

REBUILDING TRUST IN PROJECT FINANCING - BROSETA

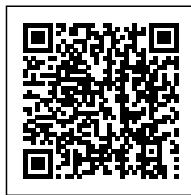
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“In our view, the publication of guidelines setting out the limits of the authority’s investigation powers during dawn raids would be a positive measure.”

Álvaro Iza, Freshfields Bruckhaus Deringer



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A lack of trust is the recurring issue affecting current and planned infrastructure projects across Spain, says Antonio Navarro, finance partner with Broseta in Madrid.

“The main barrier we face is insufficient confidence among the banks financing projects. Many remain very reluctant to lend, particularly with long-term tenures, and there is an obvious move away from ‘demand-risk’ schemes.”

Among the reasons for this, at least in the transport sector, has been because the traffic volume levels relied upon for revenue projections have proved to be overly optimistic, he says.

“Before the the crisis demand projections were analysed with an optimistic approach, but the predicted continued growth has proved false and lenders are now unwilling to make decisions based on what the surveys say.”

Concerns have also arisen over the credibility of Spain’s infrastructure planning systems and the level of coordination between central and regional administrations. With instances of duplication of road building projects – public highways have subsequently been built alongside private toll roads. “But in any event, the days of highly leveraged projects are gone. Banks are no longer willing to provide the vast majority of the finance, and tend to just match that raised by the project sponsors or contractors,” says Navarro.

An emerging issue is therefore where to access new sources of funding. Investments funds have been assessing opportunities but no deals have yet closed, apart from the secondary market. Likewise, new draft regulation anticipates the issuance of bonds to finance infrastructure projects, but there have been no issuances to date.

“We may have a clear legal framework, and know the markets on which to place bonds, but few still have the risk appetite to buy them.”

The reality therefore is that project negotiations are taking increasingly longer, and even once project terms have seemingly been agreed issues continue to arise, says Navarro. "To make things more complex the overriding goal of the public administration in infrastructure projects is now to keep the financial deficit unaffected, this means a thorough review of the terms and conditions of the procurement process to effect sufficient transfer of risk to the private sponsor according to the EAS – a new element of uncertainty that makes administrations reluctant to structure their investments under PPP schemes and banks unwilling to finance projects with too much risk transferred to the financed party."