foundation technical assistance funds are available

• Project development facilities are a more innovative solution:
  • Facility covers project development costs
  • Facility gets repaid when project gets implemented
  • Project development costs are rolled up into project financials
  • Several multilaterals are providing these revolving facilities
Innovative funding for project implementation

We don’t have enough money, so we have to be creative:

<table>
<thead>
<tr>
<th>Innovative mechanism</th>
<th>Example</th>
</tr>
</thead>
</table>
| Adding revenue generating project components to resilience projects                   | • San Francisco Seawall Project unlocks real estate development opportunities  
|                                                                                      | • Manila Centennial hydropower, irrigation and flood control            |
| Translating economic benefits into financial cash flows                               | • Reduced risk profile allows for lower insurance premiums              |
|                                                                                      | • Business improvement districts                                       |
|                                                                                      | • Tax increment financing                                               |
| Leveraging other public or private funding sources by exploiting synergies             | • Private property owners investing in flood protection                |
|                                                                                      | • Public agencies investing simultaneously in street reconstruction and storm water management |
Innovative project initiation and development

Example: Rebuild by Design Competition

148 teams
10 teams selected
6 projects selected

“Financing the Resilience of SIDS” — Antigua, May 21/22
Innovative project initiation and development

Rebuild by Design Competition:

• focuses on the value of resilience, not just costs

• generates functionally integrated solutions on a local and regional scale, not mono-functional interventions

• yields innovative funding and financing solutions for resilient infrastructure

• is not just about public and private partnership, but also partnership with local communities

• generates value not only by “hard” solutions (assets), but also in “soft” solutions (awareness)

• is a well-organized “solicitation” for “unsolicited proposals”, with compensation for the proposers
In summary...

• PPP can be a good project delivery model, particularly for large and complex projects
• Financiers and investors have an abundance of capital, so financing is not the problem
• We need innovative funding solutions to create more financeable projects
• We need innovative project initiation and development approaches to generate early stage private sector and community involvement
• Funding for project development is necessary to make all of that happen
Thank you
Marcel Ham

1015 15th St. NW, Suite 600 | Washington, DC 20005
Cell: 240-204-2682 | Marcel.Ham@IMGRebel.com