

Infrastructure Financing and PFI

Infrastructure financing is centered on area development, utilities, transportation, road/highway, ports, tourism as well as community / social and public services.

Due to the long gestation period of the project, infrastructure loans generally have long tenure and a grace period of 3 years is usually given to customers.

Types of Financing

- i. Project Finance
- ii. Deferred Payment Scheme
- iii. Private Finance Initiatives

i. Project Finance (“PF”)

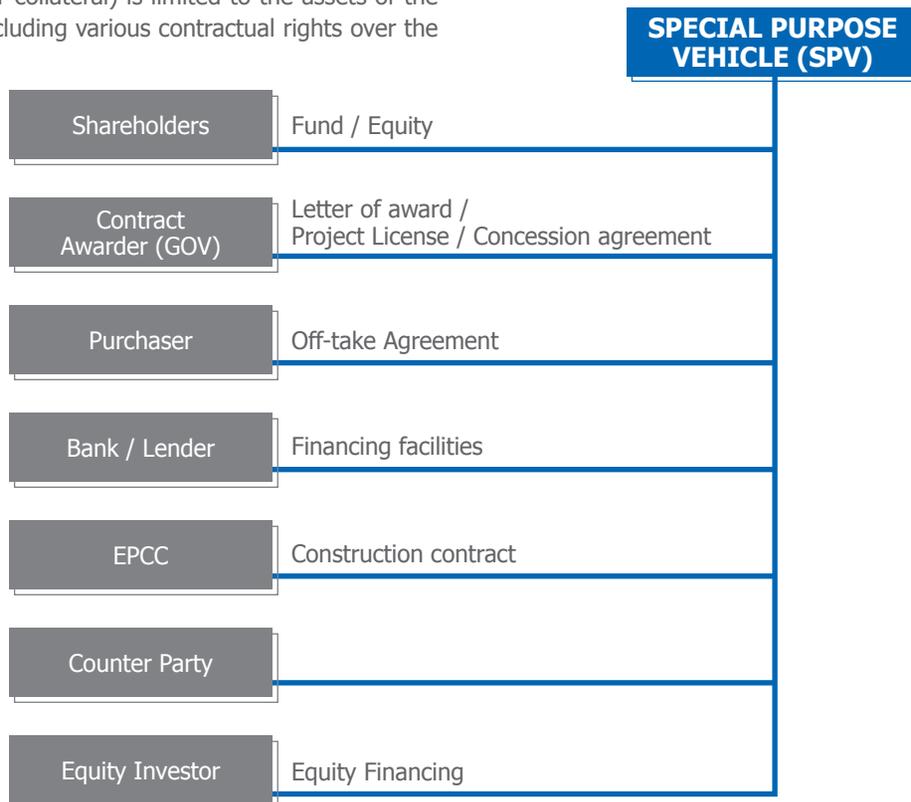
“Project finance” is a form of financing designed for specific project, and has two major characteristics:

- the repayment source is cash-flow generated primarily (and sometimes solely) by the project, and
- security (or collateral) is limited to the assets of the project, including various contractual rights over the project.

Characteristics of PF

- A financing vehicle for single asset project
- Capital intensive and highly leverage
- Special purpose status that severely limits activities
- Long term project
- Non-Recourse/Bankruptcy remote project company
- Source of repayment based on cash flow
- Many parties involved
- Allocated risk
- Where management has limited discretion concerning amortization of debt and use of cashflow

Project Finance Structure



Examples of PF Projects financed through BPMB

- Rail Project
- Highway Project
- Port Project
- Area Development Project
- Flood Mitigation Project

Project Background

Rail Project

The project is the development and operation of Express Rail Link and Commuter Rail Service ("ERL-CRS") for a total length of 57 km from Kuala Lumpur Sentral Station ("KLSS") to Kuala Lumpur International Airport ("KLIA") on a privatization basis. Under the Concession Agreement ("CA"), ERL-CRS is privatized for a concession period of 30 years with the option to extend for a further period of 30 years.

Highway Project

Privatisation of an expressway on build, operate and transfer ("BOT") basis for a concession period of 40 years with a total length of approximately 51.2 km.

Port Project

Incorporated to undertake and develop an international transshipment container port under a 30 + 30 year-concession period ending 23 March 2055. The master plan for the port contains five phases, extending to the year 2020. The total development will embrace a full range of facilities from container to liquid, dry bulk and conventional cargo.

Area Redevelopment Project

Responsible to plan, design and prepare primary infrastructure for the Cyberjaya Flagship Zone (CFZ). The area covers 7,000 acres of freehold land consisting of four main zones known as enterprise, commercial, institutional and residential. Each zone is fully equipped with a host of intelligent network services and interactive broadband services.

Flood Mitigation Project

Construction of a 9.7km storm water bypass tunnel to alleviate floods in Kuala Lumpur and a 3km double deck motorway with a 2 lane carriageway within a section of the tunnel, aimed at relieving congestion in the southern gateway to Kuala Lumpur.

ii. Deferred Payment Scheme ("DPS")

- On 6 September 2000, BPMB has been appointed by the Government as the sole financier for Deferred Payment projects under Federal Government.
- The objective is to finance infrastructure construction projects awarded by the Federal Government to contractor on deferred payment basis.
- Under the Scheme, the Government will defer the payment to the contractor until the project is fully completed.
- As at to date, a total of 29 projects have been financed by BPMB under the DPS.
- The objective of DPS is to lessen the financial burden of the Government through deferment of the contract payment until the project is fully completed in order to spur the Malaysian economy.
- By structuring the relevant financing package accordingly to match with the completion period of the project.
- All companies that have been awarded construction contract by the Federal Government under the DPS are eligible under the scheme.
- Applicable only for infrastructure projects under the Federal Government.

Examples of DPS financed through BPMB

- Double Tracking Rail Project
- Flood Mitigation Project
- Road Project

Project Background

Double Tracking Rail Project

To undertake the Design, Construction, Completion, Testing, Commissioning and Maintenance of 329 km of the Electrified Double Track Project.

Flood Mitigation Project

Contract with the Federal Government of Malaysia to design, construct and complete the Flood Mitigation Project.

Road Project

A Special Purpose Vehicle ("SPV") company to undertake a 145 km road construction project.

iii. Private Finance Initiatives (PFI)

Characteristics of PFI

The original motive for the PFI was a combination of public expenditure pressures and procurement problems in the early 1990s. To avoid large borrowing, PFI offers solution by transferring the capital expenditure from public to private sectors or else, the other only alternative would have been to raise taxes.

- The private finance initiative (PFI) is one of a range of government policies designed to increase private sector involvement in the provision of public services. A simple understanding of the PFI is that it allows private sector involvement in the public sector particularly in the provision of long term asset-based services.
- It is a form of public private partnership (PPP) that marries public procurement programme, and particularly relevant for capital-intensive services. It transforms local authorities from being the owners and operators of assets to the purchasers of services.
- The aim of introducing the PFI was to achieve closer partnerships between the public and private sectors at both central government and local authority levels, and to get them involved in the provision of public assets and services.
- The involvement of the private sector in more than just the construction phase of a procurement means benefits could be gained from harnessing its expertise, such as improved project cost estimation, whole-of-life asset management, risk management and the provision of infrastructure maintenance services.
- However, the main benefit expected from PFI is risk transfer, and the incentive for the private sector to supply cost effective and higher quality service on time. In other words, risk and reward go hand in hand. PFI suppliers only start to receive their service payments when a flow of 'services' begins. A continued payment is then linked to specified performance criteria.

Two key principles of the PFI :

- To achieve a genuine transfer of risk to the private sector in public procurement project.
- To secure value for money in the use of public resources.

Why PFI ?

PFI deals offer public sector a structured way in delivering public projects. It is flexible, versatile and most of the time effective although it is not appropriate for every project

- Around the world governments are facing the same dilemma, which is how to meet the rising expectations for better public services (both for social and infrastructure) and at the same time keeping the public expenditure down. It is a dilemma that in the past might have been solved by cutting public spending. Then the PFI emerged to solve the dilemma.
- The major objective of PFI is to fulfill the need to invest in new and ageing infrastructure when no fund is available. PFI offers solution and pass the responsibilities of designing, building, financing and operating the infrastructure to the private sector.
- Historically, major infrastructure projects built by public sector had a poor record of keeping within the timeline and budgetary constraints. Thus PFI was seen as a way of incentivizing high quality services and providing greater certainty (using private sector management skills).
- PFI enables government to acquire new infrastructure today but delay and stage payments over the next 30 years or more. Moreover, the debt required to finance PFI is treated as 'off balance sheet' and this enable the government to maintain the pretense that that they are not increasing the national debt.
- In theory, PFI is not an alternative source of funding for public sector expenditure despite it is not shown in the government's 'balance sheet'. Non-recourse project financing was developed in the oil & gas industry to fund projects off balance sheet. The practice of a government granting a concession to a private sector operator has been implemented for so long. Yet, countries around the world are either just embarking on or considering a PFI in the last few years.
- The concept is constantly under close scrutiny from its opponents and detractors. But even in the face of strong opposition the resolve to use PFI seems undiminished. PFI remains a controversial means of procuring public sector facilities and official figures show it has steadily out-performed the traditional procurement methods.
- There is widespread and continuous public disquiet with the idea of public services being run by the private sector. Perhaps one of the most difficult things to do is to think in terms of outputs rather than inputs, and that requires a real change of mind-set.

BPMB's involvement in PFI projects are in the following sectors:

- i. Education Project
- ii. Health
- iii. Services

To date, BPMB has granted total approval of RM1.25 billion to PFI projects.

Financier's key considerations for a successful PFI

Participants	Key considerations
Government and implementing agencies	<ul style="list-style-type: none"> • Well-defined PFI project with clear output specifications • Transparent concession and award process • Commitment and support • Assured demand/utilization of the service or infrastructure to be generated by the PFI • Stable political environment
Private sector: developers/promoters and operators	<ul style="list-style-type: none"> • Experienced private sector developers/promoters and operators • Availability of equity funding • Alternative operators are readily available to take over and operate the project in the event of lender step in • Incentive

Under the PFI method, BPMB has participated in financing five out of six Universiti Teknologi Mara (UiTM) branch campuses as announced by the Government during the 2010 National Budget. The total of RM1.25 billion financing approval has benefited UiTM branches in Kota Samarahan (Sarawak), Seremban 3 (Negeri Sembilan), Tapah (Perak), Pasir Gudang (Johor) and Jasin (Melaka). As at the end of December 2011, all five projects are ahead of schedule and making good progress with construction achievement ranging from 14%-30%.

BPMB will continue its efforts to finance more PFI projects in the future. The coming up PFI projects which are expected to obtain their concession agreement in year 2012 pending negotiation with the Government are UiTM branch campuses in Dengkil (Selangor) and Raub (Pahang) and UiTM Training Centre in Nilai (Negeri Sembilan).