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PPP Potential in PNG: The Financiers' Perspective

Delivering Public-Private Partnerships in PNG

22 February 2012

Private finance for infrastructure is not new


The Subscription will be opened on Thursday, the 15th instant, and will be closed on or before Monday, the 19th instant, at Two o'clock, p.m.

ARGENTINE REPUBLIC.

BUENOS AYRES WATER SUPPLY & DRAINAGE COMPANY, LIMITED.

SHARE CAPITAL, £5,000,000,

IN

300,000 Six per Cent. Preference Shares of £10 each,

AND

200,000 Ordinary Shares of £10 each.

(It is proposed to issue £4 per Cent. Debentures for £5,000,000, as hereinafter referred to.)

- **Private finance for much early infrastructure**
  - Railways
  - Water supply
  - Power generation
- **C19th bond underwriting was a serious business**
  - Bonds could take up to a year to sell
  - Buenos Aires Water bond nearly brought down Baring Brothers

Why do we need private finance?

- **Without private finance, risk transfer is ineffective**
- **Lenders bring rigour and discipline**
  - equity investors are often over-optimistic
  - due diligence investigations do change bids
  - lenders' control mechanisms do prevent problems
- **Equity finance has limited availability**

Private finance makes risk transfer effective

► University of Melbourne Study, December 2008

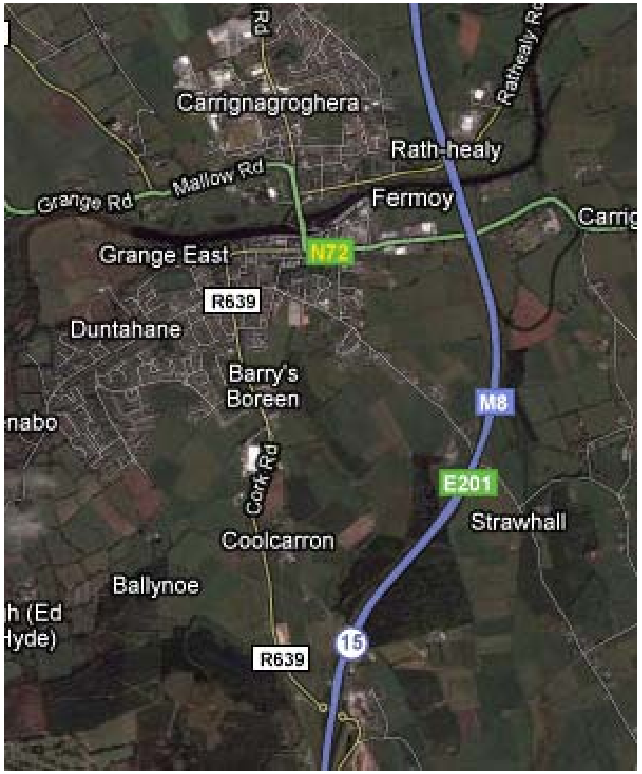
- compares construction performance of PPPs vs traditional contracts
- cost overrun: 4% vs 18%
- time overrun: 1% vs 26%
- construction risk exists
- PPPs transfer it effectively

► Why?

- PPPs focus on services after construction
- no payments until services delivered

Eastlink, Melbourne
On budget, 6 months early

Lenders' due diligence in action



Fermoy Bypass, Ireland (2004)

- **17.5 km toll road**
- **By-pass of congested narrow bridge and road junction**
- **Time saving of 45 minutes in peak hours (but only 10-12 minutes off-peak)**
- **€1.80 toll – arguably easily affordable**
- **Sponsors argued road would capture 95% of North-South traffic**
- **Traffic volumes (after ramp-up)**
  - Sponsors' Case 18,000 vpd
  - Banks' Base Case 15,000 vpd
  - Banks' Worst Case 12,000 vpd
  - Actual 12,000 vpd

Some recent major PNG infrastructure & project financings

- **New LNG Tankers (2011) – US$432m**
- **Lihir Gold acquisition (2010) – US$8.6bn**
- **ExxonMobil Hides LNG Project (2010) – US$14.0bn**
- **Digicel refinancing (2009) – US$373m**

Most are based on tradable natural resources

Financing issues for PNG PPPs

- **International market capacity?**
  - Country risk: PNG has single-B credit rating
  - GFC has limited the availability of equity generally
  - FX risk
- **Domestic market capacity?**
- **Tenor?**
  - Australian PPP debt now generally has 5-year tenor
- **Pricing?**
  - GFC has led to increases in:
    - banks' cost of funds
    - credit margins
    - investors' return requirements
  - Adverse effect on Value for Money
- **Acceptance of Project risks?**
  - Obligations of SOEs
  - Others?

Thank you

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