

Financing and procurement models for light rails in a new financial landscape

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Why a need for rethinking?

- Increased pressure on public budgets
- Need for improved infrastructure to support growth
- Limited financing capacity in the banking sector
- New regulation of the financial institutions will increase cost of private financing (Basel III & Solvency II)
- Public liquidity is less costly than private funding
- Liquidity is different from risk capital (consider public sector to provide liquidity while the private sector provides risk capital)

Criteria for a rethought model

- High certainty for delivery of the asset
 - On time
 - On budget
 - In the agreed quality
- Most efficient solution to the need in the society
 - Investment versus needs (cost / value)
 - Operational costs
 - Lifetime budgets
 - Reducing financing costs
 - Keep incentive over the entire lifetime of the operation to optimize the business model
 - Most efficient allocation of risks
 - Most efficient methods to mitigate risks

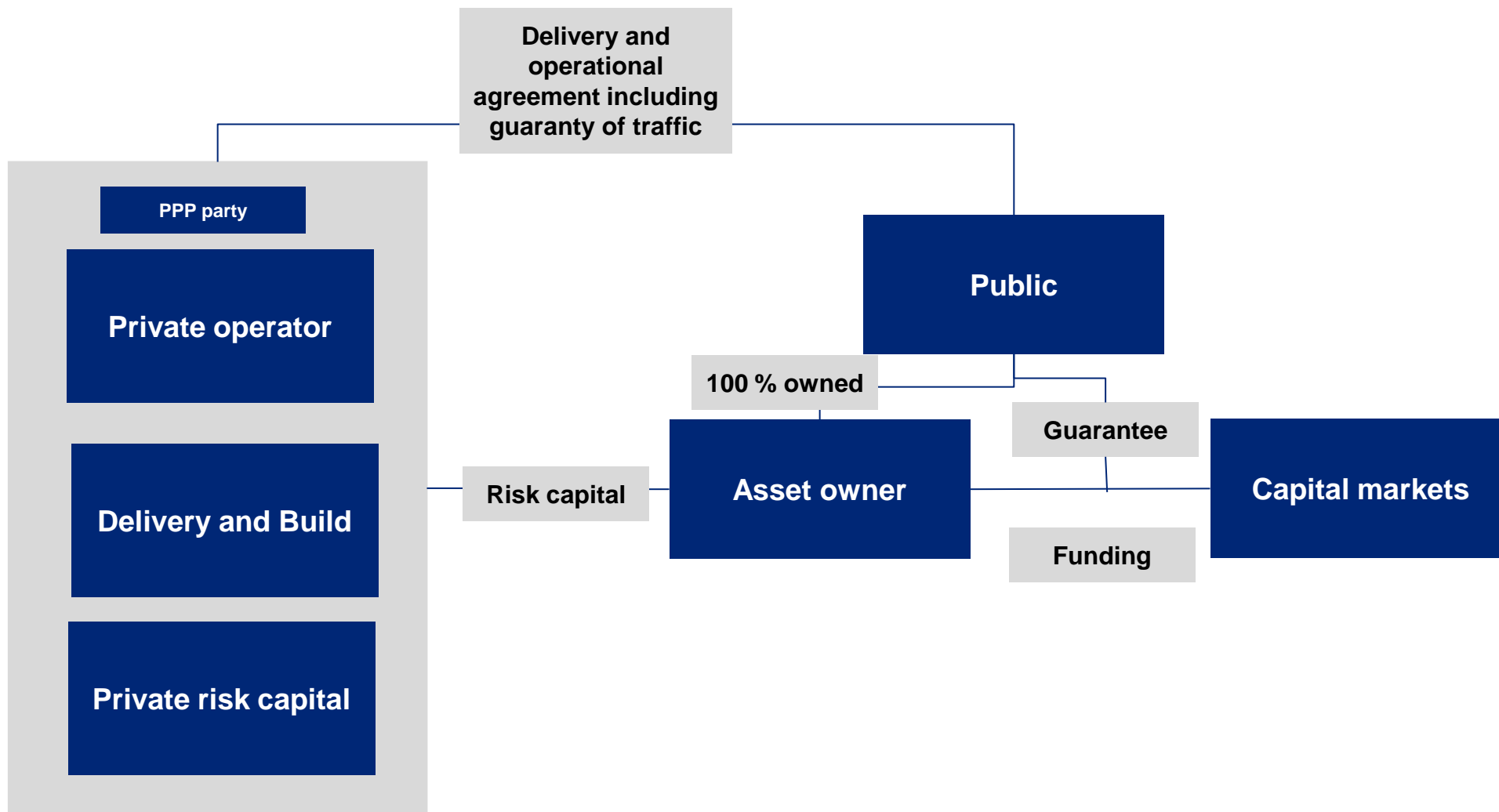
Roles for the involved parties

- Public interest
 - Delivery of high class transportation for the society
 - Ensure value for money (including taking on risks which can't be transferred to the private sector in a meaningful way)
 - Ensure incentives for an operational organization to optimize the business model and to comply with quality requirements at all time
 - Describe the public requirements and ask for solutions for this requirements rather than to require a specific solution
 - Provide “risk free” financing
 - Guarantee minimum traffic (base income)
- Private delivery
 - Innovative approach to providing lowest lifetime costs for the required solution
 - Improve public use of the asset
 - Ensure compliance with agreed quality standards
 - Delivery of the asset and ongoing operation of the light rail
 - Underwriting the risk capital

Risk is an important issue

- Where is risk concentrated?
 - Contracting period – high risk related to contracting costs, timely delivery (budget and time overrun is a big issue)
 - Bringing asset into use – does the asset actually work as required (may be an issue depending on the complexity of the delivery)
 - Operational phase – maintenance of the asset (fairly predictable on known technology)

A transaction model



Thank you



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