Task 2.3: Financing Schemes Typology

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Leading Questions for the financing schemes typology

* What determines the cost and availability of financing for a transport infrastructure project (TIP)?
* What determines the financing structure / schemes of a TIP?
* What role play financing schemes in project success?

Type: Public or Private TIPs

1. Run by public agency:
   * Financing by tax money or gov‘t debt
     → Financing scheme irrelevant! (… for Task 2.3 group)
   * Note: funding scheme may still be relevant

2. Run by publicly owned company / SPV (maybe formally privatised):
   * Financing relevant, if SPV not only dependent on tax money
   * Note: regular subsidies may be part of funding scheme (→ Task 2.2)

3. PPP:
   * <u>The leading case for analyzing financing schemes</u>

4. Purely private companies without government contract:
   * Irrelevant category of TIP investors (in Europe)

Leading financial indicators
(focusing on PPPs)

Construction phase (C-phase) → Type: greenfield/
Operating phase (O-phase) brownfield

* Financial performance:

  RoIC > WACC !

  Return on invested capital
  > Weighted average cost of capital

* Also for O-phase: acceptable ADSCR !

  Annual Debt Service Coverage Ratio

* Is a rating available ?

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Financing schemes

Minimize the WACC!

* By choice of basic financial structure (type):
  * Debt
  * Equity
  * Gov’t finance

* By risk mitigating instruments (types):
  * Insurances
  * Contingency funds
  * Gov’t guarantees

Differentiate according to C-phase / O-phase

Drivers: The cost and availability of finance reflects all kinds of risks and returns

* Growth opportunities (→ Task 2.2, business models)

* All kinds of risks:
  * Financial risks (type candidates):
    * Interest rate risk
    * Inflation/ deflation risk
    * Exchange rate risk
  * …

For all risks:
The correlation issue (systematic risks) depends mostly on the transport mode (→ Task 2.2)

Drivers: risks cont'd

For all risks:
The correlation issue (systematic risks) depends mostly on the transport mode (→ Task 2.2)

- O-phase: Revenue risks
  - Macroeconomic risks
    (→ Task 2.2 impl. context)
  - Risk absorption by service level
    (→ Task 2.2 transport mode; also integration issue (type?))
  - Dominant customer risk
    (→ Task 2.2 business model)

- Political, country, regulatory risks
  (→ Task 2.2 impl. context)

Drivers: risks cont'd

* Cost risks
  * C-phase: Construction contractor
  * O-phase: Concessionaire
  * Technology risks

    (→ Task 2.2 bus. model, transp. mode)
  * Changing specifications

    (→ ?)
  * Input costs

    (→ ?)

For all risks:
The correlation issue (systematic risks) depends mostly on the transport mode (→ Task 2.2)

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Thank YOU

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