



The Role of Public-Private Partnerships

Nicholas Grambas
Executive Director
Macquarie Bank Limited

Contents

1. **PPP's – a broad definition and key stakeholders**
2. **PPP trends**
3. **PPP in Asia – a mixed story**
4. **What can PPP deliver?**
5. **The future**





1. PPP's – a broad definition and key stakeholders

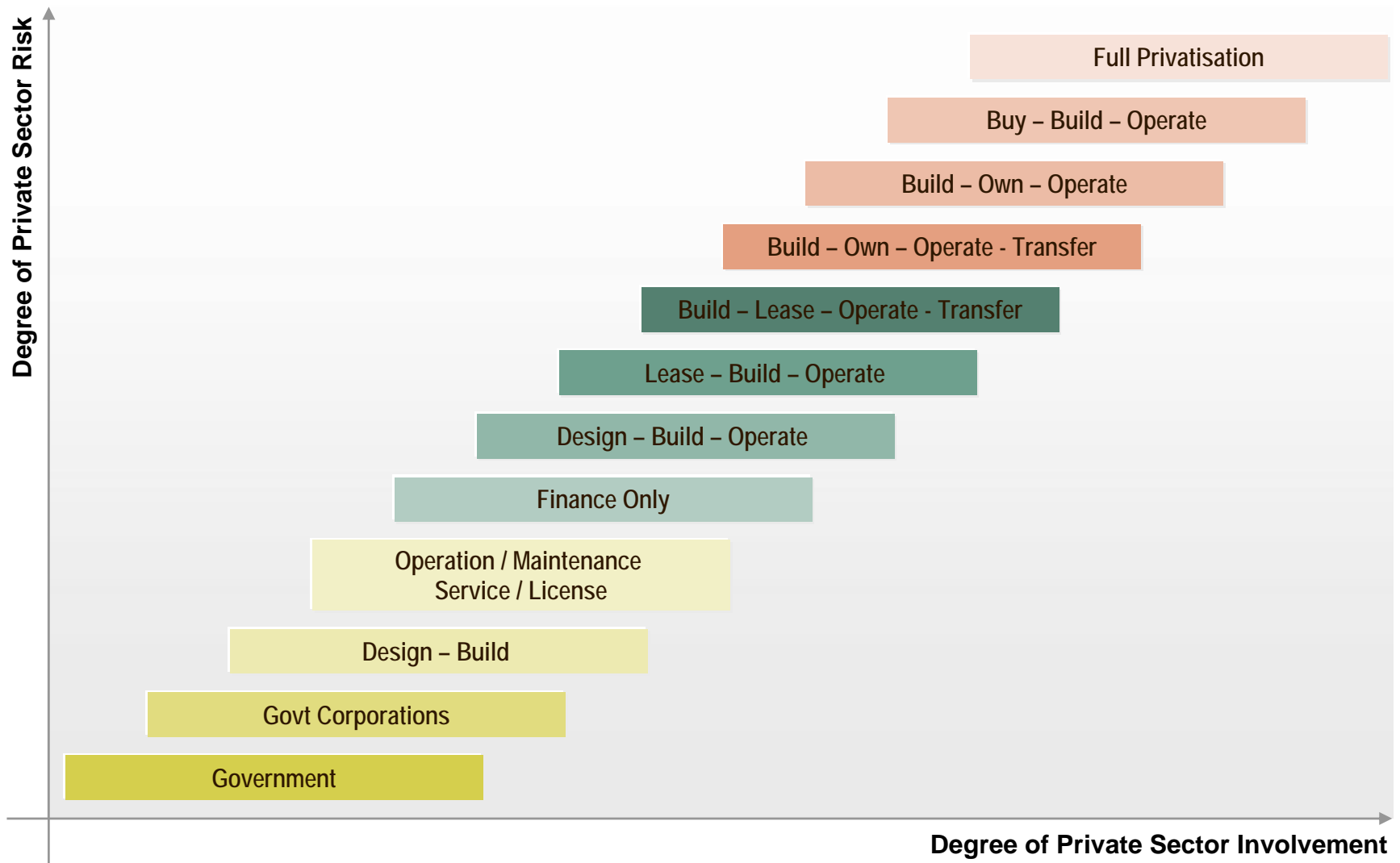
What is PPP?

“Public Private Partnership (PPP)”

>> Broad Definition

- Partnership between the public sector and the private sector to design, develop, finance, construct and/or operate infrastructure projects
- Offer solutions by taking innovation and efficiencies associated with the private sector and bringing these to bear on public sector projects
- The PPP objective is to allocate responsibilities and risks to the partners who are best able to manage and mitigate those risks
- “Win-win” situation for both the public and private sectors – in a very broad sense

Models for Infrastructure Delivery



Types of infrastructure



Transport

- Road, rail, seaports, airports
- Often big ticket transactions > \$1,000m

Utilities

- Gas, water, electricity (excl. merchant/trading), telcos
- Largely regulated – significant entities and frequently publicly listed > \$1,000m

Social services

- Schools, health, aged care, waste services
- Numerous transactions, generally < \$500m

Typically, infrastructure offers essential services, has barriers to entry, strong market position

Who are the key stakeholders?

“Private Sector”

- **Sponsor Equity Investors:**
 - Construction companies participating in the construction and participating in the operations of the asset
- **Pure Equity Investors:**
 - Life insurance companies;
 - Pension Funds;
 - Asset management companies;
 - Hedge funds;
 - Specialist Infrastructure Funds; and
 - Macquarie Bank and its funds
- **Debt Investors – Bond Debt Issuers**
 - Financial institutions participating in the senior debt financing for the asset
- **Retail Investors - Investors who invested in financial markets**

“Public Sector”

- **Value for Money:**
 - Lower construction, operating costs, and more efficient maintenance
 - A third way in which governments may deliver some public services
- **Risk Transfer:**
 - Risk can be allocated to whichever party from the public or private sector is able to manage it best and at lowest cost
- **Incentives:**
 - PPPs assemble into one business entity all the parties involved in designing, constructing, operating and (most often) financing the project.
 - As payments do not commence until the asset is built and has started to operate and penalties apply if construction is delayed, there is a strong incentive for the consortium to complete the project on time.



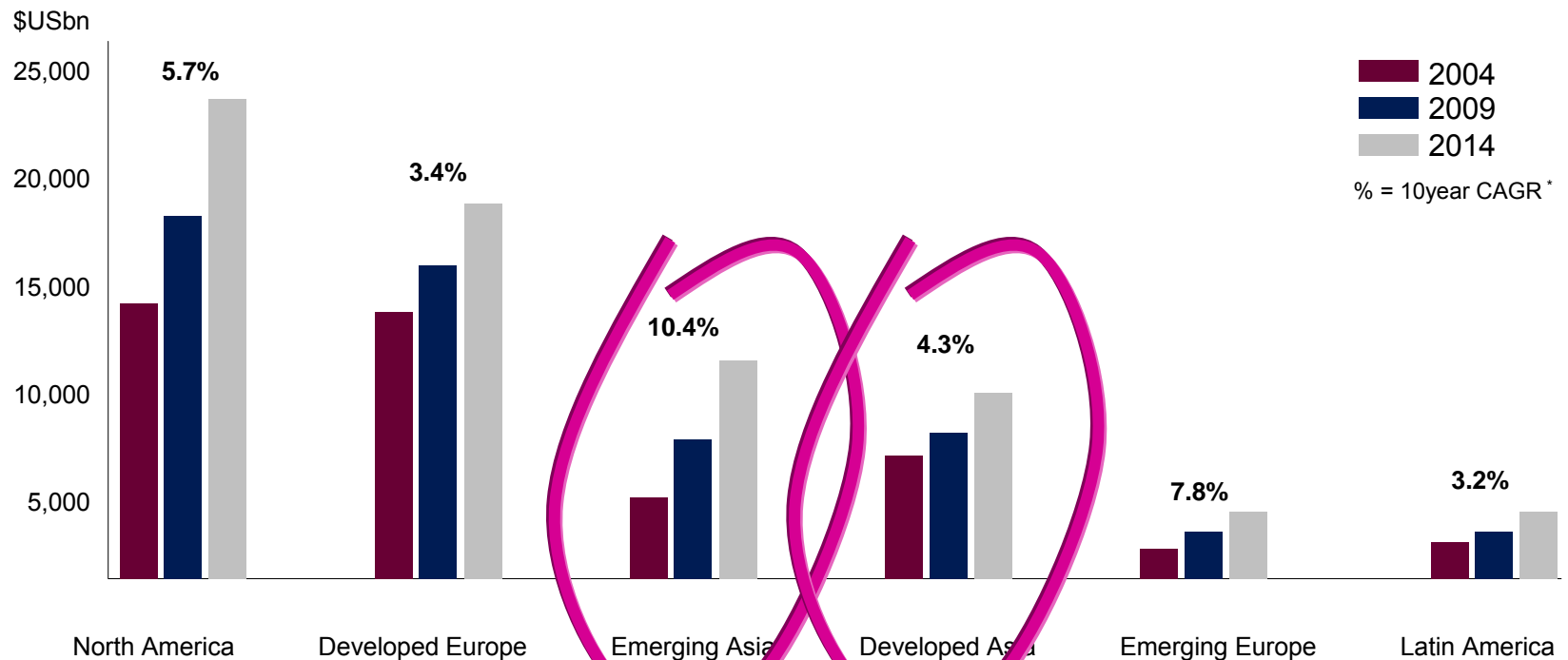
MACQUARIE

2. PPP trends

Why is it important to take a broader view



>> Nominal GDP growth 2004-2014



* Compound Annual Growth Rate

Strong economic growth is expected to underpin infrastructure investment in developing countries, with emerging Asia to lead the trend

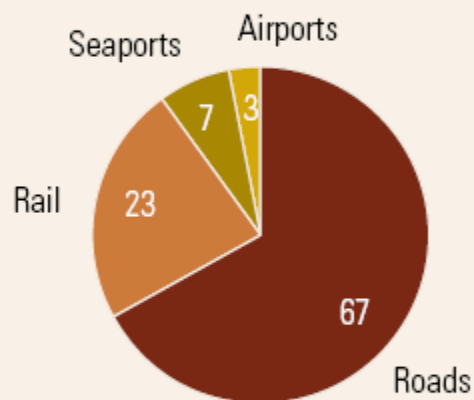
Why is it important to take a broader view

Public Transportation Infrastructure- Case Study 1

Projected volume of planned investments in public-transportation infrastructure for selected countries, 2005–2010¹

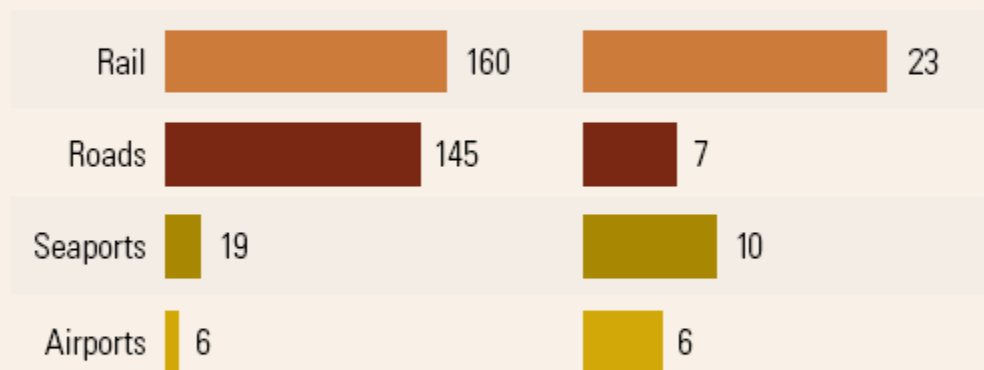
Total investments, %

100% = \$3 trillion



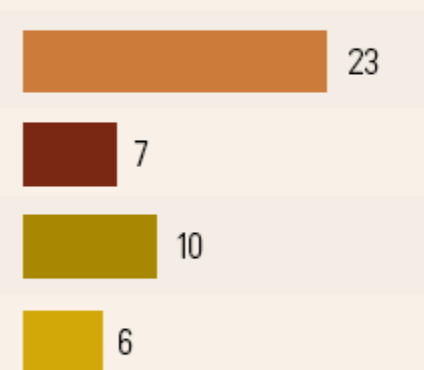
Public-private-partnership investments, \$ billion²

Total = \$330 billion



Public-private-partnership investments as % of total

11% of all planned investments



¹Global total extrapolated from country data weighted by GDP; for Australia, Brazil, China, France, Germany, India, Italy, Japan, Portugal, Russia, South Korea, Thailand, United Kingdom, and United States; breakdown by transportation mode not available for Australia and Portugal.

²Estimated value of required private investment in publicly owned infrastructure.

Source: Dealogic; McKinsey analysis

Why is it important to take a broader view

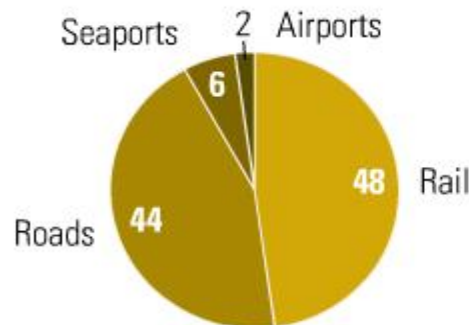
Public Transportation Infrastructure- Case Study 2

The regional landscape

Projected volume of planned investments in public-transport infrastructure by region, 2005–2010, \$ billion¹

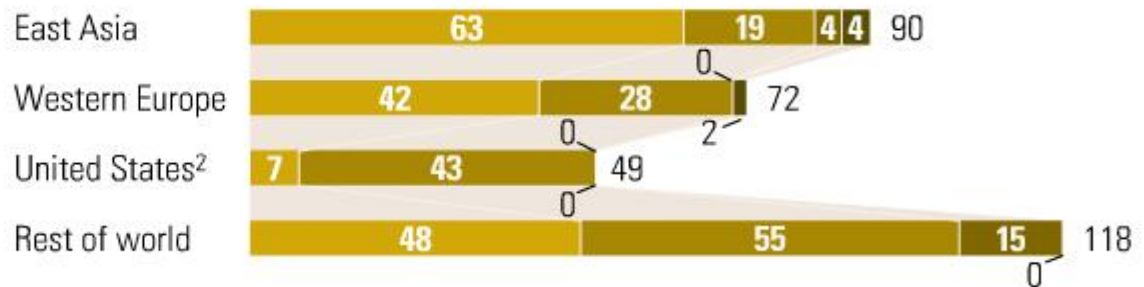
Total, %

100% = \$330 billion



By region, \$ billion

■ Rail ■ Roads ■ Seaports ■ Airports



¹Based on project start date; global total extrapolated from country data weighted by GDP; for Australia, Brazil, China, France, Germany, India, Italy, Japan, Portugal, Russia, South Korea, Thailand, United Kingdom, and United States.

²Figures do not sum to total, because of rounding.

Source: Dealogic; McKinsey analysis



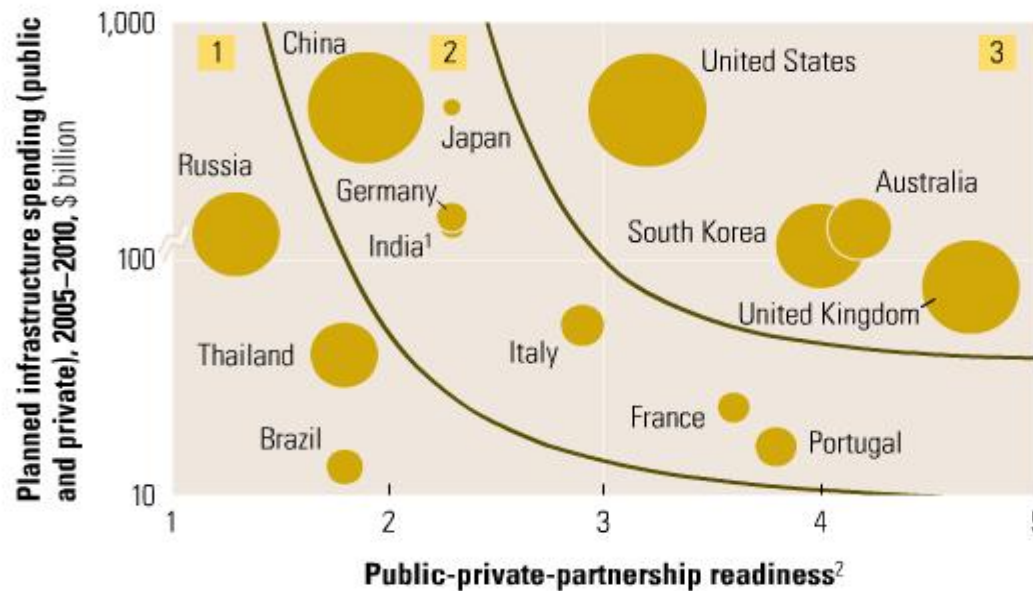
3. PPPs –Global “State of Readiness”

The readiness is all

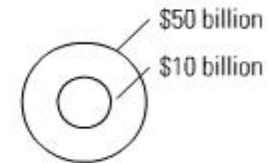
The readiness is all

Country attractiveness

1 'Proceed with caution' 2 'Emerging opportunities' 3 'Hot spots'



Size of bubble = amount of planned private investment



¹Recent plans indicate even larger opportunities in the future.

²Average of score on scale of 1 to 5, where 1 equals least ready and 5 equals most ready; measured across 9 dimensions, eg, is there a robust legal and institutional framework in place?

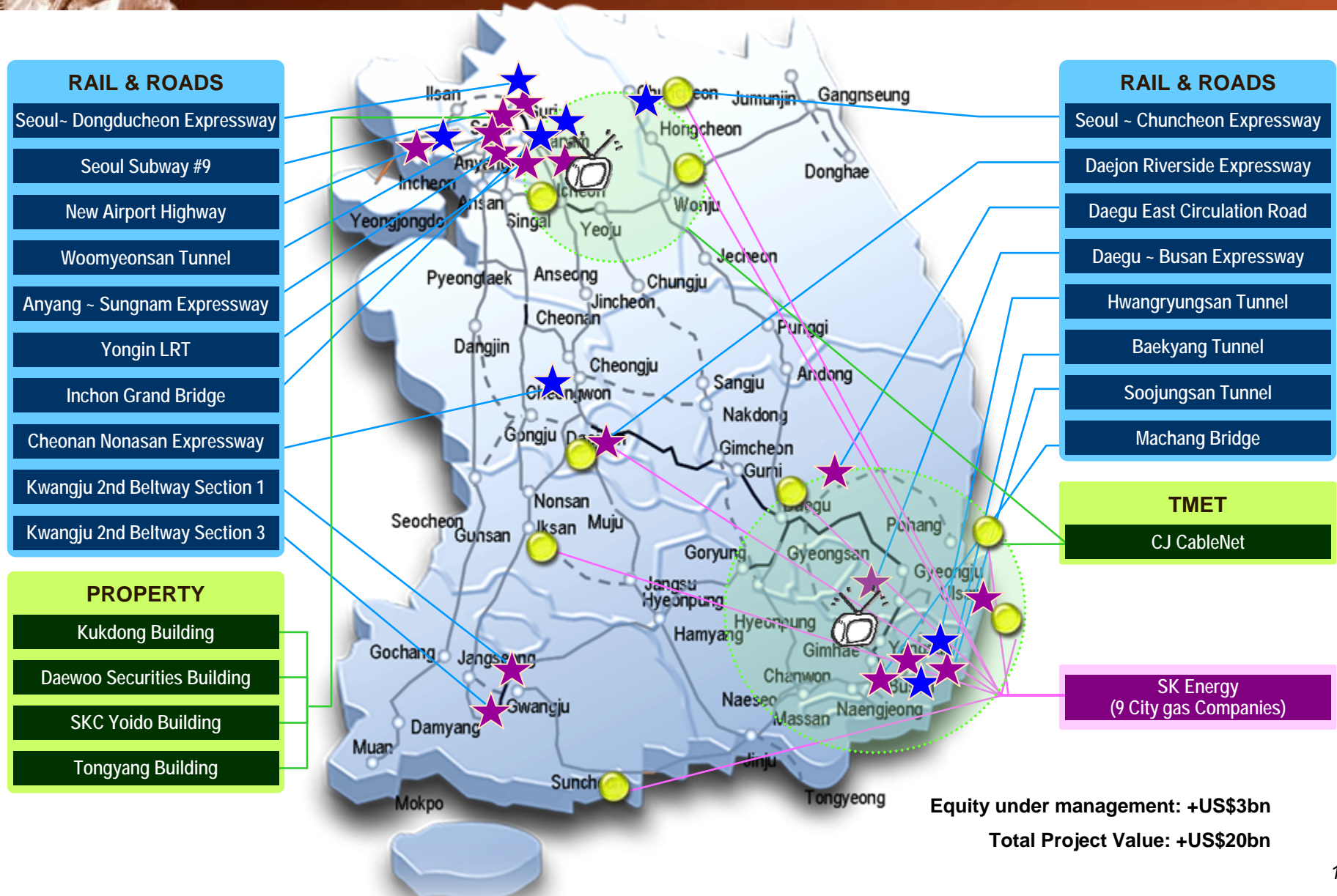
- A series of individual markets with unique features
- Local players often dominate
- Foreign money can be a catalyst but access to domestic capital is important
- Majority/controlling stakes not usually available to 'foreigners'
- International experience relevant (sort of) – technical/operational



Mix of sophisticated and developing markets

Korea	<ul style="list-style-type: none"> ▪ Macquarie is the market leader in PPP transactions ▪ Very sophisticated PPP regime in place ▪ Government remains eager for private investment in infrastructure
China	<ul style="list-style-type: none"> ▪ Perception of political risk but some private infrastructure already in place ▪ Local players dominate
India	<ul style="list-style-type: none"> ▪ An emerging market with huge potential ▪ Political risk may be significant
Japan	<ul style="list-style-type: none"> ▪ Recent PPP deals transfer little risk ▪ Local players dominate
Thailand	<ul style="list-style-type: none"> ▪ Lots of local players with most essential services having privately run options
Singapore	<ul style="list-style-type: none"> ▪ Establishing pipeline of PPP projects, handful complete ▪ Government keen to set a regional example
Malaysia	<ul style="list-style-type: none"> ▪ Well establish private participation across many infrastructure sectors ▪ Locals dominate in a sophisticated market
Taiwan	<ul style="list-style-type: none"> ▪ Government control the provision of most essential services ▪ New transport initiatives and health care have private involvement
Philippines	<ul style="list-style-type: none"> ▪ Opportunistic market – foreign players in private power generation ▪ Listed market getting deeper in past 24 months
Indonesia	<ul style="list-style-type: none"> ▪ Government control the provision of most essential services ▪ Power generation, some water and some telco services are exceptions
Hong Kong	<ul style="list-style-type: none"> ▪ Private tollroads, utilities and many essential services ▪ Sophisticated market

Macquarie Assets Throughout Korea



Equity under management: +US\$3bn

Total Project Value: +US\$20bn

Global Markets



Australia	<ul style="list-style-type: none">▪ Good pipeline of opportunities but very competitive▪ Implementation and private sector risk proven▪ Utilizing strong capital markets (debt/equity) for private finance▪ Many Australian investors now looking for offshore opportunities
Canada	<ul style="list-style-type: none">▪ Most infrastructure constructed between 1950 and 1980▪ Provincial or municipal governments are responsible for most projects▪ Most activity in British Columbia, Ontario, Alberta and Quebec
Europe	<ul style="list-style-type: none">▪ Substantial pipeline in Ireland, various successes in France▪ Local players dominate in France and Spain▪ Slower progress in Germany▪ Most opportunities in Ireland and Benelux
UK	<ul style="list-style-type: none">▪ Basically all infrastructure has been privatised▪ PFI program a positive experience: 78% construction under/on budget; 76% construction early/on time▪ Tender process slow, but 200+ projects in pipeline worth £26 billion over next 5 years



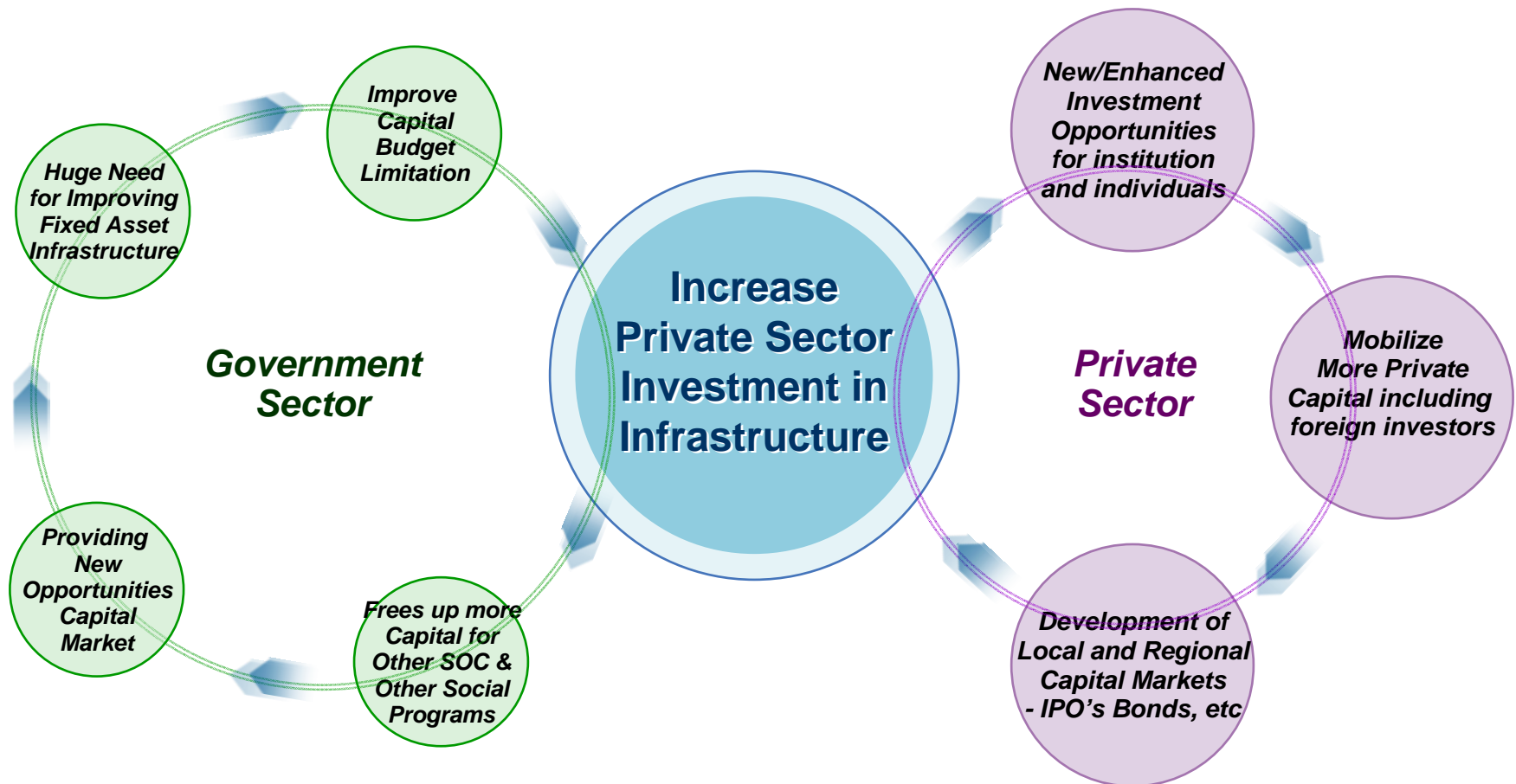
4. What can PPP deliver?

What can PPP deliver?



<i>Economic Reality</i>	<i>Gov't Objective</i>	<i>Solutions</i>	<i>Result</i>
<ul style="list-style-type: none">▪ Increasing Levels of Economic Development<ul style="list-style-type: none">- Currently over 350 infrastructure companies in the listed universe, 7% of the world's market capitalisation▪ Changing Demographics in North Asia and Korea<ul style="list-style-type: none">- To build their wealth through sophisticated financial markets.- Aging Population- Competitive and changing economy- FTA, Interest rates, Oil- More competition amongst developed markets and emerging markets (eg. BRIC – Brazil, Russia, India, and China)▪ Government Capital outlay constrained by Balanced Budget▪ Ever-growing pressure on equity investors and public funds looking for investment	<ul style="list-style-type: none">▪ Develop efficient and effective infrastructure▪ Develop bond and equity markets (eg Korea as a financial hub)▪ Grow and utilise the national savings pool▪ Enhance community services<ul style="list-style-type: none">- 2.4 billion people globally do not have access to sanitation, 2.5 billion to modern energy supplies, 1.2 billion to safe drinking water and 1 billion to roads to reach markets, jobs and health care facilities	PRIVATE INVESTMENT IN INFRASTRUCTURE	<ul style="list-style-type: none">▪ Provides better Infrastructure – delivers improved and better value for money through appropriate risk sharing between public and private sector parties▪ Enhances the economy – better infrastructure = better logistics and better social mobility▪ Improves Capital Markets – Develops Debt and equity markets▪ Provides better services to the community –The urban population in East Asia and the Pacific region could rise by 500m over the next 20 years. Tremendous pressure on existing urban infrastructure.

Why it is important to take a broader view of PPP?





5. The future

How to improve PPP in the future



Overall

- Need to understand the challenges of PPP's and to be committed to continuous improvement in the delivery model
- Ability to deliver is crucial
- Partnership
 - The best approach is one founded on collaboration
 - Great partnerships are value-driven and great partners put people first
 - Need for in-house experience and expertise working with and for Governments
- Bidding for complex PPPs is time consuming and expensive
 - Complex financial contracts
 - Commitments to future payments
 - Complex institutional checks
- Government should understand big picture, i.e. how PPP can deliver better infrastructure and faster
 - Agencies need to be better coordinated

Keys to Success

→ **Capital Markets**

- Stock exchange and securities should be encouraged to understand new approaches like PPP

→ **Investors**

- Investors need to be better educated on benefits of long term investment
- Need better understanding of the importance of asset management

→ **Banks**

- Need to be sensitive to risk analysis
- Instead of relying on Government, need to analyze more about the business itself

→ **Advisors**

- Develop advanced financing models and diversified financing sources not just limited to domestic markets but also international markets.

→ **Government**

- Needs to be certain about big picture benefits
- Privatizing of existing assets should be given more consideration, could add greatly to capitalization of Korea's equity market

Conclusion



- There is a very real and immediate imperative for increasing PPP's globally
- PPP's can:
 - Promote innovation
 - Attract and promote both short term and long-term private investment and expertise
 - Allow Government to retain public provision of services through good regulations
 - Bring environmental, social and community benefit
- The Virtuous Cycle – More interest and investment in infrastructure and social infrastructure, better transport and social services:
 - Improves private and public sector participation
 - Assists capital market development and
 - Leads to stronger economy
 - Brings in foreign investors (usually via listings)



MACQUARIE