

# Show Me The Money !

Project Debt For Infrastructure Projects In Developing Countries

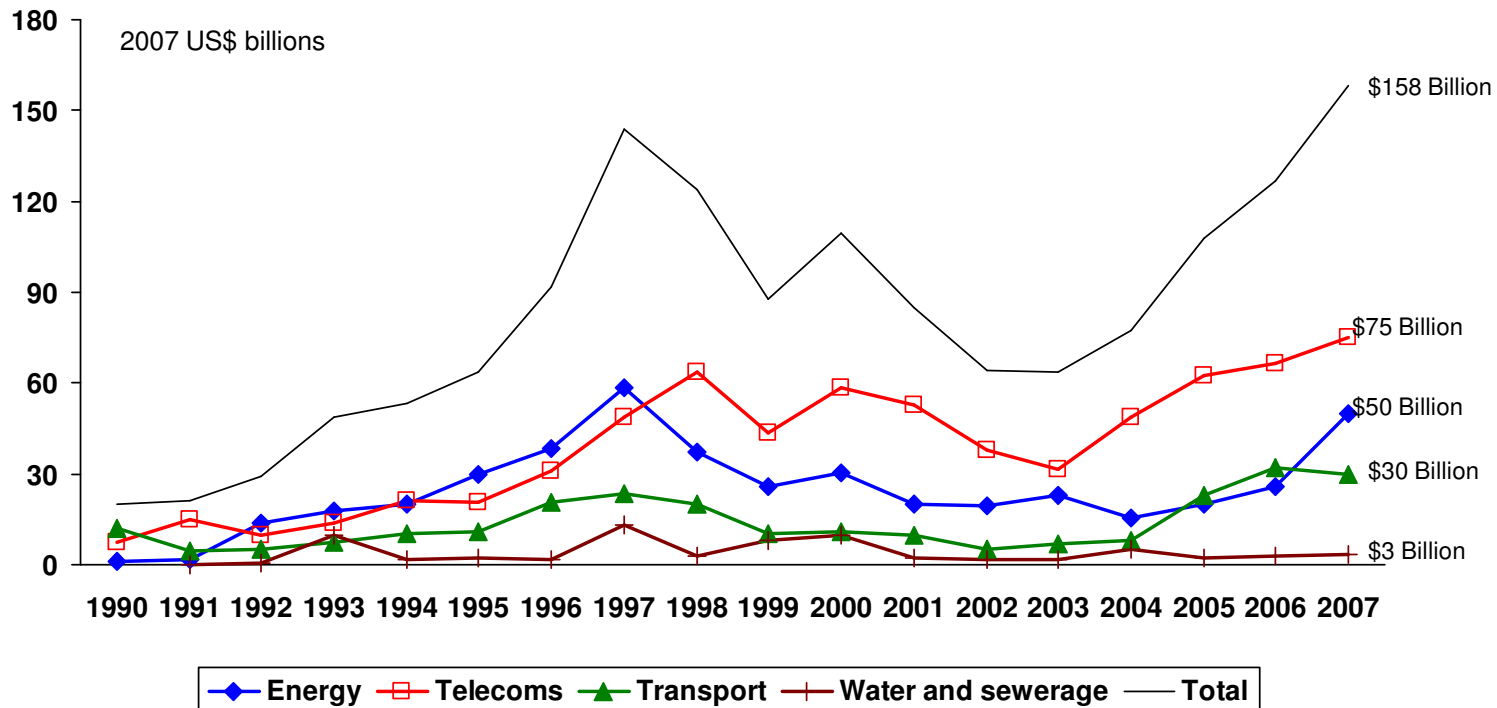
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# Past Infrastructure Investment

Developing Countries' Infrastructure Investment Commitments With Private Participation Was Over \$158 Billion in 2007.



Investment commitments to infrastructure projects with private participation in developing countries by type of project, 1990–2007

Source: World Bank and PPIAF, PPI Project Database - 2007

# Project Debt Availability

- **Noting the current worldwide economic crisis and scarcity of debt:**
  - How will Projects in Developing Countries attract the required investment capital for infrastructure projects?
  - When will Private Project Debt become reasonably available again for projects in Developing Countries?
  - What will Developing Countries' Governments do to support and promote critical infrastructure projects?
  - Which Institutions will address the project debt deficit near term in order to support significant ongoing projects in Developing Countries?
- **Near Term, the availability of Project Debt For Developing Countries With Private Participation Will Be Limited Unless Expanded Credit Support Is Made Available Or Projects Have Much Higher Levels Of Equity Investment.**

The Current worldwide economic upheaval has **Capital Stampeding** to **Safe Havens**.



While **Some Equity** remains available for projects in **Developing Countries**, the availability of **Debt** for projects is all but **Non-existent**.



**Without Project Debt, meaningful Infrastructure Projects will Not Proceed.**



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# Lenders

- Many Private Lenders serving the Developing Country marketplace are consumed with their own survival. They are unlikely to lend to this market in the near term.
- For the most part, Multi-lateral Lenders' existing programs largely anticipate Private Lender Participation which is not likely in the near term.

# Private Lenders' Risk Profile

- Traditional Developing Country Project Risks Taken By Lenders Is Likely Too Great Now To Attract Scarce Debt.
- Current Guarantee Programs Largely Protect Project Revenue And Impacts From Change On Law.
- How Much Construction, Operation and Maintenance, and Management Risk Must Be Assumed By Others To Attract Lenders?
- Will They Lend In This Market At All Without Increased Guarantees?

# Project Risk

- **What risks will Private Project Debt Lenders accept today in Developing Countries' infrastructure Projects?**
  - Do existing Multi-lateral guarantee programs provide sufficient cover?
    - Multi-lateral guarantees generally cover revenue, payment and change of law per project contracts.
    - Typically, don't cover project construction or operations risks

# Prerequisites

**Before seeking expanded credit support to enable near term Project Debt Financing, certain fundamentals must exist:**

- **Developers / Owners**

- **Need to have strongly structured projects**

- PPA Revenue Structure Ensuring Debt Ratio Coverage (at higher rates) and Operating Requirements
- Penalties And Liquidated Damages In Sync Throughout All Project Documents
- All Risks Clearly Allocated And Supported

- **Less Project Debt Leverage May Be Required**

# Prerequisites

(Continued)

- RFP / Off Takers

- Fair and balanced Project Documents
- Minimize requirements for bonds & LOCs as they affect Credit Availability
- Recognize that there may be added costs and more stringent qualifications criterion to meet requirements for expanded credit support
- Recognize that a Developer's Balance Sheet shouldn't be as important as its ability to Raise Project Debt and Equity.

# Prerequisites

(Continued)

- Sovereign Governments

- Developing Countries Must Make A Case For And Proactively Support Infrastructure Projects That Are Deemed Critical
- Any Multi-Lateral Expanded Credit Support Will Likely Require That The Sovereign Governments Are Fully Committed To Projects
- Perhaps New Special Lines Of Credit Which Don't Reduce Existing Bank Commitments?

# **ALL EQUITY PROJECTS**

- **Tariff Structure To Attract Equity (Smaller Projects)**
  - Higher Than Historical Tariff But Cost Of Project Delay Will Be Significantly Higher
  - Project Return Assumes Refinancing Within A Certain Timeframe
    - Early Refinancing Savings Benefit Shared By Equity and Off taker
    - Later Refinancing Reduces Equity Return
    - If Never Refinanced And Project Performs, Equity Would Have A Reasonable But Low Rate Of Return
- **Very Limited Availability Of Unleveraged Equity Therefore It Is Critical That Sources Of Project Debt Be Made Available To Developing Countries**

# Expand Project Debt Availability

- Expansion Of Existing Guarantee Programs
- Direct Lending
- Create Pool Of Debt For Private Lenders to Place and Manage
  - Regional Pools May Be Preferable
- Project Debt Bonds With “AAA” Backing from Multi-Laterals or Bi-Laterals

# Expansion Of Existing Guarantee Programs

- Modifying Existing Programs
  - Gets Project Debt Into The Marketplace Sooner
  - Process and Staffing Is Already In Place
- Temporary Program Amendment Until Recovery Of The Private Lending Market
  - Expand Risk Coverage Under Partial Risk Guarantees
  - Open Partial Credit Guarantees To Private Projects and Allow For Contract Life Coverage
  - Best Efforts Refinancing Requirement To Replace Expanded Guarantee Coverage Once The Private Lending Market Improves

# Direct Lending

- If Private Sources Of Debt Funding Are Not Available Even With Expanded Guarantees, Multi-laterals Could Offer Direct Project Debt To Private Projects
- Best Efforts Refinancing Requirement To Refinance Project Debt Once The Private Lending Market Improves

# Pool Of Debt

- Private Lenders Could Arrange And Manage On Behalf Of Multi-lateral Syndicate
  - Projects With Strong Equity Component
  - Private Lenders Having Some Level Of Exposure
- To fairly Allocate Funding, Regional Pools Could Be Created

# Bonds With Multi-Lateral Backing

- AAA Rated Project Bonds Backed By Multi-Laterals Would Give Access To Capital Markets
  - Bonds Would Be Callable
  - Best Efforts Obligation To Refinance When Project Debt Market Opens
  - Equity Carried Interest For Multi-Lateral Backing The Bonds

# CALL TO ACTION

- The Current Lack Of Project Debt For Developing Countries Will Cripple Efforts To Improve Its Citizens' Quality Of Life
- The Private Debt Market Is Likely To Be In Disarray For Years And What Debt Is Available Will First Flow To Developed Countries
- Developing Countries' Sovereign Governments And The International Multi-Laterals Must Coordinate And Take Extraordinary Action To Ensure Project Debt Will Be Available For Infrastructure Projects.