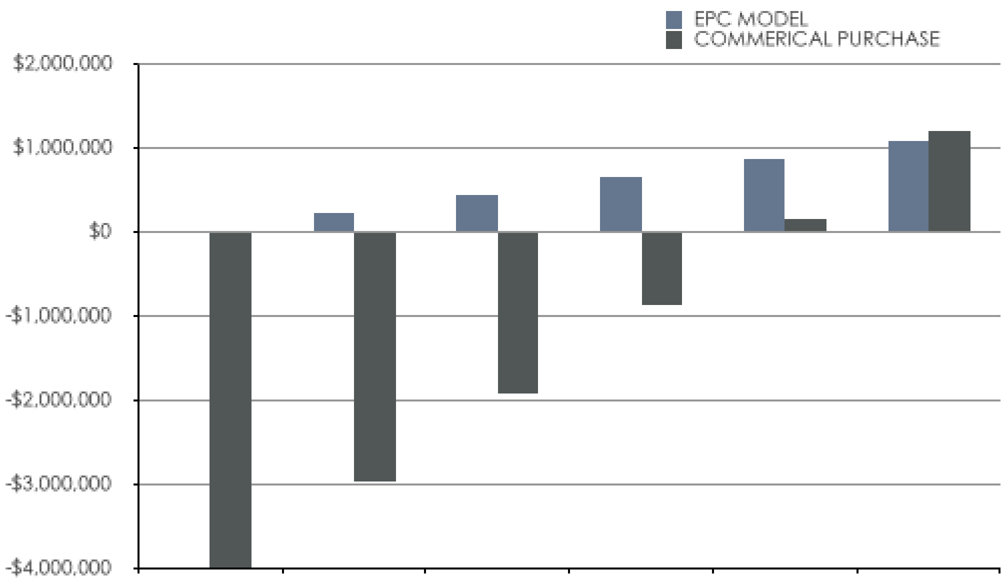
## Public Private Partnership - Who's funding it?

There is not just one widely accepted definition of public-private partnerships (PPP). The PPP Knowledge Lab defines a PPP as "a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance".

When the city government does not have the experience and proper skills to procure PPP projects, there can be legal issues and other problems when conducting feasibility studies. Often, investors need time to create financial models capable of meeting the challenges of financial fluctuations, or they require additional security in form of financial guarantees. Government or credit enhancement institutions are the only parties capable of providing such guarantees in the market today.




The United Kingdom (UK), which is the largest PPP market so far, has decided to establish the Treasury Infrastructure Finance Unit (TIFU) to lend to PFI /PPP projects. This ensures that infrastructure projects can go forward as planned, despite financial market conditions and provide better support for jobs and the economy.

There are many countries using or considering Guarantee funds to support PPPs, but probably the most successful is Korea. Korea launched an Infrastructure Credit Guarantee Fund (KICGF) to facilitate private participation in its infrastructure. According to the IMF, Korea's package includes measures to reduce financial burdens on PPPs, smooth interest rate changes, and shorten project implementation.

The measures introduce: (i) lower equity capital requirements on concessionaires (5–10 percent); (ii) for large-scale projects, higher ceilings on guarantees provided by the Infrastructure Credit Guarantee Fund (50 percent); (iii) help in changing equity investors for some projects; (iv) compensation for the preparation of proposals to encourage more vigorous competition during bidding;

(v) sharing of interest rate risks with concessionaires; (vi) compensation for the excess changes in base interest rates through grading of risks at the time of the concession agreement; and (vi) shorter periods for readjusting benchmark bond yields.

"Public-Private Partnerships need room to grow, " says Michael Ng, board director of MELA and CEO of Amko SOLARA Lighting. "While there is a positive outlook for PPPs, their governance, role and best practices still need to be established and studied."

GE's recent announcement involving the reorganization of its lighting business involved moving its commercial and industrial LEDs into a broad new $1 billion “startup” energy services business. The intersection of public-private partnerships with public lighting infrastructure may provide the opportunity to develop new businesses and partnerships throughout the industry.

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