Enriching the social and sustainable component of PPPs: 

*lessons learned and way forward*

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Content

• 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

<table>
<thead>
<tr>
<th></th>
<th>in M EUR</th>
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<tbody>
<tr>
<td>IFIS</td>
<td>1 392</td>
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<tr>
<td>UE grant</td>
<td>90</td>
</tr>
<tr>
<td>MASEN/Sponsors</td>
<td>270</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1 752</strong></td>
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</tbody>
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IFI
IFI
IFI
IFI
EU

IFI
IFI
IFI
IFI
EU

Concessional Loans

IFI
IFI
IFI
IFI
EU

Grant

Pass-through Loans

MASEN

Independent Power Producer

PPA

Equity
75% Sponsors
25% MASEN

ONEE

Consumers
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

![Project components values](chart.png)

*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)

<table>
<thead>
<tr>
<th>Category</th>
<th>Goods and services</th>
<th>Infrastructure</th>
<th>Trade</th>
<th>Other financial intermediaries</th>
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<tr>
<td>Jobs creation</td>
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<td>5%</td>
<td>0%</td>
<td>10%</td>
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<td>Infrastructure</td>
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<td>35%</td>
<td>0%</td>
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<td>5%</td>
<td>5%</td>
<td>10%</td>
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<tr>
<td>Regional integration and resilience</td>
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<td>5%</td>
<td>30%</td>
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<td>0%</td>
<td>5%</td>
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<tr>
<td>Social and gender impact</td>
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<td>10%</td>
<td>10%</td>
<td>10%</td>
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<tr>
<td>Private sector development and demonstration effect</td>
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<td>45%</td>
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<tr>
<td>Arbitrary weighting</td>
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<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
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</tbody>
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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

PPP project cycle – preparation phase:
- Project identification
- Project screening
- Pre-feasibility and feasibility studies
- Evaluation
- Approval by relevant bodies
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

First generation PPPs

People First PPPs
Contact:

4IP

Independent Infrastructure, Impact Investing and PPPs

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