Spis treści

Summaries

PRACE NAUKOWE UNIWERSYTETU EKONOMICZNEGO WE WROCŁAWIU
Nr 16 2008
Finanse i rachunkowość – teoria i praktyka

Šárka Čechlovská

Technická univerzita v Liberci

PROJECT FINANCE – AN ALTERNATIVE METHOD OF CORPORATE FINANCING

1. Project finance definition

Project finance is a special financing technique now applied across the world; however, there exist no universally accepted definition of project finance. It is possible to find different definitions in different literature. For example the International Project Finance Association (IPFA) defines project finance as:

„The financing of long-term infrastructure, industrial projects and public services based upon a non-recourse or limited recourse financial structure where project debt and equity used to finance the project are paid back from the cashflow generated by the project".

Project finance is defined by Denton Wilde Sapte Corporation (2004) as the following:

„The financing of the development or exploitation of a right, natural resource or other asset where the bulk of the financing is to be provided by way of debt and is to be repaid principally out of the assets being financed and their revenues".

Relatedly, Standard & Poor's (2006) defines a project company as „...a group of agreements and contracts between lenders, project sponsors, and other interested parties that creates a form of business organization that will issue a finite amount of debt on inception; will operate in a focused line of business; and will ask that lenders look only to a specific asset to generate cash flow as the sole source of principal and interest payments and collateral".

A lot of definitions use the term „non-recource" financing; i.e. debt repayment comes from the project company (single purpose vehicle company – SPV – created for the project) only. If a default, the lenders are entitled to recover losses from the revenue stream and assets of the particular project only and have no recourse to the shareholders of the SPV.

The following definition is the most apposite, in my opinion.

„Project finance involves the creation of a legally and economically independent project company financed with nonrecourse debt (and equity from one or more corporate sponsors) for the purpose of financing a single purpose, capital asset usually with a limited life". (Project Finance Portal, 2007).

2. The origin of project finance

This project finance technique was used for the first time during Greek and Roman times. It was in connection with the see voyeges risk insurance on the Mediterranean ocean and it was an early form of limited recourse lending.

Later, in the 19th century, numerous railway and other projects in London, South America and India were financed using project finance technique. One of them is Suez Canal opened in November 1869.

The current concept of project finance started to be used in 1970s for developing oil and gas field in the United Kingdom and in 1980s and 1990s for financing power projects, infrastructure projects, transportation projects and telecommunications projects. Project financing is used as a tool for financing large, capital-intensive projects across the world nowadays.

3. Project finance structure

One of the differences between project financing and corporate financing lies in the recourse that the lender has to the assets of the borrower and in the establishment of a special purpose vehicle. The following scheme illustrate the relationship among project finance participants. In view of the project finance character (usage for financing large, capital-intensive projects) there are a lot of participants. The main of them are:

- shareholders (investors in the equity of the project company; they may be debt providers or guarantors of specific aspects of the project company's activities as well);
- special purpose vehicle (SPV) set up for the purposes of participating in a particular project (it can be a company, partnership, limited partnership, joint venture or a combination of them);
- contractor (well known company in his branch with experience in constructing similar facilities in the same part of the world);
- lenders (many projects can not be financed by a single lender and, therefore, syndicates of lenders are formed in many cases);

- security trustee (insurance adviser representing the lenders);
- offtaker.

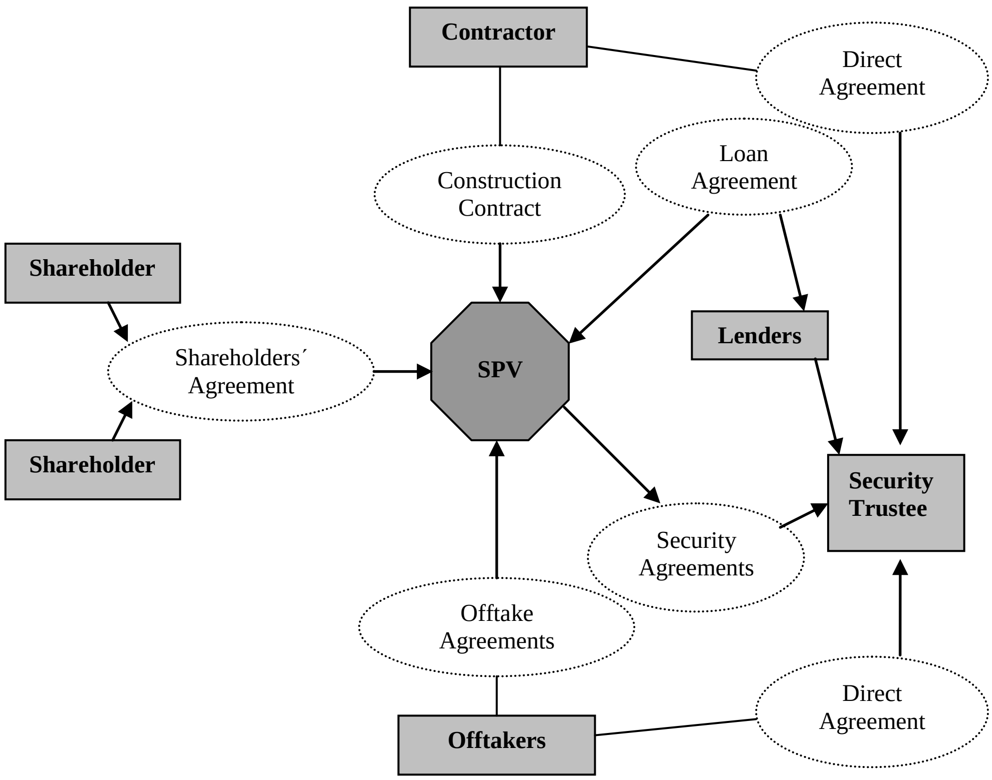

Fig. 1. Special purpose vehicle structure

Source: [1, p. 3].

4. Advantages of project finance

Project finance is more expensive than ordinary loan funding; it takes considerably more time to organisation and implementation, monitoring and administration the loan during the life of the project. Nevertheless there are a lot of reasons for companies (sponsors) to choose project finance as a way to financing their project. Some of the more obvious reasons are:

- companies can reduce the risk of any failture of the project by means of project finance;

- project debt does not take effect on company balance sheet (this is depend on the particular accounting requirements);
- project finance constitute the possibility for the sponsors to share the project risks with other participants and
- the possibility for some smaller companies their balance sheet are not strong to invest their own financial resources in a project to project realize;
- companies their ability to borrow from bank is constrained (e.g. through borrowing restrictions in its statutes) can use project finance;
- investing through a special purpose vehicle can be easier than investing with others on a joint venture basis;
- project finance can prodeced benefits like tax holidays or other tax concessions (this is depend on the national legislation).

5. Conclusion

Project finance is a special financing technique applied across the world. Project financing speciality is that creditors place high emphasis on expected project cash flows, because these are pivotal for future repayment of project loans. Other project financing particularity is the minimal connection between the project and the controlling company. In spite of the fact that project financing is relative more expensive than ordinary corporate funding and take more time to organisation, there are a lot of companies to choose project finance for financing their separate project. The reason is that project finance has many advantages to elimination weaknesses, e.g. reduction of the risk of any failture of the project for investors.

Literature

[1] *A Guide to Project Finance* [online]. Denton Wilde Sapte International Projects Group, 2004. Dostupné z: <http://www.dentonwildesapte.com/assets/1/14622.pdf>.

[2] Brealey, R.A., Myers, S.C., *Teorie a praxe firemních financí*. Z angl. originálu přeložil Tůma, M. Praha: Victoria Publishing, 1993.

[3] Dvořák, P., *Bankovnictví pro bankéře a klienty*, Praha: Linde, 2005.

[4] *Global Finance Project Yearbook 2005* [online], Standard&Poor´s, November 2004. Dostupné z: <http://www.projectfinance.standardandpoors.com>.

[5] *Global Finance Project Yearbook 2006* [online], Standard&Poor´s, October 2005. Dostupné z: <http://www.projectfinance.standardandpoors.com>.

[6] *Global Finance Project Yearbook 2007* [online], Standard&Poor´s, October 2006. Dostupné z: <http://www.projectfinance.standardandpoors.com>.

[7] Materiály semináře *Strukturované financování*, lektor: Ing. Jiří Pohanka (ČEB), Praha: Legendor, 1.-2.11.2006.

[8] *Project Finance Portal* [online]. Harvard Business School. Dostupné z: <http://www.people.hbs.edu/besty/projfinportal/index.htm>.
[9] Valach, J., *Investiční rozhodování a dlouhodobé financování*. Praha: Ekopress, 2005.

FINANSOWANIE PROJEKTOWE JAKO ALTERNATYWNA METODA FINANSOWANIA PRZEDSIĘBIORSTWA

Streszczenie

Artykuł prezentuje zagadnienie finansowania projektowego jako alternatywnego sposobu finansowania dużych kosztochłonnych projektów. Specyfiką finansowania projektowego jest z jednej strony nacisk kładziony przez wierzycieli na oczekiwane przepływy pieniężne (*cash flow*) projektu, ponieważ są one kluczowe dla przyszłego zaspokojenia lub braku zaspokojenia ich należności, zaś z drugiej strony minimalne powiązanie projektu ze spółką macierzystą.