

Enriching the social and sustainable component of PPPs:

lessons learned and way forward



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Geneva – March 20, 2017

UNECE

Committee on Innovation, Competitiveness and PPPs, 11th session

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- **Introduction**
- Case studies
- Better PPPs programming
- Better PPPs structuring
- Better PPPs implementation
- Way forward

Why PPPs are key to the Impact Investing agenda

Take advantage of PPPs benefits

- Provide financial instruments for investment
- Demonstration effect
- Private Sector Development
- Development of financial institutions/market
- Improvement of PPP projects leading to acceleration of PPP program

While

- Addressing criticism to a number of ill-conceived PPPs

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Case study

Noor II and III solar power plants (Morocco)

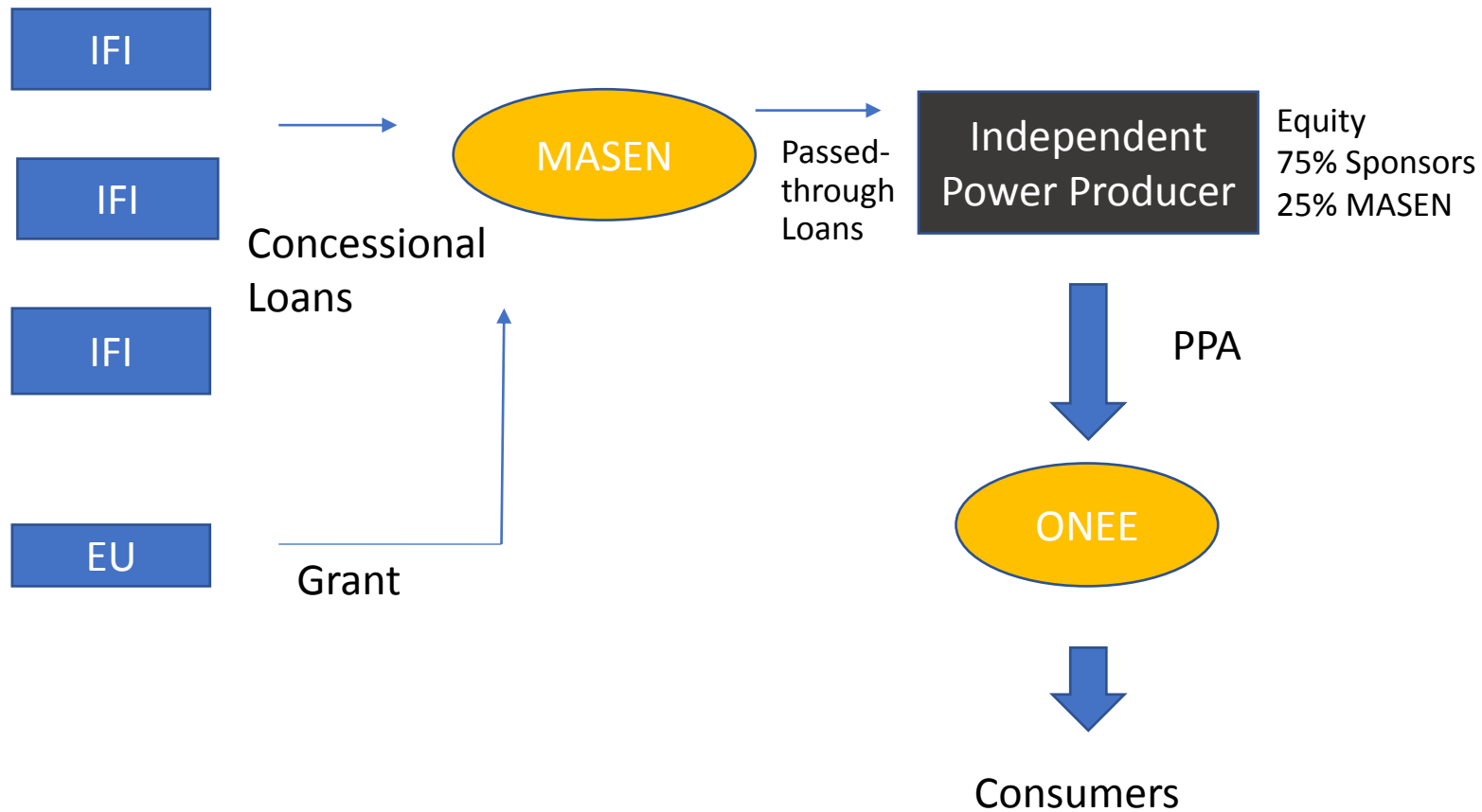


- Power: up to 500 MW
- Technology :
 - Noor II : concentrated solar power plant with parabolic trough
 - Noor III: concentrated solar power plant with solar power tower
- Tendering: least tariff - 0.13 EUR/kWh
- Projects awarded end 2014, construction on-going

Noor II and III

An innovative Financial scheme

<i>in M EUR</i>	
IFIS	1 392
UE grant	90
MASEN/Sponsors	270
Total	1 752



Noor II and III

High Development impact

- Affordable/competitive tariff
- Industrial integration 30%
- Renewable 42% of energy mix in 2020 (from 15% in 2016)
- 1 mt fuel saved
- 3,7 mt CO₂ saved
- 250 jobs during operation phase

Case study Dakar Toll road (Senegal)

- Toll road (2x2 or 2x3 lanes)
 - Tranch 1: 25 km Dakar Diamniadio
 - Tranch 2: 17 km extension to the new AIDB airport



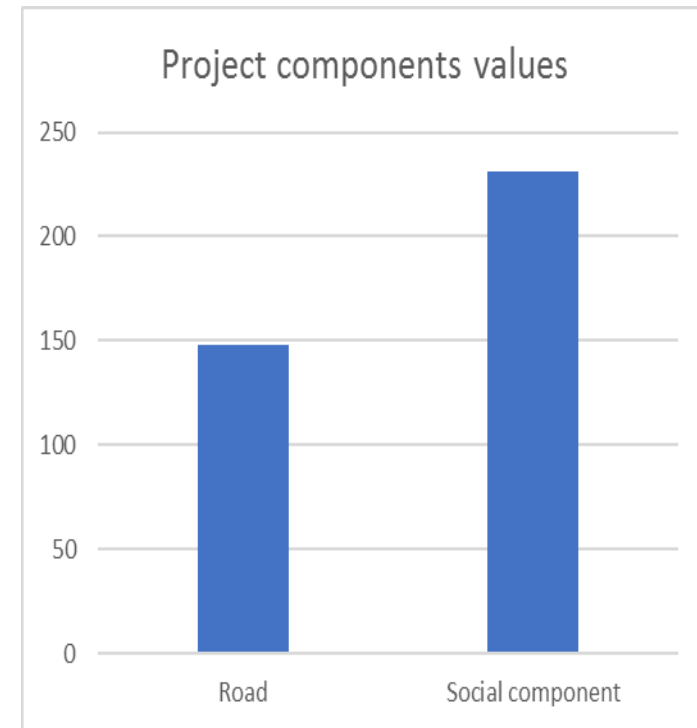
Dakar toll road: a transformational project

- Target : 50 000 vehicles/day
- Economic losses due to traffic jams estimated to 150 mln EUR/year
- Reduction in time spent in transport by 80% (from 90 to 20 minutes)
- Dakar opening-up
- Regional Integration (African Transwest Dakar-Bamako-Ouagadougou Niamey)
- PPP integration (together with Sendou power plant, Dakar container terminal and AIBD airport)

Dakar toll road: an integrated economic and social project

Investment breakdown:

- Component A: road construction
- Component B: release of rights-of-ways and development of a new housing site (Mbeubeuss landfill and Mbao classified forest)
- Component C: Pikine irregular South areas urban restructuring
- Component D: monitoring and management



in bn FCFA

Dakar toll road: a balanced financing scheme (PPP)

Public part (58.3%)

- Viability gap financed by Government allows the sponsor to obtain a market-based return while ensuring to abide by its commitments (operation/maintenance/debt service) with affordable tariffs.
- Amount 87 bn FCFA
- Financing: AfDB – AFD – State of Senegal

Private part (41.7%)

- Equity: 20,8 bn – Eiffage group (34% of private finance)
- Stand-by equity
- Senior Debt (66% of private finance)
 - IFC (22%) - BAD (11%) - 15 mrds: BOAD (25%) - CBAO, Attijariwafa group(8%)
- Stand-by senior debt facility
- Amount 61 bn FCFA

Dakar toll road: success of a multidimensional approach

- Economic NPV @12% 77 mln Eur
- Risk sharing:
 - Government guarantee if AIDB opens late
 - Pooling of cash-flows on phases 1 and 2
 - Profit sharing (phase 1: after 15 years; phase 2: after 3 years)
- Social dimension



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Better PPPs programming: a few necessary steps

- Institutional framework favoring good governance
- No more first come first served approach
- Strict regulation of unsolicited proposals
- Definition and implementation of a prioritisation methodology

A well defined prioritisation methodology

- LDCs tend to overweight technical parameters, underestimate financial and social issues
- Best practices take into account:
 - Weighted average cost of capital (WACC)
 - Financial rate of return (IRR)
 - Economic rate of return (ERR)
 - Social rate of return (SRR)
- A mix of go/no go criteria and scoring

What parameters to integrate in the scoring?

- Development impact

- Job creations?
- Tax revenues?
- Hard currency generation?
- Others

- Balancing economic development and poverty eradication

- Determine the right scoring approach fully reflecting Infrastructure impact

Project scoring: the example of ADOA approach (AfDB)

Category	Goods and services	Infrastructure	Trade	Other financial intermediaries
Jobs creation	15%	5%	0%	10%
Infrastructure	0%	35%	0%	0%
Governance and tax	20%	5%	5%	10%
Regional integration and resilience	10%	5%	30%	10%
Environmental and green growth impact	10%	10%	0%	5%
Social and gender impact	10%	10%	10%	10%
Private sector development and demonstration effect	25%	20%	45%	45%
Arbitrary weighting	10%	10%	10%	10%
TOTAL	100%	100%	100%	100%

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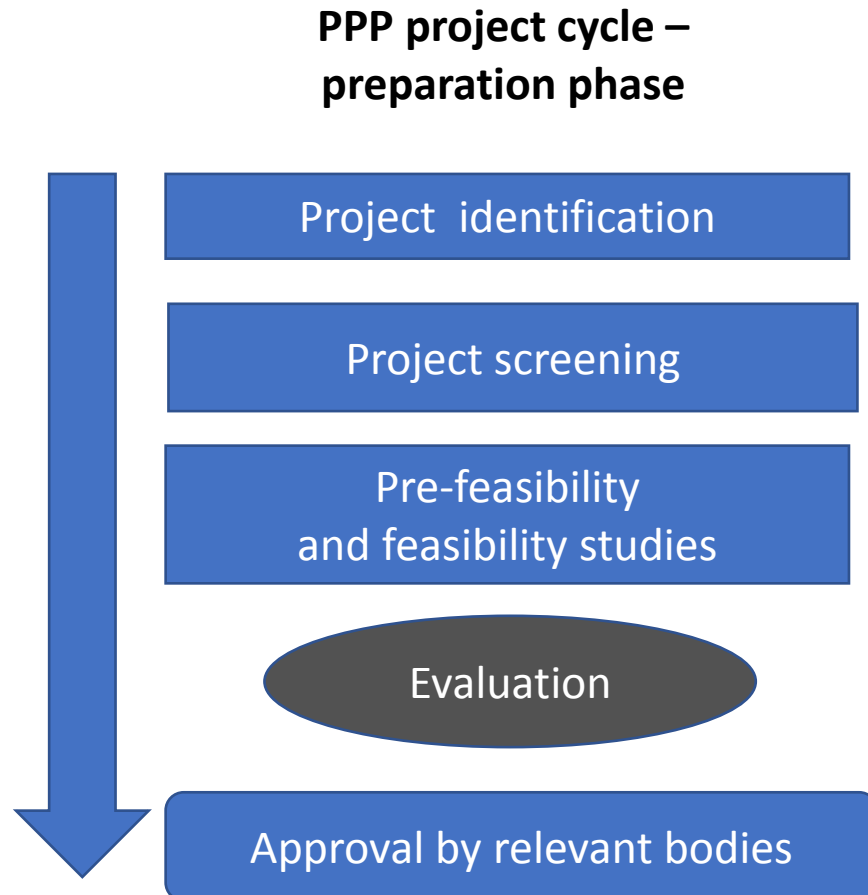
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Structuring the projects right

- Include all stakeholders
- Address the SRR
- Strengthening the social/environmental content of the project
- Leveraging all financing sources available (blending)
 - Downward pressure on WACC
 - Debt – Equity – Risk allocation
 - Catalyse public and private finance

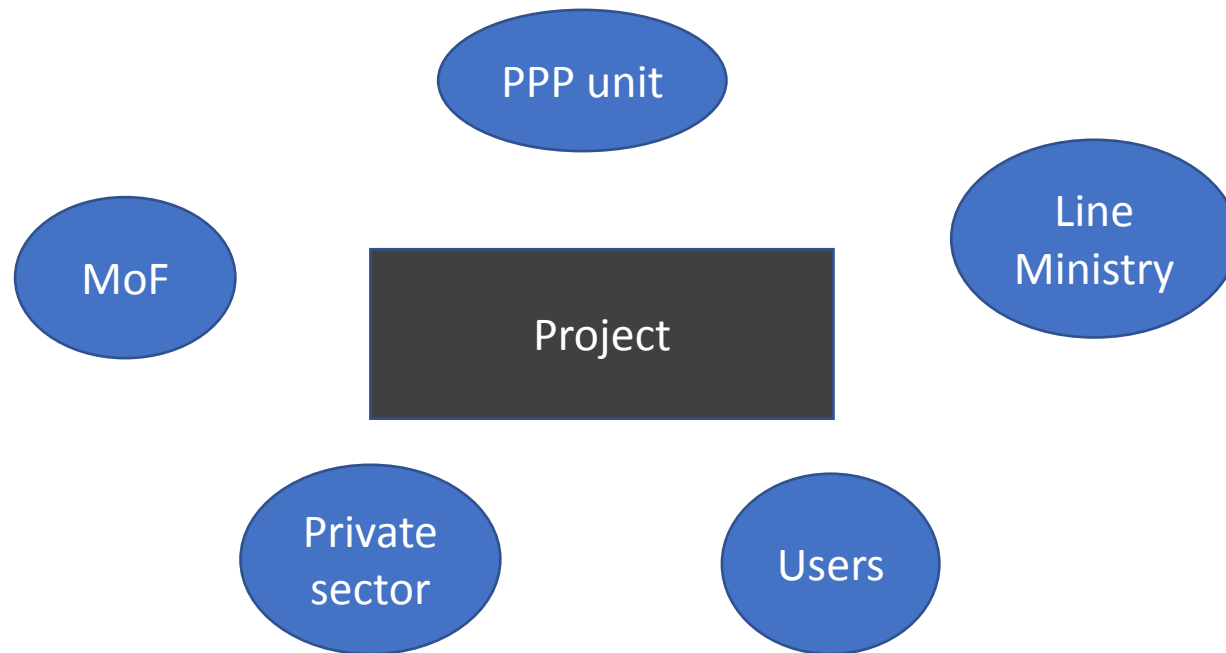
Project evaluation (business case): a key milestone to be used for project optimization

- Justify the PPP approach to implement the project
- Based on Project feasibility and Value for Money
- Should include social and qualitative aspects
- Content of evaluation to be defined by regulation and periodically updated



Adjusting the institutional framework

- Provide the right incentives to align the projects with the development impact agenda
- Checks and balances



Debt/fiscal sustainability

- Arbitrage users vs tax payers
- Arbitrage present/future generations
- Arbitrage between:
 - Sectors
 - Regions
 - Subgovernment entities
- While implementing adequate risk management schemes



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Better PPPs implementation

- Adequately monitoring and implementing PPP contracts
- Limiting renegotiations and litigations
- Expertise and accountability required

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Overcoming potential obstacles

- Unattractive business environment?

- Tailoring project to country potential
- Addressing specific issues
- Political risk

- Not enough good projects?

- Strengthening PPP framework
- Improving projects preparation
- Empowering PPP unit

- Not enough financing?

- Market testing
- Mobilising IFIs
- Working on catalytic effect

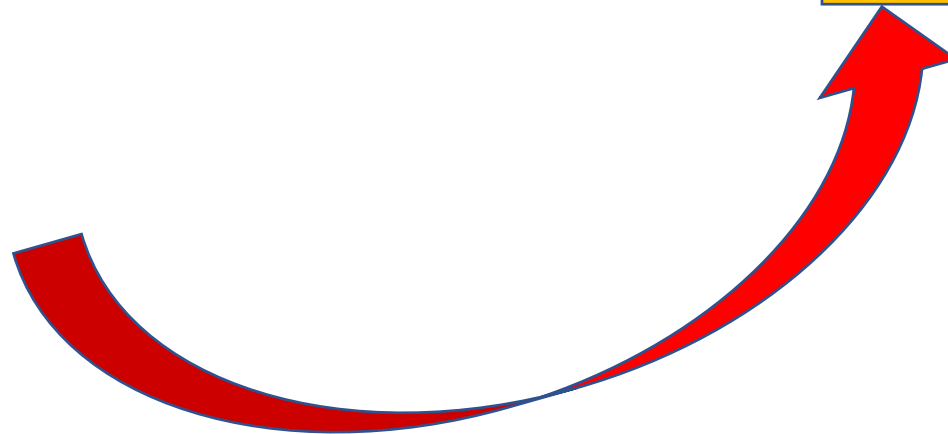


Key policy steps

- Capacity building/awareness raising
- Strengthen PPP units capacity and role
- Evolve along PPP program maturity
- Key role of Impact Investing investors
- Dedicated facilities to be developed

People First PPPs

First generation PPPs



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