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The Impact of the Financial Crisis on PPP Funding

UNECE Annual PPP Meeting

3 December 2009

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PPP Projects in a New Economic Environment

- Public Sector Budgets Reducing
- Continued Infrastructure Demand
- Funding Crisis:
  - Lack of Funds
  - Increased Costs of Funds
- Greater Competition - Banks significantly more selective
- Projects competing for Sponsors and Funders

Greater focus on well structured bankable transactions

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Impact on PPP Funders

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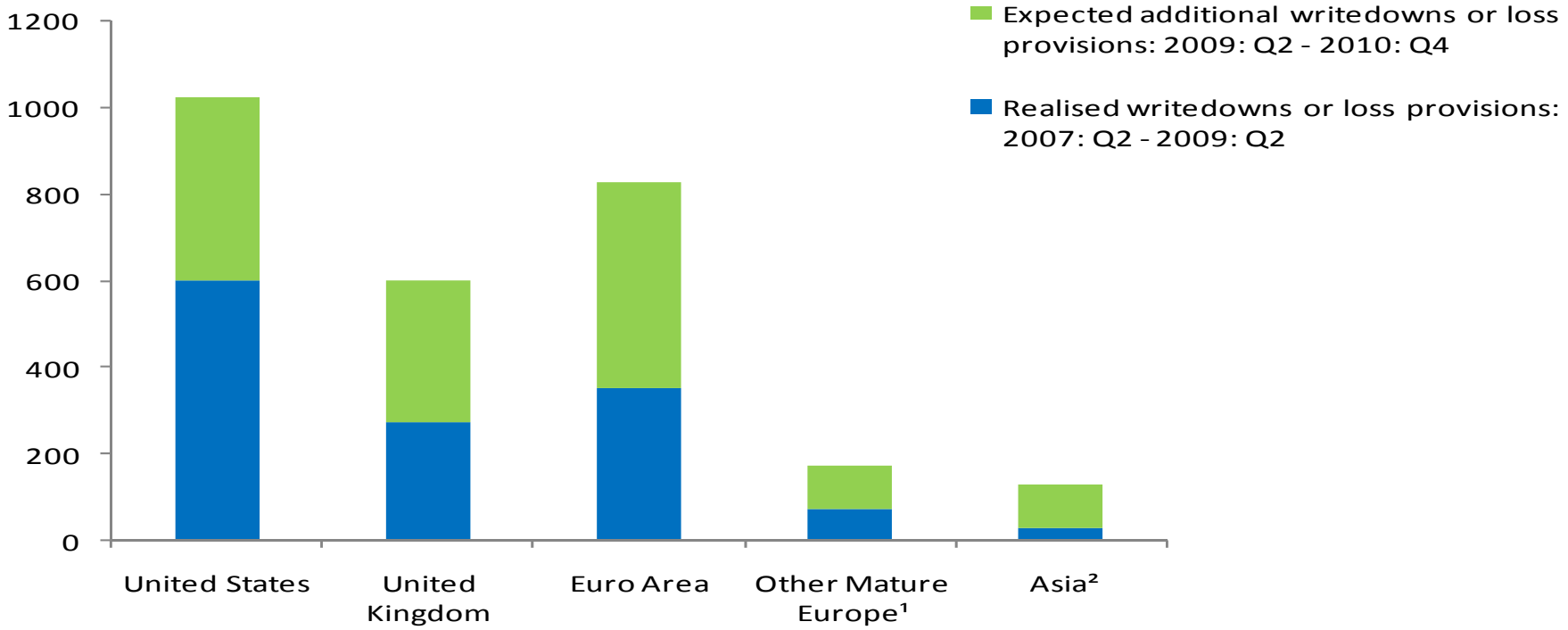
Debt Market Update

Balance Sheets look likely to continue to operate under intense pressure

Realised and Expected Writedowns or Loss Provisions for Banks by Region:



Source: IMF staff estimates. Global Financial Stability Report, October 2009.

1 Includes Denmark, Iceland, Norway, Sweden and Switzerland

2 Includes Australia, Hong Kong SAR, Japan, New Zealand and Singapore

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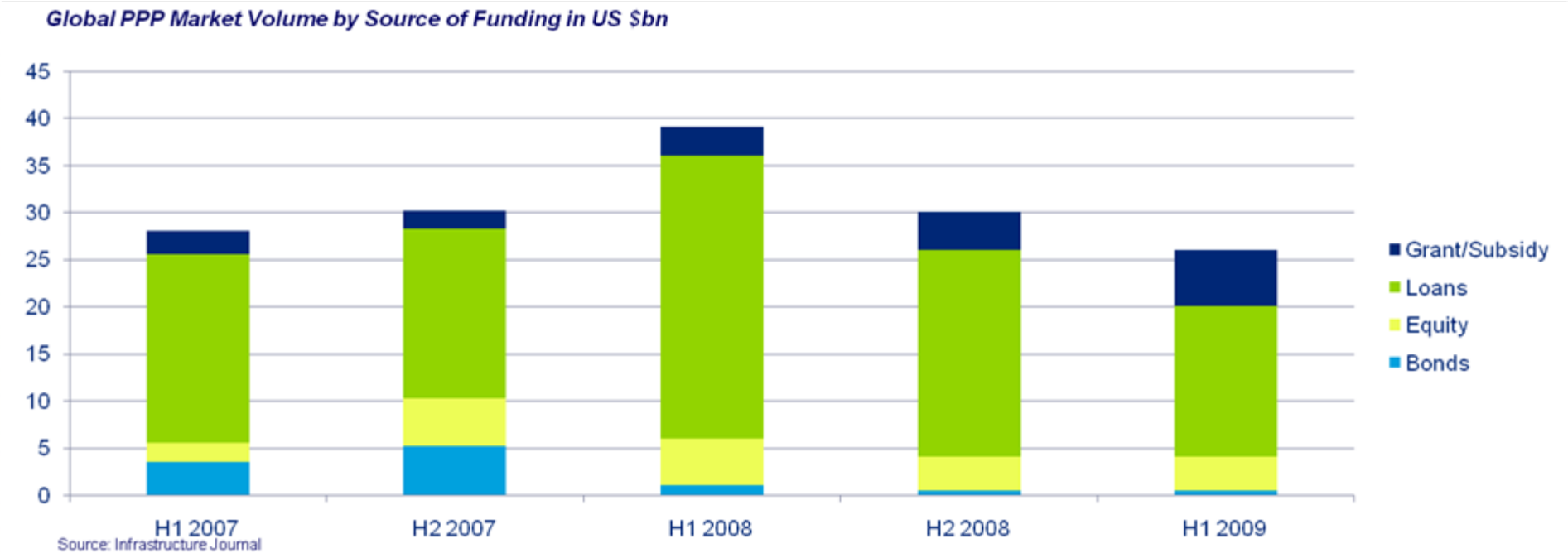
Public Private Partnership Funding

Trends

- Marginally lower volume of transactions with continued strong pipeline expected.
- Credit structures have become more conservative
- Bond market has disappeared however we would expect the capital markets financing to return.



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League Tables

	H1 2009	FY 2008	FY 2007
MLA	• Grupo Santander 36 @ US$ 2,081.06m	• Royal Bank of Scotland 69 @ US$ 11,078.10m	• Royal Bank of Scotland 73 @ US$ 15,534.26m
	• BBVA 27 @ US$ 1,882.83m	• BNP Paribas 76 @ US$ 9,010.36m	• BNP Paribas 80 @ US$ 12,977.27m
	• Calyon 25 @ US$ 1,862.08m	• Dexia Group 80 @ US$ 8,083.14m	• Calyon 58 @ US$ 12,270.39m
	• Caixa Geral de Depósitos 9 @ US$ 1,476.08m	• Calyon 56 @ US$ 7,3336.08m	• Dexia Group 60 @ US$ 9,454.26m
	• Société Générale 21 @ US$ 1,196.76m	• Bank of China 4 @ US$ 6,469.91m	• Société Générale 46 @ US$ 7,023.42m
Bond Providers	• FI – FGTS 1 @ US$ 518m	• RBC Capital Markets 4 @ US$ 907.04m	• Goldman Sachs 7 @ US$ 4,109.57m
	• Caixa Geral de Depósitos 3 @ US$ 422.04m	• Credit Suisse 1 @ US$ 684m	• Merril Lynch 7 @ US$ 3,046.40m
	• Millennium BCP 1 @ US$ 412.44m	• BNP Paribas 3 @ US$ 369.70m	• Deutsche Bank 8 @ US$ 2,188.44m
	• Bank of America 2 @ US$ 408.25m	• HSBC 1 @ US$ 260.96m	• Citigroup 6 @ US$ 2,144.17m
	• Credit Suisse 2 @ US$ 408.25m	• Deutsche Bank 1 @ US$ 192m	• RBC Capital Markets 10 @ US$ 1,969.2m

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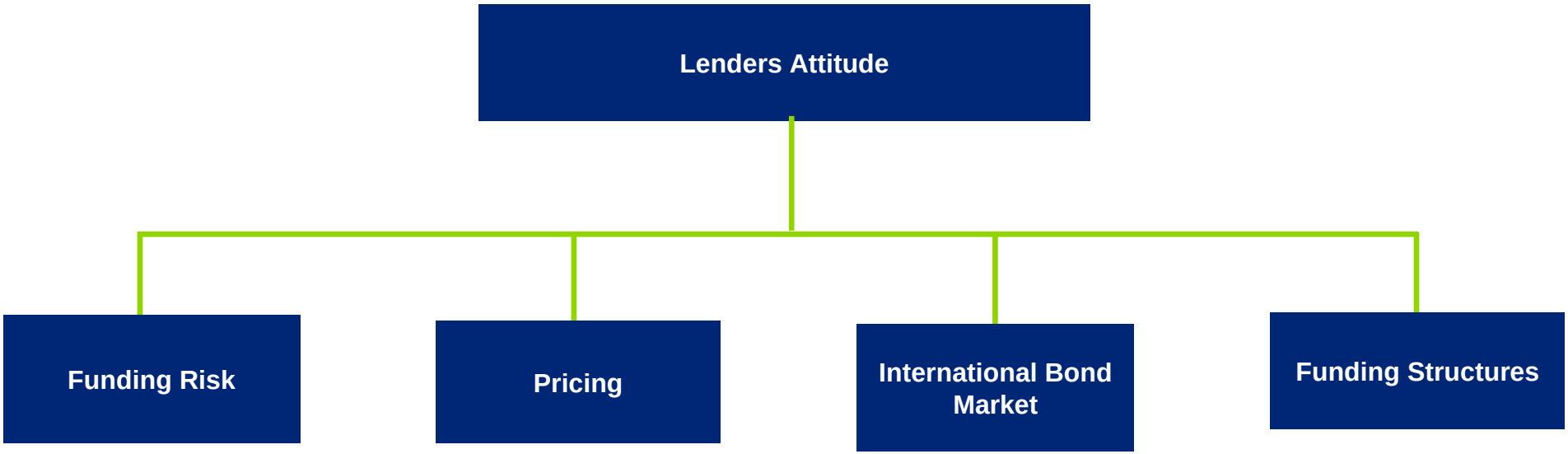
Public Private Partnership

Lenders view of PPP's



- 25+ year debt
- Asset / Liability Matching

- General re-pricing of risk
- Lack of competition
- Higher margins however still competitive versus other sectors
- Last bank in sets terms

- Wrapped debt disappeared
- Direct access very difficult
- Emergence of unwrapped investors

- Shorter tenor sought - Mini-perm structures emerging
- No syndication – smaller 'take and hold'
- Increased credit quality required
- Institutional investor appetite increasing

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Change in Infrastructure Landscape

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The infrastructure landscape has changed in the wake of the credit crisis

‘Pre-credit crisis’ trends

Demand:

- Limited public money for infrastructure
- High construction costs
- Fiscal dynamics encouraging governments to explore alternative delivery models

Supply:

- Well-functioning debt capital markets and international project finance loan market
- Highly geared capital structures and attractive equity returns
- Dominance of active equity investors and emergence of infrastructure funds

Emerging trends

Demand:

- Infusion of public money for infrastructure
- Falling construction costs
- Fiscal distress solidifying interest in alternative delivery models

Supply:

- Challenged debt capital markets aided by new borrowing instruments
- Price and tenor constraints in international project finance loan market
- Variability in equity returns
- Impairment of some active equity players balanced by continued growth in infrastructure funds

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Global stimulus programs with a significant infrastructure component

Country	Spending on infrastructure
Australia	Around AUD 28 billion
Canada	CAD 12 billion
China	Around USD 438 billion
European Union	Around EUR 173 billion
France	Upward of EUR 10.5 billion
Germany	Around EUR 19 billion
Japan	Around JPY 2.6 trillion
India	Around USD 33.5 billion
Sweden	SEK 1 billion
United Kingdom	GBP 3 billion (in capital spending brought forward)
Unites States	Around USD 113 billion

…But infrastructure-related stimulus funds make up a small percentage of the infrastructure investment needed

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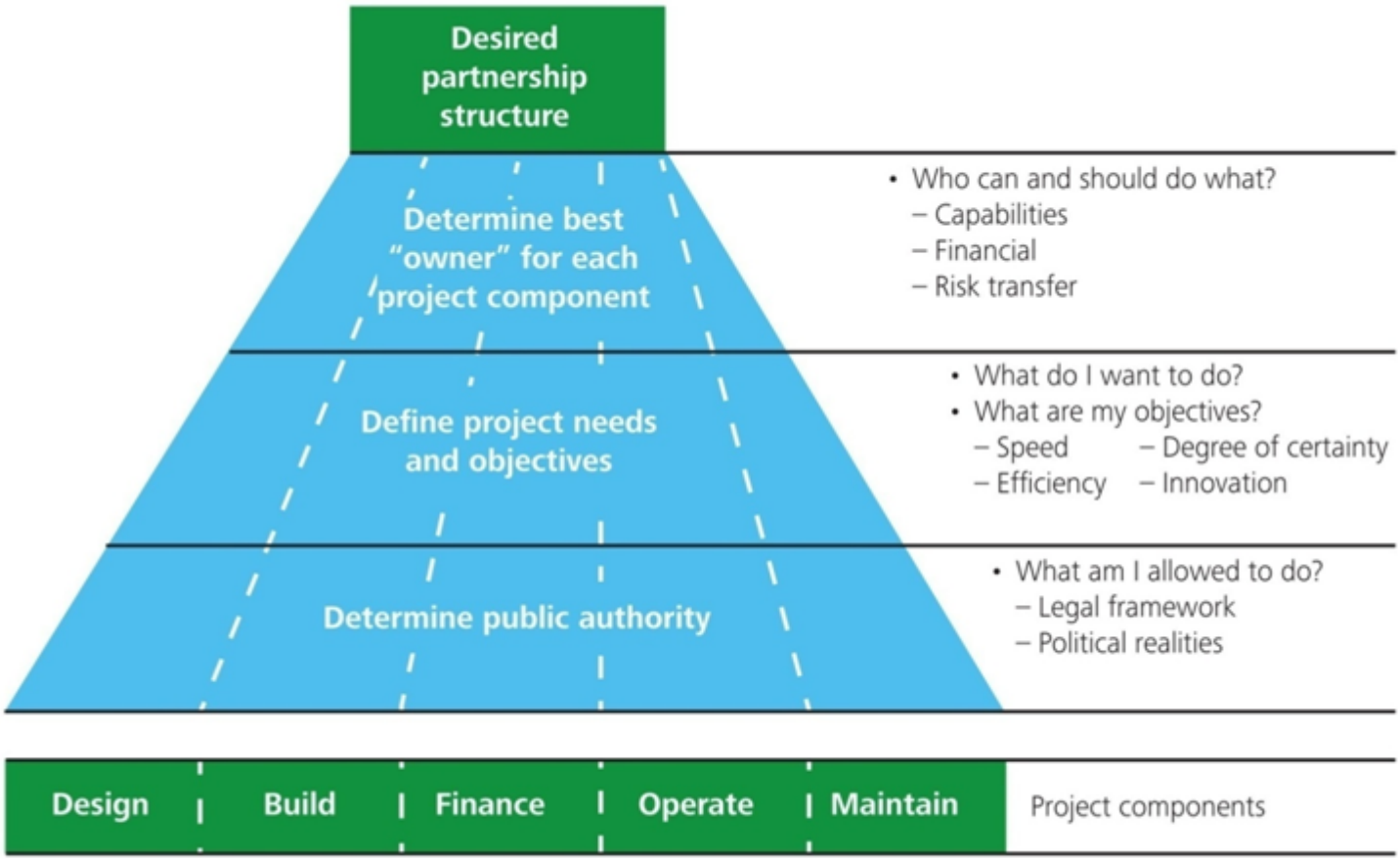
Bottom-up approach



Source: Deloitte Research

Advantages to building a partnership structure from the "bottom-up":

•Business cases submitted for capital approvals are developed with additional rigor

•Partnerships can be tailored more appropriately, yielding more successful projects

•Gaps in the ability to deliver different partnership structures, either on the part of the public sector or the market, are identified, allowing for the development of strategies to address these gaps

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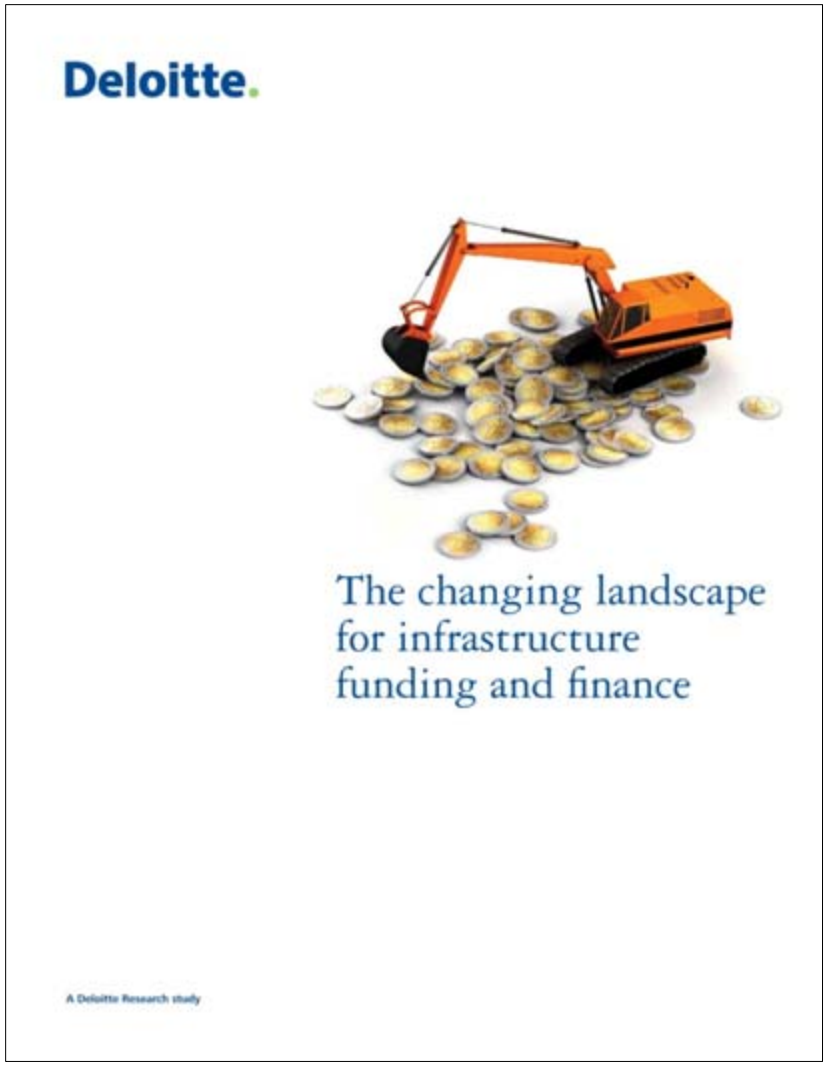
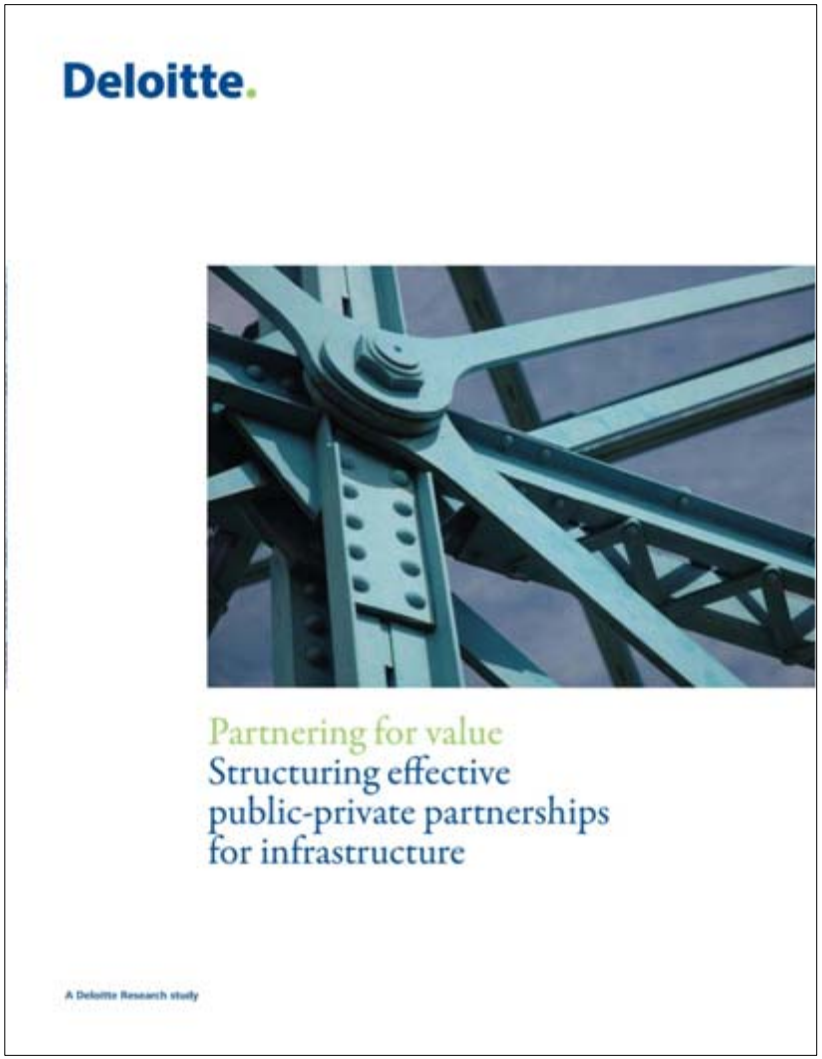
New Global Research Reports





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Delivering PPP Projects in a New Funding Environment

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Deciding to Bid / Fund

Location

- **Country level risks**
  - Economic position
  - Political Risk
- **PPP Experience**
  - Number of deals closed
  - Policy framework
  - PPP Procurement agencies
  - Standardised Contracts
- **Availability of Finance**
  - Attitude of funders to Project/Country

Project

- **Sector**
- **Scale**
- **Complexity**
  - Specialist skills required
  - Technology
- **PPP Structure Proposed**
- **Risk Profile Proposed**
- **Bid Costs**
- **Tender Process**
  - Evaluation Criteria
  - Length of time

Competition

- **Barriers to Entry**
- **Availability of Partners**
  - Strength
  - Experience
  - Capability
  - Interest in partnering
- **Likelihood of Qualification**

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Some Solutions

- Ensure proper deal structure
- Fair allocation of risk
- Consider/Understand funder constraints
- Plenty of market sounding
- Structure to access bond market required
- Timing of Funding Competitions in bid process

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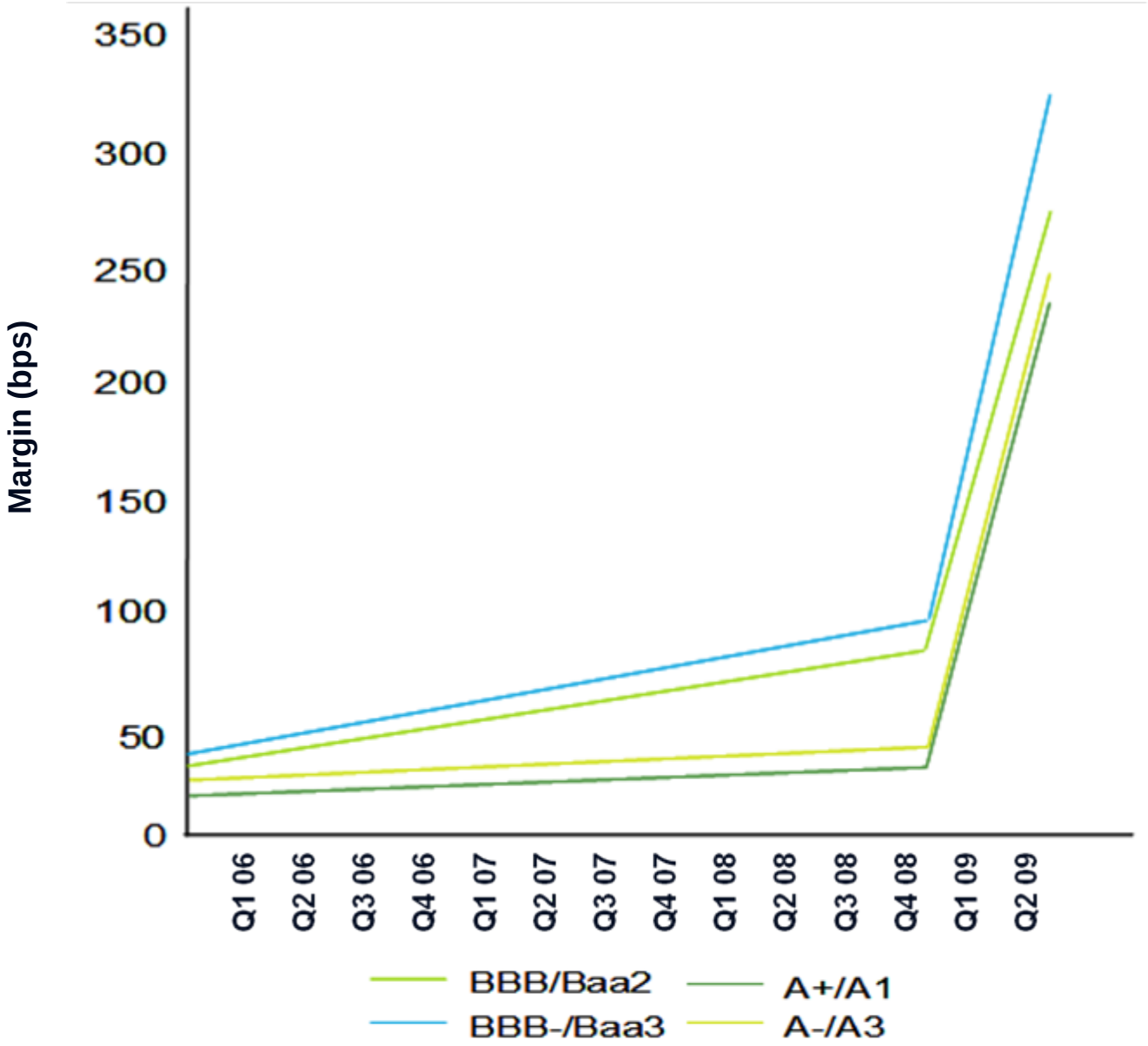
Debt Market Update

Western Europe Pricing Trends



Source: Loanconnector/Deloitte analysis

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