



**XXIVth WORLD
ROAD CONGRESS**
Mexico City 2011

IMPACT OF THE GLOBAL FINANCIAL CRISIS ON ROAD PPPs

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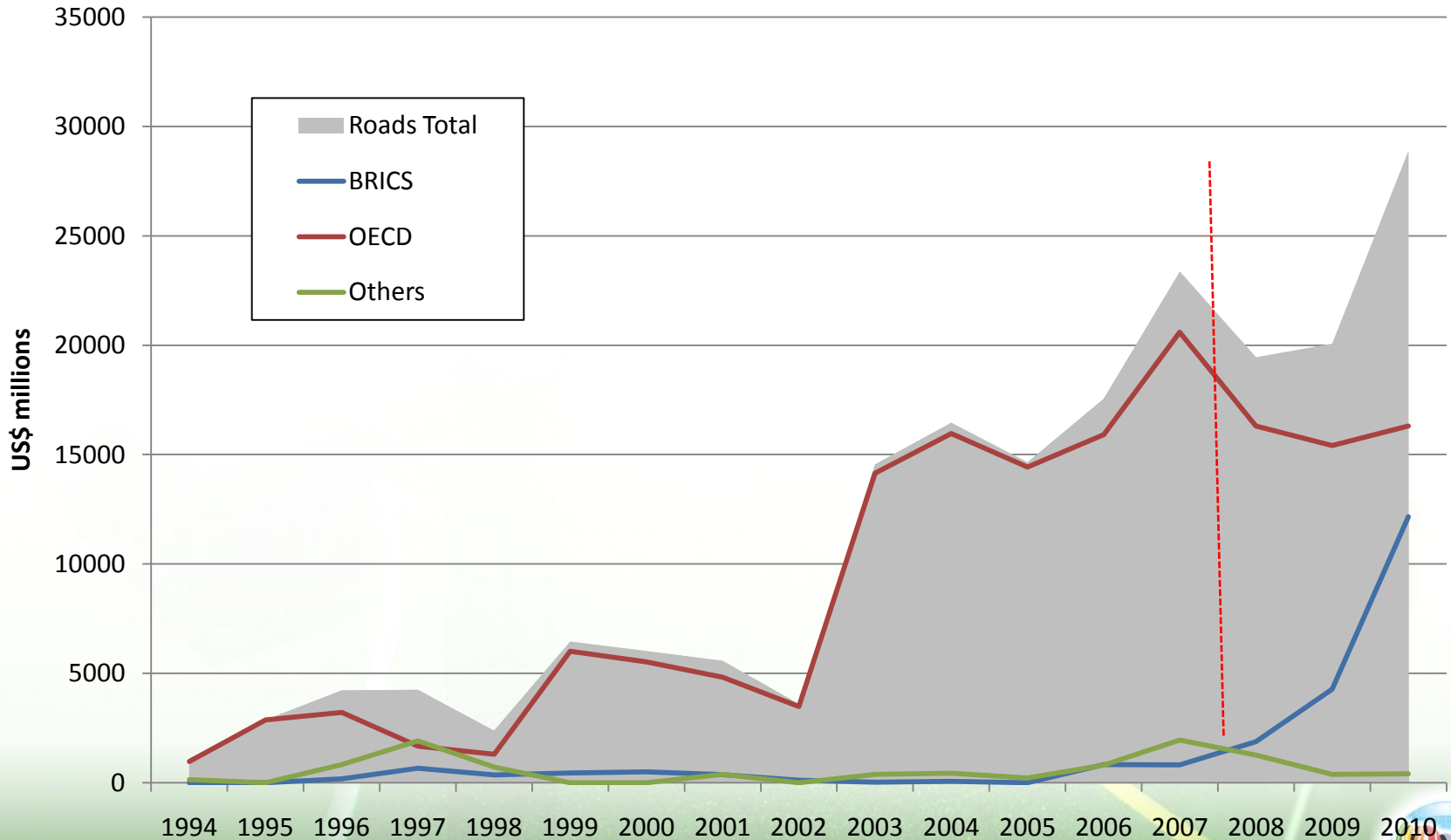


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- Evolution of investments in road PPPs
- Impact of the global financial crisis on PPPs
- Emerging lessons: from short term responses to the crisis to scaling up PPPs in a post crisis era



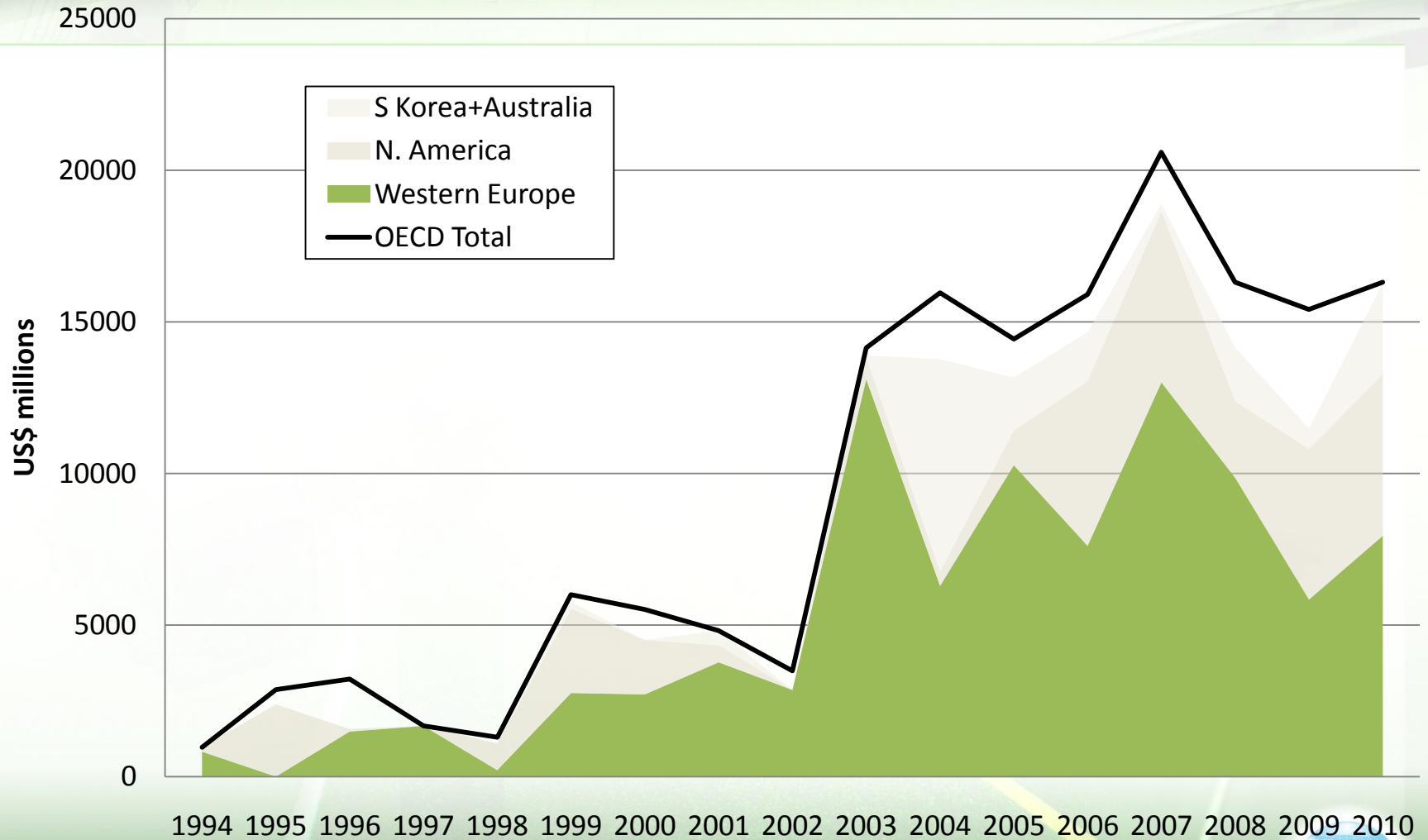
Global investment in Road PPPs



Source: Dealogic ProjectWare Database



Slow down in OECD countries

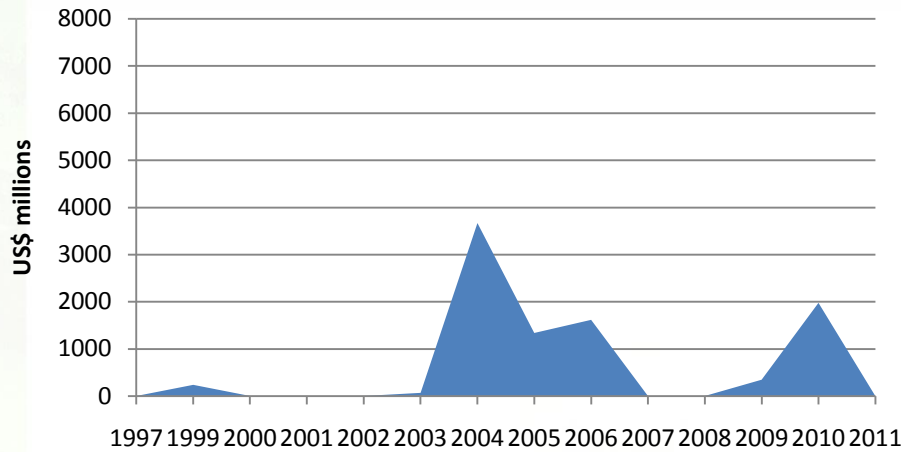


Source: Dealogic ProjectWare Database

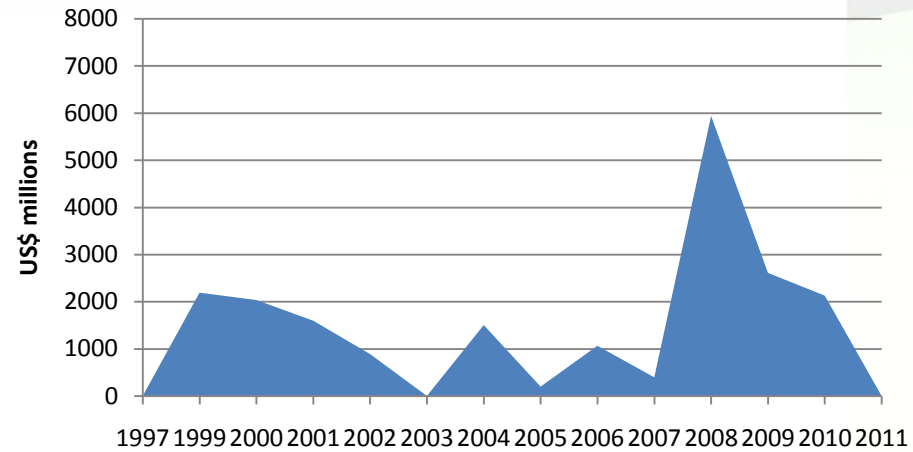


Investment in Road PPPs in selected OECD countries

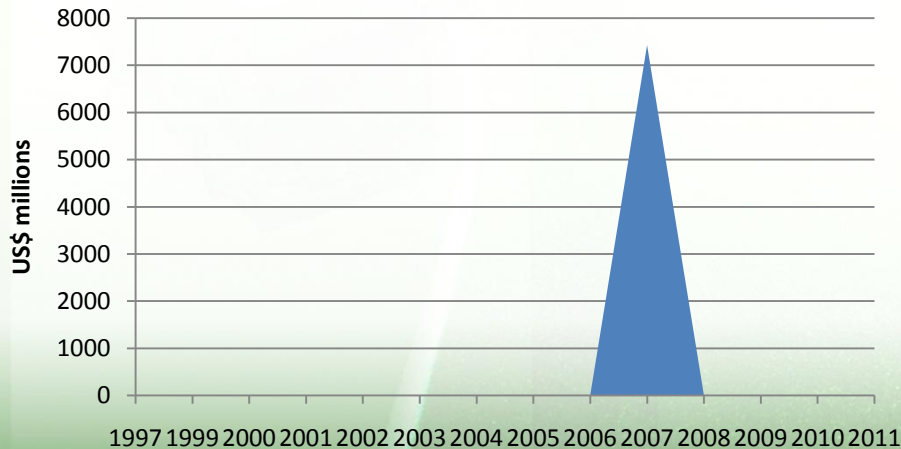
Australia



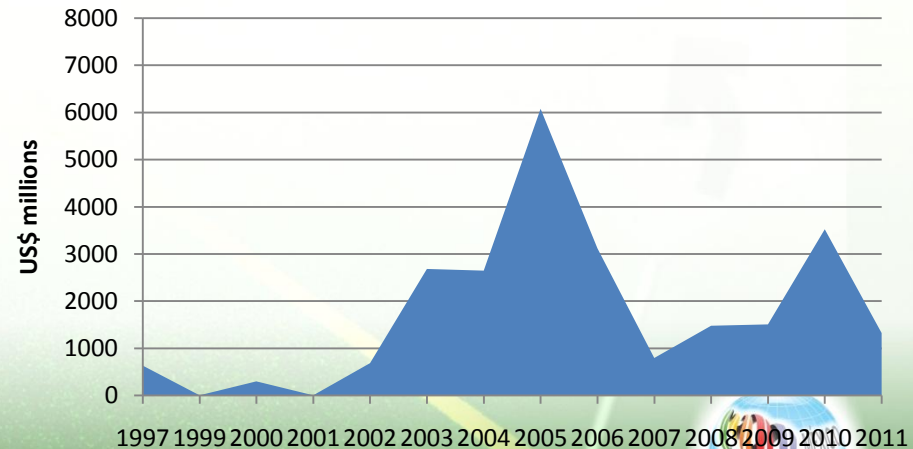
Portugal



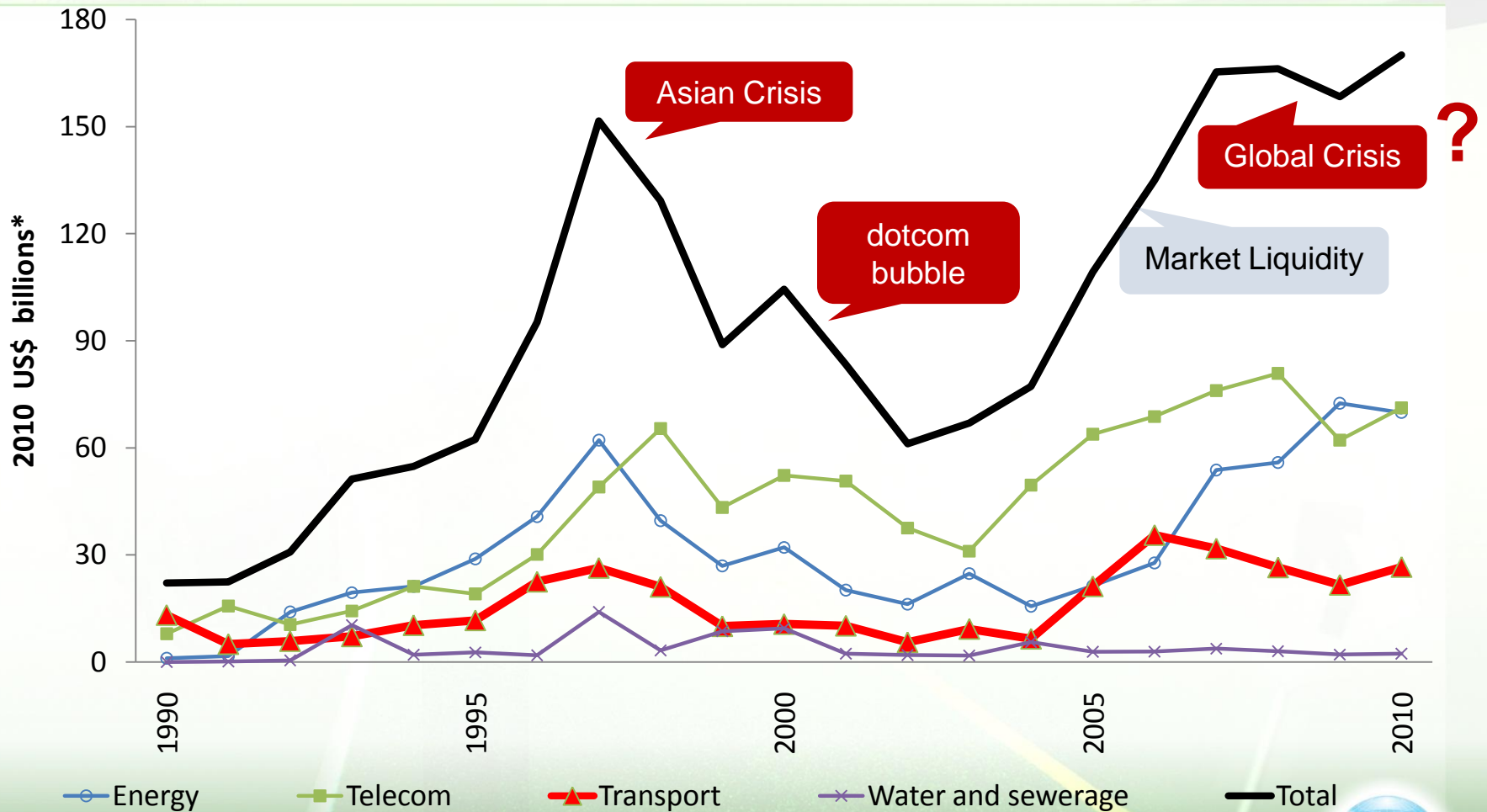
Greece



Spain



Infrastructure PPPs are vulnerable to crises in the developing world

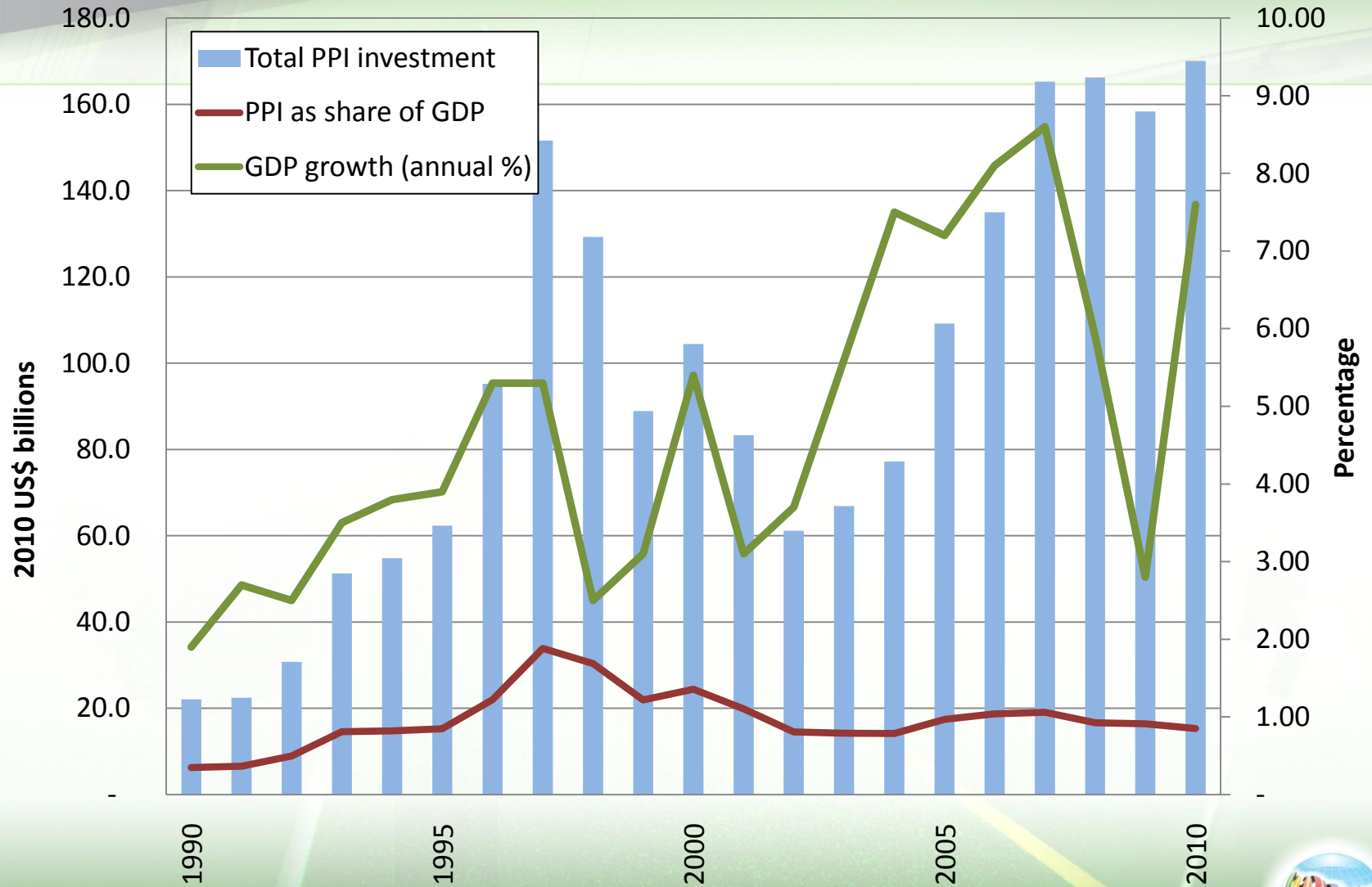


Source: World Bank and PPIAF, PPI Project database.

* Adjusted by US CPI.



...as PFI is closely linked to economic growth



Source: World Bank and PPIAF, Impact of the financial crisis on PPI Project database, and Institute of International Finance



Solid performance of LAC toll roads until contraction of global economy in 2009

- Robust revenue performance of LAC toll roads between 2003-2008:
 - Annual average daily traffic increased by 6.8%...
 - ... fueled by strong GDP growth in Mexico, Brazil, Chile, Colombia and Panama
- Speed and depth of traffic declines a big concern in 2009:
 - “Convergence of global recession, capital market instability and volatile commodity prices will challenge the sector’s credit metrics for the year” (*Fitch on LAC Toll Roads, 2009*)



Market conditions deteriorated rapidly in 2nd semester of 2008: an example from Mexico

Farac I - 30 year concession

4 roads, 550 km

Construction cost US\$137 million

Tender date: Aug 2007

Number of bidders: 6 consortia

Sponsors ICA and Goldman Sachs

Winning bid: US\$4.17 billion

47% higher than govt expectations

Debt/equity: 80/20

Project revenues: Toll fees

Project funding sources:

US\$3.4 billion local denominated currency, short-term mini perm financing (commercial banks)

Refinancing through securitization, has not yet happened

Farac II - 30 year concession

3 roads, 850km

of which 370 km new construction

Tender date: 27 Feb 2009

Number of bidders: 2 consortia

Minimum price: US\$2.29 billion:

Bidding outcome: Project canceled

Both bids well below minimum price

Status:

Project restructured

Retendered in 2 separate packages with public support (Banobras)

Issues other than financial crisis:

Concerns over right of way

Skepticism over traffic projections



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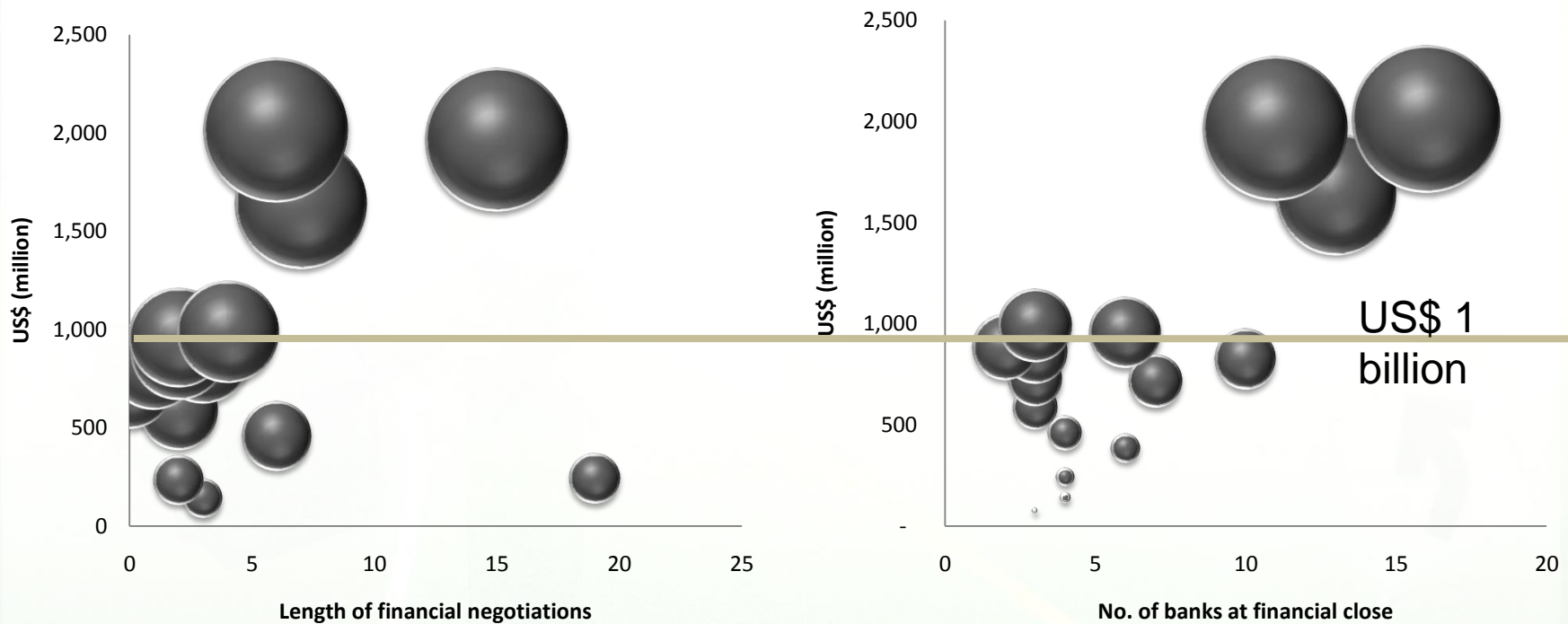
Financing of PPPs changed in developed & developing countries

- Before crisis (2002-07): ***perception of less risky economy***
 - Too much money chasing few projects
 - Trend toward very large PPPs
 - Emphasis on “off-balance sheet” accounting
- GFC aftermath (2008-11): ***shift in “risk-return” balance***
 - Availability of financing drastically reduced
 - Bidders unable to fully secure financing by bid date
 - “Club deals” rather than syndication, longer to close
 - No capital market solution after demise of “monoliners”
 - Developing countries with deeper domestic markets less affected (Brazil, India, Turkey)



Mega-projects more difficult to finance

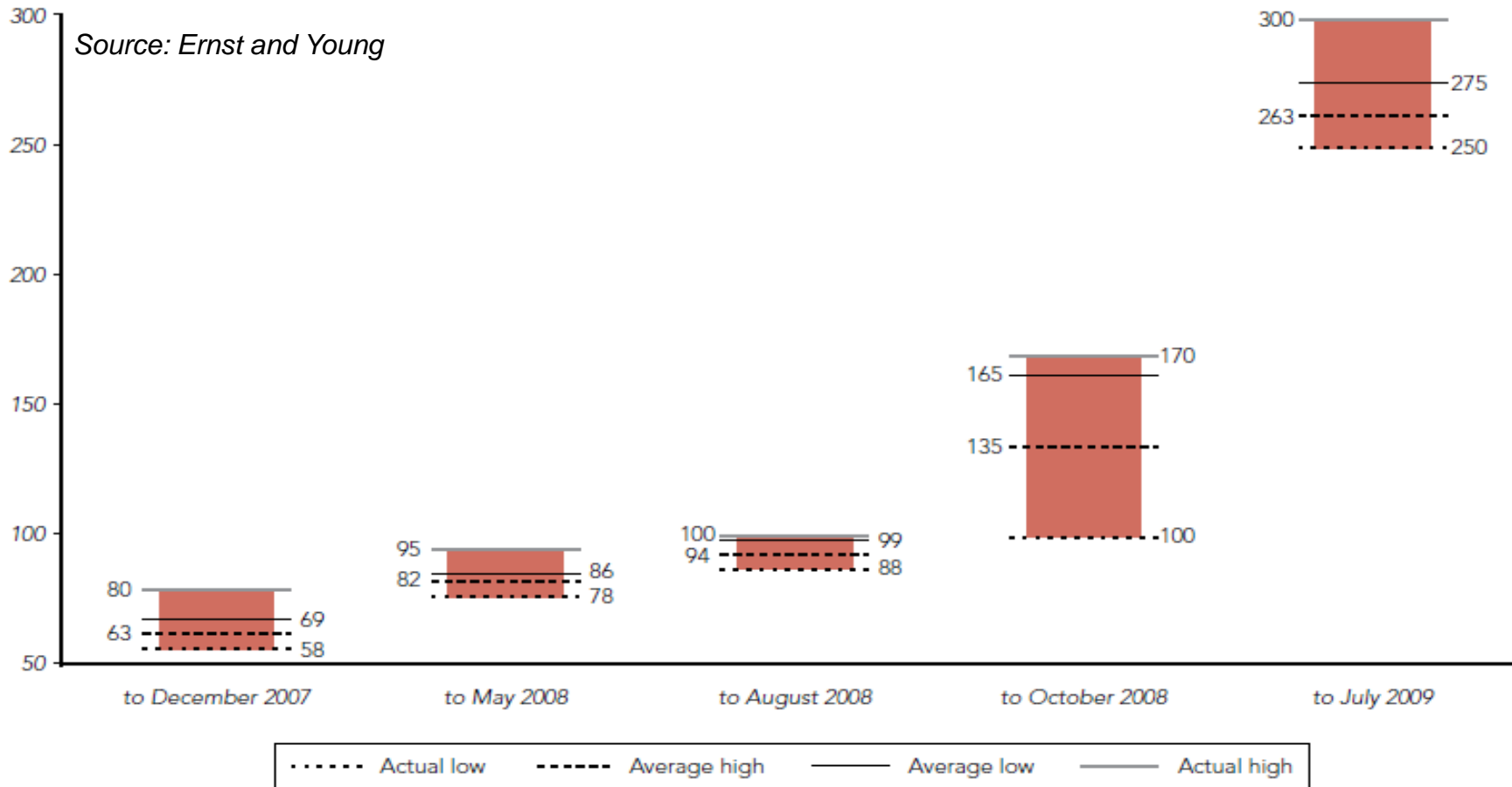
Highway Projects reaching financial close in 2008-09 (EU and ECA)



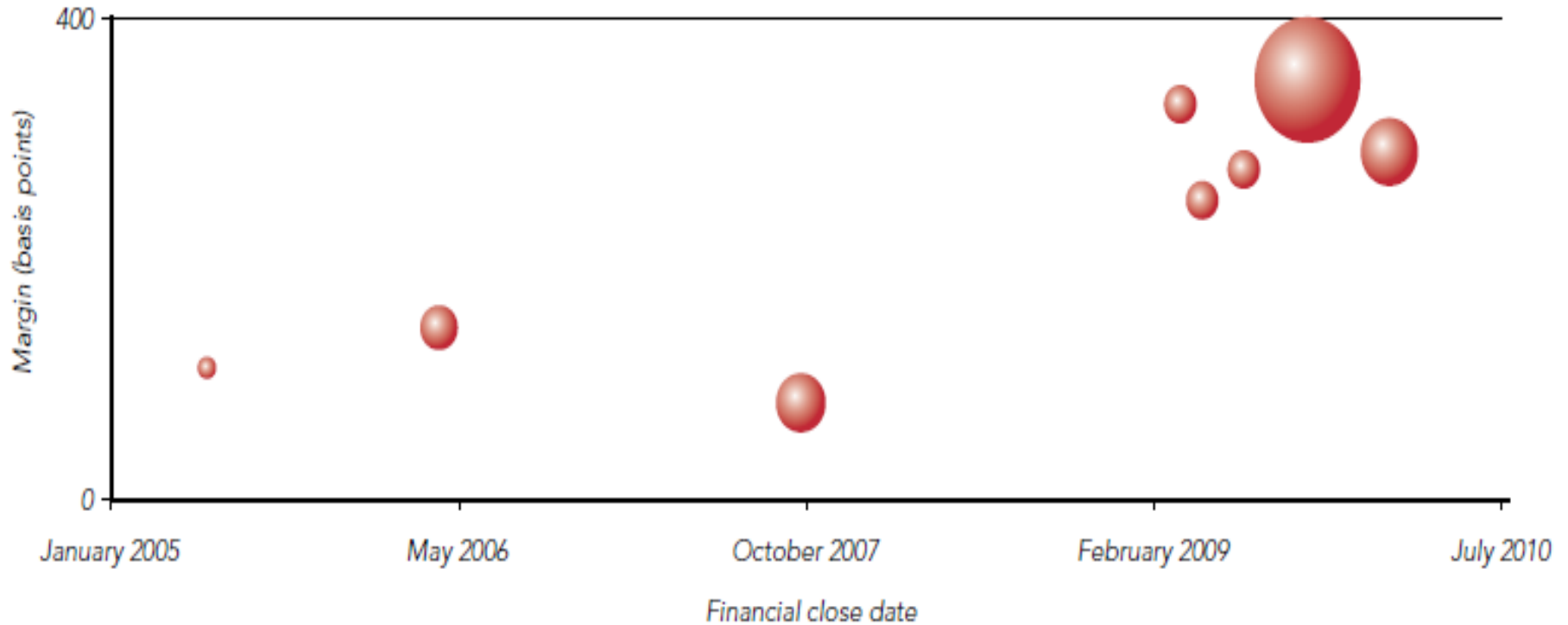
Source: PFI online, World Bank calculation



More costly financing: evolution of debt margins for UK PFI projects



More costly financing: increase in credit margins for selected Australian PPPs



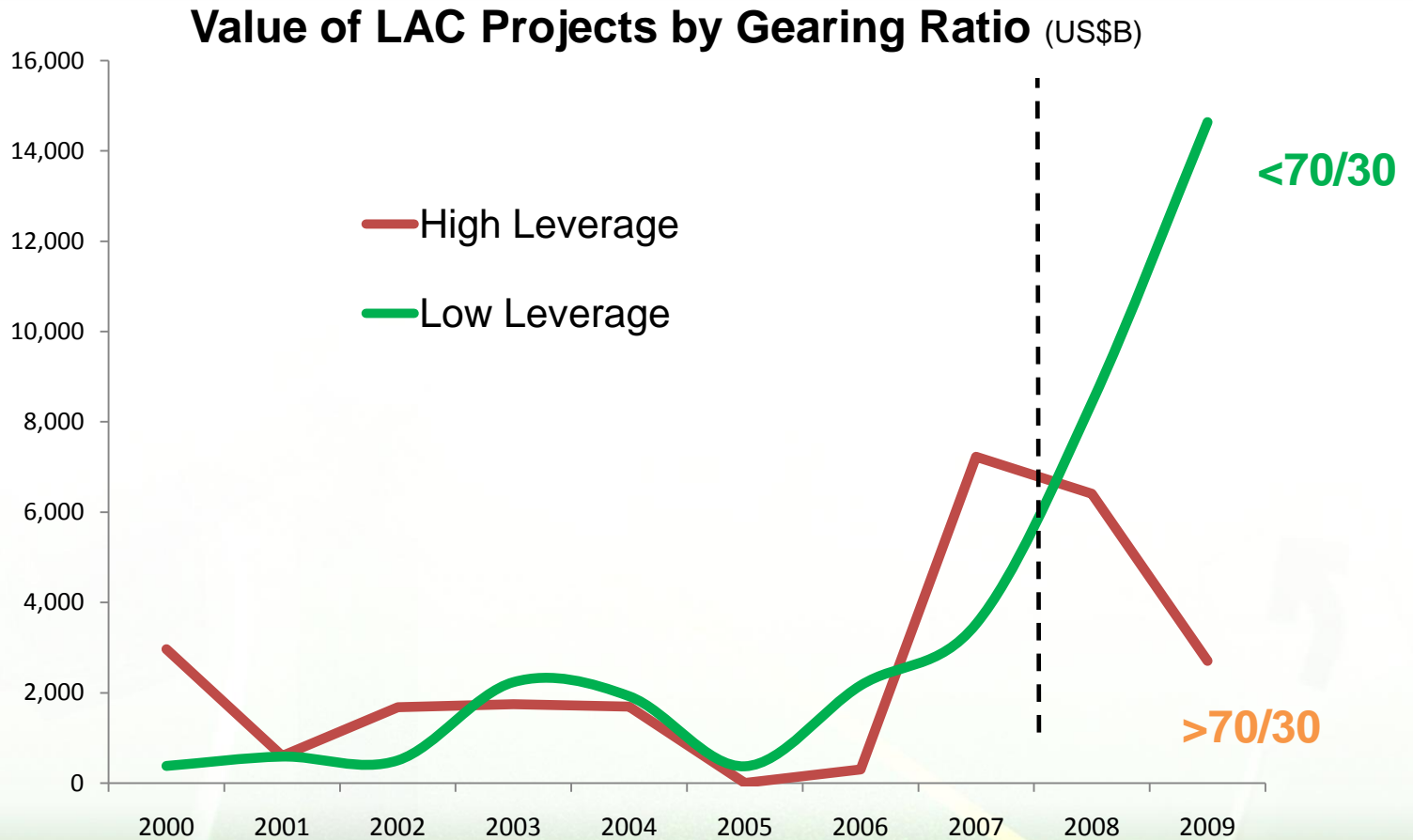
Source: Department of Treasury and Finance (Victoria).

Note: Bubble size reflects project cost.

Adapted from : *Public-Private Solutions*, July 2010



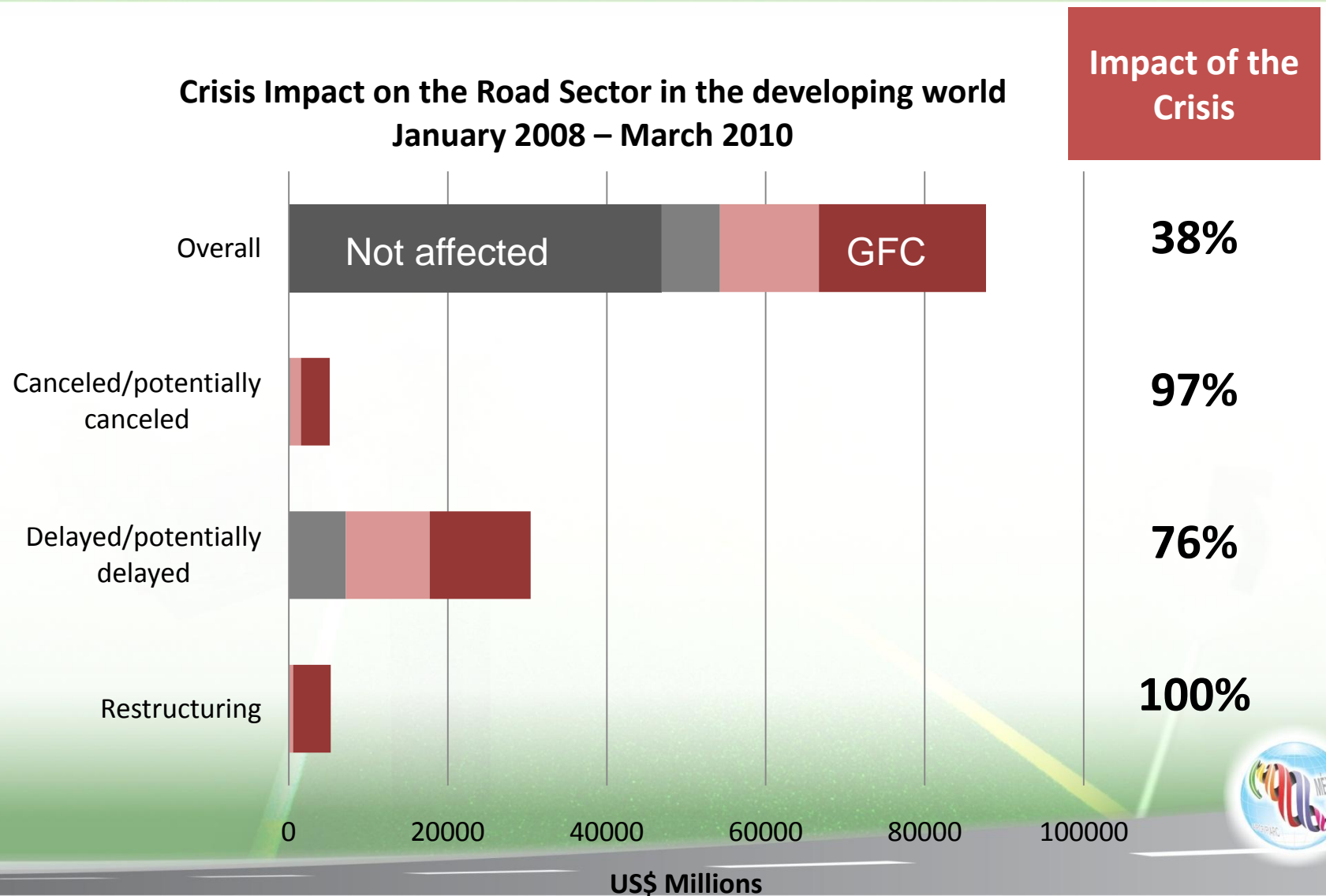
And highly leveraged projects have fallen out of favor



Source: World Bank Calculations from ProjectWare Database (2011).



GFC's impact on road PPPs in developing world: some cancelations, delays & restructuring



...but solid projects reached financing in spite of crisis: Dakar Toll Road, Senegal



- 32 km urban & suburban highway
- \$530 million, of which private sector \$110
- No traffic guarantees



Resettlement of 30.000 people

Govt funded section

Free road

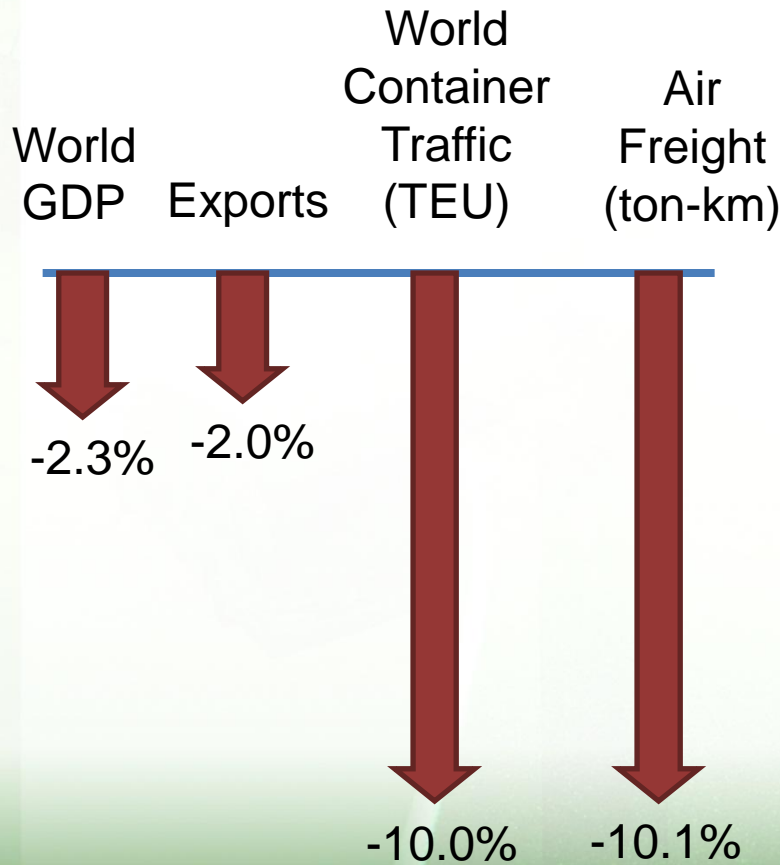
Overall impact of the GFC: “Flight to Quality”

- More conservative structures
 - Lower debt/equity ratios: <70:30 vs 80:20 pre-crisis
 - Close scrutiny of sovereign risk
 - Higher project ratings
- Shift towards greater “public” support
 - Increased financial support (guarantees, debt, subsidy)
 - Govt. owned banks playing much stronger role
- PPP market bounced back in 2010 but...
 - uncertainty in 2011: sovereign ratings; spending squeeze; slowdown of global economy

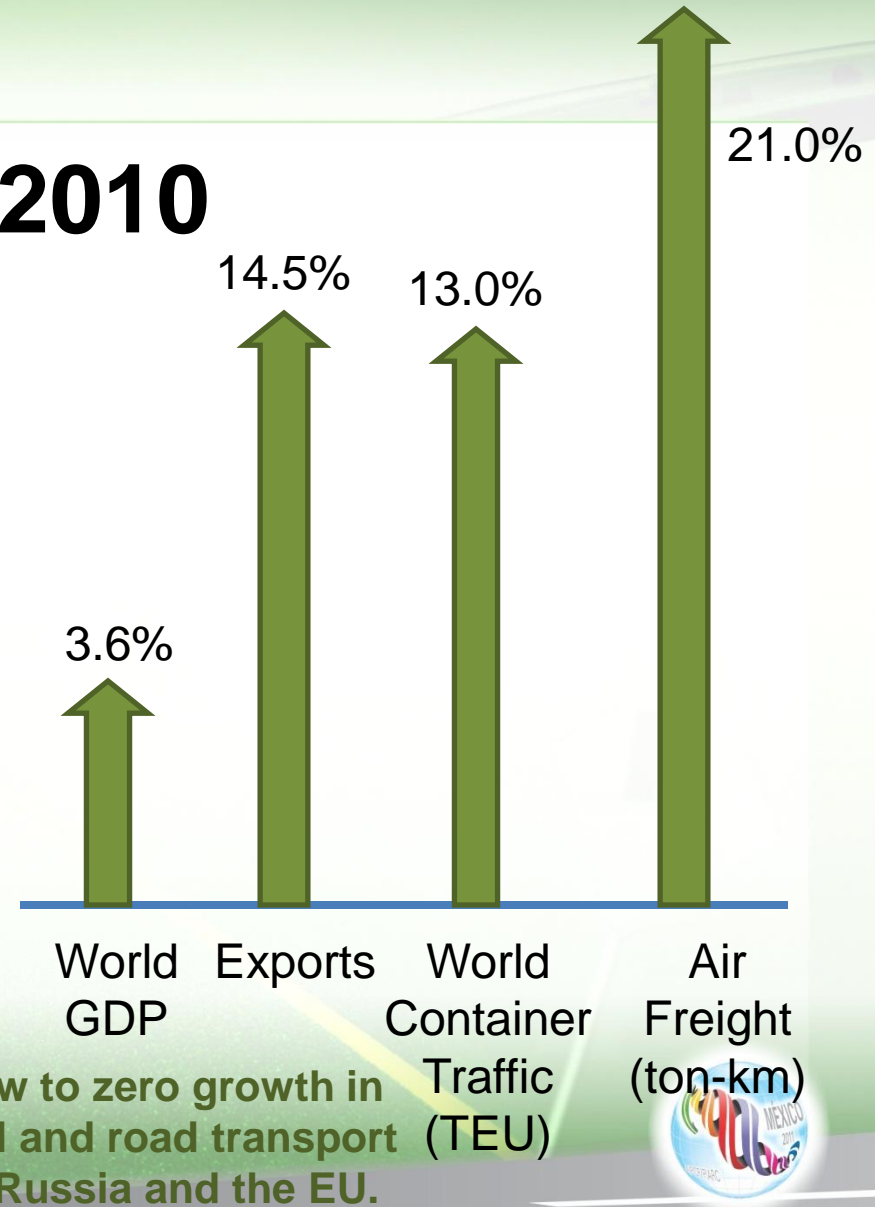


Fall and recovery from economic crisis

2009



2010



Low to zero growth in rail and road transport in Russia and the EU.



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Policy responses to the impact of the GFC

- Restructuring PPP packages to make them compatible with new market conditions
 - Smaller (<\$500m); reducing scope of PPP elements
- Easing procurement requirements
 - Senior debt committed after bid offering
 - Refinancing risk (mini-perm structures)
- Increasing public financial support to reduce gap, allow entry of new investors
 - FR State Guarantee of up to 80% of debt
- Making long term financing available on reasonable terms
 - UK Treasury Infrastructure Finance Unit (co-financing)
 - FR €8bn to *Caisse des Depots* (increased liquidity)



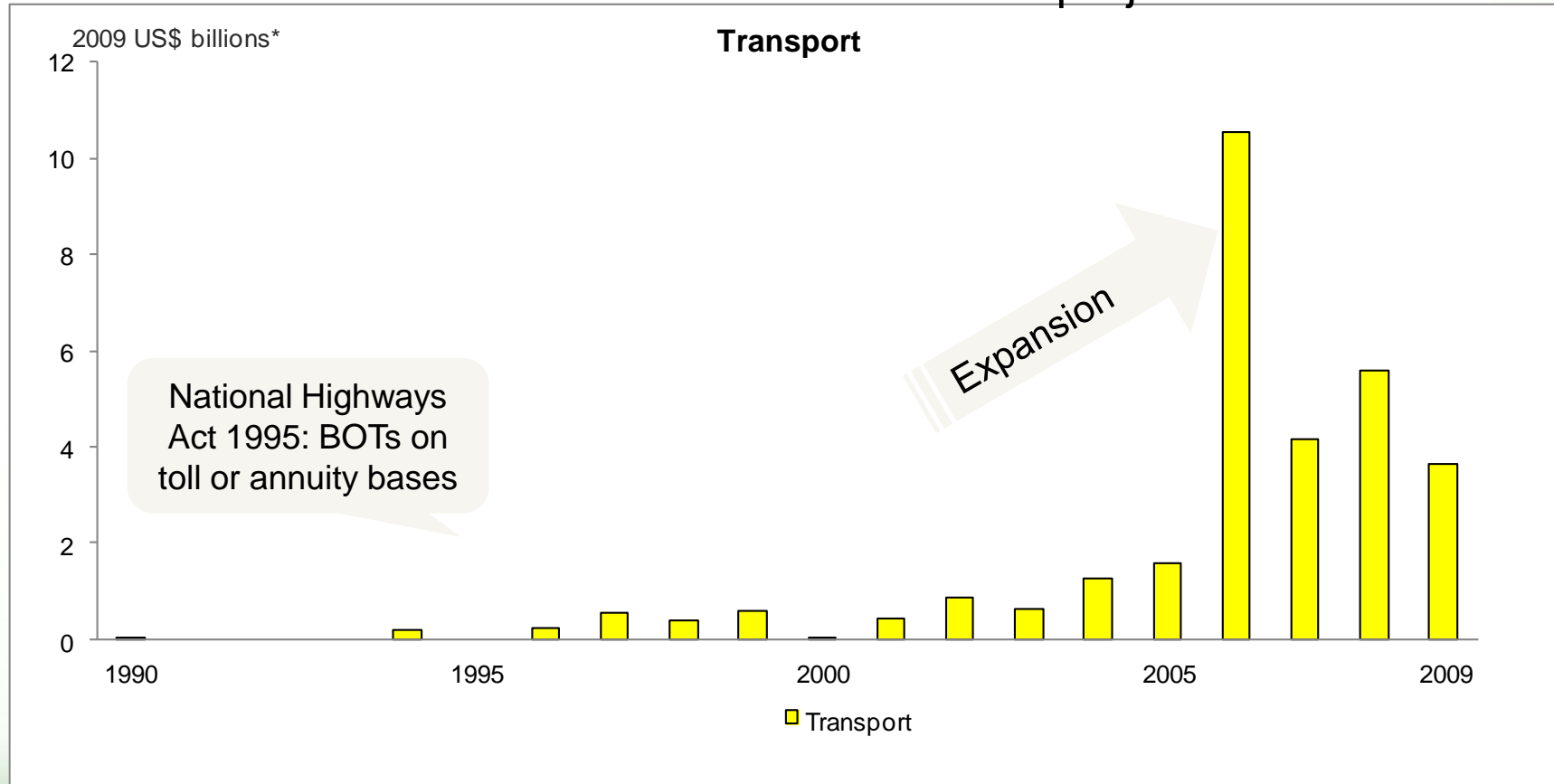
Lessons emerging from responses to the GFC

- Preference for policy approach
- Solutions primarily financial in nature and targeted to the banking sector
 - rapid and timely to avoid long lasting damage...
 - tended to rebalance risk back toward the public sector
- Solutions intended to be temporary rather than long term – exit strategies are important
- Moving forward, motives for doing PPPs will focus more on efficiency gains than current “off- balance sheet” emphasis
 - Integrated planning to screen PPP projects
 - Institutions and institutional interfaces matter!



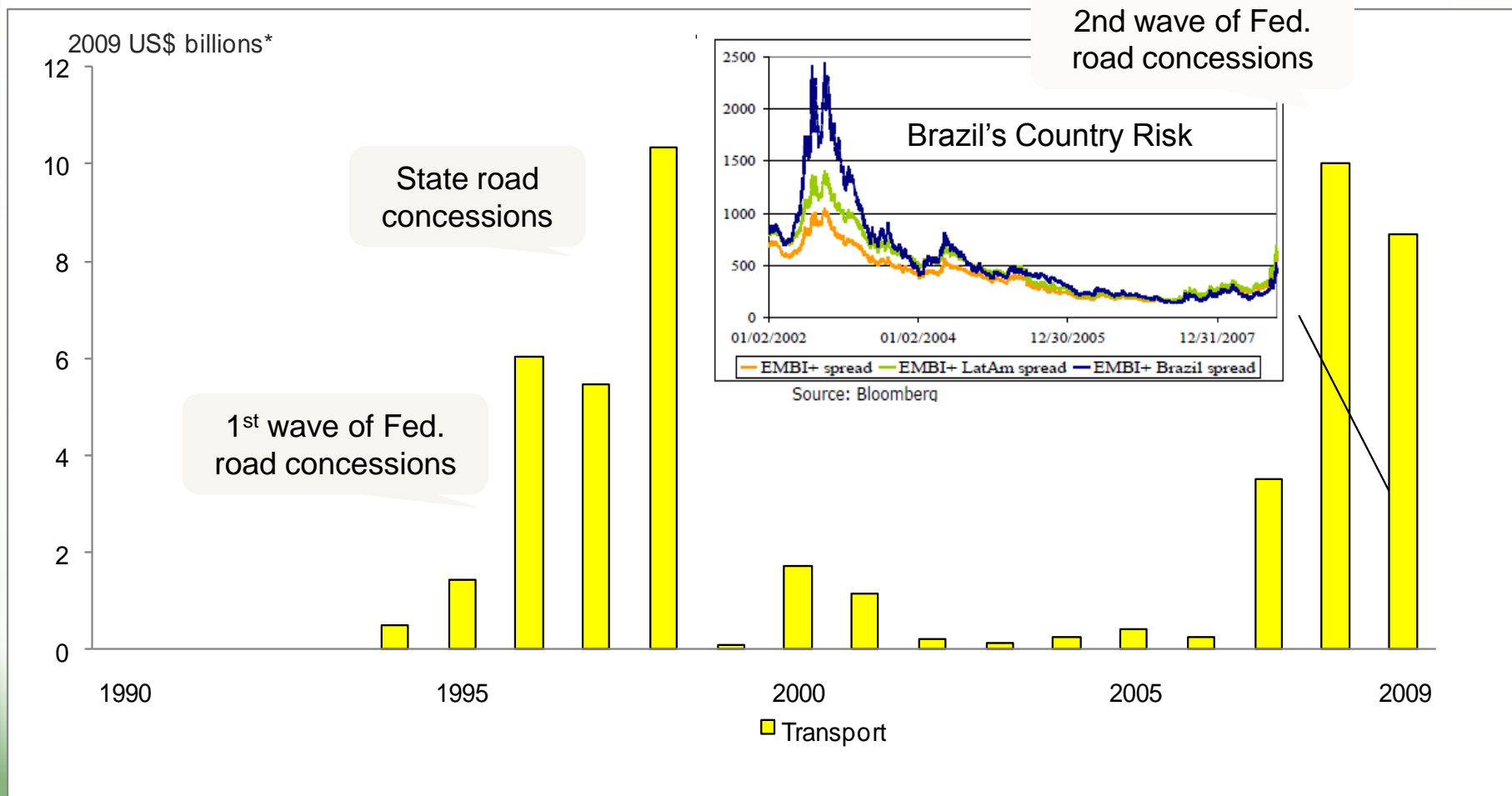
Standardizing contracts/procurement and domestic funding behind India's success

Private investment commitments to road projects in India



Brazil two waves of road concessions show effect of lowering country/regulatory risks

Private investment commitments to ETW projects in Brazil, 1990–2009





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