The Impact of the Global Financial Crisis on Public-Private Partnerships

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The views expressed in this presentation are those of the author and do not necessarily represent those of the IMF or IMF policy.
Outline

- Introduction
- Conceptual framework
- Crisis transmission mechanisms
- Impact from the crisis—early evidence and recent developments
- Policy response
- Challenges ahead
Introduction

- The global financial crisis exacerbated risks from PPPs, negatively impacting projects through different transmission channels.
- More recently there has been an increase in investment commitments, although several countries remain affected by the crisis.
- Recovery initiated in the later part of 2009, continuing well into 2010, almost a year after the sharpest deterioration in conditions was registered.
- Strong increase in number of energy projects, especially in Brazil, China, India, and Turkey.
Conceptual framework

- Threats - the probability that some negative event occurs
- Vulnerabilities - the specific factors that capture preparedness of parties involved
- Impact – a function of both threats and vulnerabilities. Impact was sharp in late 2008/early 2009, but has weakened since then
Crisis transmission mechanisms

A. Financial markets

- Upward pressure on credit spreads has subsided, although still not at pre-crisis levels
- Previously affected pipeline projects are now able to obtain financing
- Project restructuring and renegotiation facilitated
Crisis transmission mechanisms

- Renewed availability of credit
  - Project finance has begun to rebound since its sharp decline in early 2009
- Renewed investor confidence and liquidity in emerging markets

Project Finance Syndicated Loans Volume by Region

Source: Thomson Reuters LPC

Amount (US$bn)
Crisis transmission mechanisms

Project Finance Syndicated Loans Volume by Region
(US$ Billions)

Asia Pacific

Western Europe

Latin America/Caribbean

Eastern Europe/Russia

Source: ThomsonReuters PLC
Crisis transmission mechanisms

B. Real sector channels

1. Global macroeconomic recovery
   - Revenues are dependent on demand realization
     - For existing projects—cash flow risk, unless there is a minimum revenue guarantee
     - For pipeline projects—viability of project at stake
   - Strong increase in number of new PPP projects in fast-growing Asia; no strong cross-country patterns, however

2. Exchange rate changes
   - Projects with un-hedged FE debt are now less vulnerable, as foreign exchange volatility has subsided
Impact from the crisis—early evidence and recent developments

A. Evidence from WB Public-Private Infrastructure Advisory Facility: regional and sectoral developments

- By Region
  - EAP
  - ECA
  - LAC
  - MENA
  - SA
  - SSA

- By Sector
  - Energy
  - Telecom
  - Transport
  - Water and sewerage
Impact from the crisis—early evidence and recent developments

B. Evidence from WB Public-Private Infrastructure Advisory Facility: developments by type and size

![Bar chart showing developments by type and size]

**By Type**
- Canceled
- Divestiture
- Greenfield project
- Management and lease contract

**By Size**
- <50
- 50-250
- 250-1000
- >1bn

Legend:
- Canceled
- No major impact
- Delayed
- Project restructuring
- Raised financing but at a higher cost
Impact from the crisis—early evidence and recent developments

C. Project-specific evolution over the course of 2009

Reported Crisis Impact in Q3 2009

Reported Crisis Impact in Q1 2009

- Canceled
- Delayed
- No major impact
- Project restructuring
- Raised financing but at a higher cost

Note: Evolution assessed over a constant sample of 498 projects; canceled projects include terminated projects and those with a high probability of being canceled.
Policy response

A. Earlier survey of institutional capacity to accommodate PPP risk

- Institutional frameworks to deal with crisis related risks vary across countries

<table>
<thead>
<tr>
<th>Institutional Framework</th>
<th>Highest Number of Responses</th>
<th>Lowest Number of Responses</th>
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<tr>
<td>Specific PPP Law</td>
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<td>Mechanisms for litigation and early termination</td>
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<td>Guidelines on risk allocation</td>
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<td>PPPs included in medium term investment plans</td>
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<td>Rules/limits on size of PPPs</td>
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<td>Risks quantified and budgeted to some degree</td>
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<td>Formal rules on accounting</td>
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Legend:
- Highest Number of Responses
- Lowest Number of Responses
Policy response

B. Principles

- Intervention should be justified on economic grounds
- Interventions should support the fiscal policy stance
- Measures should be quantified and included in the budget framework
- Government measures should be contingent on circumstances
- Access to the public purse should come at a price
- Intervention should seek to maintain value for money
- Policy should be publicly disclosed
C. Recent government action and policy developments

- Governments have supported PPP activity through various means:
  - Integral component of stimulus packages
  - Improving institutional/regulatory framework
  - Easing access to credit to specific projects
    - Guarantees
    - Public financing
Policy response

Improving Institutional Framework

- **Chile**: bidding mechanism for PPPs based on a Least Present Value of Revenues approach, in which contracts always have a variable term date, depending on demand realizations.

- **Mexico**: Program to Promote Public Private Partnerships in Mexican States, intended to strengthen the legal and institutional capacity of state governments, so they can apply harmonized PPP models.
Facilitating Access to Credit - Guarantees

- **Australia**: state governments have offered syndication guarantees to achieve financial closure (e.g. State Government of Victoria)
- **France**: government has been allowed to guarantee loans on priority PPP projects entered into before 31 December 2010, up to €10bn
- **Kazakhstan**: government allowed to provide guarantees for bonds and loans to concession projects. Co-funding will be included in the fiscal budget as subsidies or state investment, while guarantees will be considered public debt
- **Spain** and **Portugal**: providing project-specific financial guarantees amounting to up to €800m
Policy response

Facilitating Access to Credit – Public Funding

- **France**: co-funding from Caisse des Dépots of €8bn, part of stimulus package
- **India**: financing needs supported by the India Infrastructure Finance Company and the Viability Gap Funding Scheme
- **India**: National Highways Development Project underway, the world’s largest transportation PPP, valued at well over US$71bn
- **UK**: established a public lender-of-last-resort facility for PPPs under its Private Finance Initiative, lending £2bn to private firms
- **Colombia**: plans to invest US$24.4bn in the country's infrastructure over 2009 and 2010, predicated upon the procurement of new PPPs
Challenges ahead

- Fiscal risks may have increased due to government support and should be closely monitored.
- Interventions should be consistent with broader macro-fiscal policy goals, and measures should continue to be included in the budget framework.
- Government measures should be contingent on circumstances:
  - “Trip-switch” mechanisms to ensure public intervention is withdrawn once financial/macroeconomic conditions enable the commercial viability of the project.
  - Exit strategies to ensure value for money is maintained.