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Public Private Partnerships

5. Project Finance

http://unctadsftportal.org/sftftoolkit/publicprivatepartnerships/chapter5/

Summary

This chapter shows how the project finance structure should be designed to optimise the costs of finance for the project and underpin the allocation of risks between the public and private sectors as agreed within a PPP contract.

Key Themes: Equity – Debt – Bonds – Government Support – Risks

In project finance, lenders and investors rely on the cash flow generated by the project to repay their loans and earn a return on their investments. Well-crafted project finance ensures that the interests of the main lenders to the project are aligned with those of the authority, i.e. that both need the project to succeed in order to meet their objectives. Where this is the case, the authority can be confident that the lenders will take on much of the burden of assuring the ongoing performance of the project. Finance for PPP models usually comes from a varying make up of equity, senior debt/interest on project bonds, mezzanine funding and quasi-equity, and government support. The types of risks related to the project will usually determine the forms of project finance chosen.