"Transport Dialogue and Network Interoperability" (IDEA II)

Finance of transport projects

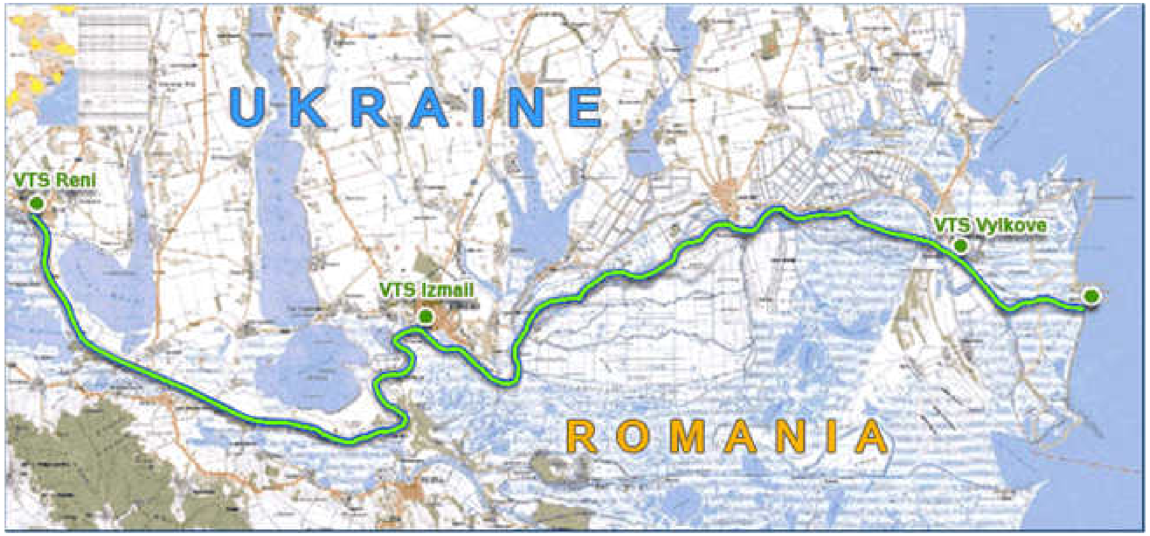
Experience and Opportunities

Kiev, December 2013

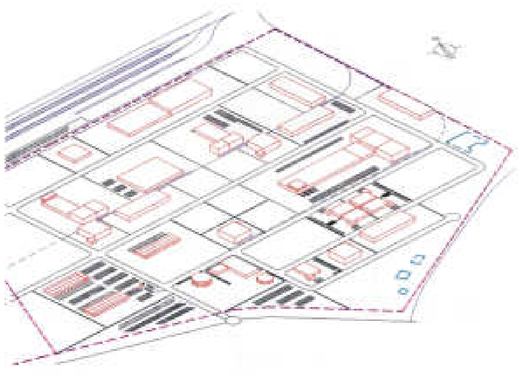
Transport and infrastructure projects in Ukraine

- **Kiev-Odessa highway**

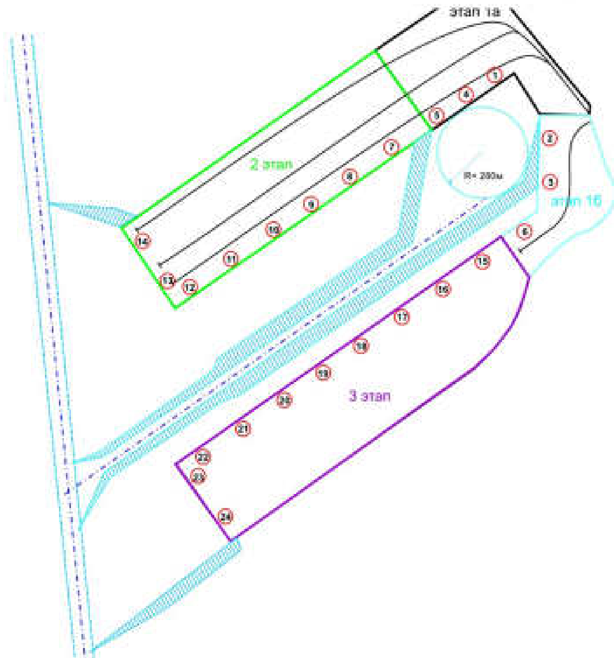
- **Danube- Black sea fairway**



- **Communal freight traffic center concept in Nikolaev**



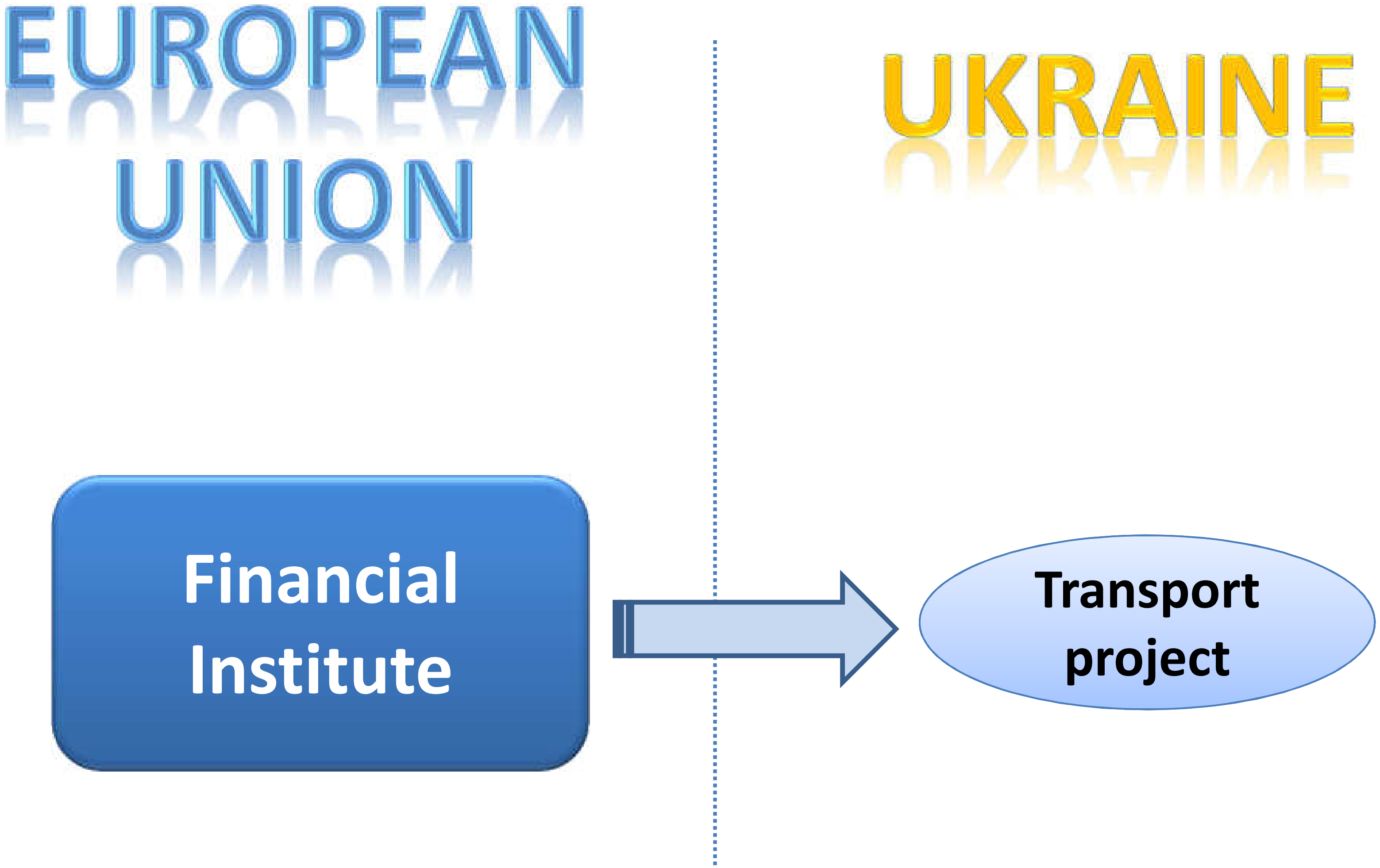
- **Universal complex of sea terminals “Galytsino”**



BORYSPIL
INTERNATIONAL AIRPORT

- **New bridge in Nikolaev**

System of financing Transport projects



Financial Institutes

World Bank

European Investment Bank

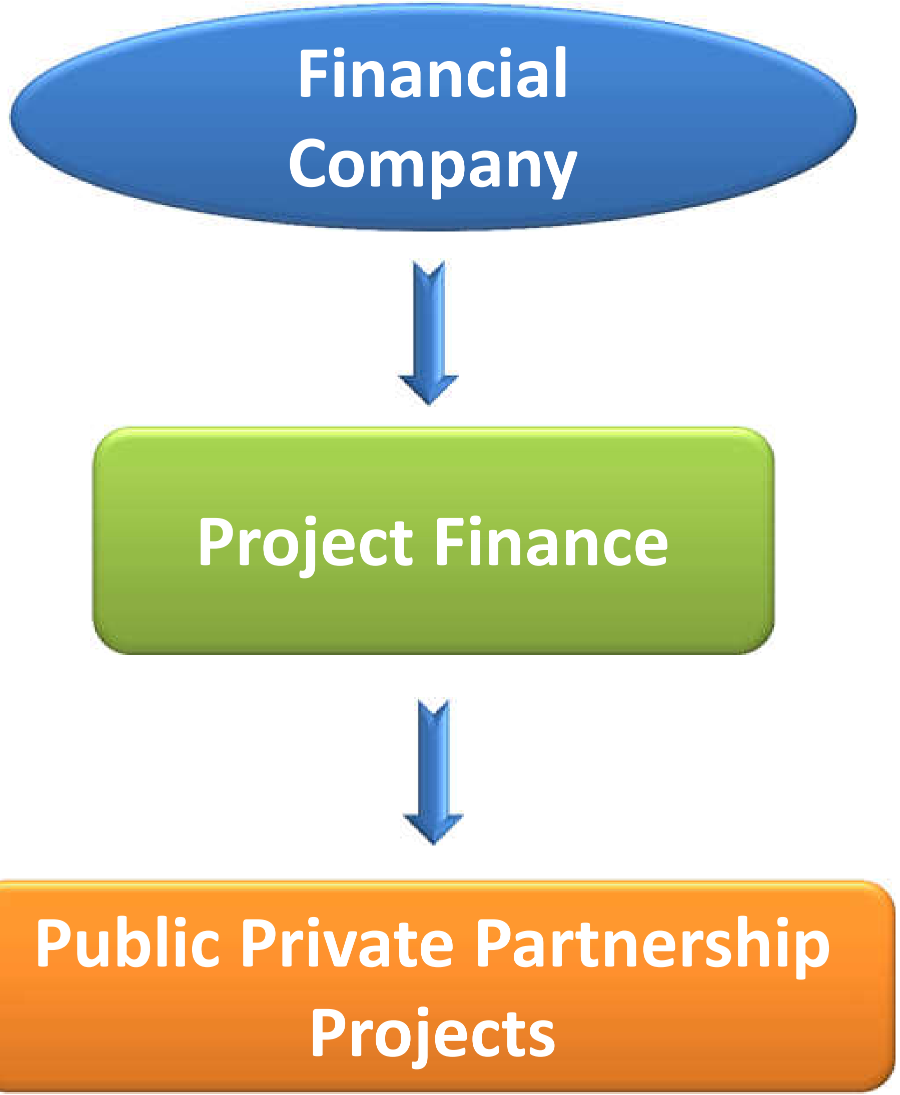
IFC
International Finance Corporation
World Bank Group

European financial companies

Other Financial Companies

American financial companies

Financing Transport Projects

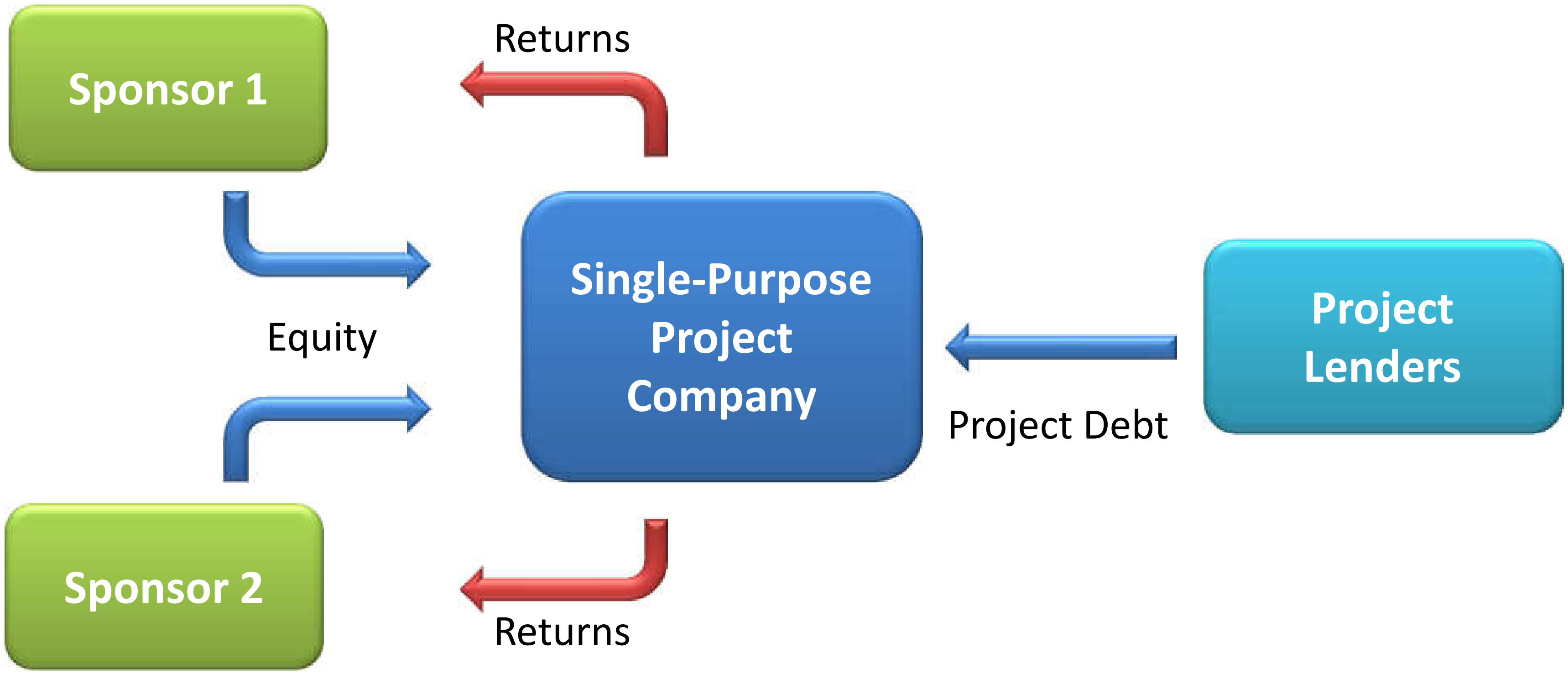


Project Finance Definition

The term “Project Finance” makes use of a wide range of financing structures as applied to a particular economic unit in which debt, equity or credit enhancement are combined for the construction and operation, or the refinancing, of a particular facility in a capital-intensive industrial or commercial activity, in which the lender or equity investor look to:

- the projected cash flow and earnings of that economic unit as the source of loan repaid and dividends;
- the assets of economic unit as collateral for the loan;
- any revenue-producing contracts and other cash flow generated by the facility, as collateral for the debt.

Project Finance Scheme



Project Finance Key Issue

The key issue in a project financing is that the lenders to the project have very limited access ("recourse") to the balance sheet and revenues of the sponsor(s).

Project financing is often also referred to as "limited-recourse" or "non-recourse" finance.

The lender(s) and sponsors will agree the percentage of equity (owners' funds) to be injected into the project company, with the balance of funds required to finance construction being provided by the banks.

The sponsors will provide their equity in proportion to their ownership of the project company and will typically regulate their relationship by means of a formal joint venture agreement.

Project Finance Structures

The Project Finance Structures have one feature in common – the financing is not primarily dependent on the credit support of the sponsors or the value of the physical assets involved.

In project financing, those providing the senior debt place a substantial degree of reliance on the performance of the project itself with nonrecourse or limited resource in some cases.

In summary, the debt terms are not based on the sponsor’s credit support or on the value of the physical assets of the project.

Rather, project performance, technical, economic, managerial and risk mitigation are the nucleus of project finance.

The project vehicle

The project vehicle is almost always a limited liability company.

The project SPV is generally a new company with no performance history.

The sponsors will usually inject their equity as a mix of ordinary share capital and inter-company loans.

The ordinary share capital element will usually be kept to a minimum.

Many countries insist on minimum levels of capital being provided as ordinary share capital and these levels will set an effective floor when the share to loan ratio is being considered.

Project Finance Risks

A key factor in closing a project financing is the risk structuring process.

Risk is defined as “uncertainty in regard to cost, loss or damage.”

Risk structuring process identifies, analyzes, quantifies, mitigates, and allocates risk so that no individual risk threatens the development, construction, or operation of the project in such a way that the project is unable to generate sufficient revenues to repay the project debt, pay operating expenses, and provide an attractive equity return to investors.

Project Finance “due diligence”

Banks providing debt against a project will frequently also require detailed reports from third party “due diligence” consultants to assist in the work of risk analysis and finance structuring.

In other words “due diligence” can be named as independent review of the project – producers and methods, which mitigate and allocate the risks.

The costs involved in due diligence reporting can be substantial and they are required to be borne by the project SPV, whether or not the financing ultimately goes ahead.

Fiduciary Independent Review

1. Independent Engineering Report

- experience of the project sponsors;
- management skills and experience;
- the identity and experience of the major project participants;
- information on the host government;
- summaries of the project contracts;
- project risks and how the risks are addressed;
- proposed financing terms;
- the construction budget;
- financial projections;
- financial information about the project sponsors;
- other project participants

2. Needs Assessment

3. Review Feasibility Study

- technical information;
- project schedule;
- environmental issues;
- economic information;
- debt service costs;
- working capital requirements

4. Risk Identification, Allocation, and Mitigation

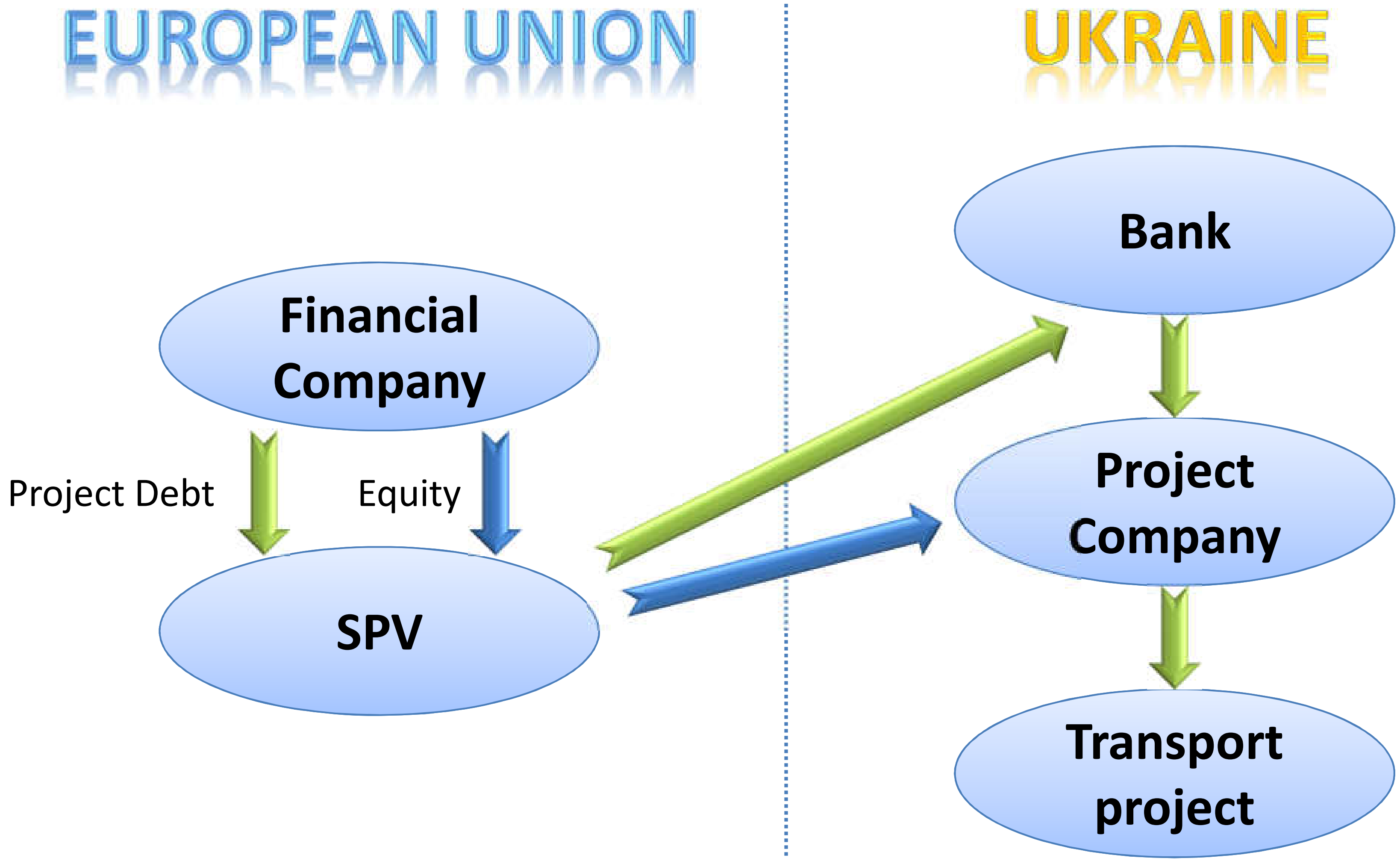
5. Project Finance & Ownership Structures

- project sponsor
- project company

6. Host-Country Business Environment For Project Finance


Project to Finance
Project Identification and Structuring
Project Independent Review
Negotiation
Financial Company Board Approval
Project Implementation and Supervision
Project Completion
Project Evaluation
Project Sustainability
Project Finance Strategy

Project Finance System

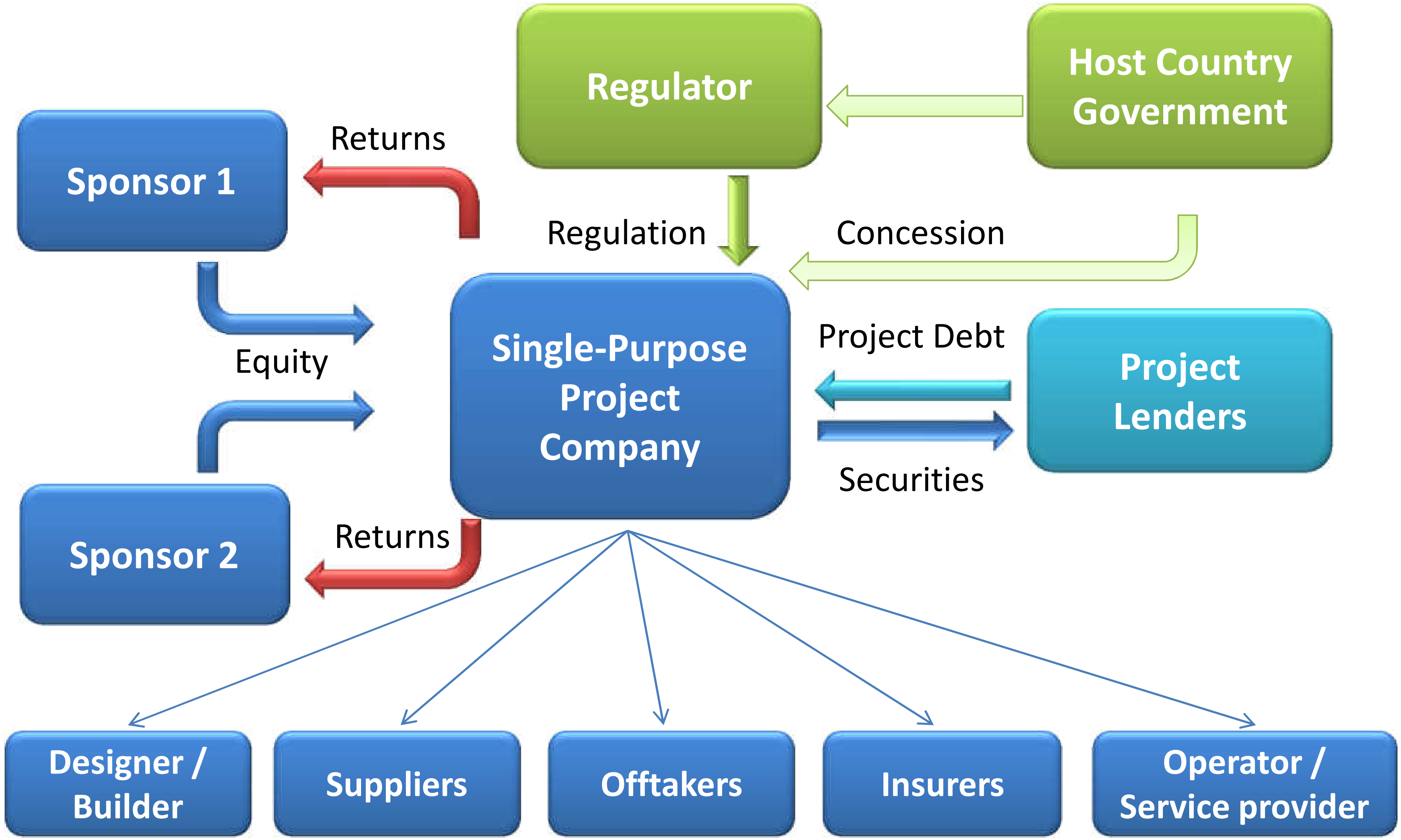


Project financing in the Infrastructure or Public – Private Partnership (PPP) sector

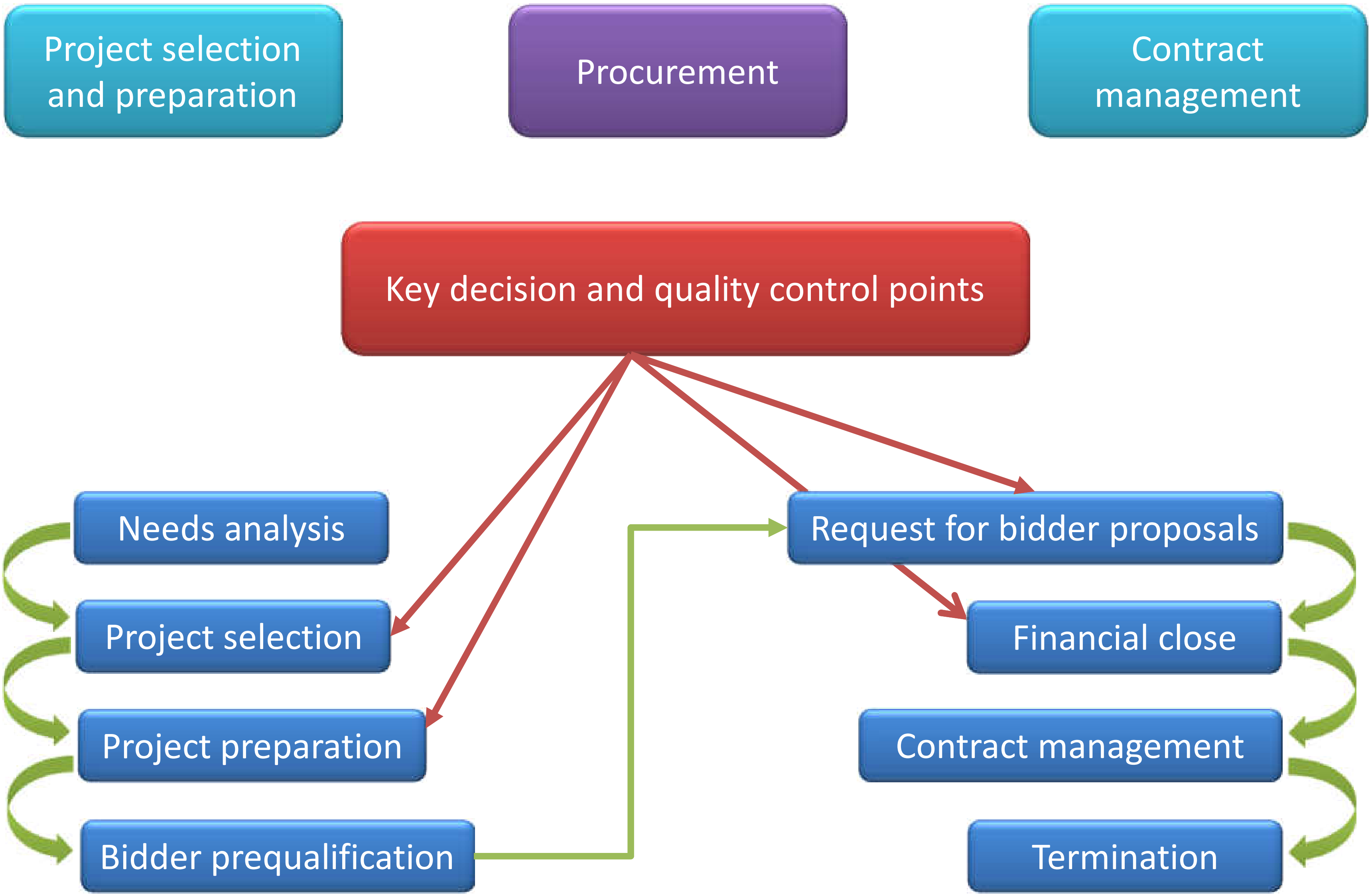
The Project company (SPV) benefits from a concession granted by the government – which might provide an exclusive right for example to construct, own, operate and maintain a road, tunnel or other major asset to be used by the public.

Key feature of a PPP is that it involves a risk sharing relationship between Public and Private Promoters, based on a shared commitment to achieve a desired public policy outcome.

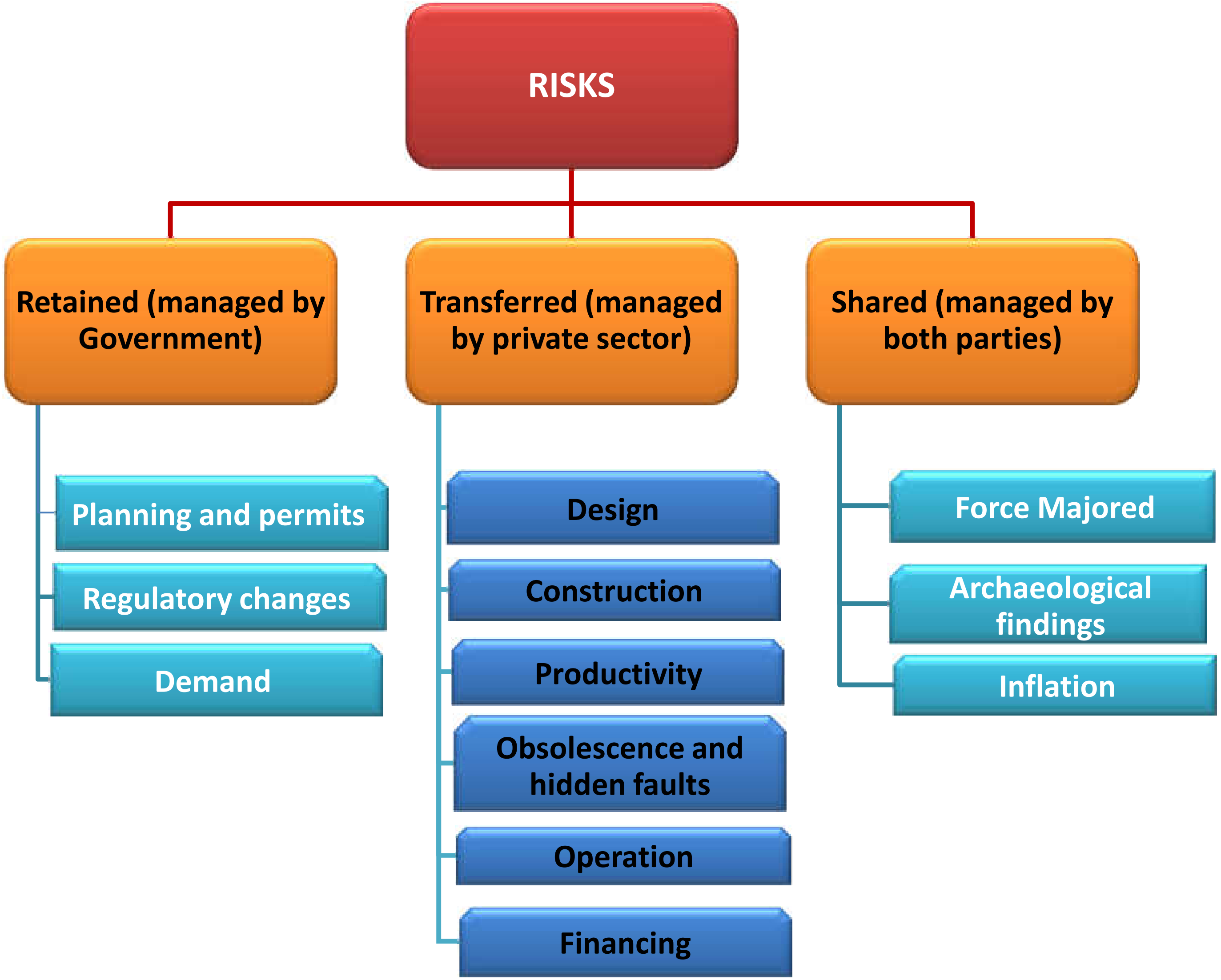
Project Finance Scheme in PPP



Key Phases of the PPP Project Process



PPP Projects Risks



The Financing Issue

Public Finance	Private Capital Involvement	Key Players
Bonds	Privatization of state-owned infrastructure firms	Public Listed Companies (suppliers & clients)
Central Government funds	Private Finance Initiatives (PFI)/ Concessions	Pension Funds, Private Investors, Family Houses, Infrastructure Funds, Other Funds
	Contracting out provision of public services	

Key considerations for a successful PPP/PFI

Government and Implementing Agencies	• Well-defined PPP/PFI project – clear output specifications • Transparent concessioning and award process • Commitment and support • Assured demand / utilization of the service or infrastructure to be provided by the PPP/PFI • Stable political environment
Private Sector: Developers / Promoters and Operators	• Experienced private sector developers / promoters and operators • Availability of equity funding • Alternative operators readily available to take over and operate the project in the event of Lender step in • Incentive
Other Project Participants	• Strong security structure and • Availability and capacity of long-term debt financing

The barriers to PPP implementation

1. Policy & strategy
- Lack of clear-cut policy
- No consensus on use of PPP
- Lack of coordination and institutions

2. Laws
- Concession law shortcomings
- Tax code (VAT, profit tax)

3. Risks
- No risk management mechanism
- Budget laws do not allow to provision of long term guaranties
- 100% reserve provisions required
- Too many risks for private sector

4. Investors
- Limited number of strategic investors
- Too many megaprojects in one sector simultaneously
- Global competition for scarce capital

5. Markets
- Shortage of construction materials
- High construction materials inflation
- Limited number of construction firms

6. Finance
- Lack of "long" money
- Limited number of institutional investors
- Local bank's lack of experience in project finance
- Currency risk

7. Investment Fund
- Budgetary subsidizing instrument
- Problematic guarantee mechanism
- Term limited to 5 years
- Questionable appraisal criteria

8. Sponsors
- Regional and municipal and some state agencies lack adequate experience, knowledge and resources

9. Projects
- Lack of well-prepared projects
- Poor quality of projects
- No mechanism to finance projects preparation other than IF

Thank You!