

Introduction to Private Finance for Roads



UNIVERSITY OF
BIRMINGHAM



International
Road Federation

Caroline Visser
International Road federation

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Why private finance?

- ❑ Traditionally: government funding for roads
 - Allocation of funds decided through political process

- ❑ Road Funds:
 - Earmarking of budgets
 - Other revenue sources than general taxes



Why private finance?

- ❑ Governments have increasingly looked to attract private finance to road infrastructure investments.
- ❑ For reasons of:
 - Need for off-balance road modernisation
 - Getting access to additional pool of funds and private sector management skills

The world behind private finance

Sources of private finance:



Provided by
shareholders
and investors
(sponsors)

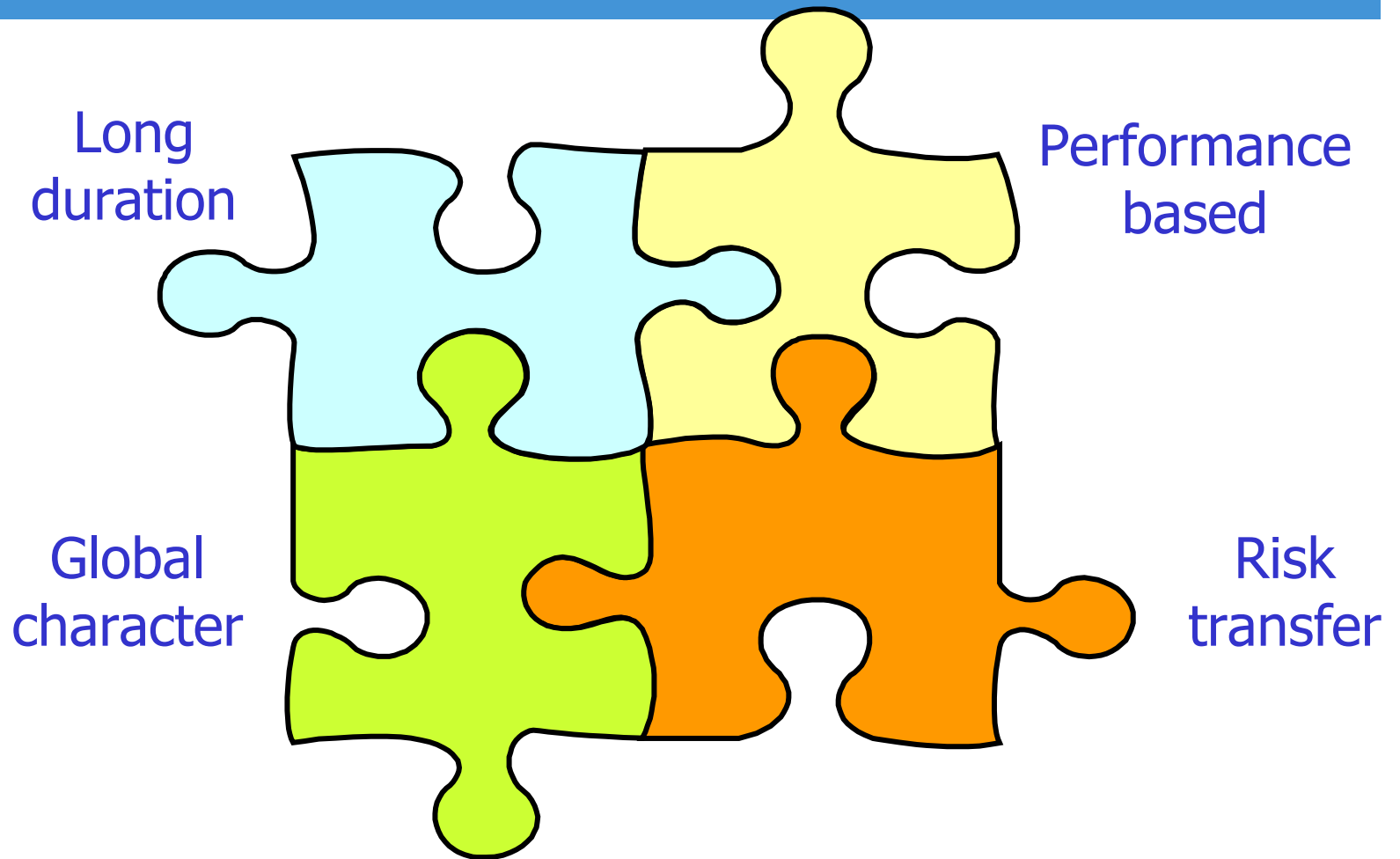
Provided by
banking and
financial
institutions
(lenders)

Special Purpose
Vehicle

The world behind private finance

- ❑ Private finance → **project finance approach** (or limited recourse, referring to the lenders' security package).
- ❑ Need for **refinancing** raises from the phenomenon that the tenor of the debt is shorter than project duration.

Private finance and Public Private Partnerships (PPP)

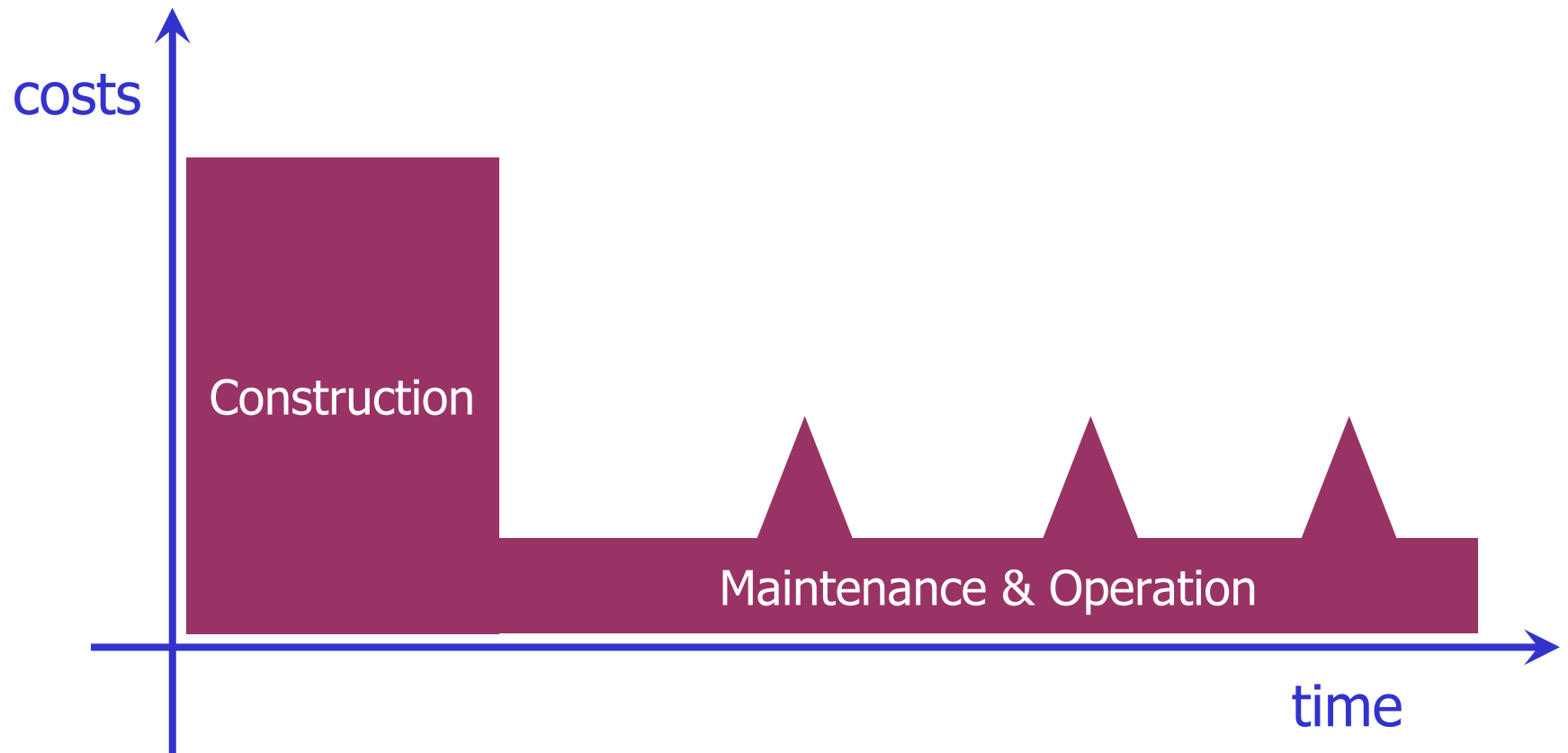


Misperceptions about PPP

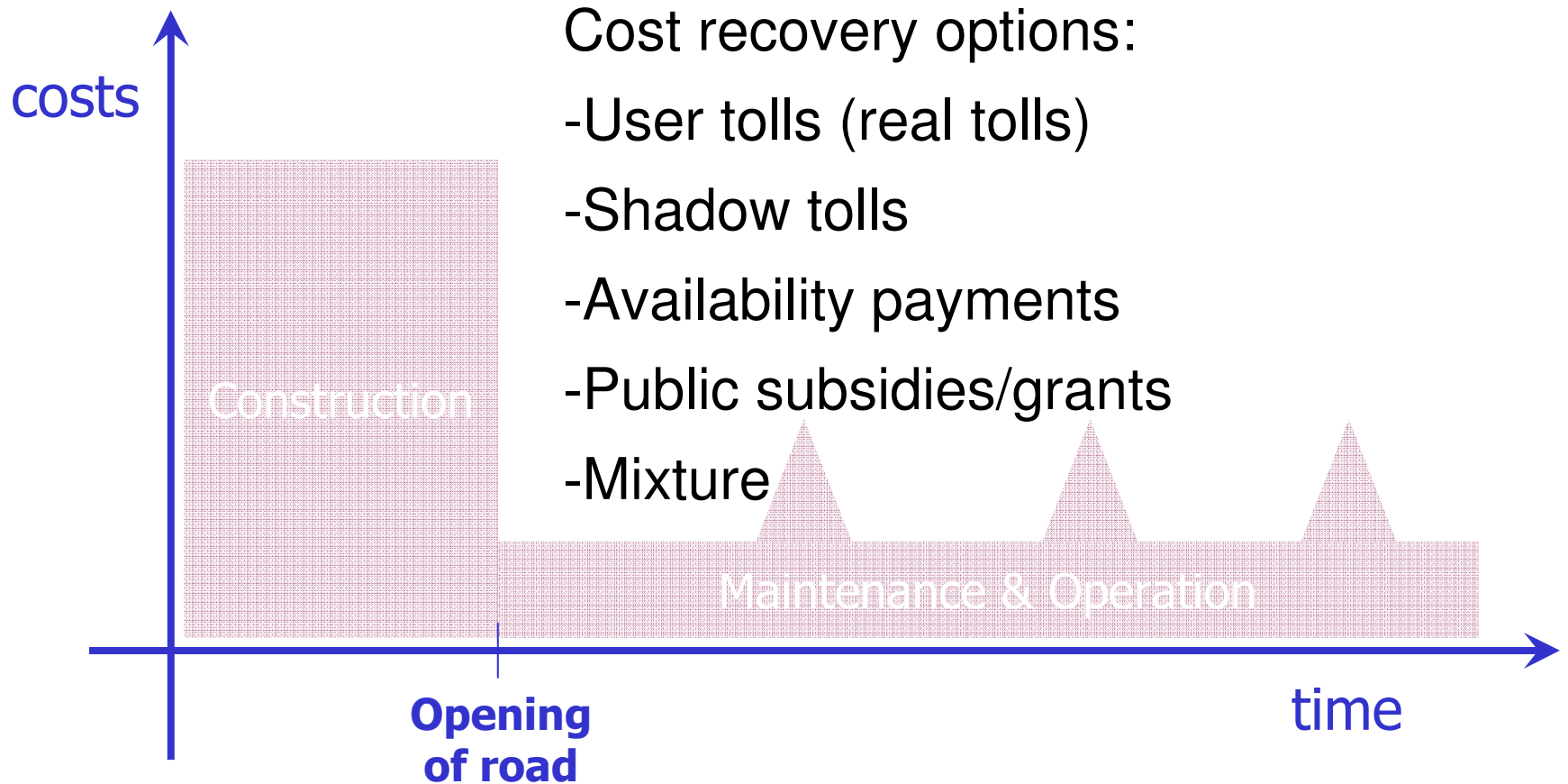
- ❑ A road PPP can only be a toll road
 - NO, PPP covers a wide range of contract types (including toll road concessions)
- ❑ PPP can save unfeasible projects
 - NO, projects need socio-economic justification
- ❑ Signing the contract is the most important moment in a PPP
 - NO, contract signing is only the kick off for a long term relationship and commitment

Recovering the costs in PPP

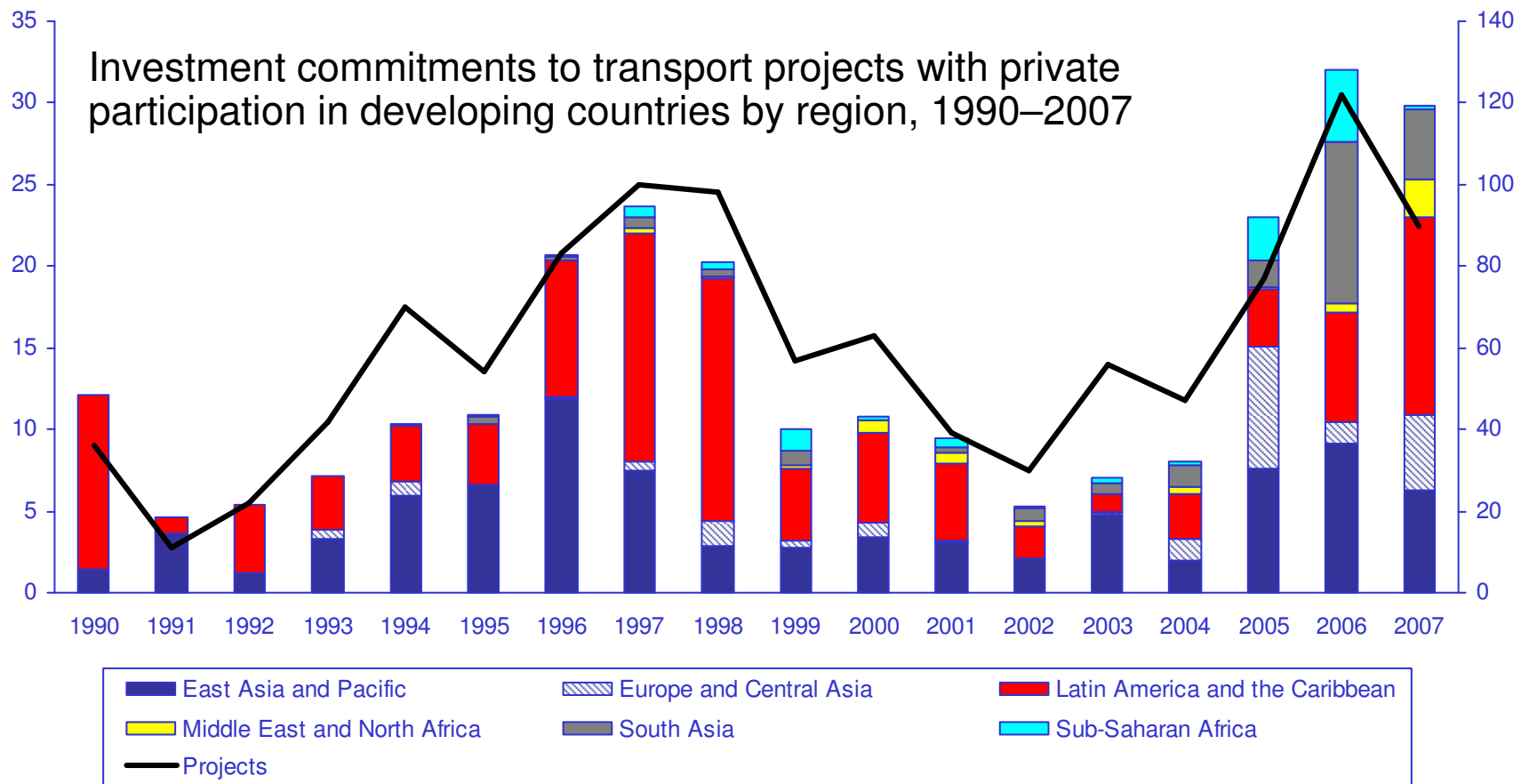
General cost profile of a road infrastructure project



Recovering the costs in PPP

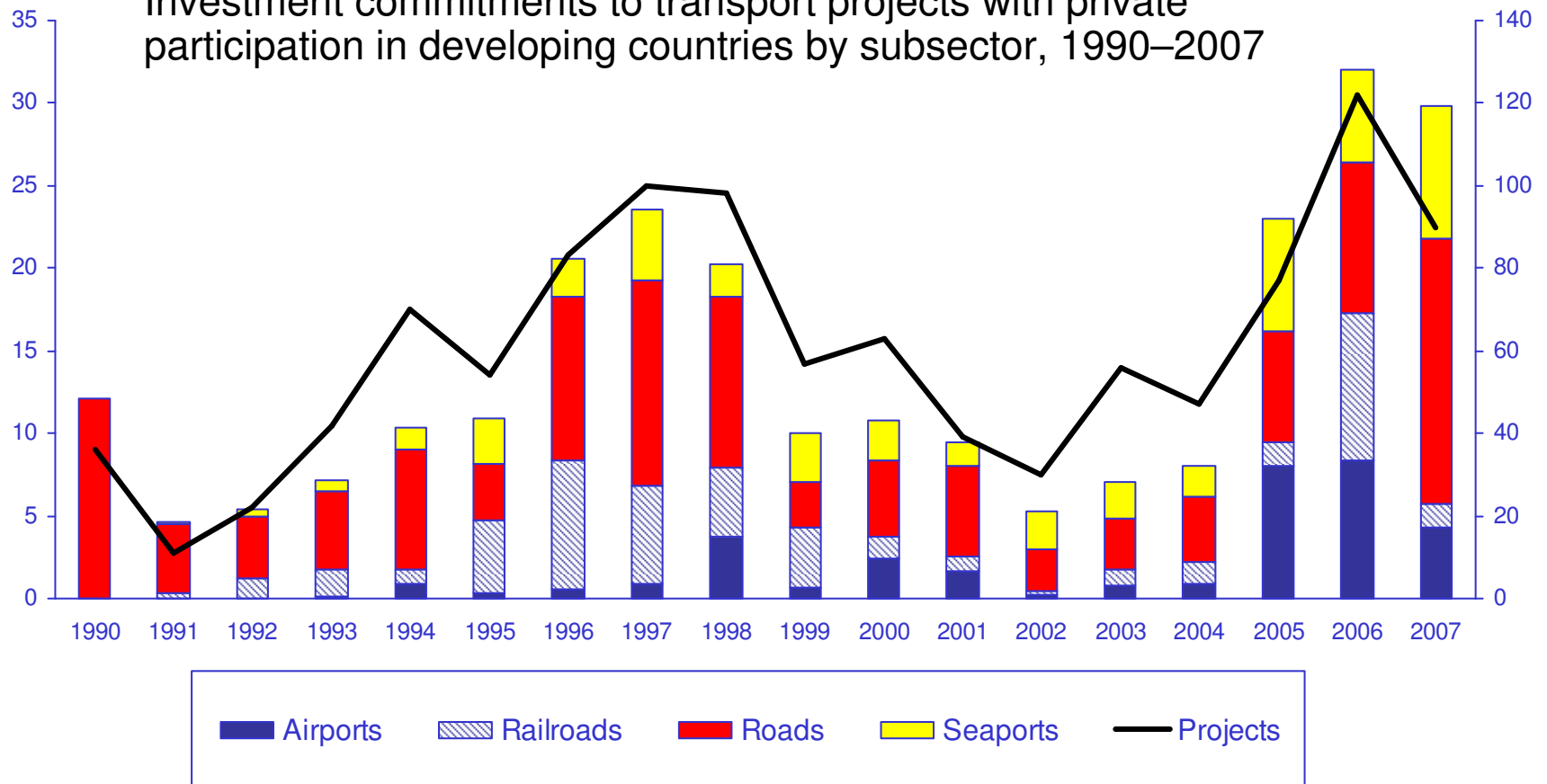


Overview of private finance involvement per region



Overview of private finance involvement per sector

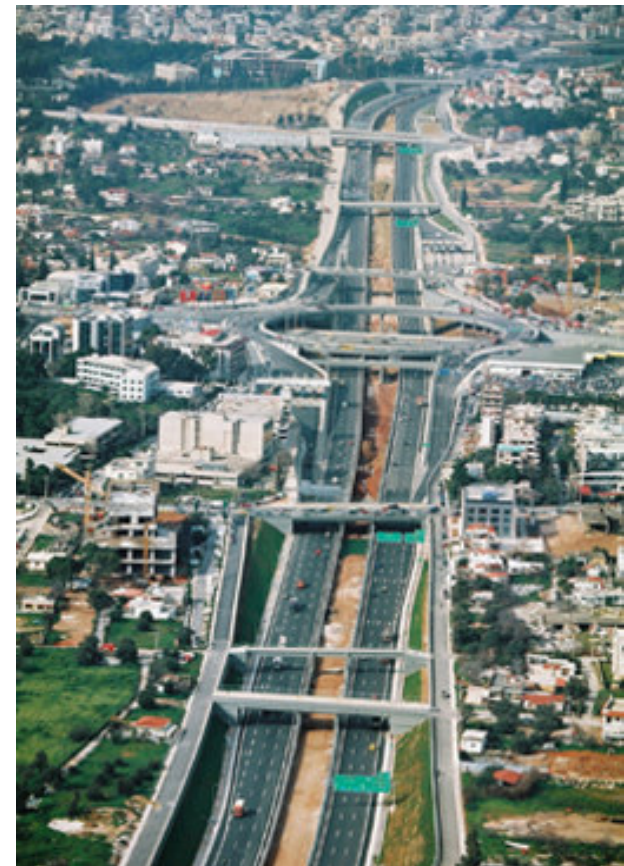
Investment commitments to transport projects with private participation in developing countries by subsector, 1990–2007



Source: World Bank, PPIAF

What make roads special to private financiers?

- ❑ Road assets: no commercial value without right to exploit them
- ❑ Traffic volume risks impacting on:
 - Revenues
 - (Maintenance) costs
- ❑ Ownership/accessibility of road asset



Attiki Odos, Greece

Lessons learned

Mainly related to:

- Traffic risks
- Toll levels
- Public opposition
- Lack of flexibility in the PPP contract



Attracting private finance (1)



- Political will and commitment
- Legal framework in place
- Investment plans clear and undisputed
- Affordability
- Institutional capacity to deal with complex PPP arrangements

Attracting private finance (2)

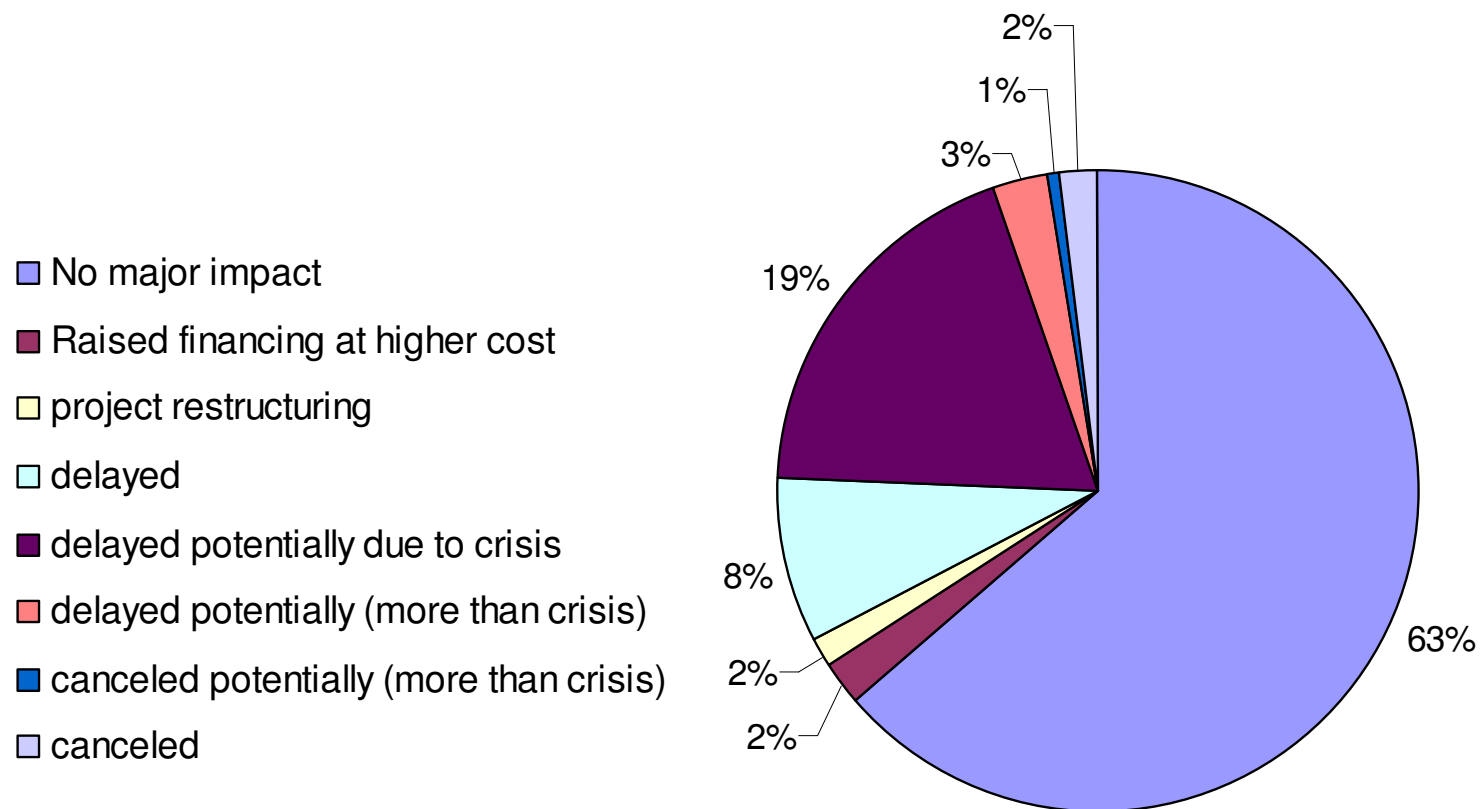
Construction industry's needs

- Stability
- Level playing field
- Good feasibility studies
- Clear standards
- Good contract management
- Sustainable financing

Lenders' needs

- Certainty that interest and installments can be paid
- Healthy risk allocation
- Good contractors
- Bankable public sector obligations

Impact financial crisis (1)



Source: World Bank, PPIAF

Impacts financial crisis (2)

- Developments private debt markets
- Focus on quality of projects
- Resort to development banks
- Project performance under pressure
- Infrastructure as investment category
- Construction sector

Thank you for your attention



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cvisser@irfnet.org