

Second United Nations World Geospatial Information Congress

Theme: "Geo-Enabling the Global Village: No one should be left behind"

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Effective Partnerships

Use of Public Private Partnership (PPP) to finance Geospatial Projects

PUBLIC PRIVATE PARTNERSHIP (PPP)

What?

Governments worldwide can turn to the private sector to provide geospatial services that were once delivered by the public sector.

Each agrees to share responsibilities related to implementation and/or operation and management of a project.

Why?

- Availability of additional resources to meet the increasing needs of investment in geospatial services
- Increased efficiency in project delivery and operation
- Access to advanced technology
- Sustainable development in geospatial services.



PUBLIC PRIVATE PARTNERSHIP (PPP)

What?

The partnership is built on the expertise of each partner that meets clearly defined public needs through the appropriate allocation of:

- Resources
- Risks
- Rewards, and
- Responsibilities



Focus Areas*

- E-services;
- Land information systems;
- Field surveys;
- Space and Earth observation;
- Spatial data infrastructures;
- Others (investments in infrastructure, climate resilience, health and human security, etc.)

* WGIC – PPP Report



Sources of finance

- **Equity:** capital invested by sponsor(s) of the PPP project and others.
- **Debt:** borrowed capital from banks and other financial institutions.
 - Commercial loan
 - Bridge finance
 - Bonds and other debt instruments (for borrowing from the capital market)
 - Subordinate loans
- **Government grants**



Providers of finance

- Equity investment from project promoters and individual investors
- National and foreign commercial banks and financial institutions
- Institutional investors
- Capital markets
- International financial institutions



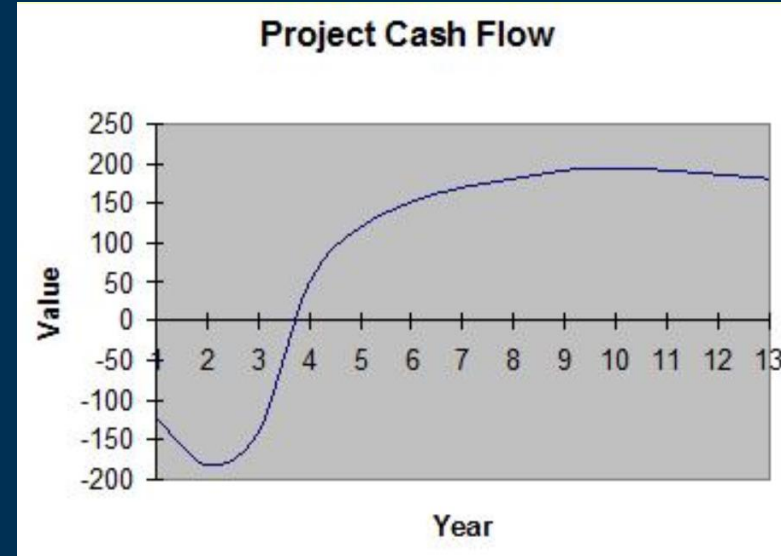
Good to know

- **Due diligence:** When investors and financiers consider financing a project, they carry out extensive **due diligence work** taking into account technical, financial, legal and other aspects of the PPP deal.
- **Financial structure:** equity vs debt
- **Cost of capital:** weighted sum of the cost of debt and the cost of equity
- **Risks:** important element which is factored in to determine the cost of debt and equity. Interest rate charged by lenders will depend on the level of risk they estimate for the project. The higher the risk perceived, the higher the interest rate will be.



Cash flow analysis

- Critical components of a cash flow model are:
 - **Capital investment:** cost of developing a project, regardless of funding sources
 - **Terminal cash flow:** cash that is generated from the sale or transfer of assets upon termination or liquidation of the PPP
 - **Discount rate:** rate that is used to calculate the present value of future cash flows
 - Assumptions on parameter values



Financial indicators

- **Return on Equity (ROE):** net income earned on an equity investment
- **Annual Debt Service Coverage Ratio (ADSCR):** ration of cash flow for a period in relation to the amount of loan interest and principal payable for that same period
- **Project Life Coverage Ratio:** ratio of debt service coverage on a given date based on future cash flows from that date until the end of the project life
- **Payback period:** length of time needed to recover initial investment on a project
- **Net Present Value (NPV):** sum of the present value of all future cash flows
- **Financial Internal Rate of Return (FIRR):** discount rate at which the net present value of the cash flow of a project is zero



Forms of compensation to private sector

- Direct charging of users
- Indirect charging of (third party) beneficiaries
- Cross-subsidization between project components
- Payment by the Government (periodic fixed amount or according to use of the service)
- Grants and subsidies



