

DISCUSSION PAPER

Project Preparation Facility: Enabling local governments access to private finance

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Nearly 60 per cent of public infrastructure in Canada is owned by local governments—the provinces and municipalities. Much of this infrastructure is aging and in need of replacement. Adding this to the necessity of augmenting existing infrastructure stock increases the urgency for local governments to access all possible sources of finance in addition to existing federal funding. Unfortunately, not all local governments may know how to properly apply for available private financing. IISD recommends setting up a Project Preparation Facility (PPF) to enable smaller local governments to prepare bankable infrastructure project proposals.

Background

Canada has a total of 3,664 municipalities among its 10 provinces and three territories that are subject to some form of local government.¹ These municipal governments provide many essential infrastructure services, including the delivery and management of roads/bridges, public transit, water/wastewater, energy/waste to energy/biosolids and recreational facilities. Canada's municipalities are responsible for close to 60 per cent of the country's public infrastructure; however, almost one-third of that infrastructure is in need of immediate repair and maintenance.² Furthermore, as the population living in

municipalities continues to grow, municipal governments are facing increasing demand for new and improved infrastructure services.

The federal government has dedicated CAD 186 billion for spending on infrastructure between now and 2028, under five broad categories—public transit, green infrastructure, social infrastructure, trade and transportation, and rural and northern communities. According to Infrastructure Canada, the federal government has already announced Phase I for this program by allocating CAD 11.85 billion in investment over the next three to five years: CAD 3.4 billion for public transit, CAD 5 billion for green infrastructure and CAD 3.4 billion for social infrastructure.³

¹ Federation of Canadian Municipalities. (2007). *Your Guide to Municipal Institutions in Canada*. Retrieved from https://www.fcm.ca/Documents/tools/International/Your_Guide_to_Municipal_Institutions_in_Canada_EN.pdf

² Federation of Canadian Municipalities. (2016). *Infrastructure and Canada's Municipalities*. Retrieved from http://www.fcm.ca/Documents/backgrounders/Backgrounder_%20Infrastructure_May_2016_%20EN.pdf

³ Infrastructure Canada. (2016). *Growth for the Middle Class – Investing in Infrastructure*. Retrieved from <http://www.infrastructure.gc.ca/prog/budget2016-infrastructure-eng.php>



While Phase 1 of this infrastructure plan allows municipalities to consider the financing options that work best for them, the removal of the mandatory P3 screen will mean municipalities need further upfront education on the P3 model as a potential procurement tool for major projects. It is expected that the model will continue to be explored as a conduit to deliver infrastructure projects given the success of P3s in many municipalities.

According to the Canadian Council for Public-Private Partnerships (CCPPP) database, municipalities in Canada have implemented (or are in the process of implementing) 48 projects (29 operational, 14 under construction and five in procurement), worth more than CAD 10 billion for those that have reached financial close. Major sectors represented by the 48 PPP projects at the municipal level are water and wastewater, transportation and recreation.

Capacity Constraints

Globally, common issues that impede greater private infrastructure investment at the national or subnational (e.g., municipal) level include:

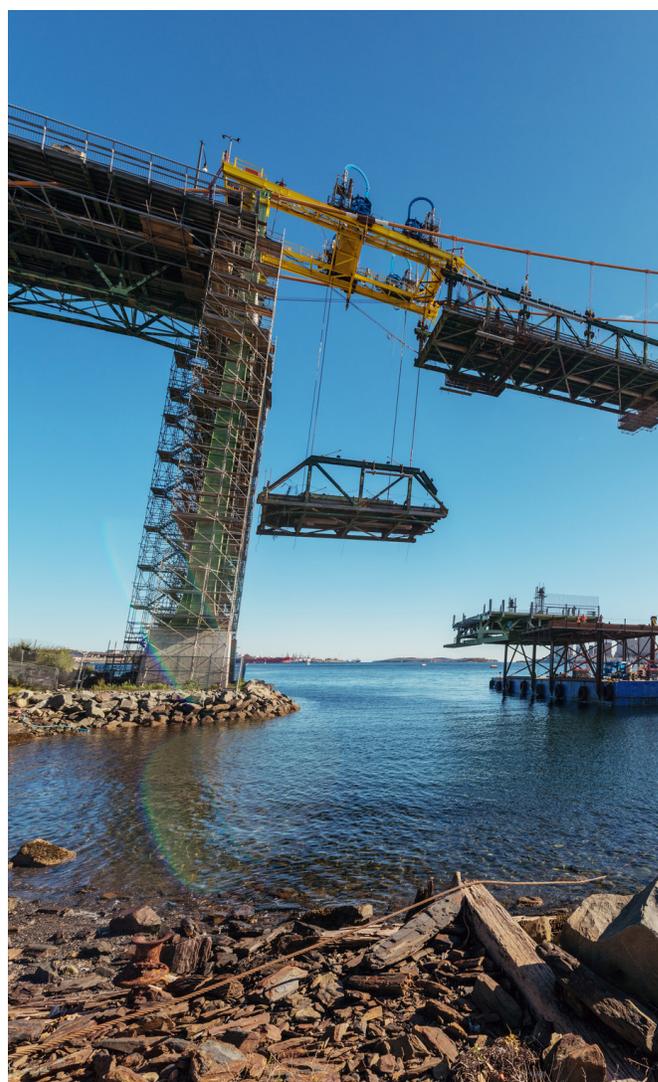
- (i) **Capacity constraint leading to inadequate deal flow.** This is in part a function of the limited capacity of local governments to prepare projects to the standards required by private sponsors and financial investors. Many local governments also lack the capacity to bring projects to the market in a manner that will satisfy potential bidders.
- (ii) **Lack of awareness.** Communication gaps between key stakeholders can impede private sector investments in infrastructure projects, which are sometimes perceived as a costly way to deliver public sector services.

Canadian municipalities that are considering private sector investment into infrastructure projects for the first time must adequately address issues of both capacity and awareness. A Project Preparation Facility (PPF) can address these two critical issues.

Project Preparation Facility

Project Preparation Facilities (PPFs) are used as means of developing bankable, investment-ready projects. A PPF may provide both technical and/or financial supports to project owners/concessionaires. Such supports can cover a wide range of activities including: undertaking project feasibility studies including value for money analysis; developing procurement documents and project concessional agreements; undertaking social and environmental studies; and creating awareness among the stakeholders.

PPFs can also provide financial assistance to local governments or special public sector agencies to support the financial, legal and technical advisory services required to facilitate private investment into infrastructure projects.





Box: Project Preparation Facilities in Action

“The Inter-American Development Bank has several facilities that support project preparation: the Project Preparation Facility (PPF), the Project Preparation and Execution Facility (PROPEF), the Infrastructure Fund (InfraFund), the Fund for Integration Infrastructure (FIRII), and the Fund for Financing Disaster Prevention (FDP).

The PPF provides up to USD 1.5 million in complementary financing to finalize preparation activities for projects in the Bank’s pipeline. PPFs aim to strengthen and shorten the project preparation stage, facilitating loan approval and project execution.

The PROPEF facilitates a more seamless transition from preparation to execution by financing additional project start-up activities. PROPEFs make more funding available per project—up to USD 5 million—than traditional PPFs, as well.

The InfraFund, created with a USD 20 million contribution from the IDB, provides resources to assist public, private and mixed entities in the identification, development and preparation of bankable and sustainable infrastructure projects.

The FIRII, also funded with a USD 20 million IDB contribution, provides technical cooperation resources for studies concerning regional physical integration and project preparation for cross-border infrastructure operations involving borrowing member countries.

The FDP provides technical cooperation resources for the preparation of disaster prevention projects and risk assessments in IDB borrowing member countries.”

Source: Inter-American Development Bank. (2017). Project Preparation Facilities. Retrieved from <http://www.iadb.org/en/about-us/project-preparation-facilities,6010.html>

Generally, the scope of PPFs covers the following:

- Upstream sector reform work linked to potential projects being prepared, including advising clients on enabling reforms (such as legislation and regulation frameworks, and possible use of incentive schemes), appropriate project selection criteria, training, and market and/or stakeholder awareness.
- Due diligence covering technical, financial, economic, social, legal, regulatory, safeguards, institutional, governance, transaction structuring and management matters.
- Preparation of information memoranda and marketing to place each of the transactions with investors—this may include (a) managing market soundings; (b) creating and overseeing data rooms and other channels for dissemination of project information for investor due diligence; (c) preparing bid documents and draft contracts; (d) managing the bidding process; and (e) assisting with evaluations, awards and negotiations.
- Attracting high-quality sponsors/investors that rely on limited recourse debt markets by preparing strong project documentation and robust financial models.

The overarching goal of a PPF is to develop a project to a point where it attracts sufficient interest from investors. Examples are abundant globally where projects are launched and subsequently abandoned due to lack of appetite among the investors and banks to finance them because were not developed in a bankable way.

IISD Recommends

It is clear that many municipalities in Canada—especially the smaller ones—need assistance in preparing bankable projects. IISD considers that there is a need for a certain level of awareness building among municipal staff and politicians so that they recognize the full suite of procurement options available to them. IISD therefore proposes setting up—with federal assistance—a Project Preparation Facility (PPF) for Canadian municipalities that would address their project development constraints.

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