An overview of project finance and infrastructure

Finance

In the United States s alone, firms financed d S 19 billion o of capital expo punctures using projectfinanceloans and bonds in n 2009, down n from $39 billion in 2008 and $47 billion n in 2007. The he economic crisis, which h began as a housing h crisis in the U. S. In n 2007 and SP bread globally y in 2008 and d 2009, froze g global capita al markets, cue retailed bank k lending, and d dramatically reduced p project finance lending. Of or this reason n, it makes sense to look k back at 2007, when thee credit mark sets were pop pen and liquid did, to understand the relative import once of project finance.

In the U. S. , firm ms financed $447 billion of capital expense indentures using g project final once in 2007-? much less the Han the $1 , 1 266 billion corp. orate bond m market, the $9 44 billion MO Ortega-backed security market, the $8898 billion asset-backed security market, and the $3 359 billion tax x-free municipal bond ma racket. Yet com marred to fin Nanning much humanism for new or start-u up companies, the $47 billion invested in project companies w was larger the Han the $46 b raised d through initial public offerings (IPSO) and the $332 billion NV vested in new w firms by venture al funds. Private-sector firms have historically used project fin nuance for mind distrust projects such as m mines, pipelines, and oil fields. Begin inning in the early asses, h however, privy ate firms also began financing infrastructure projects such ass toll roads, power plants, and telecoms immunization NSA systems. B More recently, in the 20 Coos, private firms have begun to fin nuance social infrastructure projects us such as shoo Owls, hospitals, and prisons.

Studies on economic development find d that infrastructure investment is associated with as much as one-for-one percentage increases in g gross domestic product (G GAP), though GHz recent stud dies indicate that every dollar d of increased infrastructure spend ending generates an a Information on some e of these and other projects ca n be found in Benjamin C. Zesty, Modern Project Finance: A C Casebook (New Jersey: Wiley, 200 04). B The infrastructure sector includes WA eater, transportation, electricity, n natural gas, and d telecommunications projects.

In n these types of o projects the users of the project or the buyers off the output or eservice are typically individuals rather than companies. Professor or Benjamin C. Est. y and Senior Researcher Aledo Asses off the Global Research Group prepared this note as the basis for class discussion. Copying get 2010, 2011 President and Fellow was ofHarvardCollege. To order copies or request perm session to reproduce materials, call 1-? 800-5457685, write Harvard Busing news School Publish hinge, Boston, MA 021 63, or go to www www. Hubs. Harvard. Deed/educators.

The his publication may y not be digitized d, photocopied, or otherwise reproduce cued, posted, or trans insisted, without the permission Of H Harvard Business S School. This document is authorized for use only by Bogie Ghana in Financial Management taught by Seward, at University of Wisconsin - Madison from January 201 5 to July 2015. 210-061 An Overview of Project Finance and Infrastructure Finance-? 2009 update increase of $1. 59 in GAP. Country-specific studies of development find that inadequate infrastructure severely hinders economic growth.

For example, insufficient or irregular power supply reduces GAP by 1% to 2% in India, Pakistan, Colombia, and Uganda. 3 Despite the growing demand and opportunities for private-sector involvement in building infrastructure, private firms still provide only a small fraction of the total amount invested, which is a small fraction of the total project demand. Indeed, many governments have announced multimillion-dollar stimulus packages with a heavy emphasis on infrastructure spending as a way to stimulate growth during the current lobar recession.