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How PPPs Are Financed

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Transferring responsibility to the private sector for mobilizing finance for infrastructure investment is one of the major differences between PPPs and traditional procurement. Where this is the case, the private party to the PPP is responsible for identifying investors and developing the finance structure for the project. However, it is important for public sector practitioners to understand private financing structures for infrastructure and to consider the potential implications for government. This section

- Introduces ways that private finance of PPP projects can be structured (Finance Structures for PPP);
- Highlights points that governments need to bear in mind when procuring a privately-financed PPP—that is, ways in which the government might need to enable or control how the private party raises finance to ensure the project is implemented successfully (Considerations for Government);
- Describes different roles for public finance in PPPs—that is, why and how governments may be directly involved in the financing of PPPs (The Role of Public Finance in PPPs).

The chapter on PPP Financing in **Farquharson et al's book on PPPs in emerging markets** provides an overview of some of the topics covered in this section (Farquharson et al. 2011, Chapter 5). **Yescombe's** (Yescombe 2007) and **Delmon's** (Delmon 2015) **books on PPPs** cover a wide range of topics on PPP financing. The relevant sections of these books, as well as links to additional resources, are provided throughout the section for more information on specific points.

Key Resources

How PPPs Are Financed

- Farquharson, Edward, Clemencia Torres de Mästle, E. R. Yescombe, and Javier Encinas. 2011. *How to Engage with the Private Sector in Public-Private Partnerships in Emerging Markets*. Washington, DC: World Bank. Chapter 5 provides an overview of private finance for PPPs, focusing on challenges faced in developing countries.
- Yescombe, E.R. 2007. *Public-Private Partnerships: Principles of Policy and Finance*. Oxford: Butterworth-Heinemann. Provides comprehensive coverage of PPP financing: putting PPPs in context; describing financial analysis of PPPs and how this informs investment decisions by both public and private parties; debt financing structures and sources; how PPP financing plans are constructed; and how financing requirements are reflected in contractual terms.
- Delmon, Jeffrey. 2015. *Private Sector Investment in Infrastructure: Project Finance, PPP Projects and PPP Frameworks*. 3rd ed. Alphen aan den Rijn, Netherlands: Wolters Kluwer. Also covers a wide range of topics on PPP financing. These include an introduction to project finance structures and typical terms (Chapter 2); typical contractual arrangements for a PPP (Chapter 3); and bankability (Chapter 4).
- Daube, Dirk, Susann Vollrath, and Hans Wilhelm Alfen. 2008. "A Comparison of Project Finance and the Forfeiting Model as Financing Forms for PPP Projects in Germany." *International Journal of Project Management* 26 (4) 376-387. Describes the forfaiting model used in Germany as an alternative

to project finance, to lower financing costs for PPP projects.

- Ehrhardt, David, and Timothy C. Irwin. 2004. "Avoiding Customer and Taxpayer Bailouts in Private Infrastructure Projects: Policy toward Leverage, Risk allocation, and Bankruptcy." World Bank Policy Research Working Paper 3274. Washington, DC: World Bank. Describes how high leverage combined with high-risk projects and a reluctance to allow a PPP company to go bankrupt can create problems for PPPs, and suggests options to address the problem. Includes PPP case studies in Australia, the United Kingdom, Brazil, and Mexico.
- Harris, Clive, and Sri Kumar Tadimalla. 2008. "Financing the Boom in Public-Private Partnerships in Indian Infrastructure: Trends and policy implications." Gridlines Note No. 45. Washington, DC: World Bank. Describes how financing structures for PPPs in India have evolved as the use of PPPs has increased since the mid-1990s—in particular, noting an increasing proportion of debt financing—and provides some policy lessons.
- US. 2010. *Project Finance Primer*. Washington, DC: United States Government, Department of Transportation, Federal Highway Administration. Outlines the United States financing mechanisms for highway infrastructure. Chapter 4 describes three mechanisms by which the United States government provides credit assistance to private investors in roads.
- IN. 2013b. *Guidelines for Formulation, Appraisal and Approval of Central Sector Public Private Partnership Projects*. New Delhi: Government of India, Ministry of Finance. Describes India's Viability Gap Financing scheme for providing capital subsidies to private infrastructure projects.
- UK. 2010b. *Financing PFI Projects in the Credit Crisis and the Treasury's Response, Ninth Report of Session 2010-11*. London: House of Commons. The Treasury of the United Kingdom outlines its response to the financial crisis, which included establishing an Infrastructure Finance Unit to provide lending at commercial terms to projects unable to raise debt from commercial banks.
- Farquharson, Edward, and Javier Encinas. 2010. "The U.K. Treasury Infrastructure Finance Unit: Supporting PPP financing during the global liquidity crisis." Public-Private Partnerships Solutions. Washington, DC: World Bank. Summarizes the United Kingdom's experience with PFI during the financial crisis, and describes the Treasury Infrastructure Finance Unit.
- Burger, Philippe, Justin Tyson, Izabela Karpowicz, and Maria Delgado Coelho. 2009. "The Effects of the Financial Crisis on Public-Private Partnerships." IMF Working Paper WP/09/144. Washington, DC: International Monetary Fund. Investigates the impact of the global financial crisis on PPPs, and the circumstances under which providing support to new and existing projects is justified.
- Foster, Richard. 2010. "Preserving the Integrity of the PPP Model in Victoria, Australia, during the Global Financial Crisis." Public-Private Partnerships Solutions. Washington, DC: World Bank. Describes how the government of the State of Victoria, Australia, adapted its PPP program to the global financial crisis, by making changes on a project-by-project basis to allocating certain financial risks.
- EPEC. 2009. *The Financial Crisis and the PPP Market: Potential Remedial Actions*. Luxembourg: European Investment Bank, European PPP Expertise Centre. Provides ideas for governments on ways to support PPPs during the Global Financial Crisis. These include changes to procurement approaches, providing state guarantees or co-lending, particularly as a short-term measure, and adapting PPP structures to attract different types of investor.
- Latif, Qudeer. 2013. "An Introduction to Islamic Project Finance." Client Briefing. April 29. Dubai: Clifford Chance. This reference provides an overview of the Sharia compliant project finance market, summary of a few recent deals and how these deals were structured and procured.
- Esty, Benjamin C., Fuaad A. Qureshi, and Mathew Mateo Millett. 1999. "Introduction to Islamic Finance." Harvard Business Review Case Study. August 6. Watertown, Massachusetts. Provides a basic introduction to the principles of Islamic finance, including the religious background and its legal foundations. Also discusses the development of Islamic financial institutions and the financial instruments they use. Concludes with a discussion of recent developments and future challenges for this growing segment of the global financial system.
- Karbani, Faizal. 2015. *Mastering Islamic Finance: A Practical Guide to Sharia-Compliant Banking, Investment and Insurance*. Upper Saddle River, New Jersey: FT Press. Guides readers from the basic

principles underpinning Islamic finance, including its market applications and prevalent practices.
- Esty, Benjamin C. 2014. *Modern Project Finance: A Casebook*. Hoboken, New Jersey: John Wiley and Sons. Provides a detailed description and analysis of project-financed transactions.
- Hoffman, Scott. 2007. *The Law and Business of International Project Finance: A Resource for Governments, Sponsors, Lawyers, and Project Participants*. 3rd ed. Cambridge, England: Cambridge University Press. Covers the complete project finance structure, from conception to negotiation to debt closing, and from project difficulties to successful restructuring.
- Finnery, John D. 2013. *Project Financing: Asset-Based Financial Engineering*. 3rd ed. Hoboken, New Jersey: John Wiley and Sons.Reviews the project finance process step by step to assist readers in familiarizing themselves with the topic.

Visit the PPP Online Reference Guide section to find out more.

Related Content

- **INTRODUCTION**
- **PPP BASICS: WHAT AND WHY**
- **What is a PPP: Defining "Public-Private Partnership"**
- **Infrastructure Challenges and How PPPs Can Help**
- **How PPPs Are Financed**
- **ESTABLISHING THE PPP FRAMEWORK**
- **PPP CYCLE**

Additional Resources

- Further Readings on Infrastructure Finance and Risk Mitigation
- Managing PPP risks with a new guide on guarantees
- PPP Risk Allocation Tool (2019)

Subsections

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The Role of Public Finance in PPPs

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Third Party Risk Mitigation and Credit Enhancement

Find in pdf at PPP Reference Guide - PPP Basics or visit the PPP Online Reference Guide section to find out more.

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