

FIDIC Business Days

Georgian Infrastructure
with FIDIC Knowledge

Tbilisi, Georgia
29 - 30 June 2017

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Project Financing of Georgian Infrastructure

Grover Norquist, a US republican ideologue and lobbyist:

"I don't want to abolish government. I simply want to reduce it to the size where I can drag it into the bathroom and drown it to the bathtub"

TRENDS

- Since 2000 there has been a marked increase in flows of private capital to developing countries
- from just under **US\$200** billion in 2001 to over **US\$1** trillion in 2007
countries reached to US\$500 billion in 2007 in developing
- Project Finance (PF) is used around the world to fund all manner of large scale infrastructure and energy projects



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Project Financing (PF)

By Definition

“ The financing of an **economic unit** in which a lender is satisfied to look to the **cash flows and earnings of** that economic unit as the source of funds from which a **loan will be repaid** and to the **assets** of the economic unit as **collateral** for the loan.”

Practically

Multi-national companies & corporations:

- Set up independent companies to undertake mega projects and incur substantial transaction costs
- finance these companies with over 70% debt even though the projects typically have substantial risks and minimal tax shields



Advantages & Disadvantages

- ✓ Nonrecourse or limited recourse
- ✓ Leveraged debt
- ✓ Better financing terms
- ✓ Avoiding other loan restrictions
- ✓ Diversifying risk
- ✓ Limited collateral
- ✓ Lender tied into success
- ✓ Links specific assets with liabilities
- ✓ Credit enhancement
- ☐ Risk allocation
- ☐ Lender increased risk
- ☐ Higher transaction costs
- ☐ Lender supervision and reporting
- ☐ Insurance cost
- ☐ Risky business
- ☐ Number of parties and interests



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Types of Finance

Non-recourse finance
Limited recourse finance
Recourse finance

Balance sheet finance
Asset based finance
Project finance

Parties

Sponsor/s
Investors
Governments
Lender/s
The economic unit – NewCo/SPV
Construction company
Engineering company
Independent consultants
Contractors
Advisors to all of these parties



Types of Projects

- ❖ Energy generation
- ❖ Pipelines, storage, refineries
- ❖ Mining
- ❖ Toll roads
- ❖ Water
- ❖ Telecommunications
- ❖ Leisure and sports



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Lawyer's Task

Allocate rights and obligations

Spreading risk and responsibilities

Creating a bankable project

Bespoke solutions



Threshold Legal Issues and Tasks

- Identify and assess overall risk
 - Sources of law
- Assess laws/regulations/courts of host country
 - Address environmental and social issues
- Choose governing law for finance and project documents
 - Drafting and negotiating credit agreements
 - Security packages across jurisdictions



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Motivation

Government

- ✓ Risk transfer
- ✓ The output of the economic unit
- ✓ Attract new capital
 - ✓ Competitive advantage /open markets
- ✓ Modernise regulation

Private sponsor

- ✓ Maximise return
- ✓ Strategic expansion
 - ✓ Sale of goods
 - ✓ Sale of services
 - ✓ Employ skill set

Lender

- ✓ Repayment
 - ✓ A profit



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Recent PF Deals

- ❑ 185 MW Shuakhevi Hydro Power Plant
(PFI)

- ❑ 108 MW Dariali Hydro Power Plant
(EMEA 2014 Best Water Project)



PF Challenges and Prospects in Georgia

- Legal Uncertainty (vs **FIDIC** forms)
- Substantial Investment Risk
- Novelty of Business climate
- Gaps in Rule of Law
- Prospects
- Source for large infrastructure projects, e.g. Anaklia Port Development; Namakhvani HPP
- Risk allocation and mitigation through Lenders



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Thank You!