PPP Structure and Financing

The document provides a copy of the slides presented in the sixth module of the ESCAP e-learning series on Public-Private Partnerships. The related e-learning video can be watched on the ESCAP website.

Objectives

- Financing Options
- Key Contractual Relationships
- Financing Cost & Profitability

Financing Options

ESCAP supports governments in the Asia-Pacific region in implementing measures to efficiently involve the private sector in infrastructure development. The ESCAP e-learning series on Public-Private Partnerships contributes to this objective and aims at improving knowledge on PPPs.

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Project Structure

Equity providers

Capital invested by sponsors

Project developers

Construction firms

Institutional investors

"First in, last out"

Any project losses are first born by equity investors

... but:

Higher risk, higher return

"First in, last out"
Is the project profitable?

**Cash Flows**

- Revenues: Year 1, Year 2, Year 3, Year 4...
- Costs: Year 1, Year 2, Year 3, Year 4...

**Assumptions & Projections**

- Internal Rate of Return (IRR)

  - **Internal Rate of Return (IRR)**: indicator of profitability
  - What does it mean to have IRR = 8%?
  - Is equivalent to:
  - Series of revenues over several years

**Is the project attractive for private investors?**

If Project Profitability (IRR) > Cost of Funding (WACC)

**Financing source**

- Government Contracting Agency
- Concession / PPP contract

- EPC Contractor
- O&M Contractor

- Special Purpose Vehicle (Project Company)

- Equity providers
- Debt providers (e.g., banks)
- Shareholder Agreement
- Loan Agreement
- Services Provided
- Revenues

- Weighted Average Cost of Capital (WACC) = Indicator of Financing Cost

- Indicator of Project Profitability = Internal Rate of Return (IRR)

Please note that the video can be accessed on http://www.unescap.org/our-work/transport/financing-and-private-sector-participation