

International Seminar on
Strengthening Public Investment and Managing
Fiscal Risks from Public-Private Partnerships

Budapest, Hungary
March 7–8, 2007

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Bankability and Fiscal Risk – The Lenders’ Perspective

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8 March 2007



EBRDs experience of PPPs

Limited Recourse Lending cash-flow driven

1. How secure are my future cash flows?
2. Where do they come from?
3. What are the cash flow drivers?



Different PPP structures

1. PPP

- Source of revenue - Government
- Payment risk - depending on credit risk of government, but typically low
- Concentration risk - high - only one client
- Market risk - low - payments defined by terms of concession



Different PPP structures

2. Airport PPP

➤ Source of revenue

- user fees (passengers and airlines)
- commercial revenues (non-regulated)
- Government (possibly)

➤ Payment risk - spread across airlines (typically poor credit) and passengers (paid in advance)

➤ Concentration risk - low - multiple clients

➤ Market risk – high disturbances to market possible – particularly commercial, non-regulated revenues at risk



Different PPP structures

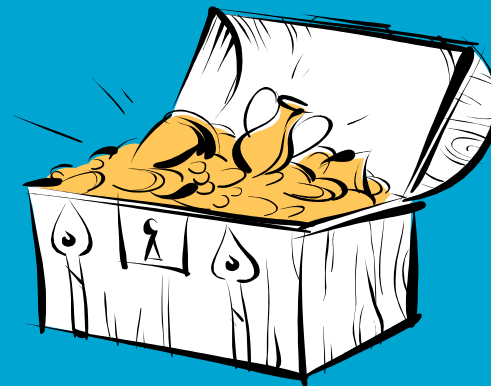
3. Toll Road

- Source of revenue - users
- Payment risk – very low (possibly some toll dodging and forgery of passes)
- Concentration risk - low - multiple users
- Market risk - high – difficult to forecast traffic & traffic growth on greenfields roads. Institutional optimism in traffic forecasting (Robert Bain, S&P)



Revenue Source

- Question asked by lenders and by the IMF – where is my source of payment – government or the user?



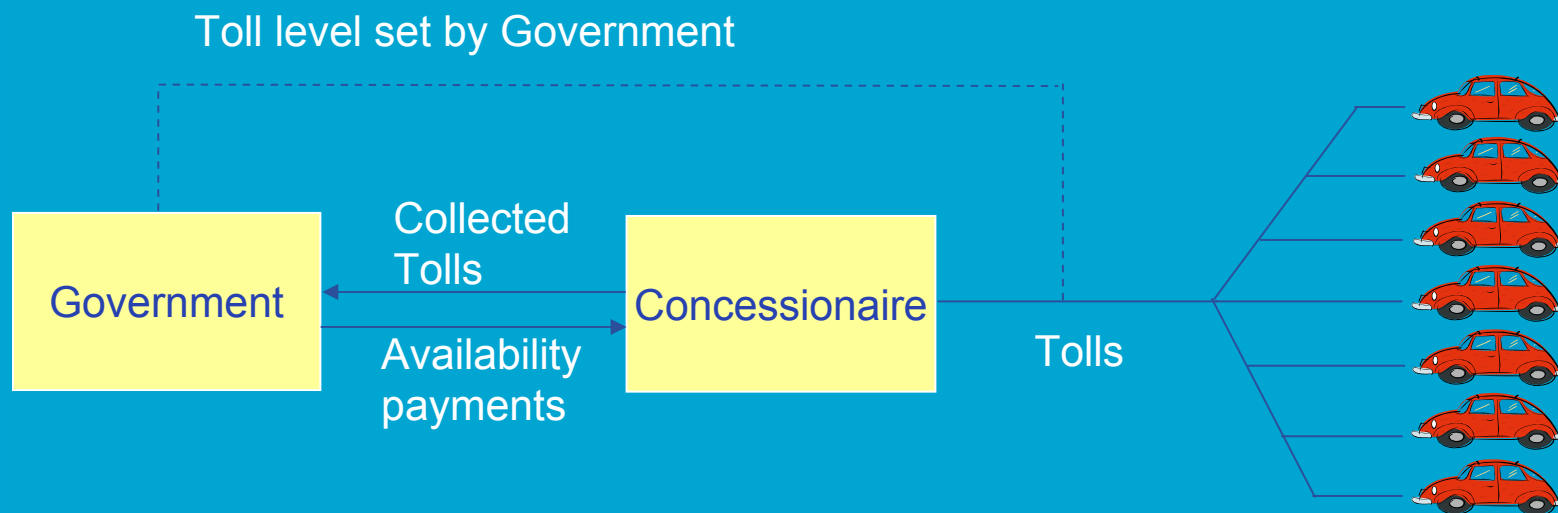
Toll Roads

How can government mitigate fiscal risk and enhance value for money ?

- Tolled Roads
- Tolls set up by Government (balance social/fiscal issues)
- Tolls collected by concessionaire and passed to Government
- Government pays availability fee



Toll Roads

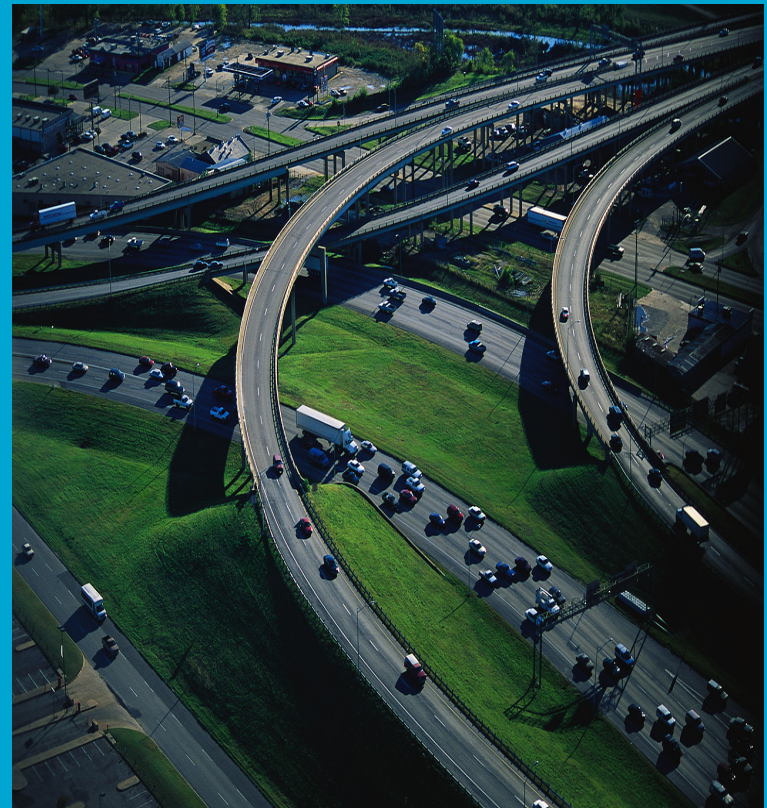


- Traffic Risk carried by governments
- Toll level becomes a policy decision
- But little private-sector due diligence on commercial logic of building road.



Conclusions

- Commercial Lenders typically require more comfort than governments on toll risk, so fewer stand-alone toll roads are built on a commercial basis
- Governments can mitigate fiscal drain by taking Traffic risk but tolling roads, thereby generating revenue streams
- Efficient fiscal means for governments to conduct new roads projects is to collect tolls, but take toll risk.



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