Partnering with the Private Sector
- Improving Outcomes
～ Risks and Risk Mitigation on PPP ～

Financial Reform for Economic Development
- Public Sector Forum 2016-

Japan International Cooperation Agency (JICA)

18th, May 2016

国際協力機構

Points of Discussion

- Infrastructure Investment Needs
- Risks in PPP
- JICA's Approaches for Risks in PPP

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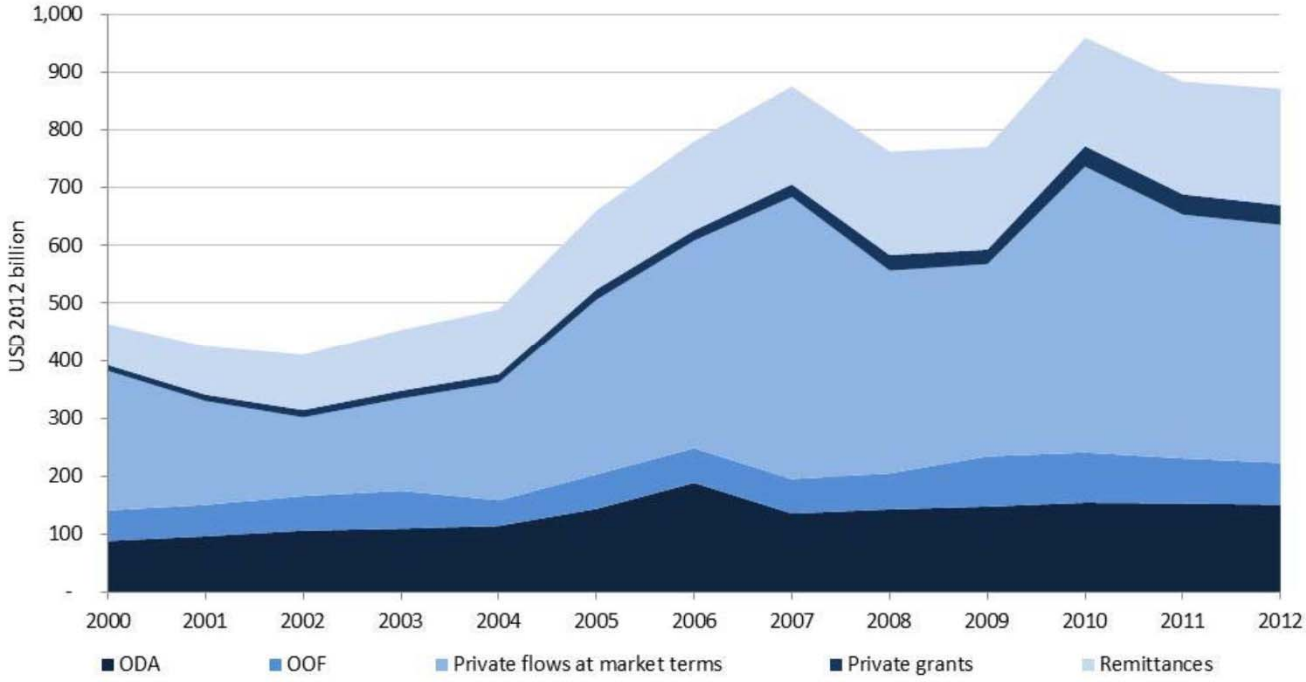
The 3rd International Conference on Financing for Development in Addis Ababa

"From Billions to Trillions"

- ✓ From Billions in ODA to Trillions in investments of all kinds.

ODA is limited in terms of resource mobilization

- ✓ Need to focus on Domestic Resource Mobilization and Int'l Private Resource Mobilization to reach "Trillions".

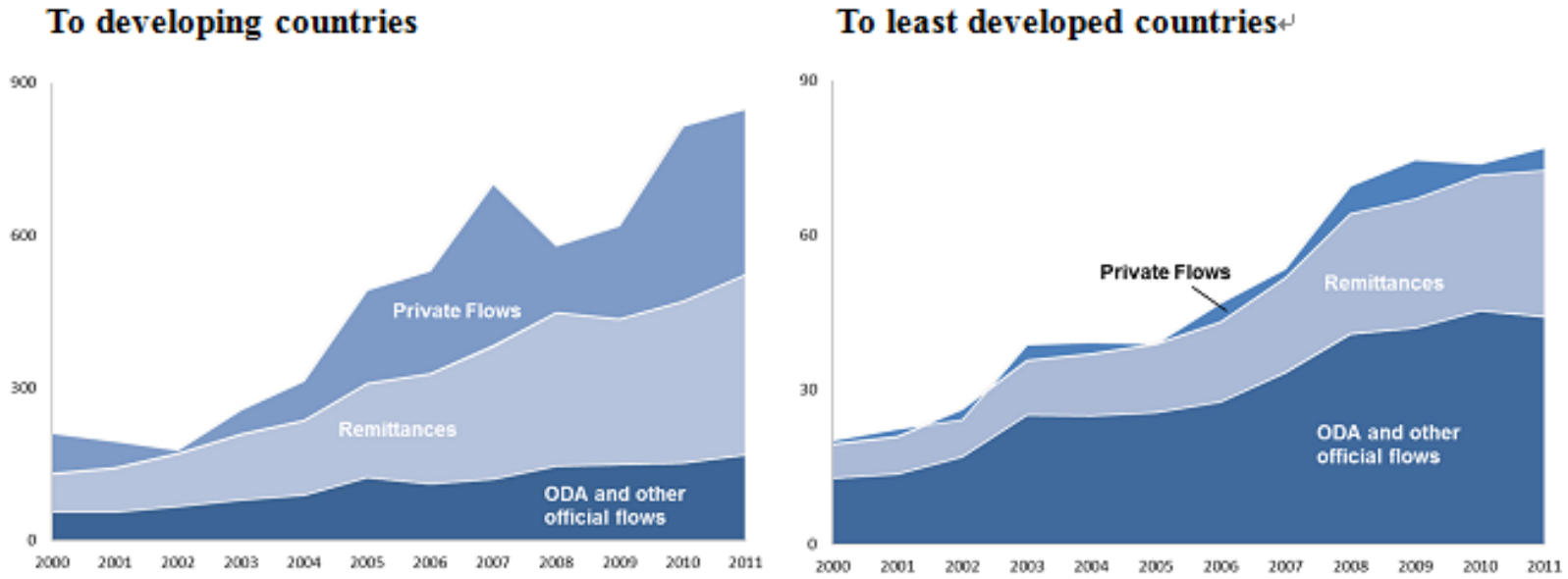


Importance of ODA is still unchanged in LDCs

ODA is still important in Least Developed Countries (LDCs), whereas we need to engage and incentivize Private Finance in developing countries.

Financing flows

(in billions of United States dollars)

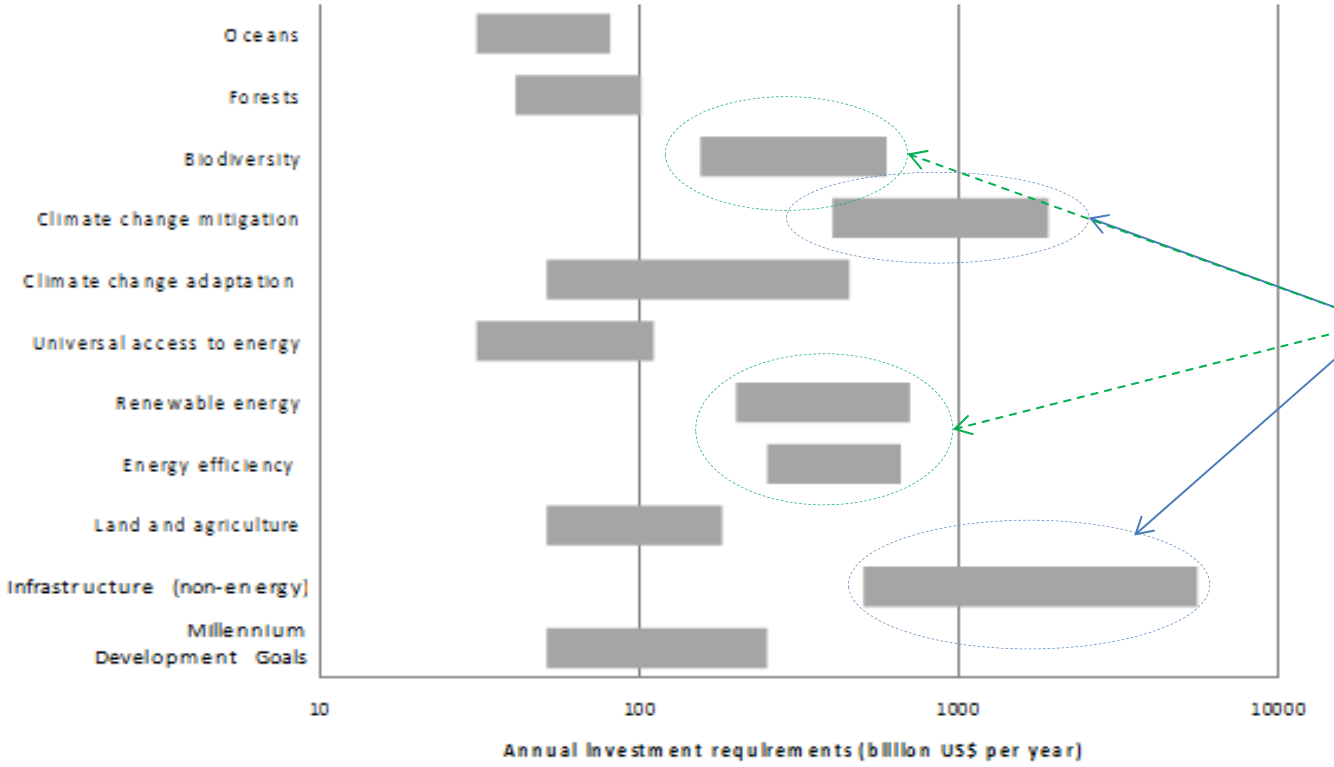


Source: Organization for Economic Cooperation and Development (OECD) Development Assistance Committee statistics and World Bank data on migration and remittances.

Finance Needs Analysis by the Sectors

Finance needs of Infrastructure and Climate Change Mitigation are in the order of US$ ”Trillions”. Bio Diversity and Energy sector finance to follow.

Orders of magnitude of investment requirements for various sectors taken from the literature



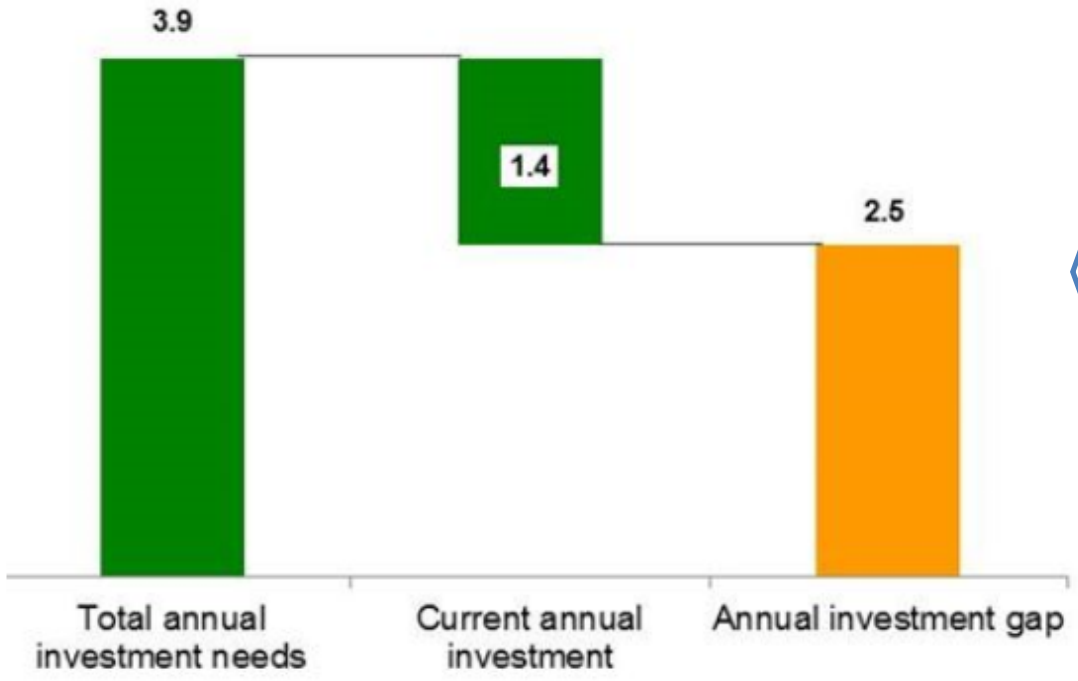
Source: United Nations System Task Team on the Post-2015 United Nations Development Agenda, background paper 1, x-axis in logarithmic scale (see sustainabledevelopment.un.org/index.php?menu=897).

Sectors require “Trillions”

SDG Investment Needs / Quality Infrastructure

SDG Annual Investment Needs is huge, and there is a 'gap' to achieve it.

Figure 1. Estimated annual investment needs in key SDG sectors, 2015–2030
(trillions of dollars, annual average)



Source: UNCTAD, World Investment Report 2014

Quality Infrastructure Approach

- Effective Resource Mobilization
- Strengthening Partnership
- Environmental/Social Considerations, Life Cycle Cost
- Comprehensive and Tailor- Made Approach

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- JICA's Approaches for Risks in PPP

Risks Analysis in PPP by Phases

Phase of PPP	Risks
Enabling environment and Project selection	- Changes in regulatory system, permission, and authorization - Mismatch with economic and social development strategy
Project preparation and Structuring	- High cost for surveys - Low charge (usage fee) - Low demand (Off-taker) - Fluctuating foreign exchange
Bidding process (Granting concession)	- Delay in conducting a bid process
Construction	- Delay / obstacles in land acquisition - Delay in construction / insufficient condition - Delay in developing surrounding infrastructure
Operation	- Higher than expected Life Cycle Cost (LCC) - Deteriorating environment / economy

Risks Analysis in PPP by Participants

Participants	Risks
Investor / Lender	- Changes in regulatory system, permission, and authorization - Low charge (usage fee) - Low demand (Off-taker) - Fluctuating foreign exchange - Delay/obstacles in land acquisition - Delay in developing surrounding infrastructure - Deteriorating environment / economy - Refinancing Risk / Tenor
Government	- Mismatch with economic and social development strategy - High preparation cost - Delay in conducting a bid process - Delay in construction / insufficient condition - Insufficient Legal documents - Higher than expected Life Cycle Cost (LCC)

Risk Analysis in PPP by Sectors

	Particular Feature	Risks
Energy (Thermal Plant)	- Private sector may be willing to participate in Thermal Plant Project as an IPP, if there is a solid PPA backed by a government guarantee. - Risk of fuel cost can be hedged by shifting fees through two-tiered cost, consisted of basic charge (Capacity Charge/ Availability Charge) and Variable Charge/ Energy Charge.	<u>Foreign exchange</u> ・Mismatch in currency between revenue and repayment / dividend <u>Policy</u> ・Change in electricity sales price by electricity sector liberalization / deregulation <u>Off-take</u> ・Capacity(finance) of Off-taker ・Change of policy in providing government guarantee to PPA

Risk Analysis in PPP by Sectors

	Particular Feature	Risks
Energy (Renewable)	- Cost more than thermal plants - "Feed in Tariff (FIT)", which sets higher electricity sales price for renewable energy than thermal plant, is often introduced.	<u>Policy</u> ・FIT provokes fiscal burden (ex. High cost operation keeps fees high and may provoke over-investment, thus resulting in financial difficulties of operators.) <u>Instability in electric capacity</u> ・Commercializing renewable energy needs to be backed by reliable data to be bankable; ➢ Wind Generation: Air volume, wind conditions ➢ Solar Generation: day length ➢ Small hydroelectric generation: amount of water flow <u>Capacity of grid</u> ・Since supply of electricity is not stable, need to secure other base load power plant. <u>Off-take</u> ・Capacity (financial) of off-taker ・Governmental commitment to comply to PPA

Risk Analysis in PPP by Sectors

	Particular Feature	Risks
Transportation	- Feasibility depends on how transportation demand risk is taken into account. - Difficult for foreign firms to take unfamiliar transportation demand risk. (particularly railroads and roads) - Risk control would be easier in case of Availability Payment.	<u>Foreign exchange</u> ・Mismatch in currency between revenue and repayment / dividend <u>Difficulty of bankability</u> ・Low charge (usage fee) <u>Demand</u> ・Uncertainty of demand (benefit) ・Risk Allocation between public sector and private sector. ・Government guarantee to support for downside risks of minimum volume of transportation

Risk Analysis in PPP by Sectors

	Particular Feature	Risks
Water Supply and Sewerage Systems	- Often difficult to make the project 'bankable', because water charges are politically set at relatively low rate.	<u>Foreign exchange</u> ・Mismatch in currency between revenue and repayment/dividend <u>Difficulty of bankability</u> ・Low charge (usage fee) ・Political consideration to low-income groups <u>Off-take</u> ・Poor capacity (finance / management) of Water and Wastewater Authority ・Guarantee by municipalities

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Risks and Risk Mitigation : Business

Business Risks	Way to mitigate risks	JICA Support
• Changes in regulatory system, permission, and authorization • Low charge (usage fee) • Low demand (Off-taker) • Fluctuating foreign exchange • Deteriorating environment / economy • High preparation cost • Higher than expected Life Cycle Cost	• Solid Project Preparation	• Master Plan Development • Feasibility Study Support* • Project Preparation Support

* Please refer to '2. Public Private Partnership F/S'

Risks and Risk Mitigation : Legal and Technical

Legal and Technical Risks	Way to mitigate risks	JICA Support
• Delay/obstacles in land acquisition • Delay in conducting a bid process • Delay in Construction • Insufficient Legal documents	• Solid Legal framework / Documentation • Apply Proper Technology • Capacity Building	• Legal / Institutional Support*3 • Technological Support via Japanese Private Partnership* • Capacity Building Support*3

* Please refer to '3. Technical Assistance for improving PPP systems'
* Please refer to '4. Feasibility Survey for the Private Sector for Utilizing Japanese Technologies in ODA Projects'

Risks and Risk Mitigation : Government

Government Risks	Way to mitigate risks	JICA Support
• Mismatch with economic and social development strategy • Delay in developing surrounding infrastructure • Refinancing Risk / limited tenor	• Direct Government Involvement • Capital Market Build Up	• ODA Loan / Grant • Domestic Resource mobilization support*3 • Finance resource mobilization*1 from Private sector

* Please refer to '3. Technical Assistance for improving PPP systems'
* Please refer to '1. Private Sector Investment Finance (PSIF)'

Information About JICA

- JICA's Web site
  - http://www.jica.go.jp/english/countries/asia/index.html

- Private Partnership
  - http://www.jica.go.jp/english/our_work/types_of_assistance/partnership/index.html

- Contact

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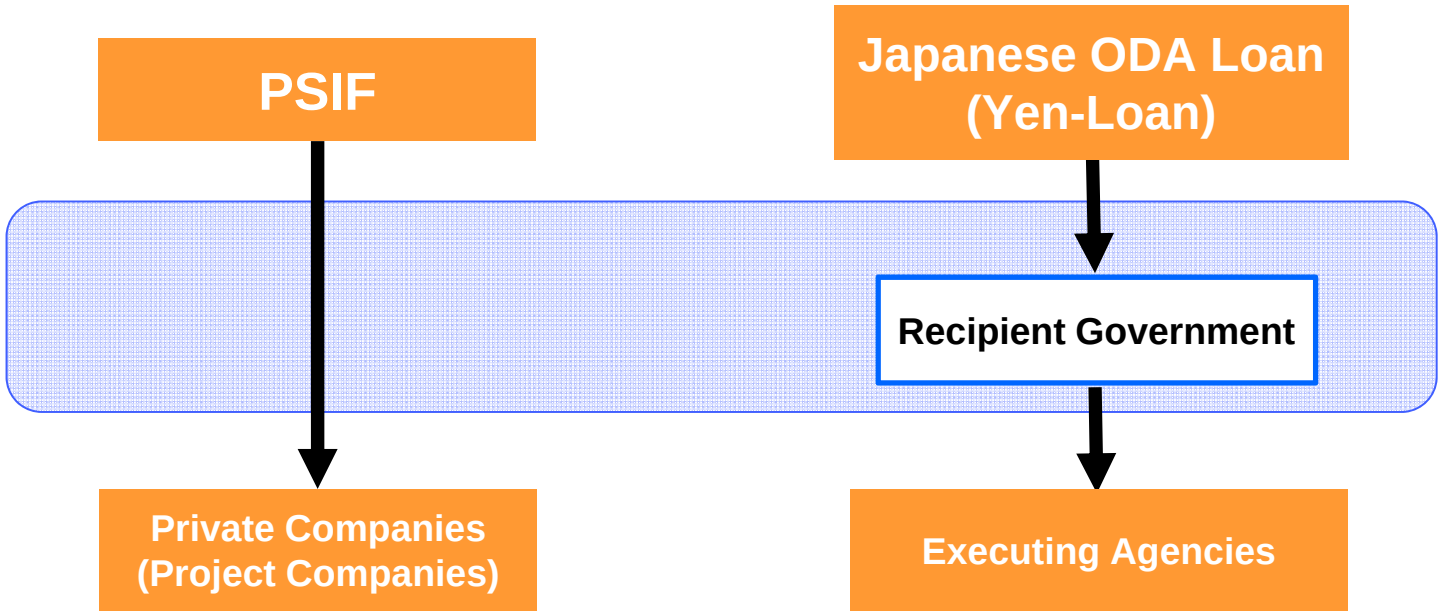
Industrial Development and Public Policy Department, Japan International Cooperation Agency
TEL : +81-3-5226-6916
E-mail : Watanabe.Ryosuke@jica.go.jp

1. Private Sector Investment Finance (PSIF)

PSIF

- One of Official Development Assistance (ODA) Schemes
  ⇒ Purpose: Support economic development and Poverty Reduction
- Loan (long term) & Equity
- Direct Support for Private Companies
  (available for JV with Government Companies)
  ⇒ therefore, official request or other procedures taken by recipient Governments are NOT required



2. Public Private Partnership F/S

In order to involve private sector for response to development challenges in developing countries, JICA offers［Survey, Feasibility Study, Promotion］as tools to support private companies.

Japanese Company

Aims to conduct business that responds to development challenges

- Product
- Technology
- Project Idea

JICA

Supports for：

- Information Gathering
- Network Building
- Business Plan Formulation
- Dissemination

Developing Country

Social and Economical Challenges

Cooperate with Japanese Company assuring the successful implementation of the collaboration program

Development Impact

Disseminate technologies for supporting social and economic development

Business Sustainability

Utilization for Japanese ODA projects

2. PPP F/S
(F/S for Private Initiated Infrastructure Projects)

- Overview

Background:

- F/S is necessary for project implementation.
- F/S costs are risk money for private companies. However, conducting a F/S on challenging projects in developing countries are in many cases difficult without public sector support.
- JICA bears all or part of cost of F/S by means of soliciting proposals for F/S on PPP projects from private companies, and entrusting implementation of F/S to the proponents who submitted successful proposals.

Eligible projects:

- PPP infrastructure projects in developing countries
- Preparation for utilizing JICA ODA assistance or PSIF
- Proponents should have an intention to invest in the project (not only construction)

Results:

- 8 batches since 2010, around 50 proposals awarded. → see list attached

3. Technical Assistance for improving PPP systems

JICA's PPP Supporting Framework

Policy Advisory

Objective:

- Assist GOI to develop policy, regulatory and institutional framework to facilitate the development of PPP in Indonesia.

Available JICA resources:

TA
- Expert Advisory
- Master Plan Study
- Training

Project Development Advisory

Objective:

- Assist GOI to identify potential PPP Projects
- Provide support to structure the project so as to attract private investors.

Available JICA resources:

TA
- Master Plan Study
- Technical F/S
- PDF

PPP-F/S

Project financing

Objective:

- Provide credit enhancement products to the project companies, e.g. equity and long-term debt.
- Provide ODA loan to GOI to support public sector financial support such as VGF

Available JICA resources:

ODA Loan

PSIF

PSIF-TA

TAs for PPP

☐ Indonesia

Projects
Advisory on PPP Sector Policy Capacity Building for PPP Operation on Toll Road Sector (- July 2012)
KPPIP Support Facility : Framework PPP Network Enhancement Project (ongoing)

☐ Philippines

Projects
The Study on Institutional Improvement for PPP
The Study on PPP Institutional Building (ongoing)
Technical Cooperation Project for Capacity Development of PPP Project Formulation

☐ Mongolia

Projects
Project for Capacity Building of Public-Private Partnership in Mongolia (ongoing)

☐ Kyrgiz

Projects
Capacity Building for PPP Projects Structuring(ongoing)

4. Feasibility Survey for the Private Sector for Utilizing Japanese Technologies in ODA Projects

A survey conducted to examine the potential use of Japanese companies' products and technologies for Japanese ODA projects. The scope of the survey includes network building and information gathering to develop ODA projects.

Japanese Company

Aims to confirm the usefulness of the technology in tackling development challenges and potential of connecting to future ODA project

- Product
- Technology
- Project Idea

JICA
Supports information gathering and network building

Developing Country

Social and Economical Challenges

Support Japanese Company to harmonize its technology to solve development challenges

Utilization for Japanese ODA projects