

*Long term local and foreign currency project finance*

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*9th March 2019*

## PROJECT FINANCE - OBJECTIVES

### Funding Requirements

Access to large quantum of funds based on the nature of the transaction and project.

### Timeliness/ Commitment

The structure should provide commitment so as to ensure that funds are available for utilization for milestones in a timely manner.

### Cost Effectiveness

Fund raising in a cost effective manner.

### Availability of Foreign Currency

Depending on the nature of the FCY component of project cost arrangement of FCY financing for the project.

## FUNDING AVENUES

### LCY Financing

Brown Field / Greenfield Project Financing:

- Bank Borrowing
  - Conventional / Islamic
- Capital Markets
  - Bonds
  - TFCs / Sukuks

### FCY Financing

Off-shore funding for Project Costs:

- Multi-laterals/Development Finance Institutions
- ECA Backed Financing
- Commercial Borrowing
- Capital Markets

**Given the requirement of a transaction , a combination of avenues shall be applied to achieve the necessary target**

## Typical Project Finance Requirements and Considerations

### Sponsor Profile

- Sponsors' history/ borrowing ability
- Sponsors' financial strength
- Project related experience
- Management experience etc.

### Project Dynamics and Plan

- Demand/Supply analysis
- Project cost
- Capital structure
- FCY debt requirement
- Pricing for debt
- Project viability/Cash flows

### Available Support/ Concession

- Implementation Agreement
- Letter of Support
- GOP backed agreements
- Offtake Agreements
- Supply Agreements
- Sponsor Support etc.

### Additional Requirements

- Turnkey EPC contract
- O&M agreement
- Services agreement
- Technical Advisor
- Legal Advisor
- Insurance Advisor etc.

## 1. LOCAL CURRENCY FINANCING AVENUES

*In-line with the transaction objectives, Project Financing is available for both Green Field and Brown Field projects*

### Avenues

- Bank Borrowing / Long Term Loans
- Capital Markets

### Bank Borrowings

#### Avenues / Governance

Long-Term financing can be availed under both Islamic and Conventional means. In case of Renewable Energy projects SBP's refinance scheme can also be availed.

Will be governed through Prudential Regulations for Corporates and Prudential Regulations for Infrastructure Project Finance.

#### Takeaways / Considerations

- Banking sector has the aptitude and expertise to access project risk
- Sizeable quantum of debt available
- Debt available for longer tenor (10-14 years in case of Project Financing)
- Banks' per party as well as group exposure limits restrictive

### Capital Markets

#### Avenues / Governance

Several avenues are available to raise financing from capital markets:

- Bonds
  - TFCs
  - Sukuks
  - Other incl. Commercial Paper (Short Term)

Various regulations to be followed i.e. SECP, PSX, amongst others.

#### Takeaways / Considerations

- Participants in the local capital markets tend to be more active while investing in offerings from established corporates and brownfield projects, however little activity for greenfield projects is witnessed in the market.
- **Target market**
  - Insurance companies
  - Asset Management Companies
  - Pension and Provident funds
  - Banks / DFIs
  - Corporates
  - Retail Investors
- **Requirements**
  - Credit Rating
  - SECP approvals (If listed)
  - Market maker (If OTC placed)
  - Registrar and transfer agent

## 2. FOREIGN CURRENCY FINANCING AVENUES

*A large number of funding options for acquiring FCY financing are available which can be used for Project Financing*

### Available Options

#### Multilateral Agencies/DFIs

- MLAs/DFIs provide foreign currency i.e. loans and partial risk guarantees
- Viable option for greenfield projects, however they are more inclined towards lending to renewable energy projects
- MLAs and DFIs like World Bank, Asian Development Bank, Asian Infrastructure Investment Bank, FMO, DEG, CDC etc. are possible options for getting FCY financing
- MLAs/DFIs provide liquidity for longer tenor with low pricing

#### ECA Backed Financing

- An Export Credit Agency provides insurance cover to the FCY lending institution, given the supply contract is originated from the country where the ECA is established
- Subject to country exposure limits
- ECA backed financing is available for longer tenor but it includes cost for the ECA cover in addition to liquidity premium which makes it expensive

#### Offshore Commercial Banks

- Mostly lend to good corporate entities
- May provide liquidity if ECA cover is available
- Usually take selective country risk
- Commercial banks lend for medium term but place a high cost on the funds

#### Offshore Capital Markets

- Bonds (Green bond, Panda bond etc.)
- Subject to an array of regulatory requirements
- Credit rating is a prerequisite
- Little activity in offshore capital markets for greenfield projects
- Short to medium term offerings with higher pricing

## Renewable Energy Projects

### Project Dynamics for 50 MW Wind Power Project

- Unlike power projects which use fossil fuel, wind power projects don't have a detrimental impact on the environment.
- Environmental and Social implications like resettlements and water usage are less severe for wind power projects.
- Wind power projects are promoted by environmental agencies around the world.

### Financing Options

- Multilateral Agencies and Development Finance Institutions are more inclined towards lending to wind power projects. Typical tranche may vary between \$ 25-50 Mn.
- Pricing between 4.25% - 4.5% over LIBOR for 14 year tenor
- LCY Funding under SBP's refinance scheme for renewable energy projects.
- Pricing of 6% flat for a 1+10 years tenor

## Coal Based Power Plants

### Project Dynamics for 660 MW coal-based projects

- Coal based power projects have a negative social and environmental impact. This include emissions of SOx and NOx, resettlements and water usage.
- Multilaterals and International Financial Institutions have stringent financing conditions for coal based projects which makes it difficult to get funding from them.
- Large amount of financing is required (\$ 700-800 Mn)
- Country exposure limitations

### Financing Options

- Buyers' credit cover from Sinosure up to 85% of the EPC value. Liquidity to be provided by Chinese banks.
- Sinosure premium of 5-7% upfront on a 14 years tenor loan. Loan Pricing of 4 - 4.5% over LIBOR
- Balance debt to be financed by local banks on a 14 years tenor. Pricing ranges between 2.75% - 3.5% over KIBOR

## Contact Details

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*Thank You*