



## Availability of Debt Finance for Large Infrastructure Projects

*Niall McInerney*  
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# *FINANCIAL MARKETS UPDATE*

# Background To Current Market Conditions

2008 - 2012

US economic deterioration sets off a domino effect.

High default rates highlight issues with the finance industry's risk assumptions.

Bank cost of funds increase driving up debt pricing.

Downturn worsens, liquidity dries up & institutions fail.

Governments intervene to 'bail out' institutions.

Macro-economic & sovereign debt crises follow.

Less liquidity  
Tighter credit terms  
Higher cost of debt

2015

Global economy growing again with a cautionary outlook.

Eurozone interest rates remain at record lows.

Ireland amongst the fastest growing EU countries again.

Liquidity measures by ECB boosting supply of capital.

Competition amongst international banks, non-bank lenders and capital markets putting downward pressure on cost of finance.

Strong liquidity  
Looser credit terms  
Cheaper cost of debt

# Movement In Bank Funding Costs 2005-15

## 5-Year CDS Spreads



Source: Bloomberg

Key message: Bank funding costs recovering towards pre-crisis levels.

# Movement In Swap Rates 2005-15

## 10-Year Swap Rates



Source: Bloomberg

Key message: 10-Year Euro Swap Rates near all-time lows.

# *A Positive Financing Environment*

Significant liquidity being injected into the market by the ECB.



Continued low interest rate environment in EU.

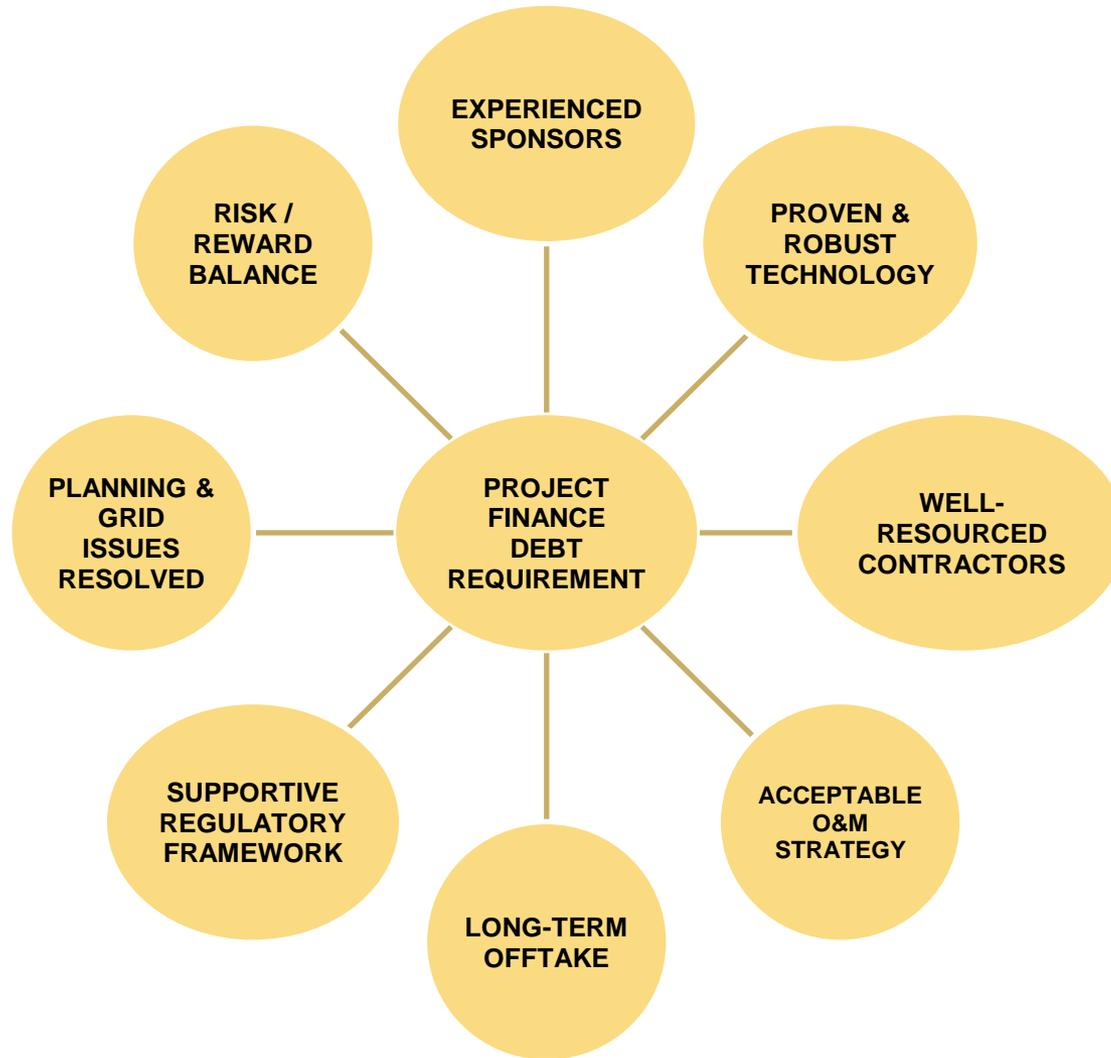


Strong access to finance at competitive rates.

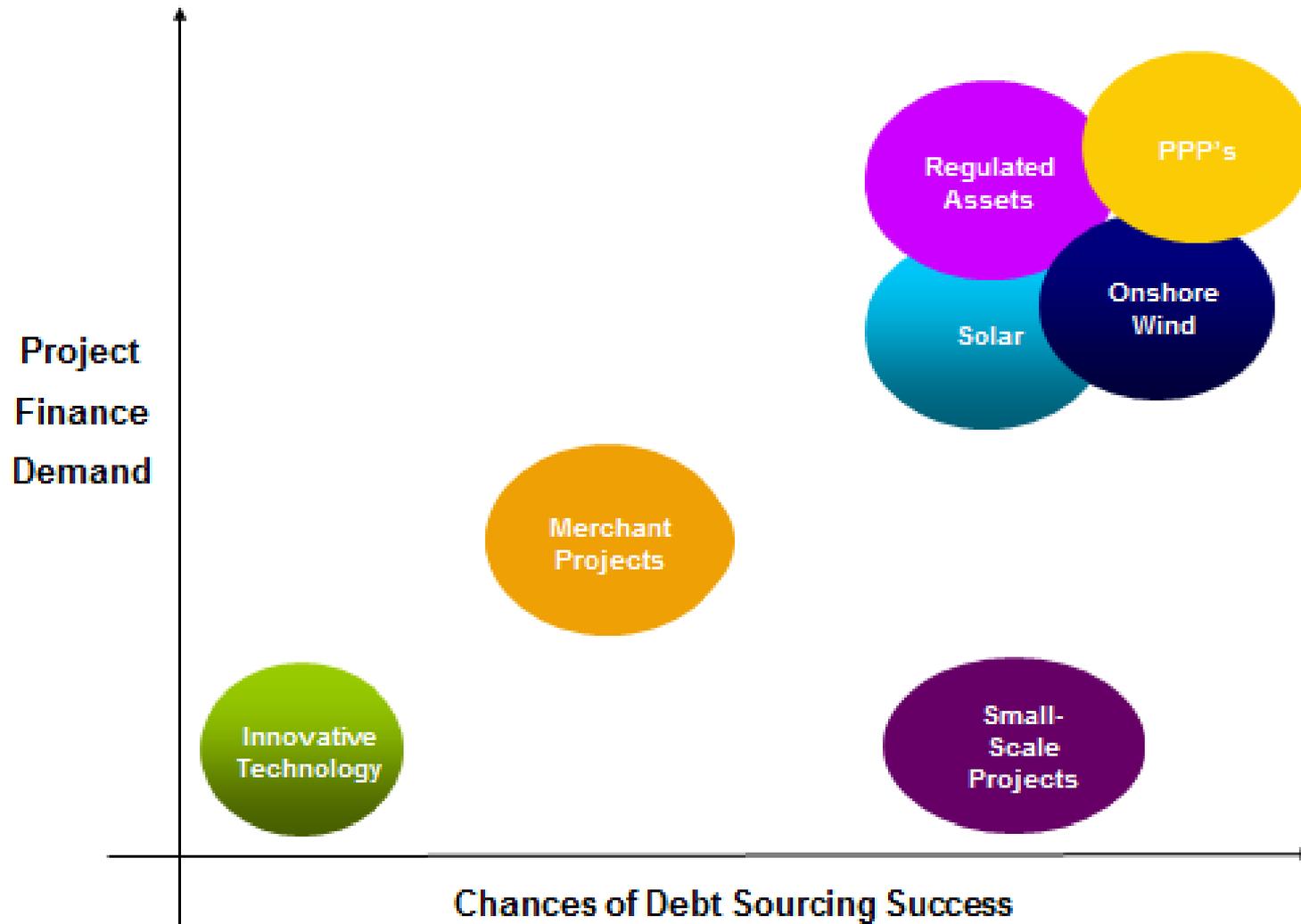
*SECURING DEBT FINANCE  
FOR INFRASTRUCTURE PROJECTS*

# *A Project Financier's Mindset*

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# Competition For Capital



# *FINANCING OPTIONS*

# Commercial Bank Market

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- Most common financing solution for infrastructure projects – especially those with construction risk.
- Available both to investment grade and sub-investment grade projects.
- Up to 30 year tenor available at fixed borrowing cost. Tenor is typically co-terminus with concession/offtake agreement.
- Best suited to projects with capex of €20 – 500m (sector dependent).
- Options for ‘bilateral’, ‘bank clubs’ or ‘underwrite & syndicate’ structures. Each individual bank likely to have appetite to hold €20 - 50m debt.
- Close on-going relationship with the banks over the life of the loan.
- Recent sample deals:
  - Covanta’s Dublin Waste-to-Energy plant.
  - Mayo Renewable Power Biomass plant.
  - Schools Bundle 4 PPP.
  - Numerous windfarms.

# *Private Placement Market*

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- Capital market product.
- Debt placed with non-bank institutional lenders.
- Typically, buy & hold investors with little trading of the debt.
- Amount, tenor and financial covenants very similar to bank market.
- Available to investment grade projects only which limits applicability to construction projects.
- Regular updates to the lenders over the life of the loan.
- Recent sample deals:
  - M11 Gorey to Enniscorthy Road PPP.

# Public Bond Market

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- Capital market product.
- Limited to investment grade projects rated by external rating agencies such as Standard and Poors or Moodys.
- Placed with institutional investors who will probably have less specialist infrastructure expertise and will invest on the basis of the credit rating and the rating agencies analysis.
- Debt likely to be traded on secondary markets and issuer may not know who holds the debt.
- Investment grade requirement limits its applicability for infrastructure - construction projects are likely to require a form of credit enhancement to attract investors. For example:
  - Pre-recession: guarantee from AAA monoline insurer.
  - Post-recession: European Investment Bank's Project Bond Credit Enhancement Scheme.
- Better suited to strong corporates issuing €300m+ than standalone projects.

# *Export Credit Agencies*

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- ECA's are government institutions that support the export of goods and services to international buyers.
- Support can be in two forms:
  - Financial guarantees for bank loans/bonds (subject to OECD ECA Consensus Rules), or
  - Direct lending (subject to State Aid rules).
- Best suited to projects with a high capital component from a specific jurisdiction in the supply chain.
- Amount, tenor and covenants broadly similar to bank market.
- Key benefit to borrowers - an incremental line of finance that does not cannibalise other access to finance.
- Key benefit to banks - provides risk transfer and lower capital requirements.
- Robust appetite for ECA guaranteed debt across the bank and institutional investor markets.
- Recent sample deals: Bord Gais portfolio wind farm financing (2013).

# *Infrastructure UK Guarantee Scheme*

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- Only available to projects in UK.
- In 2012, HM Treasury announced that £40bn was being made available to support critical infrastructure projects for a 4 year period.
- Using the UK's sovereign credit rating to support projects by deepening the pool of investors.
- Can be used to guarantee bank loans, private placements or public bonds.
- Investors invest on the basis of the UK government's guarantee and may not have any knowledge of the underlying project or the infrastructure market in general.
- Recent sample deals:
  - Drax coal to biomass conversion.
  - Merseylink Bridge.
  - Speyside Biomass.
  - Waterside University Campus.

# A Leading Bank In Infrastructure In Ireland



*Sreaggagh*

*Windfarm*

# Barclays: A Leading Infrastructure Funder

- A 20-strong team of experienced deal structuring professionals based in Dublin, London and Edinburgh.
- Over 15 years experience providing debt financing to renewable energy, PPP/PFI and project finance transactions in Ireland, the UK and continental Europe.
- 200 deals approx closed since the creation of our team in 1997.
- £2.0bn of senior debt commitments currently held.
- > 1 GW Renewable Energy funded in the UK & Ireland; > 2 GW funded in Europe overall.
- Access to expertise in capital market financing & risk management across entire Barclays Group.

# Contact Details

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