

# **Multi-sourced debt finance structures – a solution for Russia’s capital intensive mega-projects**

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# Context



- Investment required by Russia in infrastructure development through 2030 - over US\$ 1.5 trillion (*McKinsey Global Institute*)
- During 2013-2015 Russia intends to implement 48 large-scale infrastructure projects requiring debt financing of approx US\$ 66 billion (*Russian Ministry of Economic Development*)

# Why Project Finance?

- Allows sponsors to finance a project off balance sheet
- Allows governments to have the project completed and operated by the private sector before being brought back into public ownership (particularly in PPP/BOT context)
- Risks can be allocated and ring fenced

## Classic Project Finance Structure



# Why Conventional Sources of Financing Alone are Not Enough

- Projects are getting larger and more capital intensive
- Increased regulation has significantly reduced the appetite of commercial banks to take and hold project finance assets on their balance sheets
- Multi-lateral agencies (MLAs) and export credit agencies (ECAs) have stepped up to fill the shortfall by increasing the levels of direct lending BUT the need for investment exceeds the amounts available even from deep pocketed MLAs and ECAs



# Other Sources of Financing



- Increasingly, large project sponsors are filling the gap by providing sponsor senior loans on the same basis as banks, MLAs and ECAs
- The capital markets also are being tapped as a valuable source of financing for energy and infrastructure projects
- Islamic financing instruments are becoming increasingly popular in parts of the world

# The Solution

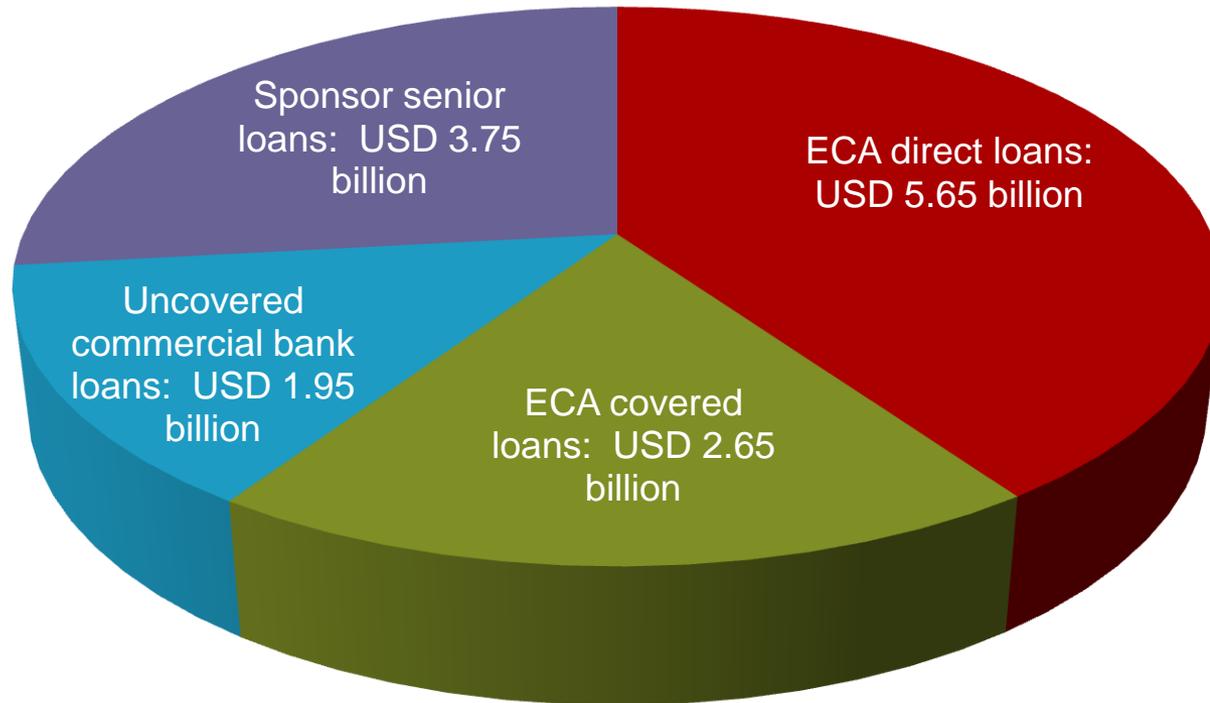


Projects are being structured to combine some or all of:

- Commercial bank debt
- Capital markets debt
- Sponsor senior loans
- ECA covered loans
- ECA direct loans
- MLA loans
- Islamic financing instruments

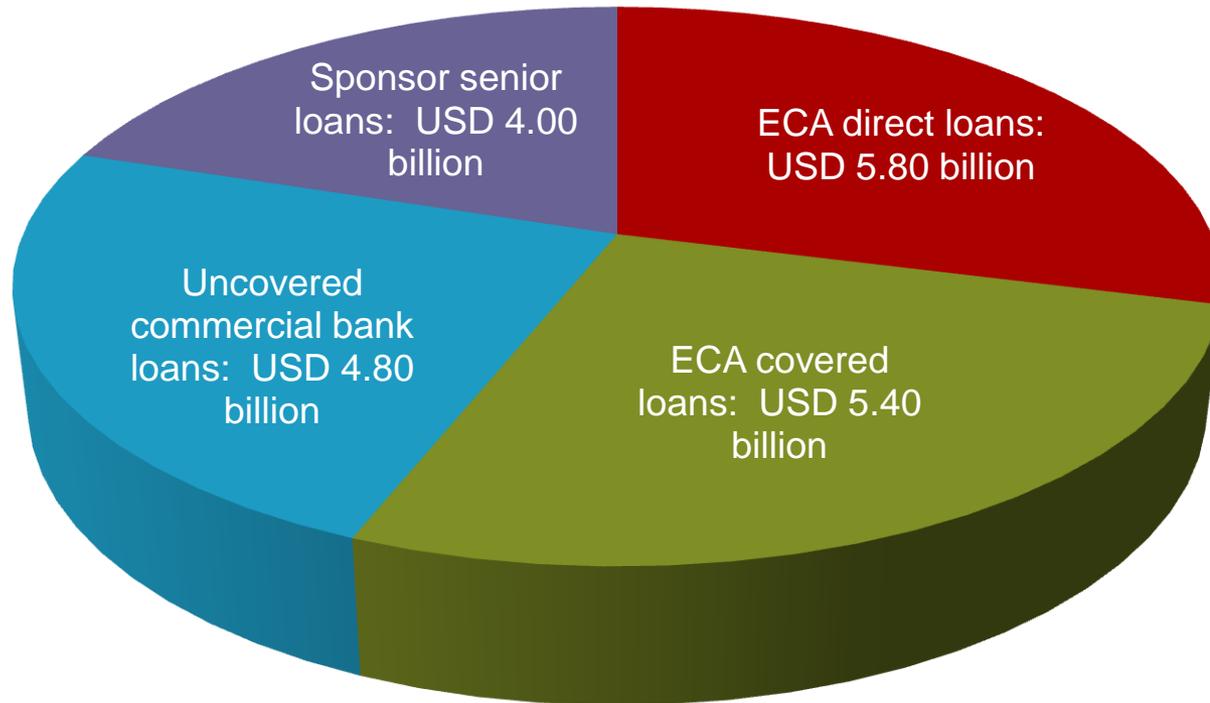
# Mega Projects I – PNG LNG (Papua New Guinea)

**Closed 2010. USD 14 billion sourced from:**



# Mega Projects II – Ichthys LNG (Australia)

**Closed 2013. USD 20 billion sourced from:**



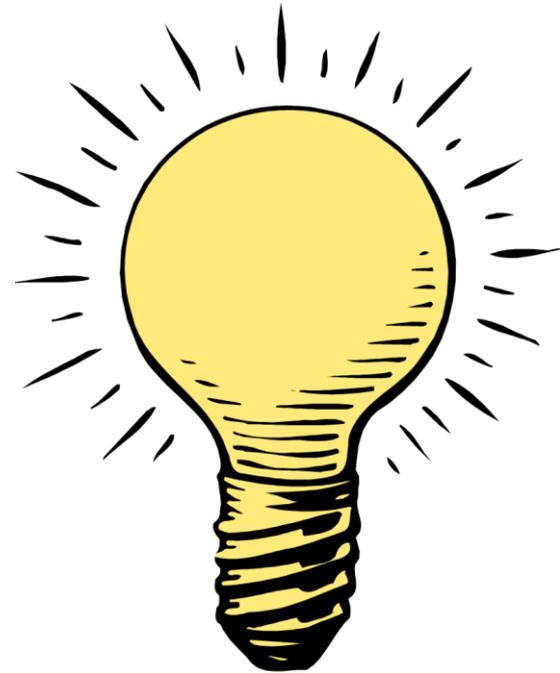
# Mega Projects III – Yamal LNG (Russia)

**Pending. Funding options may include:**

- Uncovered commercial bank loans
- ECA covered loans
- ECA direct loans
- MLAs
- Other sources

# Issues and Developments

- Intercreditor arrangements
- Timing considerations and transaction management
- Documentation approach
- Environmental, social and other regulatory matters



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# Questions?

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