Plenary 2

Leveraging on Private Sector Funding through PPP Accord in Developing Sustainable Basic Structure to Complement your Upcoming Modern and Vibrant Cities

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COVERAGE

1. Global funding requirements and OPM - the ample liquidity
2. Types of PPPs – Economic and Social Infrastructure & PPP Vs PFI (using OPM & avoiding public liabilities)
3. But watch out for the dangers from PFI – On/Off Balance Sheet
4. Funding infrastructure for cities – example, urban transportation
5. Summary

Global demand for Infrastructure – a current snapshot

1. Reducing supply chain barriers (mainly through building infra) is **6x** more impactful on GDP Growth than reducing trade barrier

2. Estimated investment requirement for infrastructure
   - Globally $50 trillion over next 20 years
   - Asia $8 trillion over next 10 years
   - Middle East $2 trillion over next 10 years
   - Africa $100 billion annually

3. Governments do not have the financial resources to carry out all the infrastructure projects (10-20% or MORE of total funding requirements through some form of PPP)

* World Bank Report (2014)
** TS Zeti – WIEF 2014
*** OECD Report (2013)

The Temptation called 'OPM' (or PPP) - Ample Liquidity

1. **Pension** and insurance funds have estimated USD80 trillion for investment of which only 1% invested in infrastructure (mainly in PFI projects in developed countries)

2\. Asia has **high household saving rates** (up to 40%). Example, South Asia and SEA – annual infra need is $385 million; annual household savings is $1.3 trillion…… 3 x of infra funding needs

3\. USD 95 billion of Infrastructure **sukuks** issued in more than 10 countries **

4. **ODA** in 2014 was $135billion and **Declining Trend** (0.7% of GNI – only 5 out of 28 OECD-DAC countries met target in 2014)

6. **Global Remittances** in 2014 was $583 billion (more than ODA and FDIs combined)

7. **CSR tax** (be more Development-focused rather than Business-focused) eg India's Companies Act 2013 (2% of net profits will result in estimated $1.8 billion of funds)

8. **PPP** accounted for annual average of USD180 billion in last 10 years

9\. The elephant in the room – the $100 billion $50 billion AIIB, BRICS Development Bank

The Changing Role of the Public Sector

Government moves from role of Developer & Operator of Public Infra
To
Facilitator and Enabler (fund flows)

Developer & Operator → **Facilitator & Enabler**




Creating the ENABLING ENVIRONMENT

1. **Policy Framework**
2. **Legal Framework**
3. **Investment Framework**
4. **Operational Framework**
5. ***Capital Market Framework***

To Boldly Go………

Pay Pay Pay …..Who Pays?

Example of 'User Pays' PPP model

- **2.5 km long, 270m above river, suspension bridge across Tarn River**
- **One of the longest and highest bridges in the world**
- **Designed by Lord Norman Foster**
- **E 394 million PPP project, DBFO**
- **Started construction in 2001, inaugurated in December 2004**
- **75 year concession, demand risk assumed by private operator, Eiffage**

A PPP Project

The Millau Bridge, France

(check BBC documentary – iplayer)

No Risk to Government
(Users pay)

Ampang Elevated Toll Highway, KL

(along the Ampang River)

The 2.5 km Bukit Lanjan Tunnel

(toll = 60 cents)

Example of 'Government Pays' PPP model

The New Romford Hospital, Essex

- £ 213 million
- 4,500 rooms, 939 beds
- Completed in 2006

Example of '3rd Party Pays' PPP model

PPP Project in a Small State

SGRP

Pop: 130,000

The St George's Revitalisation Project, Grenada

Final Urban and Infrastructural Master Plan Development;
Preliminary Designs Infrastructural Works:

- Tanteen Tunnel, as an alternative for a Ring Road
- New Commercial Port and Free Trade Zone;
- The Carenage renovation, widening and Hospital Access;

Product Development and Design for new tourism areas:

- Old Port;
- Mega Yacht Facility;
- Spice Island Marina Village and Islander Hotel;

'Monetising IDLE government-assets'

Affordability & Willingness to Pay

QUESTION?

How does the Private Company recover its cost of investment?

Who Pay?

URBAN REDEVELOPMENT
(14 acre – the Pavilion Shopping Complex)
formerly site of an old girls' school

?

PFI – ‘Government pays’ may not be an option

The ON/OFF Balance Dilemma

PPP projects for Cities – who is going to pay for them?

PPPs can be used for both Economic and Social Infrastructures

Users Pay
(Economic)
Concession

PPP

Roads

Ports/airports

Power

Water

Government Pays
(Social)
Availability

PFI

Universities

Schools

Hospitals

Does the contract obligate the government to pay over the period of concession**?**

Is the liability (and asset) or isn't it on the Balance Sheet?

IPSAS 32 *(International Public Sector Accounting Standards)*

It is **ON** Balance Sheet (aka ***Financial Liability Model***) if the government:

1. Controls or regulates:
   - ✓what services the private party must provide with the asset,
   - ✓To whom it must provide them, and
   - ✓At what price; and
2. Controls any significant residual interest in the asset at the end of the term of the arrangement (concession)

For whole-of-life asset, only the conditions in para (1) need to be met

IPSAS 32 can result in many PFI (*government-pays type*) projects being classified as **ON** Balance Sheet

Example - Impact in the UK?

1. UK has done more than £ 65 billion of PPPs (mainly PFIs)
2. £ 39 billion of PFIs was be re-classified as ‘On Government’s Balance Sheet (Debt)’ under ‘new’ government
3. No worries – total country debt is £ 1.3 trillion

The trick is how to use OPM without huge public sector liabilities

Example

Funding urban transportation through LVC *(Land Value Capture)*

LVC – Land Value Capture

1. Government triggers an increase in Land value (eg changes in zoning or FAR)

3. Share the increase in Value with stakeholders

4. Use part of value to finance infrastructure

5. 2 types:

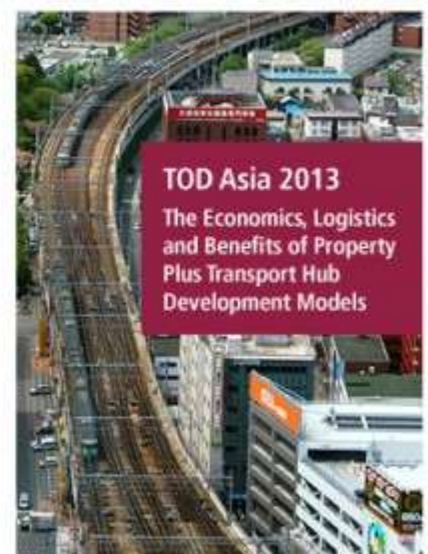
   - Development-based LVC (monetising assets)

   - Tax/fee-based LVC (eg property taxes)

Hong Kong MTRC – a Success Story?

The HK Rail Plus Property Model

1. Government gives exclusive property development rights (50 years) to MTRC at before-rail' market price
2. MTRC bids out at 'after-rail' market price
3. Private developers covers land premium and bear project risks
4. After completion, MTRC stays on as asset-manager to maximise returns



Hong Kong MTRC – a Success Story?

Successes?

1. More than 100,000 residential units created
2. From 2000 to 2012, financing came from
    - Property development (38%)
    - Asset management (28%)
    - Fares (34%)
3. From 1980 to 2005, MTRC returned $18 billion to Government through dividends, IPO, etc
4. High ridership (11 million daily pax journeys), high fare box recovery – 185%
5. More than 200 km

Other countries

1. **Tokyo**
   - land adjustments (urban fringes) & urban redevelopment (built up areas)
   - Compulsory if >2/3 owners agree

2. **Sao Paulo, Brazil**
   - Public auction of ‘air rights’ (FAR)

3. **Delhi**
   - 99 years lease
   - LVC – 11% of construction cost
   - Decision of national government blocked by lower governments

4. **Hyderabad**
   - Cost - $2.7 billion
   - 35 years concession
   - 109 hectares of leased land close to metro
   - Funding: fares (50%), Prop Dev (45%), ***VGF (5%)***

5. **Nanchang, China**
   - Similar to HK model

Summary

1. There is ample liquidity & OPM

2. No free lunch – someone has to pay for it: either the Users or Government or 3rd party

2. Options available to governments are limited by constraints on Public Sector Debts and fiscal space (PFI)

3. Value Creation through Monetising 'idle assets' is one of the best ways to finance supporting infrastructure for cities

4. There are successful models (eg Hong Kong MRTC's R+P Model)

5. It has to be a holistic approach (intergovernmental, master planning, macro economics, etc)

THANK YOU

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