



# Strengthening Private Sector Participation for Infrastructure in the Pacific Region

## Identifying Finance and Appropriate Financial Instruments

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# What is 'Project Finance'?

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- ▶ The International Project Finance Association (IPFA) defines Project Finance as:
- ▶ *“...the financing of long-term infrastructure, industrial projects and public services based upon a non-recourse or limited recourse financial structure where project debt and equity used to finance the project are paid back from the cash flow generated by the project.”*

# What is 'Project Finance'?

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- ▶ Finance arranged on a project-specific basis
- ▶ Limited (or non) recourse to project sponsor or other third parties
- ▶ Lenders rely primarily on the project's capacity to generate cash flows
- ▶ Lenders security based on the project company's contracts, licences or ownerships rights over natural resources

# Key features of Project Finance

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- ▶ Cash flow certainty
- ▶ Long term
- ▶ Highly structured
- ▶ Large scale
- ▶ High gearing

# Benefits of Project Finance

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- ▶ Non/limited recourse finance projects are more highly structured for credit enhancement than corporate financed alternatives
- ▶ Each party bears only those risks which are appropriate and they can best price
- ▶ Sometimes the only way to fund much needed infrastructure

# Benefits of Project Finance (cont'd)

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- ▶ Project risk management
- ▶ Leverage of corporate balance sheet
- ▶ Funds raised could not be raised by a corporate
- ▶ Credit quality of a project company can be better than the Sponsors involved
- ▶ Project Company credit can exceed a sovereign ceiling

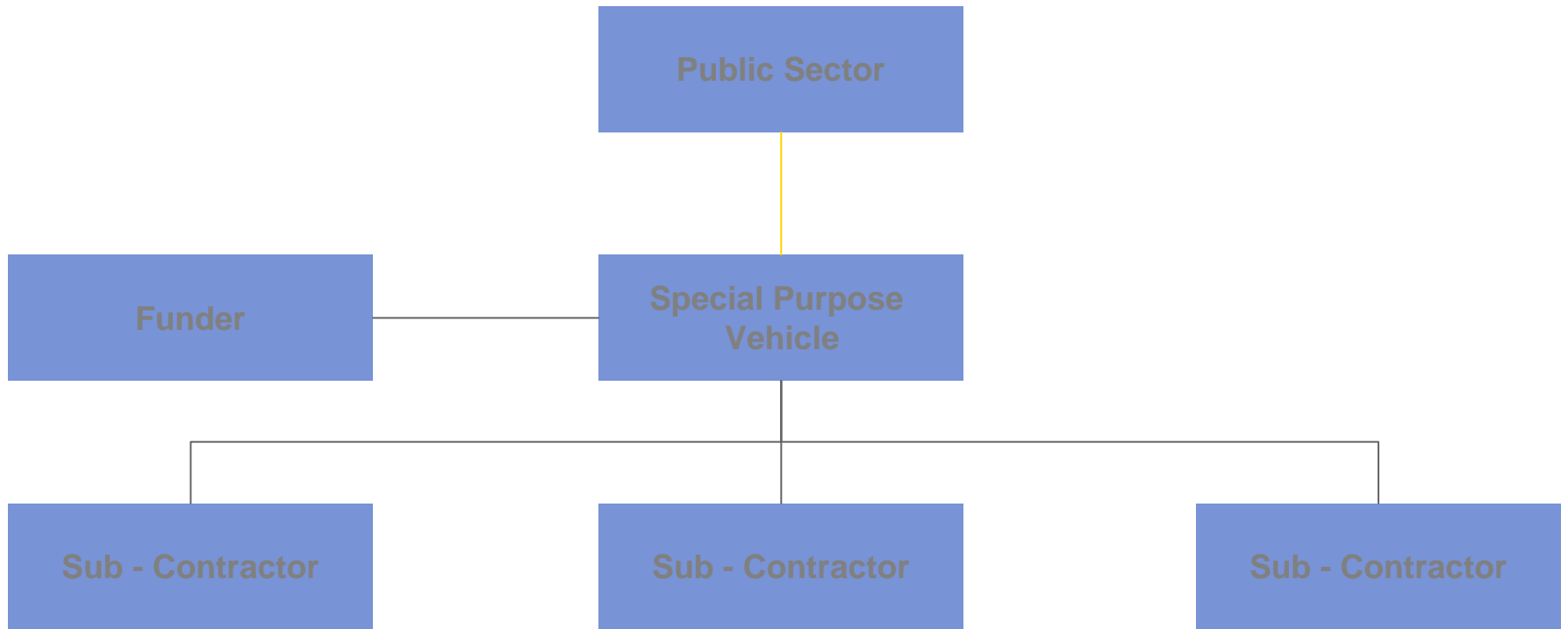
# Disadvantages of Project Finance

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- ▶ Complex contractually to negotiate
- ▶ Long time to implement
- ▶ High implementation costs:
  - ▶ Finance
  - ▶ Fees
  - ▶ Due diligence
  - ▶ Developer resources

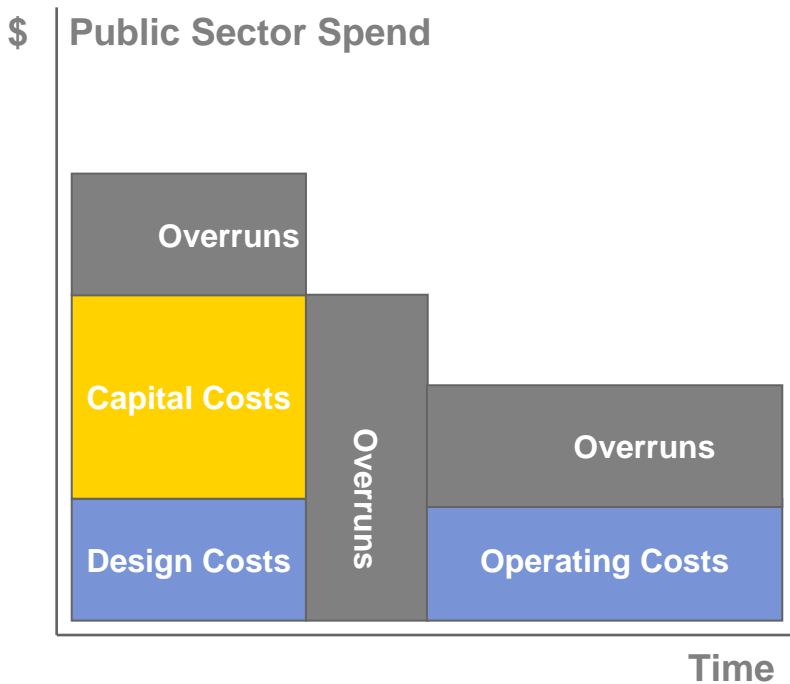
# Financing Structures

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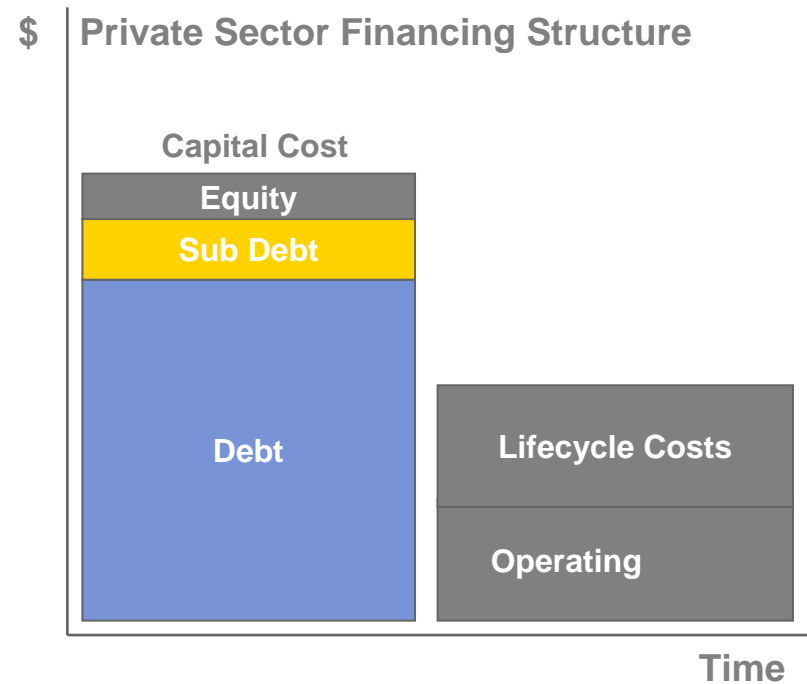


# Payment profiles: PPP vs Public procurement

- ▶ Payment Profile  
Conventional Public



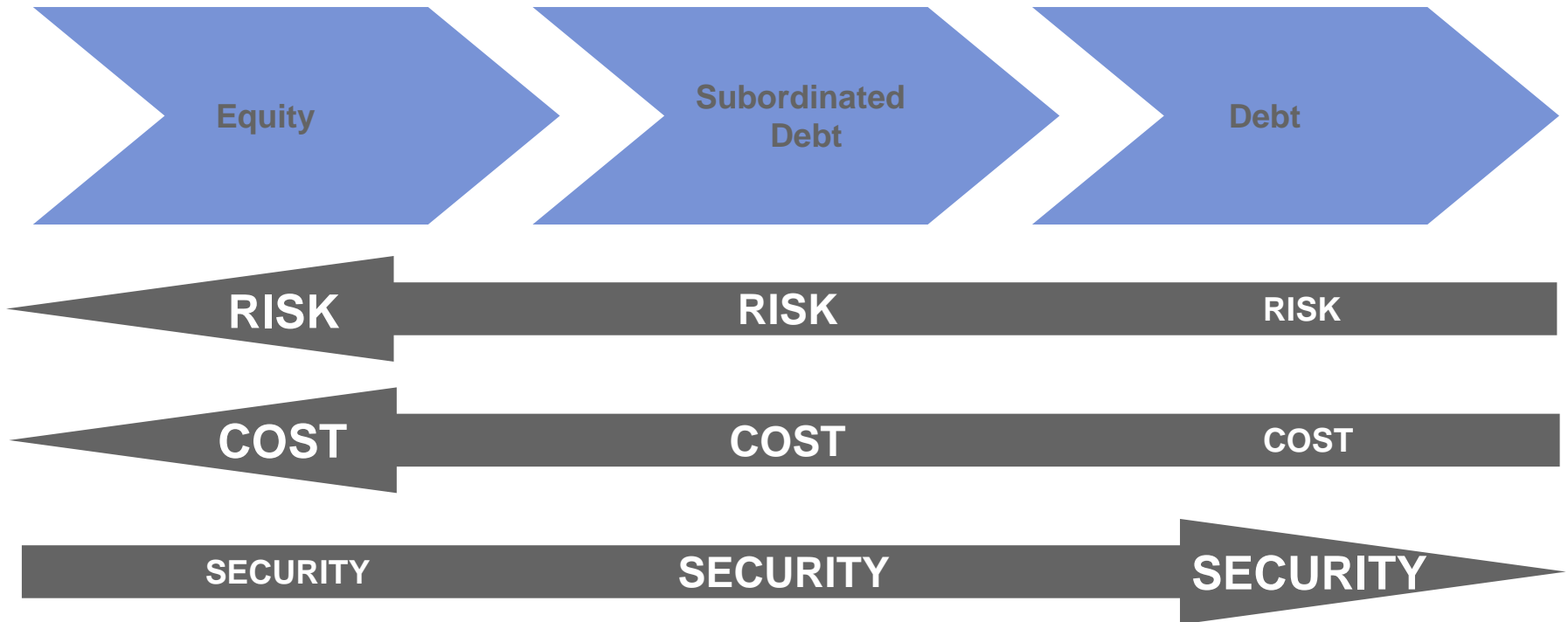
- ▶ PPP Procurement



# Financing Structure

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▶ Forms of Finance



# Financing Structure

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- ▶ Key Debt Providers
  - ▶ Commercial banks
    - ▶ Domestic
    - ▶ International
  - ▶ Investment banks
    - ▶ Capital markets
  - ▶ Public Sector
    - ▶ Multilateral Agencies
    - ▶ Grants

# Financing Structure

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- ▶ Typical Senior Debt Terms

- ▶ Term of debt – up to 30 years
- ▶ Repayment profile – annuity
- ▶ Margins during construction
- ▶ Margins during operations
- ▶ Debt free tail

- ▶ Typical Senior Debt Terms

- ▶ Life cycle reserve account
- ▶ Debt service reserve account
- ▶ Arrangement fee
- ▶ Commitment fee
- ▶ Key covenants
  - ▶ Average Debt Service Cover Ratio (ADSCR)
  - ▶ Loan Life Cover Ratio (LLCR)

# Financing Structure

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- ▶ Key Equity Providers
  - ▶ Project Developers/Sponsors
  - ▶ Banks
  - ▶ Infrastructure Funds
  - ▶ Private Equity

# Typical sub-debt terms and conditions

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- Maturity – up to concession life
- Repayment profile – accelerated if possible
- Margin during construction – 300 bps
- Margin during operations - 300 bps
- Blended equity IRR – 12% real over project life
- Key covenants – none of any significance
- Arrangement fee – 200 bps of max facility
- Commitment fee – 75 bps of undrawn balance