PROJECT FINANCE

12-hour course

Antonio Estache

Antonio Estache is Professor of Economics at the Solvay Brussels School of Economics and Management. He has also taught at University College London, the Imperial College Business School and the Paris School of Economics. He was previously with the World Bank, serving as Chief Economist between 2000 and 2007. He has a long experience in the design of public-private-partnerships contracts and in their regulation. He advises governments in Africa, Asia, Europe and Latin America, as well as all the main development agencies on most infrastructure policy issues.

Course Outline

Project finance (PF) is a financing technique largely supported by commercial banks loans, but quite popular among official lenders since many national and international public agencies are willing to provide guarantee or credit support to PF deals. Typically, under a PF approach, a private company – a Special Purpose Vehicle – is set up with as little equity as possible and then borrows to construct a new asset such as a hospital, power transmission line, road or school. The taxpayer and/or users then make payments over the contract term (typically 25 to 30 years), which cover debt repayment, financing costs, maintenance and any other services provided.

In Europe alone, between 2000 and 2016, 1563 projects were signed for a value of €306.5 billion mostly to cover the financing of large and long-lived assets. Many of these projects do well, but many also fail, as documented by a 2018 European Audit Court report which identifies a wide range of recurring mistakes in the design of these contracts when used to finance public-private-partnerships (PPP).

The main purpose of this course is to review the main theoretical and practical aspects of the drivers of success and failure of these contracts. This includes a discussion of both the financial and corporate governance dimensions of PF from the perspective of all stakeholders (public and private). It emphasizes the optimal allocation of risks across equity and debt contributors to the project as a function of a diagnostic of the most common capital market imperfections, but it also covers the wide range of financial and governance structures adopted to ensure a high degree of reliance on the performance (I.e., cash flows) of the project itself as a way to minimize and allocate risks.

As part of the course, each Participant produces a 3-4 page summary of an actual case study. Several case studies are also analysed in class.

By the end of the course, participants will be able to grasp

- The financing role of project finance
- The need to identify the stakeholders and their different perspectives
- The importance of creativity in the financial structuring of projects
- The diversity of risks dimensions and allocation
- The role of contracts and other key legal dimensions
- The practice of revenue and cost flows modelling
- The relevance of the regulatory and institutional context
- How much each of these dimensions influences the rate of success of PF as a financing tool

Course Structure

I. General
Introduction
Key concepts
Intuition from a case study

II. Analysis of value creation of project finance
Business characteristics
Contract and governance design
Risk analysis and assignment
Negotiation for value creation

III. The quantitative aspects of project finance deals
Valuing
Modelling
Financing

IV. Public Private Partnerships (PPP)
Project Finance and PPP
Regulation
Audits and renegotiations