



MOTSENG

CONCESSIONS (PTY) LTD

*Public Private
Partnerships - Financing*

*SAFMA Webinar – 19
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A uniquely **Southern African Solution**



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Content



THE UNIVERSAL PPP MODEL



RECENT TRENDS



FISCAL FOCUS



DEBT & EQUITY



FINANCING FACT



FINANCING FANCY



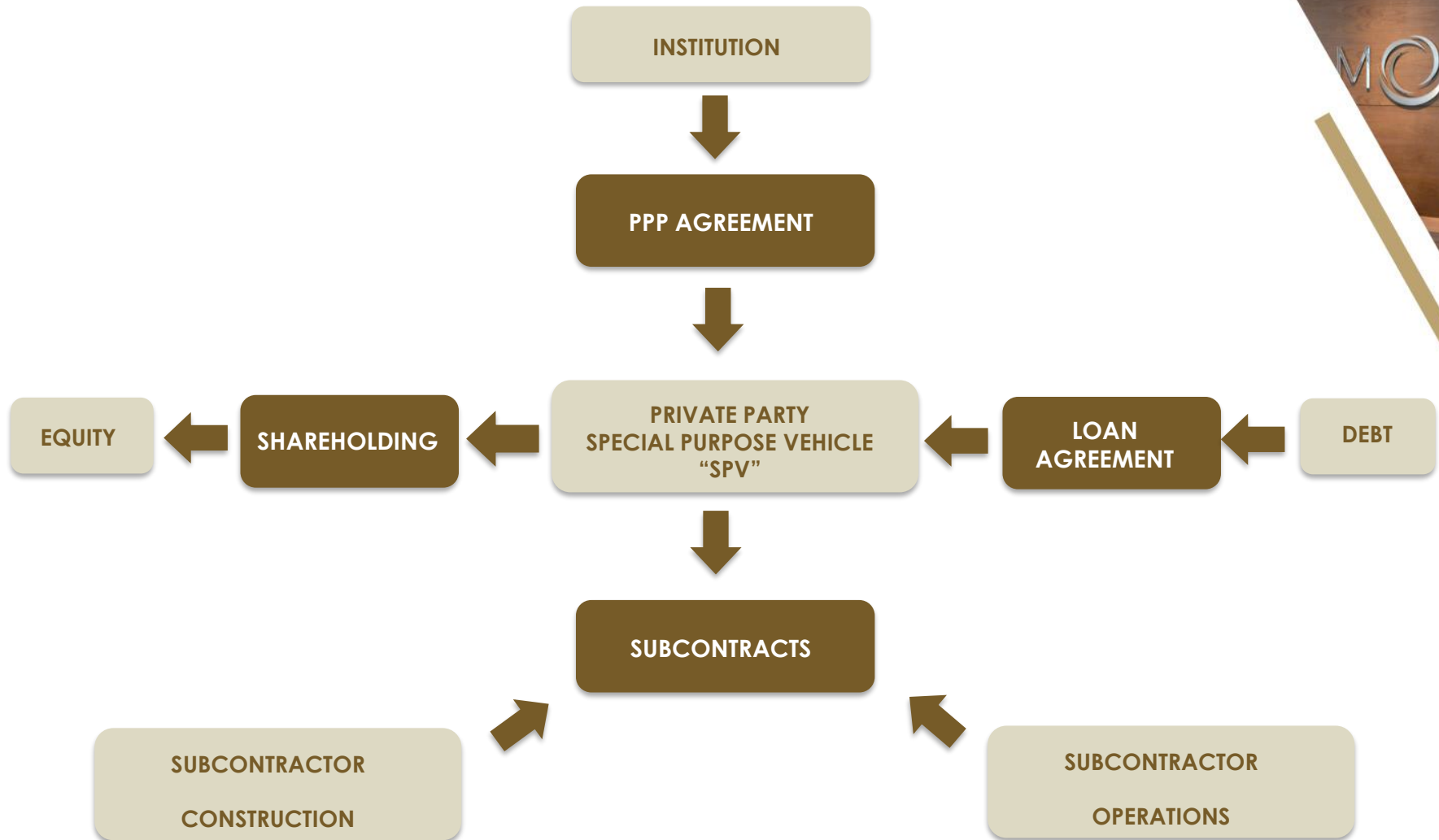
ISSUES, OPPORTUNITIES, SOLUTIONS



Q&A

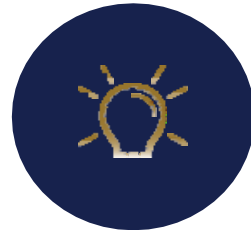


Universal PPP Model



Recent Trends

- ⦿ Difficult economic climate and impact on funding markets
- ⦿ Increase in more innovative financing to structure transactions
- ⦿ Hybrid debt instruments – inflation linked debt being paired with preference share financing and project bonds
- ⦿ Alternate funding markets and blended financing investment approaches
- ⦿ Sustainable Infrastructure development programme
- ⦿ Increased Private Sector collaboration
- ⦿ Focus on Economic Inclusion
- ⦿ Shorter Senior Debt tenures and more conservative Debt/Equity financing ratios due to increased economic risk
- ⦿ A move to refinancing projects in 3-5 year periods after construction
- ⦿ Increased discussion around green finance and sustainability – instruments whose proceeds are used for sustainable development projects and initiatives

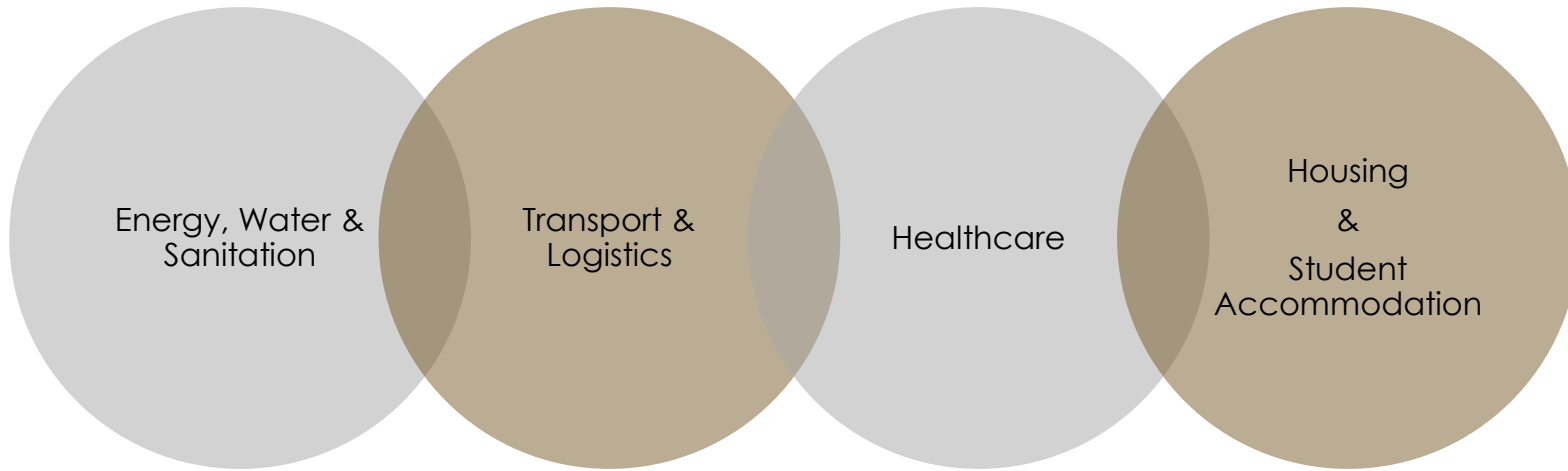


Recent Trends

- © The PPP Unit has in recent years developed the necessary regulations and frameworks around PPPs, and compiled guidelines for public and private-sector stakeholders.
- © The groundwork has been done and a long pipeline of projects has been developed, Treasury is optimistic that the rate at which PPP deals are concluded is set to accelerate.
- © To increase the PPP project pipeline, the National Treasury is considering ways of streamlining the implementation of such partnerships and at the same time, reduce the time it takes to complete project planning.
- © National Treasury has partnered with local and international development finance institutions to explore the development of alternative infrastructure funding while diversifying sources of funding to encourage private-sector participation. This would increase the pool of funds available and could help lower project costs.



Fiscal Focus



- © Affordability, Value for Money and Risk Transfer are the main elements for National Treasury project approval. These transactions are underpinned by the concession(10 years plus).
- © Procurement requirements per the PFMA and Treasury Regulation 16.



Debt & Equity

Senior Debt

- ⦿ Debt is a loan from a bank, venture lender, private equity firm, corporation, or individual.
 - ⦿ Debt accrues interest that must be paid on a monthly, quarterly, annually, or at maturity.
 - ⦿ The principal must also be repaid on a periodic basis or at maturity.
 - ⦿ Understand the default and cure requirements to cover financial covenants due to economic, industry or market conditions
-

Equity

- ⦿ Equity can be common shares or preferred shares.
 - ⦿ Preferred shares have priority for receiving cash distributions and usually convert to common shares once the priority obligations are met.
 - ⦿ Equity can also provide a base to support debt and increase the company's ability to raise additional funding.
 - ⦿ Equity demands a higher cost of capital because the risk associated with equity is higher.
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Financing FACTS

- ©Lenders are risk averse
- ©Limited fiscal resources to provide sovereign guarantees to de-risk projects for Lenders
- ©Reserve Bank requirements for Foreign Investments and Loans
- ©The Debt/Equity structure matters – overfunding increases the borrowers costs and underfunding increases risk of default
- ©The Project sponsors investment approach is a critical success factor
- ©Focus on Economic Inclusion - developmental and socio-economic impact agenda.



Financing FACTS

- ◎ Investor capacity to raise funds is key and the related barriers to entry thereon
- ◎ Guarantees and security requirements
- ◎ Underlying assets and the quality of Projects and cashflows thereon, plays a significant role in price
- ◎ Matching investor return requirements with project viability
- ◎ The Base Case vs the Operating Financial Model and the pitfalls thereon



Financing FACTS

- © PPPs viewed as high cost projects
- © Guarantees and security requirements
- © Underlying asset and quality of project and cashflows thereon plays a significant role in price
- © Each Project/investment standalones and the funding thereof is nuanced by sector regulations and delivery obligations
- © Matching investor return requirements with project viability
- © The Base Case vs the Operating Financial Model over the project life



Financing FANCY

- ◎ Quick and immediate cash returns for Equity Investors
- ◎ PPPs are long-term investments with returns seen for investors mostly at the tail end
- ◎ Any Partnership will do – it is important for the project partners to be co-destined to navigate the project and partnership risks in the economic cycles that may affect the project returns over the life thereof.
- ◎ PPPs only benefit Lenders and the Private Sector - Stakeholder engagement is key to addressing this view. Structured correctly PPPs are a an efficient and effective method of meeting service delivery and infrastructure gaps and catalysts for economic growth.
- ◎ The contract is set in stone – contracts evolve based on the economic and operational trends



Issues, Opportunities & Solutions

Issues

- ⦿ Economic and investor outlook
 - ⦿ Transformation
 - ⦿ There is no change without Public buy-in
 - ⦿ Unlocking access to capital markets
 - ⦿ Impact of Covid pandemic on the economy
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Opportunities

- ⦿ Key infrastructure programmes that address service delivery concerns
 - ⦿ Advanced empowerment through legislation and policies such as 40% of public procurement spend earmarked for Women
 - ⦿ Consistent revenue streams to stimulate economic growth
 - ⦿ Job creation
 - ⦿ Downstream supply chain activity
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Solutions

- ⦿ Lower project costs and Lenders and partners that are invested in Project success through various economic and market cycles
- ⦿ Accelerated turnaround to market for infrastructure programme implementation
- ⦿ Collaborative approach to PPPs
- ⦿ Investors are catalysers to economic growth





**YOUR FUTURE OUR
PASSION**

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