

MASTERING PROJECT FINANCE



Recently, IDLC Finance Limited and Euromoney Learning Solutions, in partnership with The Daily Star and Le Méridien Dhaka, organized a two-day workshop on "Mastering Project Finance". Here we publish a summary of the workshop. - Editor

Bangladesh, being one of the fastest growing emerging countries, has immense potential for macro-economic development. To cope with this development pace, huge investment in infrastructure and industrial projects is required by both public and private sectors. Project finance enables ventures to raise focused and risk sharing financing in the key industries and it is the leading method of cash strapped governments to introduce private sector skills, disciplines and funding in sectors ranging from transportation PPP, power, oil & gas, telecom, manufacturing and many more. At the same time, it's imperative that officials of financial institutions and corporate houses need a good understanding and expertise on the critical

project financing approach. Realizing this fact, IDLC Finance Limited and Euromoney Learning Solutions jointly designed this comprehensive workshop named "Mastering Project Finance" for the project finance practitioners. IDLC Finance Limited is one of the largest multi-product non-bank financing institutions in Bangladesh with focus on corporate, retail and SME sectors. Euromoney learning solutions is a world leading provider of premium public course, e-learning and tailored learning solutions. The workshop was conducted by Edward Bodmer, a global expert on project financing. He

has created innovative forward pricing, productivity measurement and investment valuation software for consulting clients throughout the United States. He has taught project finance economics and mechanics throughout the world, and formulated significant government policy and corporate strategy in the US. The workshop focused on issues arising in alternative types of project finance transactions with case analysis across the global market. The use of valuation analysis of debt and equity was discussed. It also highlighted the risk factors in project finance, risk mitigation techniques and debt restructuring.

"We need to build our local capacity for project financing"



Arif Khan, CEO, IDLC Finance Ltd

What is the goal of this workshop on project financing?
Bangladesh is experiencing rapid growth in all the economic indicators. Several important projects are going on and more such projects are in the pipeline. The success of a project is largely dependent on proper financing plan. We do not have adequate expertise in this sector. To send people abroad for training is a hectic affair both in terms of money and time. That's why we think it is better to invite global experts to our country and create an opportunity for the local profession- also to learn from them. In this workshop, we have invited mid-level officials of bank and non-bank financial institutions because they are the future leaders; and sustainable development of a sector requires overall improvement of all the stakeholders.

What are the challenges do you face in project financing? What role the government should play to encourage more participation of private financiers in big projects?
On the infrastructural side, we are facing challenges of scare land, inadequate power supply and poor connectivity. The government has taken an initiative of establishing special economic zones which will definitely help get the facilities in a structured way. High interest rate is another barrier. Due to global slump in commodity prices, now, we are able to provide loans with single digit interest rate. If this

trend continues it will be a blessing for the entrepreneurs. For the private financiers, project financing is very risky. If a project fails they will incur huge loss. It would be really helpful if the government arrange low cost fund from the donors for private financiers. It will help reduce the cost of the product and public will be benefited more.

There is huge scope of public private partnership in financing big projects. The government has formulated PPP policy and set up an office in this regard. Bangladesh's economic growth is led by private sector. There should be more opportunities for them to grow. The government should provide the policy support and let the private sector do the business.

There are social and environmental costs of big projects like power plants. When you finance a project how do you address these issues?
When we finance a project we assess the environmental and social impacts of the project. We always emphasize on compliance with the existing environmental regulations and energy efficient solutions. Bangladesh Bank is also promoting the green financing concept. We hope that all the major financiers and projects will embrace the green concept, although this change needs time and overall support from all the market players.

"Good governance is the key to a project's success"



Edward Bodmer, Course Director of the workshop

What are the major challenges in project financing for countries like Bangladesh?
I think the major challenge is to get money for longer period. When you do not get the right kind of debt, people will have to pay more for the output of a project. For example, the life span of a flyover is long. You need long term loan matching the lifetime of the project. Otherwise the toll of the flyover will be higher and the people have to bear the extra burden. Same goes for power plants, roads and bridges.

Another important issue is to get the right kind of interest rate. In the Wall Street, they will ask for high risk premium for investing in Bangladesh citing that there is considerable political risk. I have found that interest rate of the same project varies dramatically from country to country. The investment community exploits the risk factors. It ultimately increases cost of a project in developing countries. This also works as a barrier towards innovation and eco-friendly solutions. Banks around the world will tell you not to build coal-fired power plants but they will also charge high interest for other alternative projects.

What should be the relation between the government and private financiers?
The investors look for a good contract. They want that the contract is being respected by the govern-

ment. Sometimes infringement of the contract happens. That's why good governance in project management is required.

The private investors basically care about good return from their investment. The government has to make sure that it can bring the best from the investment for its people. The government should also maintain a balance between the rate of return of an investment and the growth rate of the economy. For example, if the rate of return is 15% but the growth of the economy is 5% that means someone in somewhere is taking out the 10% from the public. This is simple economic calculation.

How do you assess the capacity of Bangladesh's human resource for project financing?
I am very much impressed by the quality and level of expertise of the human resource in the project financing sector of Bangladesh. If the country nurtures these talents, they will be an asset. In the workshop, I have tried to focus on project financing schemes and risk factors in the similar types of projects happening in Bangladesh and around the world. We have gone through various case studies and tried to find out the mistakes that could have been avoided. I think this type of global exposure will broaden their horizon and help them to deal with big projects effectively.

The two-day workshop ended with an interactive discussion session which was conducted by Kazi Farhan Zahir, Head of Structured Finance, IDLC. In the discussion session, the participants raised several key issues and asked for expert opinion from the distinguished panelists. A.K.M Abdullah, Senior Financial Sector Specialist of the World Bank, Edward Bodmer, Trainer of Euromoney, M. Jamal Uddin, Deputy Managing Director, and Mesbah Uddin Ahmed, Head of Corporate IDLC Finance Ltd., were in the panel. The interactive session was followed by a certificate giving ceremony among the participants.

A.K.M Abdullah
In the project financing sector, Bangladesh depends on international financing and foreign consultants. We need to develop our local capacity to reduce this dependency. In Bangladesh, the financial sector is driven by commercial banks as we do not have vibrant equity market and bond market. Commercial banks are not suitable for project financing beyond 5-6 years. The bankers are good at banking but not at project financing because it requires different



A.K.M Abdullah

kinds of expertise. That's why we need to focus on developing human resources for financing large projects. The country is stuck in the power sector infrastructure due to lack of proper understanding of the tech-



Mesbah Uddin Ahmed

nicalities of infrastructural project financing.

Mesbah Uddin Ahmed
Risk analysis is one of the most important factors of project



M. Jamal Uddin

financing. We need to have proper risk analysis tools for assessing the projects as every project is unique in nature. The major aspects of a project analysis are the entrepreneur, market, technology and financial projections. For large and infrastructure project, land, government agreements, environment and social aspects also influence a lot for the success of the project. Due to overall concern of environmental degradation, we should undertake appropriate measure of environmental safeguard for large projects which will also help us to get low cost financing from DFIs.

M. Jamal Uddin
M. Jamal made concluding remarks by thanking all the participants, panelists and course coordinator. He said this workshop was a timely initiative as our country was going to implement many large infrastructure projects and without good project financing knowledge, we would not be able to handle them. He also added that the workshop would add value to excel the capabilities of the participants in order to assess the projects prudently and would benefit their respective organizations as well.