Financing Public Private Partnership

Public Private Partnership Conference
Financing Syria's Infrastructure

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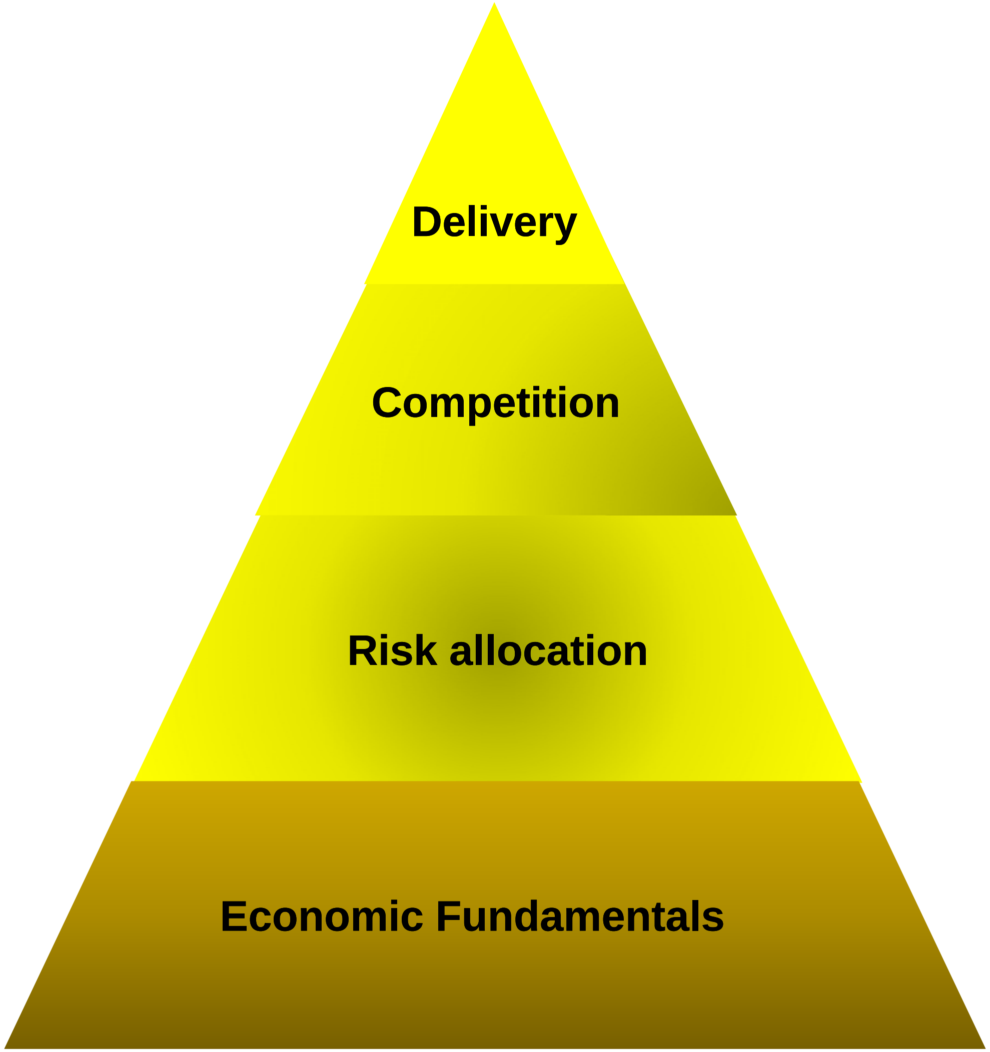
Ernst & Young

What is PPP?

- PPP is a long term performance driven agreement between a public institution and a qualified and experienced private sector to perform an institutional function. It involves substantial transfer of technical, financial and operational risk to the private party.
- Leads to leveraging public funds with private financing and providing investment opportunities for the private sector

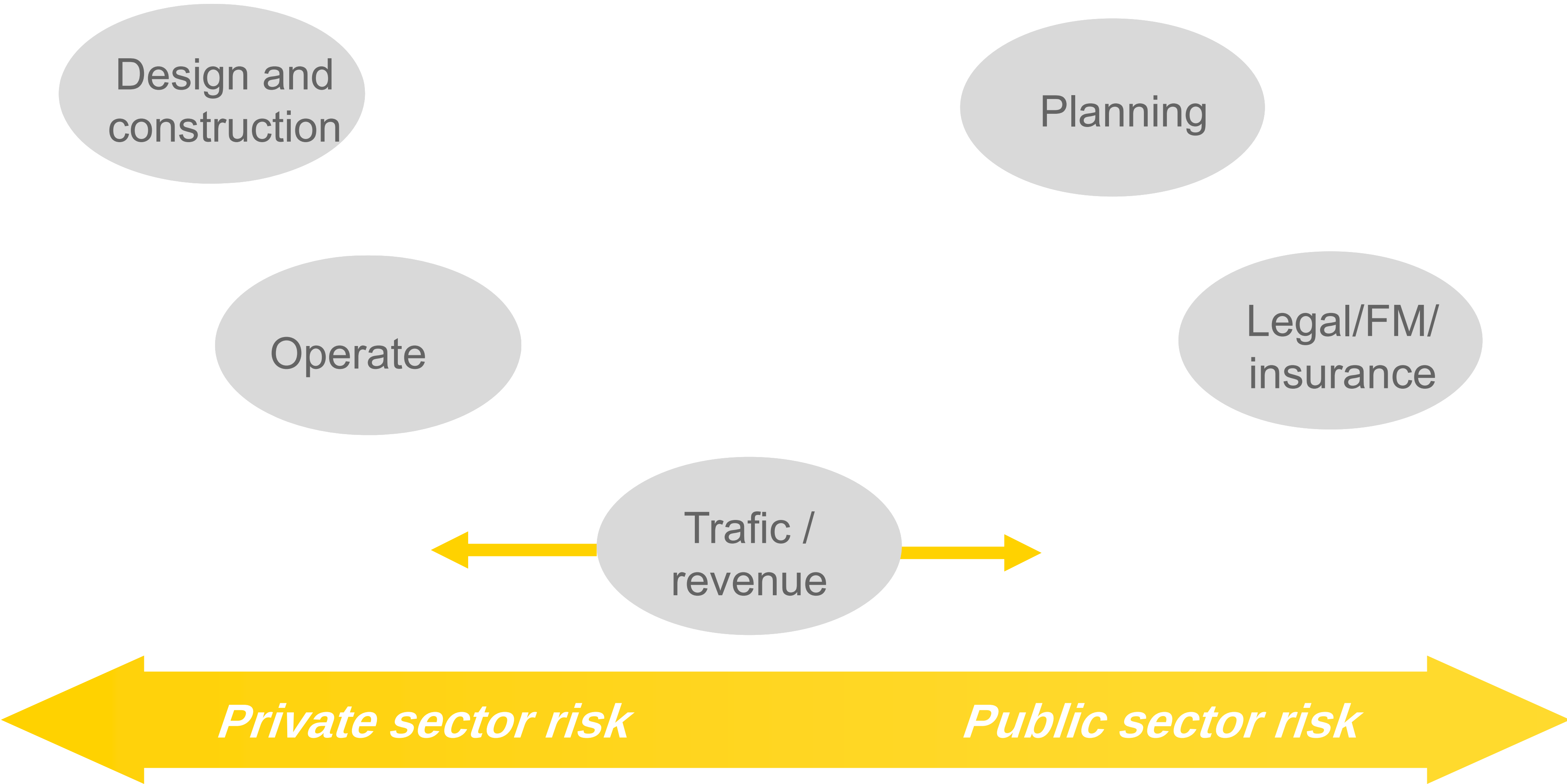
PPP Programmes: Key success factors



- Public sector’s capacity to manage its side of PPP and stable political commitment
- Competitiveness of bidding process
- Appropriateness of risk sharing – value for money
- Economic fundamentals – viability and affordability

Risk Allocation

…. and each project is different and needs individual risk allocation



The Financing Approach

The financing approach 1/2

- The financial structure is of significant importance for project's success
- The financing approach focuses on risk analysis of the project
- The financial structuring /engineering should lead to ***optimizing the utilization of financial resources***
- Financing parties focus on:
  - Quality of profit and cash flow of the project
  - Financial indicators of the project
  - Quality of the different parties (public, private, contractors, consultants)

The financing approach 2/2

- The characteristics of PPP projects (term, value in terms of capex and opex and the fact that financing should be aligned to project's cash flow) ***makes classical financing tools inadequate.***
- The structuring/ financial engineering should:
  - Combine different financing instruments
  - Be adopted to the specific characteristics of the project
  - The objectives of the different parties (public and private)
  - Recourse to different resources (***investors, financial markets, bonds, classical loans, subordinated debt, etc***)
- Special attention should be given to structuring the relationships between the public and private parties

Instruments and Players

- Instruments
  - Equity
  - Loans
  - Bonds
  - Subordinated debt
- Players
  - The Government (guarantees, capital outlay)
  - Investment banks
  - Development and Investment funds (SWF)
  - Financial markets: equity and fixed income
  - Public funds
  - Insurance companies & Agencies (MIGA)

Financing approach Learnt Lessons 1/2

- A good financial structure improves a PPP project, a measure of its quality, but does not make it viable if it has no intrinsic economic and social value
- The financing institutions significant weight to:
  - the qualities of the parties involved (public and private),
  - the contract,
  - The project's environment: economic, legal, institutional, quality of contractors, the legal and administrative capacity of the public party, economic parameters of the contract
- An SPV should be created in which take title to the assets of the project and through which all the relationship between the parties are concentrated

Financing approach Learnt Lessons 2/2

- The financial intervention of the public authority in financing the project is indispensable and justified due to its economic and social interest: intervention may be through assets, guarantee and capital outlay
- Classical financing is not adopted to the level of risks (term of the contract, cash flow estimated with certain level of uncertainty)
- Notwithstanding the desirability of VfM analyses, the alternative to the projects evaluated was no project – not public procurement.
- Key indicators of success: the level of competition and the clarity and permanence of the project's specification.

The Financial Sector in Syria & PPP

The Financial Sector in Syria

- Several regulators:
  - Central Bank of Syria
  - Financial Markets and Securities Commission
  - Insurance commission
- Consists of:
  - Banking sector (More than 20 Billion US$ in assets): 6 public banks and 13 private banks
  - 13 insurance companies and a public establishment
  - Damascus Stock Exchange
- The Public Debt Fund

Developing the players

The Government is working on developing players

- Increased capital of public banks: CBS SYP 70 Billion, Industrial, Saving and Real Estate Banks to SYP10 Billion
- Project law to increase foreign ownership in private banks to 60% and capital of conventional banks to 300 Million US$ and Islamic Banks to 500 Million US$
- CBS has issued:
  - A Decision which allows private banks to sell foreign currency to investors
  - A Decision which allows financing of BOT contracts in Touristic sector

Areas of Development

Constraints

- Treasury bonds
- Transparent foreign exchange mechanism(transfer & heding)
- Sovereign rating
- Investment banks
- Investment funds
- Securitization law
- Mismatch between deposits and investment needs
- Limit on lending: Related party and concentration: sectoral and with one client Decision 500 and 395
- Rigid policy in extending guarantees for private sector development

Thank You

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