Investment Studies Center (ISC)
Union of Investment Companies (UIC)

Private Public Partnership
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Course Description

Methodology

The design of the course has been done to be very practical. It is predicated on the basis of using extensive case studies (all of which the trainer has direct and explicit knowledge as a lender, sponsor or developer). The course is done from the perspective of the lenders. strikes a balance between qualitative and qualitative metrics, using case studies to illustrate core concepts or to address sometimes counter positions - the public and private perspectives when undertaking a project finance transaction. Role playing will also be used to showcase important aspects of due diligence for both trade and project finance including policy issues and their applicability with financial and bankability issues common in PPP design, development and monitoring. Further, the course is designed to help participants extract the risk issues associated with project finance documentation. Although participants will not be directly involved in writing the contract, it is recommended that participants do develop as part of this training a good understanding of the legal components of this type of projects. Accordingly, it provides different techniques available to practitioners to deal with critical issue of project finance, PPP design and risk allocation and how these are translated into legal arrangements. Importantly, through interactive discussions and case studies, it will illustrate the way in which change is managed in different PPPs. It will also provide course attendants with specific and practical techniques for drafting from scratch PPP agreement, based on proven pragmatic and practical techniques based on best international practice.

Every day will conclude with a wrap up of core principles of each one of the sessions, drawing out each of the learning outcome for each session.
AGENDA

Day 1

PPP Projects:
- Rationale for public to private projects
- The motivations and objectives behind PPPs
- The Players and their interests
- Ownership structures
- Key project contracts

The PPP process:
- Risk Analysis / Risk Mitigation
- Key areas of RESPONSIBILITY and how can they be defined (sponsor, lender, developer)?
- Key RISKS related to these Responsibilities, and how can they be defined?
- Lender allocation:
  - Responsibilities and Risks between the operator and the contracting authority
  - Techniques for lender risk allocation eg EPC, subsidiary agreements etc
  - Implication of involving different stakeholders in the process of consultation and implementation of the PPP
- The term-sheet – purpose, legal status, binding/non-binding aspects
- Term-sheet/documentation provisions
- PPP projects contrasted with industrial/extractive industry projects

CASE STUDY -1- : Emerging Market Infrastructure Project

Market and Operating Risks For PPP Projects:
- The range of contracts encountered within PPP, and the respective features
- Availability risk vs. market risk
  - Estimating probability of risk
  - Developing a risk matrix (and setting out its minimum contents)
- Take-or-pay agreements
  - Implications for lenders
  - Risk /reward balance
  - How does the contract look at take-or pay arrangements and associated implications
  - Modular construction and lender implications
- Hidden recourse structures
- Use of ‘heads of terms’ as an instrument for risk allocation prior to contract drafting
- Implications of market volatility for lenders
  - Use of hedging instruments
- Cost-plus revenue projects
  - Implications for lenders and differences in security packages
CASE STUDY -2-: Airport Project

Role playing
A specific worked session will be presented where the group will be split into grantor and sponsor. Each party will negotiate a mock PPP agreement. An interactive and moderated discussion will be done simulating:
- Initial PPP negotiation with grantor
- PPP negotiation to achieve financial close
- Midterm tariff review
- Early termination event

CASE STUDY -3-: Road Project – emerging market

Day 2

Project Cash Flow And Debt Structuring For PPP Projects
- Risk – solvency risk vs. volatility risk
- Cash management issues:
  - How should lenders deal with this?
  - Use of ratios (DSCR, LLCR)
  - Loan covenants
- Liquidity – creating ‘suspension’ for the special purpose vehicle
- Designing structures to match cash flows
  - Use of capital grants
  - Availability payments and sculpting project revenue implications
- Dealing with default
- Mortgage debentures/fixed and floating charges
- Separating risk-taking
- Differences of funding vs financing

CASE STUDY -4-: Oilfield - LNG & Pipeline Project & Mining

Structuring issues within PPP arrangements
This session will cover:
- How a project is financing is structured over time?
- What are the main difference between typical construction financing and PPP financing?
- Use of EPC contracting and its implications for a project’s ability to generate cash
- Driving value and efficiencies within a PPP contract

Managing the preparation of the contractual documentation
This session will outline the process of preparing the suite of contractual documents that are required for a successful energy project. The session will interact with participants by doing a quick survey of the different experiences amongst the students, by asking each to outline their experience to date in preparing contractual documents and any issues/problems they currently face. The course leader / teacher will then present an overview of the process and share best-practice. This will be followed by an interactive Q&A session.
Managing Prequalification and bidding process
This session will cover:
- Procurement cycle of PPP energy projects and why it matters when developing an energy loan agreement
- Special focus on methodologies and respective implications of selection of proposals/bidders
- Different Prequalification and bidding specifications in different sectors
- An interactive session to solicit experiences from the audience and compare and contrast against some of the broad principles contained in the session.

Implications of different legal jurisprudence environments
This session is intended to assess implications of different legal jurisprudence environments. Specifically:
- Why does the system matter and how do I link contractual obligations with legal regime?
- Contracts and local courts – the implications of legal precedence and how it can affect contract design

In order to illustrate these fundamental differences for contract drafting and its implication different examples will be providing, comparing and contrasting civil and Anglo-Saxon jurisprudence. Furthermore, examples will be provided as to how these ‘shape’ certain contractual arrangements.

Day 3

Financial implications in PPPs
In this session we will examine the financial aspects that project finance deals have and in particular looking at the following issues:

- Implications of DSCR and other ratios
- How and when to achieve breakeven points
- WACC and implications on the revenue curve of a project
- Assessment of public contributions and impact on breakeven point, NPV of public contributions and associated profiling
- Modeling for Availability Payments, Minimum Revenue guarantees, and full demand risk

Technical Issues in Limited Recourse Financings/ Project Finance Transactions
- The implications for limited recourse financings
- Assignment and cut-through agreements
- Use of step-in and associated cure periods
- Lender substitution rights and associated cure periods
- The options for dealing with political risk
• Currency exposures – optional approaches to structuring
• Financings involving multilateral agencies - implications
• Direct agreements
• Dealing with change within a PPP agreement (including tariff variation procedures – an often controversial set of provisions subject in some instances to regulatory approval)
• Lender covenants:
  o how to manage change within a PPP including tariff resets, transition periods, extension of contract terms etc.
  o Mechanisms to deal effectively with conflicts within a PPP
  o Back stopping of public sector obligations within the contract as a means of enhancing the project’s overall bankability
  o Other contractual clauses will be evaluated and their implication discussed by using relevant cases studies.

CASE STUDY -5- : Telecoms Project

Wrap and Conclusion
• Course review questionnaire to assess course
• Distribution of reading material
• Overall Q&A
Dr Cledan Mandri-Perrott, is a seasoned project financier and investment banker. Having started his career in the operational arm of the second largest water company in the United Kingdom, and a FT100 company, he was critical in support of the international expansion of the Severn Trent Group helping secure highly profitable business for the company in Portugal, Belgium, Mexico, United States, Argentina, Chile and Trinidad and Tobago. For the latter he was part of the acquisition team and went on to lead the company as its Director to successfully manage a business (serving over 1.2 million people) which achieved financial turnaround from a loss making entity (US$120 million deficit) in less than three years.

From there he established an advisory arm for the Severn Trent International Group and led a number of Public Private Partnerships (PPPs) advisory mandates growing it to an annual turnover of US$ 12 million. From there, Dr Mandri-Perrott worked as the co-head of the newly established Infrastructure Finance Group of the renowned PA Consulting Group in London and Birmingham, advising both private clients and governments on structuring and financing PPPs. From 2003 to 2005 he founded a boutique advisory firm with offices in Washington DC and Buenos Aires which focused on financial advisory services, dispute resolution and legal advice. During this time he grew the business to 29 staff. Notable clients during his tenure were the Prime Minister’s Office of the Hashemite Kingdom of Jordan, the ABB Group and Bilfinger Berger which he advised on three major acquisitions.

After selling the venture to his partners for family reasons, Dr Mandri-Perrott, joined the World Bank Group in 2006 and quickly rose to become a leading figure on PPPs and Project finance becoming a founding member of the World Bank’s Global PPP Expert Group. Since 2012, he was one of a handful of staff that opened the World Bank Group’s office in Singapore, where he now heads the Infrastructure Finance and PPP Centre advising governments on project finance issues bringing together public and private funds both from traditional commercial lenders as well as pension and institutional investors. In sum he has advised on more than twenty PPPs which successfully closed with a cumulative value of over US$4 billion. A graduate in Civil Engineering from Surrey University, he also holds an MSc in Business and Finance, an LLM in commercial and transaction law from the University of Dundee, and a PhD in Project Finance from the University of Groningen. He is a visiting professor at the National University of Singapore’s Lee Kwan Yew School of Public Policy, as well as the Singapore National University’s ALPINE programme.