

Pezco|InfraWatch

Project finance: A fast-growing area for infrastructure projects in Brazil – part II

Last week, we raised the debate on framework models that impact the cash flow of a typical project in the infrastructure sector, that may foster the adoption of more robust project finance structures in Brazil. In the second part of this article, we shed lights on the financing discussion, as infrastructure projects such as airports, highways, tunnels, schools, hospitals, and other large projects face complex challenges that a project finance takes on wholeheartedly, along with the financial engineering, legal and contractual expertise to foster the development of the financing structures.

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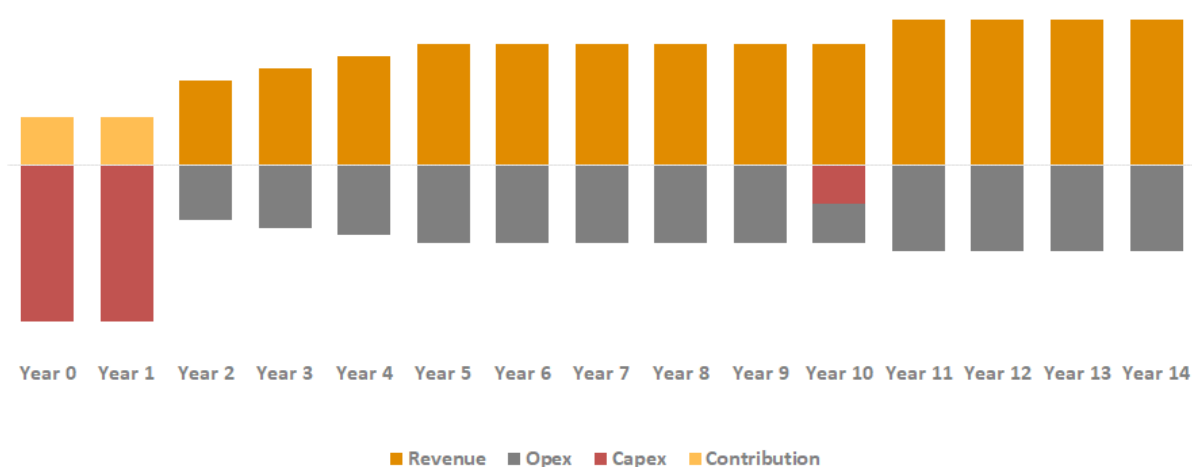
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PROJECT FINANCE DEBATE

Project finance has been one of the main solutions to infrastructure, public and private capital needs. It has been successfully thriving and it has been on the major financing techniques for capital projects in both developed and developing countries. In the part I of this article, we debated the infrastructure cash flow frameworks as policy prescriptions, that could be instrumental for mitigating the long-term risk profiles, in ex ante decisions, as follows:

Figure 1. Typical Infrastructure Project Finance Cash Flow stylised model



Source: Authors.

We also debated the CAPEX and OPEX risks and instruments for risk mitigation and we raised the debate on unamortised assets and the rebalancing of the contracts due to new investments or new developments.

Increasingly we may see project financing taking over former realms of corporate financing. That may take place for instance in the water sector, where State-level companies currently hold contratos de programa under their direct corporate ownership. Under a possible privatization process, new companies will likely be structured as SPVs, pretty much as private sector operates.

On the financing perspective, we present below the instruments of the contracts and its developments, as follows:

Table 1 – Some Financing instrument challenges:

Agenda	Instrument	Some Initiatives
Increase role for project finance	Privatization of SOEs such as water companies, leading to creation of SPVs for operations currently held as corporate financing	Bill 3261 in Congress, and initiatives of privatization under appreciation by some States.
SPVs for Infrastructure	Changes in law regarding the aspects such as the way insurers queue in the line for credits and other initiatives	SPV discussions for more appropriate conditions on long-term projects including bankruptcy provisions, security emissions and project bonds, fund industry regulation in acquisitions, M&A, private equity, etc.
Role of official credit providers and SOBs	Leadership in projects instead of being a simple lender	Official credit should act as a leader in projects rather than act only as a main lender, by assuring conditions for creating viable polls of multiple actors in the finance structure, alongside with a large commitment of private capital.
Duration of instruments	Sovereign and corporate benchmarks and market-incentive instruments	Inflation-linked bonds and BNDES as a market maker for TLP. Discuss on how to shift the frontier between duration and indexation
Additional guarantees for PPPs	Surety bond improvements and fiscal safety via earmarking of the right revenues	Bill under debate in Congress and Supreme Court discussions; roles of ABGF

Agenda	Instrument	Some Initiatives
Project bonds	Infrastructure debentures	Regulation on institutional investors and other holders of project bonds
Receivables securitisation	Such as: CRS for the water and sewage sector	Bill under debate on the senate
FIDCs	Debentures purchased by FIDCs	Enhanced the FIDCs participation in the market
Private equity	Recovery of the FIPs participation in this market and special conditions to trade SPVs	CVM and capital market
Institutional Investors	Infrastructure assets	G20 discussions and local capital market regulation
FX risk mitigation	Fees adjusted in case of FX high volatility	Project structuring with FX cushioning mechanisms, as in airports and roads recent projects
Green finance / ESG agenda	Green bonds to increase the pool of international investor	Green CRAs, some recent bond issuances and efforts towards taxonomy of assets that might be suitable for the green portfolio requirements.

Source: Authors.

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