PPP Finance Strategy Tool

This tool is developed by PPPLab to assist in developing, reviewing or sharpening a finance strategy for a Public-Private Partnership. As such, it could be of interest to persons/ organisations that want to develop/ improve a PPP or that are considering to invest in a PPP.

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This tool is developed by PPPLab to assist in developing, reviewing or sharpening a finance strategy for a Public-Private Partnership. As such, it could be of interest to persons/ organisations that want to develop/ improve a PPP or that are considering to invest in a PPP.

The tool will assist in analysing financing needs and bottlenecks and in reviewing a range of financing options. It aims at broadening the view of the users, helping to be more creative and to open opportunities for smart combinations of financing streams.

The tool builds on the PPPCanvas, a business model canvas especially designed for PPPs– as a clear understanding of the PPP's essential features is crucial before a financing strategy can be developed. Optionally other tools or ways can be used, as long as there is sufficient clarity around what the PPP is aiming for, how it will achieve this, the business case within it and the developmental outcomes or public value it creates.

The tool consists of four steps that usually will involve an iterative process to conclude, meaning working on one step, may lead to further questions about/ ideas for previous steps. Hence, while using the tool you may have to jump back to a previous step(s) to optimize it.

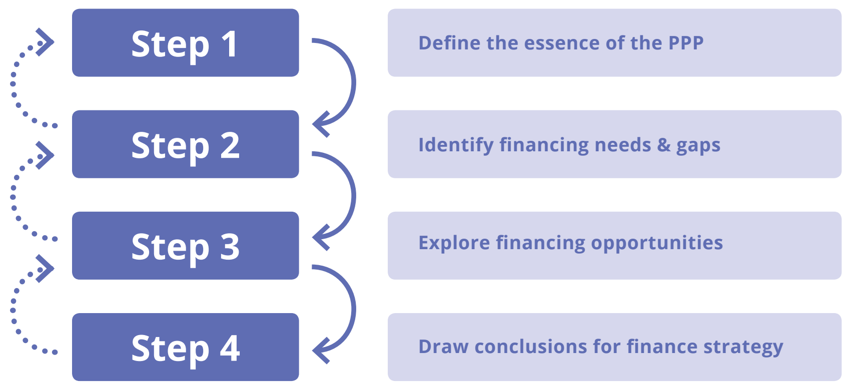
Step 1: A set of questions helps to provide more clarity on the essence of the PPP. If it is not possible to answer these questions, it highlights some areas where you may need to do some more work.

Step 2: A second set of questions assists in identifying the financing needs and bottlenecks.

Step 3: With help of a template, a range of financing opportunities can be considered systematically for their suitability for the PPP.

Step 4: Through some key questions and pointers for summary, the above steps are brought to a conclusion.

It needs to be understood that finding the necessary finance for PPPs can be very challenging and that following the above steps may not be a recipe for success at the first attempt. However, the tool should help – in an iterative way – to better define your PPP, the financing challenges and opportunities and to work systematically towards a strong finance strategy. While the tool will not "spit out" a finance strategy for you, it should provide you key insights and ingredients that will help you write it. It needs to be kept in mind that the tool could assist people from various backgrounds on headlines, but that financial experts will remain required when working out details.



Step 1: Define the essence of the PPP

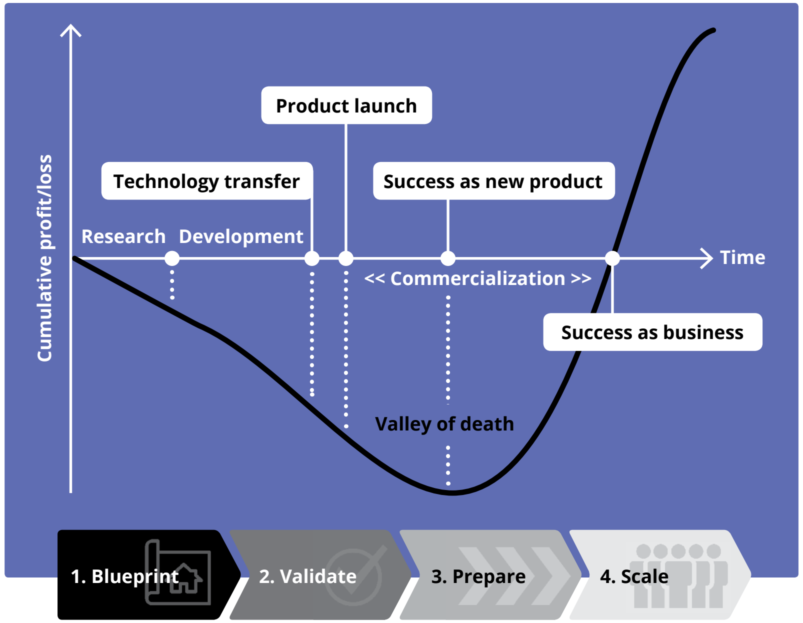
In this first step, a set of questions is asked to provide more clarity on the essence of the PPP. If it is not possible to answer these questions, it highlights some areas where you may need to do some more work. Before answering the below questions, it is highly recommended to have your PPP already worked out in a PPPCanvas – a business model canvas especially designed for PPPs – as a clear understanding of the PPP's essential features is crucial before a financing strategy can be developed.

Click here for more information and guidance on using the PPPCanvas.

The questions below may to some extent overlap with the PPPCanvas, but are meant to re-think these issues with developing a finance strategy in mind.

Key questions to define the essence of the PPP:

- What is the value proposition that you want to get financing for? Does it involve a product and/ or a service? And what is new/unknown/innovative?
- Who is your target group? Open market with range of customers or business to business? Include customers and extended beneficiaries). BOP and/or other income tiers?
- What commitments, if any, do you have from buyers?
- In what stage of development is your proposition? (see figure).



In this figure we have combined pioneering stages a PPP goes through (Koh et al., 2012) with the graphic of the "Valley of Death" (Osawa and Miyazaki, 2006) that illustrates the earlier mentioned Pioneer Gap. It is essential to understand at which stage of development your PPP is, to think through all the stages from the onset and engage with (future) investors early to know their criteria. At the Blueprint and early Validation stage it will be hard to attract repayable finance (due to the high risks), while options for obtaining public resources, grants etc. are often limited and subject to strong competition. (Impact) Investors may only invest once the PPP clearly climbs out of the "valley", but should be engaged and understood much earlier. Finding resources to get through the pioneer gap gets easier if an (impact) investor is already committed to your concept if you can proof it works. Then (Social/ Development) Impact Bonds may be developed to bridge the gap, connecting outcome payers (interested in economic spin off from social impact) with revolving funds/ impact investors who strive for social impact but with their upfront investment refinanced.

Whom?

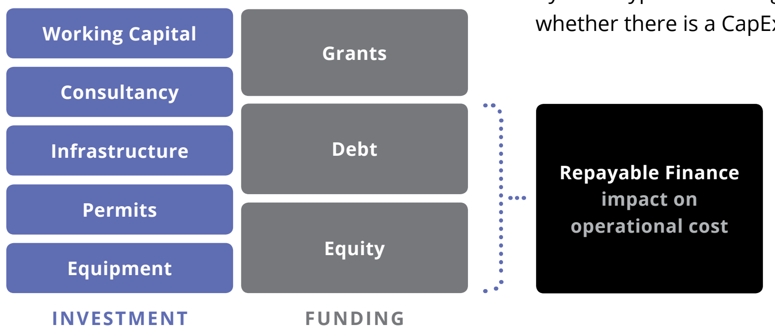
	Partner name	Type of partner (company, GOVT, NGO..?)	Amount & type of funding available	Period partner is participating
Lead partner				
Partner 1:				
Partner 2:				

Case?

Step 2: Identify the financing needs & gaps

In this second step, a set of questions is asked to assist in identifying the financing needs, compare these with the readily available finance to determine the gaps that need to be resolved. Except for the first and last element of the below questions, the Business Ecosystem bottlenecks, CapEx needs and OpEx versus Revenues will also be best derived from the PPPCanvas.

The Ecosystem bottlenecks, Key Activities and Key Resources captured in the PPPCanvas have cost implications that need to be quite clearly mapped to understand the strengths of the business case. The graphics used in the below to further break down CapEx, OpEx and Revenues are taken from the Insight Booklet "Financing PPPs". Please refer to that booklet if you need more explanation about this.



The graphic may help you to capture all your CapEx as it spells out 5 categories of investments that may be needed. This should be compared to the funding available to the PPP consortium (in the graphic represented by the 3 types of funding) to determine whether there is a CapEx gap.

Key questions to identify the financing needs & gaps

Financial strengths of partners:

- What financial resources are readily available to the partners in the consortium?
- What is the **creditworthiness** of each partner? And what are your expectations around the **bankability** of the PPP intervention?

Business Ecosystem bottlenecks:

- What challenges in the **business ecosystem** need to be considered and what needs to be done to overcome these?
- What financial implications does this all have for your PPP?

CapEx Needs:

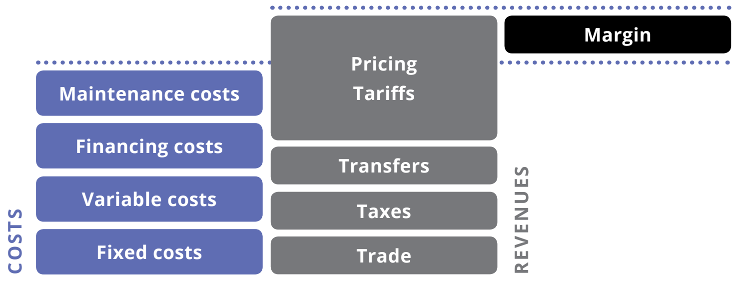
- What are the **CapEx** needs?
- What is the CapEx need in the future for reaching scale?
- What funding / financing is already available to cover these CapEx needs?

See Annex 2 - Glossary for explanation of financial terms

Balance OpEx & Revenues:

- How confident are you that OpEx - **Operational Expenditures** - can be covered by Revenues? How will this evolve over time?
- Does Revenues-OpEx give a margin that will allow for paying off CapEx?

The graphic may help you to capture all your OpEx and Revenues.



Risks:

- What risks have been identified for the PPP? Include real, perceived and counterfactual risks.
- What is the likelihood and magnitude of consequences for these risks?
- Have the risks been discussed among the partners and what are their attitudes to these risks? Have responsibilities to deal with the risks been allocated to specific partners or have other risk sharing mechanisms been agreed upon? What measures have been taken to reduce the risks?
- Are systems in place to monitor identified risks and manage new risks as PPP develops?

Summarise and quantify your financing needs and gaps in the table

Bottleneck	€ Needed	€ Available	€ Gap
Ecosystem	*Estimated amount needed to tackle ecosystem bottlenecks. Distinguish between one-off expenditures and recurring costs (if any)*	*Amount readily available to the consortium to pay for solving the ecosystem bottlenecks*	*Needed minus Available*
CapEx	*Estimated amount needed for CapEx*	*Amount readily available to the consortium to cover CapEx*	*Needed minus Available*
OpEx	*Estimated amount needed for OpEx (usually per month)*	*Revenues expected (per month)*	*Needed minus Available*

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Step 3: Explore financing opportunities

In this step, the idea is to consider a wide range of financing opportunities in a systematic way. As overcoming Business Ecosystem challenges, CapEx or OpEx gaps are likely to require different financing approaches, these are kept separate in the template below. The idea is to initially be as open-minded as possible and not to reject an option too easily. It should be kept in mind that for most PPPs a smart blend of different financing streams is needed.

In the matrix, the empty squares can be ticked (e.g. X = not an option; 0 = maybe; V = good option) and (as an option) be filled in with names of known funds/ investors in that category). In that way the palette of financing opportunities can be mapped.

To help in filling out the matrix, a brief explanation about each option and (likely) circumstances in which it can be used are provided in Annex 1. The financing opportunities listed in this matrix are a broad categorization, in which we tried to capture commonly used and/ or promising opportunities.
The list is not exhaustive!

X = not an option
O = maybe
V = good option

FINANCIAL OPPORTUNITIES

FINANCING GAPS	Commercial Finance					Concession	Non-Repayable Funding					?
See Annex 1 for explanation of financing opportunities	Vendor/ Supplier Finance	Micro-finance	Equity	Bonds	Commercial loans	Concession Loan	Loan Guarantee	In-Country Public Funding	First Loss (De-risking) Grant	Results Based Payment Model	Catalyst/ Innovation Grant	Other Options? e.g. Crowd Funding?
In Ecosytem: €												
CapEx gap: €												
OpEx Revenues: €												

In addition to the above , the matrix below will help in exploring financing opportunities offered by the partners in the consortium (rather than mapping the opportunities per financial bottleneck). This matrix is complementary to the matrix above, showing how the various finance streams can be mobilised and organised. Financiers will not finance a PPP or a project (unless the PPP will operate through one specific entity, e.g. a "Special Purpose Vehicle", see glossary), as that isn't a legal entity that they can deal with in their contracts. Hence, the financing solutions will generally flow through one of the partners in the consortium.

In the template, the empty squares can be colour-coded, like in the previous one. The (maybe - and good option -) boxes can also be filled with text: e.g. on whether if offers a solution to a CapEx/ OpEx/ Ecosystem bottleneck and/ or more details on potential concrete financiers/ financing instruments.

X = not an option
O = maybe
V = good option

FINANCIAL OPPORTUNITIES

PARTNERS IN PPP

	Commercial Finance					Concession	Non-Repayable Funding					?
See Annex 1 for explanation of financing opportunities	Vendor/ Supplier Finance	Micro-finance	Equity	Bonds	Commercial loans	Concession Loan	Loan Guarantee	In-Country Public Funding	First Loss (De-risking) Grant	Results Based Payment Model	Catalyst/ Innovation Grant	Other Options? e.g. Crowd Funding?
Private Partner **X**												
Private Partner **Y**												
NGO **Z**												
Other partners **?**												

Step 4: Draw conclusions for your finance strategy

This is the final step, in which choices need to be made on the way forward. As mentioned earlier, the development of a finance strategy is an iterative process, so you may revisit at each step answers provided/ choices made earlier. When your PPP and finance strategy is developed well-enough, you will probably start conversations with potential funders/ financiers, which is likely to help you further to refine your PPP, its business model and finance strategy.

Key considerations and choices

- What do you see as key factors and key choices considering your financing strategy? Underpin these with reasoning and specifications.
- To what extent do your choices serve both short and long term financing needs?
- What alternative options or directions have you have NOT chosen and why?

Hints
scaling boundaries (horizontal & vertical) plus identify positive/ negative externalities that drive social return next to economic return

Summary

Action plan

Hints
key element is aggregation of players, partners, sources, resulting in collaboration, partnership, roles for public and private parties

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Annex 1 – Explanation about Financing Opportunities listed in the tool

The financing opportunities listed in this Annex are a broad categorization, in which we tried to capture commonly used and/ or promising opportunities.
This list is not exhaustive!

	Short explanation	Examples[1] of suitable circumstances
Vendor/ Supplier finance	occurs when a private company offers financing to a customer to purchase products or services. By doing this, the company increases its sales by financing its own products.	access to finance for clients is identified as a bottleneck. Vendor/ supplier can relatively easily carry the costs of pre-financing for its customers.
Micro-finance	offers small loans to individuals, entrepreneurs, and communities that do not have access to credit from the formal banking sector.	finance needs are relatively small targeted individuals/ entrepreneurs can indeed afford the relatively high interest rates usually associated with micro-finance established micro-finance institutions available
Equity	(also known as "shares") purchases part ownership of the project/ company and thus an entitlement to a portion of the results or profit, which is therefore variable.	most commonly used where there is a clear business case. In PPPs often, the business case needs development (e.g. demand creation/ social marketing efforts needed), meaning it will take significant time before the business case will be viable. This means that usually only (impact) investors that have sufficiently "patient" capital will provide opportunities. It should also be kept in mind that Equity providers "buy" a say in the company. You need to carefully consider whether that is desirable.

More extensive explanation on financing opportunities can be found in PPPLab Insights Series 04: ppplab.org/2016/11/insight-series-04-financing-public-private-partnerships/

1] Step 3 of the tool wants to encourage creativity and innovation, so it should be emphasized that these are only examples and are NOT fixed criteria/ terms/ conditions.

	Short explanation	Examples of suitable circumstances
Bond	is a debt investment in which an investor loans money to an entity for a defined period of time at a variable/ fixed interest rate.	Used by companies & govt to finance a variety of projects and activities, which are usually well specified (not experimental or pilot). Only works if the company/ govt has a good track record Attractive for bond issuers due to low interest rate (compared to bank)
Commercial loan	is a debt-based funding arrangement between a business and a financial institution; it needs to be repaid in regular pre-set intervals, usually with interest.	Banks will only issue loans after scrutiny of the business plan. Risks around developmental PPPs are generally considered high (by financial institutions), hence commercial loans will generally need to be combined with e.g. a guarantee or a grant, to reduce the risks for the loan provider.
Concessional loan	has terms substantially more generous than market loans, either through low interest rates or by long grace periods, or a combination of both.	Usually issued by Development Banks to Governments
Guarantee	is a promise by a guarantor to assume the debt obligation of a borrower if that borrower defaults.	It allows a loan which would normally not have been granted because the lender would rate the risks too high.
Public funding	is money that comes from the government, often through taxes.	E.g. subsidies to households or companies to stimulate certain developments.
First Loss Capital	is funding that allows an initiative to survive a first period of loss, before sufficient revenues are created. It can be provided in different ways, e.g. as a grant or as equity.	This can be used for an initiative/ company that will generate (more) revenues in the future, but at the initial stage has too high costs/ too little revenues to be profitable

	Short explanation	Examples of suitable circumstances
Results-Based Financing (RBF)	Results-Based Financing (RBF) is an instrument that links financing to pre-determined results, with payment made only upon verification that the agreed-upon results have actually been delivered. (World Bank). There are many types of RBF models with many different names, e.g. Output-Based Aid, Outcome Payment Models & Pay-for-Performance schemes. Also Impact Bonds fall in this category. This is an instrument in which private investors provide funds for development interventions, and funders (mostly public sector agencies) repay investors if and only if independently verified evidence shows that the outcomes have been achieved. If the government is the outcome payer, one speaks of social impact bonds or SIBs (e.g., to tackle youth unemployment). If third parties pay for the outcome, one speaks of development impact bonds (DIBs).	A proven example of an “Outcome Payment” is procurement of carbon credits by companies/ institutions from projects/ institutions that have reduced carbon emissions. This has been used in safe water projects, that eliminate boiling of water (and hence reduce carbon emissions). Selling carbon credits then becomes an additional revenue stream for a water project. Also other development outcomes (e.g. jobs created, time savings) could be paid for by Outcome Payers. As payments are only made once results have been delivered, pre-financing of the interventions needs to be (made) possible. In Impact Bonds, the risk of non-performance lies with the (private) investors, i.e. the pre-financiers, and not with the organization providing the service, as is the case in most other RBF schemes.
Catalyst / Innovation Grant	is non-repayable funding that allows grantees to develop new (business) models/ technologies or apply existing models in new contexts.	This type of grant is often used in the development sector. It assumes that with some initial grant money, certain barriers can be overcome, after which the initiative can develop itself further with other types of (commercial?) funding.
Crowd funding	Crowd funding sources many small contributions from a large number of people, typically via the Internet. It is valuable to recognize that the term “crowdfunding” relates primarily to the interface (often a website) through which a crowd is reached. However, more traditional funding instruments lie underneath the interface. This means that the funds supplied could be a donation, equity funding (with shares in the project being sold to the crowd), a form of debt (a fixed return is promised), or a form of value chain funding (a good or service is pre-purchased).	Experiences suggest that smaller, ‘do-good’ projects that do well with a broad audience are feasible for this approach. PPPs can also raise funds through crowdfunding, but it may be harder to communicate than in the case of smaller, more charitable, or more innovative projects.

Annex 2 – Glossary of Financial Terms

Term	Explanation
Bankability	Put simply, a PPP project is considered bankable if lenders are willing to finance it. www.eib.org/epec/g2g/i-project-identification/12/123/index.htm A project or proposal is bankable if it has sufficient collateral, future cashflow, and high probability of success, to be acceptable to institutional lenders for financing. http://www.businessdictionary.com/definition/bankable.html
Business Ecosystem	A PPP does not operate in a vacuum. A number of business ecosystem variables will influence the potential impact of the PPP. Variables in the Business Ecosystem can include a given policy, a lack of available professionals or fierce competition. To give you an idea of what you might be facing, a list with examples of such ecosystem variables is provided below. Note that this list is not exhaustive.

Examples of Business Ecosystem Variables

Market & Finance
- Competitors
- Access to finance
- Interest & currency exchange rates
- Composition of market
- Inflation

Culture & Community
- Gender equality
- Cultural (food) habits
- Levels of education
- Levels of poverty

Environment
- Environmental awareness
- Climate change
- Environmental degradation

Policies & Politics
- Rules & Regulations (incl. import/ export regulation)
- Bureaucracy
- Tax & subsidy schemes
- Corruption/ transparency

Technology
- Main technological trends
- R&D intensity
- Technical skills and knowledge

Infrastructure
- Road infrastructure
- Logistics
- Power and network

PPPLab PPPCanvas User Guide: https://www.ppplab.org/wordpress/wp-content/uploads/2016/05/PPPCanvas-User-Guide.pdf

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Term	Explanation	
CapEx (Capital Expenditures)	Capital expenditures are the amounts that companies use to purchase major physical goods or services that will be used for more than one year. Investopedia.com	PPPs often require new equipment or infrastructure. Investments in resources such as machinery or permits do not recur; they occur only once. These expenditures are called Capital Expenditures (CAPEX). Typically CapEx includes costs for: Infrastructure, Equipment, Permits, Consultancy/ TA & working capital.
Credit-worthiness[5]	The ability to borrow money. The better one's creditworthiness, the more likely it is that a bank or other financial institution will extend credit. One establishes creditworthiness by repaying loans and other bills on time,	spending prudently, and generally showing that one can behave in a financially responsible way. financial-dictionary.thefreedictionary.com
OpEx (Operational Expenditures)	Costs that are recurring regularly, hence also known as recurring costs. OpEx can be broken down into four common components: **Fixed costs:** Costs arising from the operation that are not particularly affected by production volume (e.g., office space) **Variable costs:** Costs that are directly related to the production of a good or service (energy, resources, personnel, and transportation)	**Financing costs:** Interest and repayment of market-based financing instruments **Maintenance costs:** Costs related to the upkeep and replacement of capital goods (e.g., maintenance of machines and buildings)
Special Purpose Vehicle	a legal entity that undertakes a project. All contractual agreements between the various parties are negotiated between themselves and the SPV.	Especially for large infrastructure PPPs, SPVs are often a preferred mode of PPP project implementation. http://www.unescap.org/ttdw/ppp/ppp_primer/index.html

More extensive explanation on financial terms can be found in PPPLab Insights Series 04: ppplab.org/2016/11/insight-series-04-financing-public-private-partnerships/

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