

Development of PPP Project in the Baltic States

*PPP Pre-education Establishments Project and
Financial Models*

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Schematic representation of a PPP structure

Basic Concept

Public Private Partnership is

- **a set of** legally-binding contracts.....
- **between** public sector **and** private business entities **for the**.....
- procurement of assets and the delivery of services (**the project**).....
- **that** allocates responsibilities and business risks among the partners.....
- **throughout the** lifecycle **of the project**.

Key-features:

- Life cycle
- Risk allocation between the parties

Schematic representation of a PPP structure

Risk Allocation Matrix

Design/build/operate/finance	Public Sector	Private Business	Risk mitigant for Public Sector
Design	x		No final acceptance/ Reduction of payment
Non fulfillment of the required and agreed specifications		X	
Change of requirements	X		
Procurement of licenses/permissions	X Inadequate delay	X	
Build (Construction)			No final acceptance/ Reduction of payment
Availability of the site	X		
Increase of costs (Turnkey Contract)		X	
Delay in delivery		X	

Risk Allocation Matrix

Design/build/operate/finance	Public Sector	Private Business	Risk mitigant for Public Sector
Operate			Penalty
Increase of cost of facility management - due to sub-optimal construction features - due to miscalculation - due to the introduction of new technology		X	
Demand	X		
Finance			
Increased cost of financing, increased FX costs		X	

- **The Public Sector remains responsible for the general procurement of a measure and its use.**
- **The Private Business is responsible for the commercial functions. Its income depends on its performance.**

Simplified cash flows in a PPP, focused on debt-issues

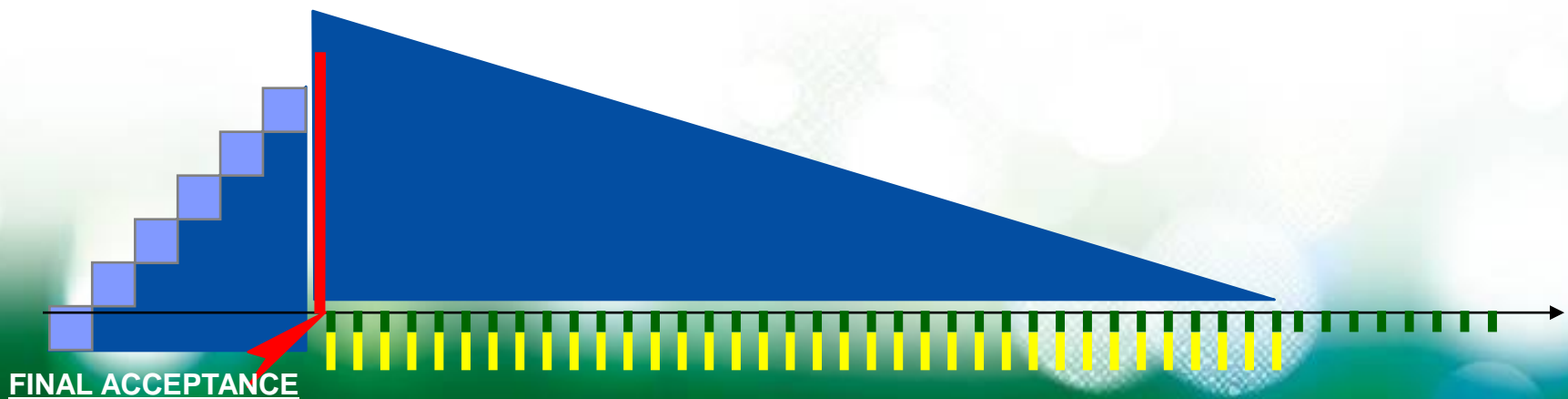
1. Construction phase:

- **Draw down of debt to finance construction work**

Final acceptance triggers the start of the operational phase and any payments of the public authority

2. Operational phase:

- **Payments for construction work**
- **Payments for operation/service from public sector based on incentive rules**
- **Payments for service /catering from public sector/private users based on demand**



Project financing

General Structure

- The bank grants a construction loan to a Special purpose company (SPC) that will be responsible for
 - **construction and**
 - **operation of the project**
- The SPC is set up by the private business (the sponsors) and receives an equity injection from the sponsors
- The loan covers 90% of construction costs
- The equity injection forms a material commitment of the private business or sponsors
- Repayment of the loan is due by the SPC and based on the cash flows the project generates during the operational phase
- There is no recourse neither to the public authority nor to the sponsors, the project financing is “ring-fenced”

Project Financing

