IJGlobal
Project Finance & Infrastructure Journal

The 3 Cs of PPPs

Agnes Mazurek

25/05/2023

Guest post: Agnes Mazurek, global head of private markets Innovation, Apex Group

Most of those reading this piece will have come across me on a project finance deal. Some of the most fulfilling moments in my career have been seeing the young move up and lead their own deals with my guidance. Sharing experience and expertise is what makes our industry progress.

Talking about industry, I turned a new page in my career 2 years ago by joining the world's largest services provider to the alternative investment fund industry. Thanks to the United Nations Economic Commission for Europe (UNECE), I can continue sharing my 20 years of experience lending to infrastructure projects around the world.

A couple of weeks ago, I joined the 7th UNECE International PPP forum on a panel discussing "halfway to 2030-Infrastructure Finance in PPPs for the Sustainable Development Goals", with a focus on the role played by governments in successfully delivering PPPs.

For private sector lenders, governments and public procuring authorities are key, as they shape the policies that will lead to the pipeline of projects (such as decarbonisation). However, our understanding of the prerequisites for a fruitful cooperation with the public sector remains limited.

So, what are the key issues that affect governments when it comes to infrastructure finance for the SDGs?

The first prerequisite to attract private sector equity and debt is pipeline visibility and transparency on projects cancelled or delayed. Sustainable projects start with a sustainable pipeline. Given bid costs and surplus of liquidity (in OECD countries at least), contractors and financiers will be easier to mobilise towards a series of projects than for a one-off deal. The Dutch government's successful PPP program of the past decade is a good example.

Infrastructure and PPP projects take between 2 and 4 years between start of procurement and financial close. The construction period is between 2 and 6 years, with decades of operations. There is no perfect overlap with political cycles. Lack of consistency in decisions from one government to another is a manifestation of political risk in projects, and is not limited to emerging countries, as Melbourne light rail showed in 2014.

Closely connected to the above is commitment. Most seasoned project financiers still carry the scars of the Greek road PPP program restructuring 15 years ago. Well, PPPs in Greece are back on the agenda. There is something to be said for governments who can learn from past issues and start afresh.

To summarise, commitment, consistency and communication are three key attributes of the governments who have delivered a successful PPP program.

For the past 10 years, a consistent complaint one could hear when discussing the state of the project finance market in most developed regions (Europe is a good example) was an oversupply of liquidity and scarcity of projects. Financing packages over-subscribed several times, lenders scrapping for small tickets, margins dropping and structural terms becoming aggressive.

Competition has never been rifer, as commercial banks were not only competing with each other and occasionally with MDBs, but also with institutional capital. Another trend has been a slowdown of procurement of new projects, in particular in the transportation and social

All content © Copyright 2023 IJGlobal, all rights reserved.

infrastructure sectors, with the financing activity being dominated by equity changing hands in already operating assets.

Few lenders remained involved in greenfield infrastructure finance. Conversely, emerging countries cannot seem to be able to complete the financing of their projects without overwhelming support of multilateral and development finance institutions.

Commercial banks will come to the party, but only with a very small portion of funds being at commercial and political risk. While institutional equity has ventured into emerging countries, institutional infrastructure debt allocation rules often preclude non-OECD countries. The big challenge to a sustainable PPP financing model seems to be how to attract the much-needed private sector liquidity where it is most needed, critical greenfield infrastructure.

A word more familiar to those lenders active in emerging market project finance, blended finance is in my view a big source of hope. Blended finance is "the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries" (OECD). The mindset is very much one of a fund manager, as it allows investors to choose different risk profiles, while all participating in the same project. A successful framework already, it now needs scalability to enhance the universe of investable projects.

In that spirit, we have seen things change slowly in the asset management lending space, with some infrastructure debt funds having launched in the past couple of years with a mandate to lend alongside MDBs in emerging countries. A very worthy mandate, and chances are with good returns too.

Innovation is a key condition for survival for most competitive industries, and project finance was for a long time sheltered from the need to change and adapt.

With the SDGs, policy makers have recognized the need for a different approach to development. Infrastructure project finance can only survive as an industry if it reinvents itself to continue doing what it was created for, provide funding where it is most needed.

Thank you for printing this article from IJGlobal.

As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.

*If you have been given this article by a subscriber, you can contact us through **www.ijglobal.com/sign-up**, or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.*

All content © Copyright 2023 IJGlobal, all rights reserved.