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How To Unlock Long-Term Investment In EMEA Infrastructure

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How To Unlock Long-Term Investment In EMEA Infrastructure

With traditional lenders of infrastructure finance--governments and the banks--wrestling with economic pressures and increasing regulation, institutional investors are stepping in to help bridge the project funding gap. However, while project finance offers some attractive characteristics for these lenders, Standard & Poor's Ratings Services believes there are a number of elements to be put in place if the project bond market is to thrive, not least standard transaction structures. (Watch the related CreditMatters TV segment titled "How To Unlock Long-Term Investment In Infrastructure," dated Oct. 7, 2013.

Institutional investors are showing increasing appetite for infrastructure investments. In a recent survey by Preqin, an infrastructure data and research firm, 58% of investors questioned said they were planning to increase their funding allocation for infrastructure over the long term. Almost two-thirds of respondents were planning to allocate more capital to the sector in the next 12 months than the previous year. For example, Belgian institutional investor AG Insurance is allocating €3 billion, or 5% of its assets, to the sector. With close to €74 billion of institutional funds being raised worldwide in 2013 according to Preqin, of which €21 billion has already been secured, the long-term infrastructure investment market appears in rude health.

Overview

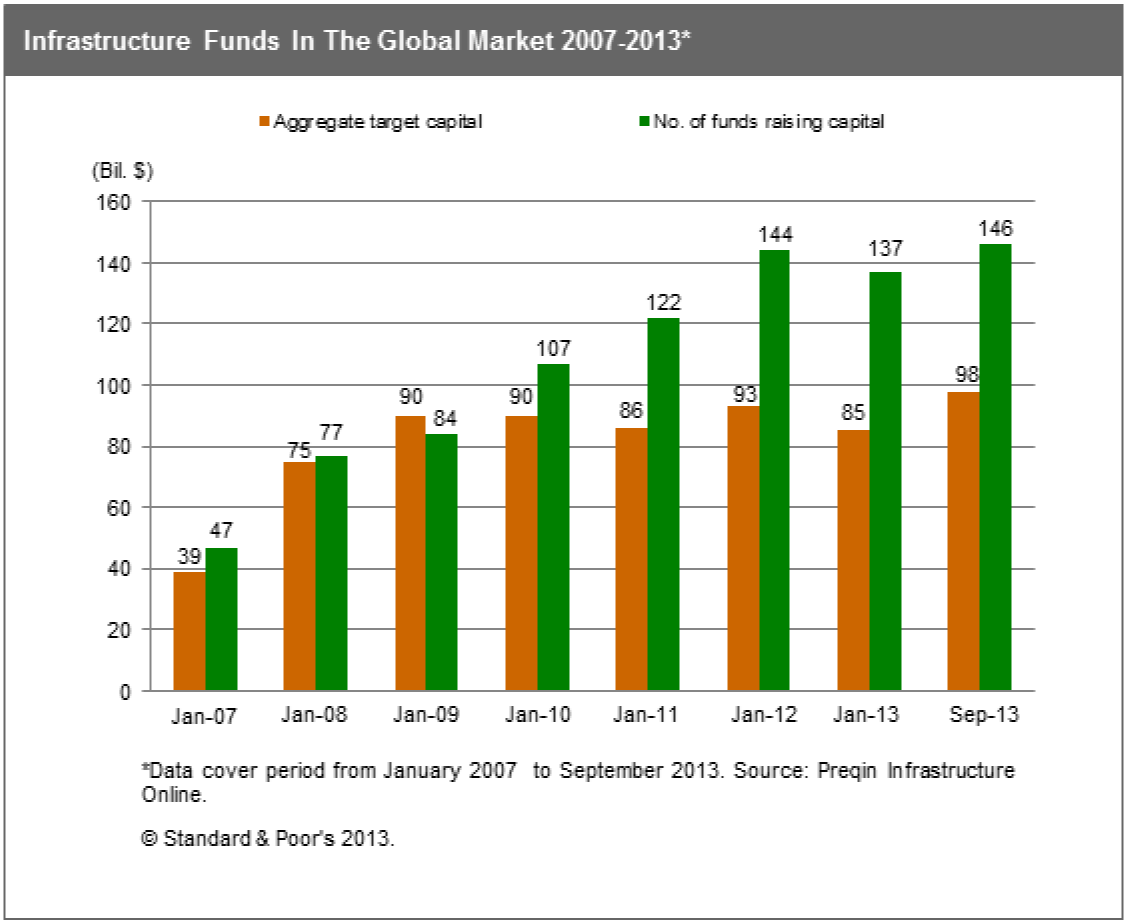
- Finance for infrastructure projects is shifting from the banks to institutional investors.
- Institutional funds are targeting close to €74 billion for infrastructure investments in 2013, buoyed by attractive yields compared with sovereign debt and lower expected losses than comparable corporates.
- However, the development of a sustainable market for long-term infrastructure investments will require project companies to be more transparent about their governance and reporting.
- Among other factors, a thriving project bond market would in our view benefit from standard transaction structures, greater transparency in reporting project performance, and a regulatory regime that encourages insurers.

A Market In Transition

While investor appetite for infrastructure assets is strong (see chart 1), there has been only limited issuance of project finance capital market debt in EMEA over the past five years, with the majority of infrastructure funding requirements being met by bank lending. However, the market is currently in transition. According to respondents to a survey by London-based lawyers Berwin Leighton Paisner (BLP), undertaken in conjunction with Preqin (see note), public bond issuance for projects is likely to represent 10% of future global funding requirements over the next 12 months, with private placement bonds accounting for another 14% and infrastructure debt funds a further 25%. While commercial banks will retain a significant market share, we believe long-dated debt to be deployed in infrastructure over the next 12 months will more likely be from alternative or non-bank sources (see "Inside Credit: Shadow Banking Looks Set To

Capture A Larger Share Of Project Financing In 2013," published April 16, 2013, on RatingsDirect).

Chart 1



Project bond issuance has started to pick up in 2013, thanks to the support of a number of alternative financing structures designed to assist projects in achieving strong investment-grade ratings. We have assigned public ratings to seven project finance transactions so far this year (see table 1), several of which open up new areas of the capital markets:

- ULivingAtHertfordshire, a student accommodation project, is the first unenhanced project bond with construction risk that has closed in the U.K. for more than a decade.
- Sustainable Communities for Leeds (Finance) signaled the return of monoline-wrapped deals and is also one of the first social housing projects with construction risk financed through the capital markets. Holyrood Student Accommodation, also monoline-wrapped, shows that Leeds wasn't just a one-off.
- Ruwais Power Co. brought the Middle East project bond market back to life with an $800 million transaction rated A-/Stable. Notably, this is the first project rating for a government-related entity (see "Examining The Factors Behind Ruwais Power Co.'s Preliminary Issue Ratings," published June 26, 2013).
- Watercraft Capital was the first project bond benefiting from the European Investment Bank's (EIB's) Project Bond Credit Enhancement (PBCE) program, a subordinated standby liquidity facility designed to credit-enhance the senior debt.

Table 1

Key Characteristics Of Recently Rated Project Finance Transactions In EMEA

	High Speed Rail Finance 1 PLC	Holyrood Student Accommodation PLC	Ruwais Power Co. PJSC (Shuweihat 2)	Sustainable Communities for Leeds (Finance) PLC	ULivingAtHertfordshire	UPP Bond 1 Issuer PLC	Watercraft Capital S.A.
Long-term rating*	A-/Stable	AA-/Stable	A-/Stable	AA-/Stable	A-/Stable	A-/Stable	BBB/Negative
SPUR*	A-/Stable	BBB/Stable	BBB/Stable	BBB-/Stable	A-/Stable	A-/Stable	BBB/Negative
Coupon	4.375% fixed; 1.566% index-linked	2.15% fixed; gilt + 1.90% index-linked	6.00%	5.07%	2.06%		5.76%
Tenor	25 years	35 years	23 years	19 years	41 years	27 years fixed; 34 years index-linked	21 years
Asset type	Rail	Student accommodation	Power and water	Social housing	Student accommodation	Student accommodation	Oil and gas
Leverage	80%		80%	89%	76%		81%
Debt service reserve	12 months	6 months	6 months	6 months	6 months	6 months	6 months
Maintenance reserve account	No	3- year, forward-looking 100%, 66%, and 33%	Not required during the fixed price operating period under the O&M agreement After, a funded MRA is required but adequate funding is dependent on future cost forecasting	3-year, forward-looking 100%, 66%, and 33%	3-year forward looking sinking fund (100%, 66%, and 33%)	3-year forward looking sinking fund (100%, 66%, and 33%)	1-year forward-looking sinking fund
Average and minimum DSCR (Standard & Poor's base case)	1.50x/1.40x	1.44x/1.22x	1.20x/1.18x	1.24x/1.23x	1.75x/1.59x	1.49x/1.28x	1.30x/1.30x
Distribution test	DSCR 1.20x	From Aug. 31, 2017, to Feb. 29, 2020, DSCR less than 1.90x; from March 1, 2020, to Aug. 31, 2023, less than 1.23x; from Sept. 1, 2023, to Aug. 31, 2039, less than 1.25x; at any time from Sept. 1, 2039, less than 1.30x	The LLCR and DSCR fall to less than 1.15x and 1.10x respectively (on both a 12-month look-back and look-forward basis)	DSCR of more than 1.15x, one year backward- and forward-looking; BLCR of more than 1.20x	DSCR of more than 1.15x	DSCR of more than 1.15x	DSCR of more than 1.20x (one year backward and forward looking) and LLCR of more than 1.25x

Table 1

Key Characteristics Of Recently Rated Project Finance Transactions In EMEA (cont.)

Other characteristics	Domestic services revenues will be underpinned by the Secretary of State from 2014	The 'AA-' long-term rating reflects the unconditional and irrevocable payment guarantee of scheduled interest and principal provided by Assured Guaranty (Europe) Ltd. and Assured Guaranty Municipal Corp.	The 'A-' long-term rating reflects S2's stand-alone credit profile (SACP) of 'bbb', and our opinion that there is a "moderately high" likelihood that the Emirate of Abu Dhabi would provide timely and sufficient extraordinary support to S2 in the event of financial distress	The 'AA-' long-term rating reflects the unconditional and irrevocable payment guarantee of scheduled interest and principal provided by Assured Guaranty (Europe) Ltd. and Assured Guaranty Municipal Corp.	Unwrapped index-linked bonds	Rental income is generated from accommodation based in six universities. The structure allows the issuer to support any underperforming asset companies through cash pooling at the parent holding level that, in our view, partially mitigates the exposure to any single AssetCo's operating underperformance	The project included the bond credit enhancement (PBCE) provided by the EIB for €200 million at issuance (covering about 14% of the senior bond) and decreasing as the bond amortizes, covering a maximum of 20% of the outstanding bond

*Ratings as of Oct. 4, 2013. EMEA--Europe, the Middle East, and Africa. SPUR--Standard & Poor's underlying rating. DSCR--Debt service coverage ratio. LLCR-- loan life coverage ratio. BLCR--Bank loan coverage ratio.

Examining The 10 Key Factors For A Healthy Project Bond Market

The long-term project finance market is competitive. A handful of banks are competing against a diverse range of capital market participants--insurance companies, infrastructure debt managers, and investors in public bonds. For institutional investors, providing long-term capital can offer a number of advantages:

- More attractive yields compared with government bonds and similarly rated corporate bonds, mainly due to an illiquidity premium in project debt;
- Long-dated maturities that match liabilities;
- Higher recovery rates in the event of default than corporate bonds; and
- Diversification into a broader investment pool, with low correlation to other asset classes.

From our perspective, there are 10 key factors that could unlock long-term investment in infrastructure projects and support the development of a healthy project bond market.

1. A Visible Project Pipeline And Standard Transaction Structures

In our view, the success of the public-private partnership/private finance initiative (PPP/PFI) markets in the U.K., U.S., Canada, and The Netherlands owes much to the introduction of project-specific frameworks that have enhanced project visibility and predictability. Therefore, for sustained project finance in EMEA, we see a need for:

- At the EU level, a broad framework for project procurement and approval incorporating standard processes and contracts. This already exists in some member states such as the U.K., but only at the national level. In addition, the publication of a regularly updated pipeline of project opportunities (as occurs in The Netherlands) could help raise visibility.

- A framework standardizing project financing structures. While this framework would necessarily reflect varying transaction types and structures, possibly through reference to the U.K. PPP/PFI project bond markets, we believe it could achieve greater homogeneity than is currently the case.

2. Increased Transparency Of Project Data

Sharing infrastructure project performance data is in our view vital to improve transparency in the market. The lack of industry data is often cited by potential investors as a deterrent to funding infrastructure projects. Offshore wind farms in Western Europe are a good example. These large-scale, complex projects employ new technology and have little in the way of a proven earnings record. Utilities and state lending organizations have been the dominant sources of funding for this asset class, but these are unlikely to be sufficient to fund the ambitious investment needed in such technology by 2020. The European Commission estimates that Europe will require infrastructure investment totaling €1.5 trillion-€2 trillion over the next decade, while the Organization for Economic Cooperation and Development estimates the worldwide figure for infrastructure investments at $50 trillion over the next 30 years.

Comprehensive disclosure should help project finance transactions achieve better value for money. For instance, revealing information on the procurement of PPP projects can improve governance. Disclosing information on government contributions and risk-bearing under such projects can improve cost management, and contract disclosure may well produce more sustainable contracts and benefit the private sector by reducing the risk of renegotiation.

Furthermore, the lack of transparency and disclosure of risk heightens investor uncertainty and creates market unease. In our view, the financial reporting of European projects is on occasion incomplete, inconsistent, and unclear. Of particular concern is the general lack of information regarding operations, financial statement line items, and the nature and effect of other events and conditions such as the consequences of adverse weather on a project's operations or disputes over the terms of the contract that are relevant to the analysis of project finance transactions.

Finally, we are of the view that all stakeholders should receive information at the same time and with the same frequency. Most companies typically provide quarterly financial reports to their relationship banks. While some of this information may be confidential and commercially sensitive, we believe that sufficient data should be provided publicly to investors holding project finance securities to enable them to make informed investment choices. This minimizes the risk of creating a two-tier market where bond investors are materially disadvantaged relative to private loan investors.

Reporting should include important details about financial covenants and compliance as well as notice of important waivers and amendments relating to any loan agreements. In our view, consistent, reliable, periodic disclosure provides the foundation for an efficient, liquid secondary market.

3. A Regulatory Regime That Encourages Insurers To Invest

There is a concern in the market that risk capital charges proposed under Solvency II (which governs the insurance industry) may discourage insurers from continuing to provide long-term finance to the European economy. Research on this topic has been published by think-tanks such as EDHEC-Risk to ensure that Solvency II regulation will recognize and include a different treatment for long-term investments in infrastructure and project finance. The European Insurers and Occupational Pensions Authority (EIOPA) discussion paper on this topic published in May is widely regarded as not going far enough. Some market participants believe that project finance default and recovery rates are superior to corporates and should be reflected more in the capital allocation and weighting under Solvency II. This view is widely held in the market and backed up by our latest default and recovery study published in August (see "Project Finance Default And Recovery: Shale Gas Fuels Rise In U.S. Defaults," published Aug. 9, 2013).

Despite the strong credit characteristics of project finance (see point 4), the regulatory capital treatment proposed under Solvency II would appear to penalize insurers for holding long-dated, low- to mid-investment-grade project debt (that is, debt rated in the 'BBB' and 'A' categories). This is mainly because the regulation has been drawn up according to a corporate loan matrix and does not take into account the specific default and recovery characteristics of the project finance sector, or other characteristics such as a strong security package and transaction structure. For example, a 12-year 'BBB+' rated project loan would incur a 22% capital charge. This is considerably higher than for, say, a two-year 'BB-' corporate loan. Indeed, speculative-grade short duration loans (rated 'BB+' and below) require less capital allocation by insurers than a four-year 'BBB+' or eight-year 'A+' project investment.

As a result, insurers either have to charge higher margins to remain profitable or develop their own internal models that capture the specific credit characteristics of project finance transactions and have these models approved by a local regulator. Despite these disincentives, we observe that the insurance sector generally continues to view the sector as attractive, at least for the time being.

4. Ongoing Strong Project Credit Characteristics

Our default and recovery statistics indicate that the creditworthiness of infrastructure projects is strong. Since the first rated project default in 1998, the annual default rate for all rated project finance debt has averaged 1.5% (see "Project Finance Default And Recovery: Shale Gas Fuels Rise In U.S. Defaults"). This is slightly below the default rate for corporate issuers of 1.8% over the same period.

Projects are on average no more risky than corporate entities at comparable rating levels. In 2007, the annual default rate for global rated project finance transactions approximated to 0.50%, and in 2009 it was 0.75%. While many corporate borrowers were defaulting during the height of the global financial crisis in 2008-2009, project finance transactions remained resilient. This is likely due to various contractual protections such as off-take contract and concession agreements that provide projects with stable revenues.

Further evidence of the sector's resilience can be found in the unrated global project finance universe and data compiled by the S&P Capital IQ Project Finance Bank Consortium. In 2012, the database comprised 34 lending institutions representing 75% of global project finance syndicated loans (6,862 loans in total). The data show that the performance of infrastructure loans has deteriorated slightly since the financial crisis, but still maintains a low 10-year cumulative default rate compared with other industries.

Based on our experience in rating project finance debt, investment-grade project finance issue ratings are generally supported by:

- A strong project rationale that features an asset to be constructed to meet an essential service;
- Solid relationships between key parties, with a proven track record of performance;
- A stable and supportive concession framework in which the government transfers risk appropriately;
- Project payment mechanism designed to promote performance rather than maximize abatements;
- A high level of third-party support relative to the level of construction and operational risk;
- A high degree of predictability regarding revenue generation, with availability-based projects that we consider less risky than volume-based projects;
- Higher-than-average cash flow coverage of debt service; and
- Appropriate liquidity or comprehensive cash-retention mechanisms (through dedicated reserves, high dividend lock-up ratios, and robust look-forward tests).

Above all, higher-rated projects typically have limited technology risk and experienced, creditworthy building contractors.

5. Supportive Credit Enhancement Structures For Project Bonds

With the demise of most monoline insurers, the market has struggled to find a support structure that meets both equity investors' rate of return requirements (by retaining similar total leverage to a monoline-wrapped deal, for example) and investor demand for higher-rated bonds. Nevertheless, there have been various initiatives across Europe aimed at increasing investors' appetite in infrastructure investments.

Outside of the U.K., the main impetus behind capital market project finance issuance is the EIB's PBCE program. Since its launch in 2012, however, the weakened credit quality of some public sector counterparties and stresses on sovereign ratings have curtailed project development in many jurisdictions. But at the beginning of August, we assigned a rating to the first project bond benefiting from the EIB program. In the Watercraft Capital project (also known as project Castor), the PBCE provides €200 million of standby liquidity at issuance (covering about 14% of the senior bond). Support will decrease as the bond amortizes, covering a maximum amount of 20% of the outstanding bond. This facility can be used to support the project's credit quality during a time of stress. Once used, the outstanding PBCE amount will rank junior to the rated bonds. In our view, this instrument considerably reduces the likelihood of default under most realistic stress scenarios, including moderately adverse regulatory changes.

In the U.K., the Government Guarantee Scheme and the Treasury's proposed Private Finance 2 (PF2) initiative are now being implemented for transactions in procurement. We understand that the former will provide a number of unconditional and irrevocable financial guarantees to payment obligations of the borrower in favor of lenders and/or investors in certain U.K. projects. In our opinion, the current scheme to a large extent resembles a monoline insurer's financial guarantee and should help increase capital market issuance of project finance debt through the remainder of

2013. However, there have already been a number of successful unguaranteed project bond issues so far this year.

The U.K. Treasury also seems to be making progress in implementing the proposals outlined in its PF2 report, published in late 2012. In particular, we understand that funding competitions and higher levels of mezzanine and/or junior debt are being proposed in projects currently in procurement.

While the aforementioned schemes may result in stronger ratings on project companies during the operating period, risks related to construction and counterparty credit may limit the ability of some projects to achieve an 'A-' rating during construction without further credit enhancement.

6. Support Packages That Reduce Construction Risk

A recent survey conducted by "Infrastructure Journal" reveals that despite keen interest in infrastructure investments, the majority of insurers and pension funds are still reluctant to invest directly in pre-completion, or greenfield, projects. This is partly due to their reluctance to take on construction risk, but also because of the possibility of delayed yields and the potential affect loan prepayments have on long-term returns.

Construction can be a complicated process: Along with the complexity of construction itself, there are numerous associated risks, including project delivery, design, and technology; the capability of contractors; and the manner in which project contracts distribute risk between contractors and suppliers. Nevertheless, these issues are surmountable.

For a project with construction risk to attain an investment-grade rating would in our view largely depend on the ability of the transaction structure to permit the full and timely payment of scheduled debt service on the rated obligation under a relatively likely downside construction scenario. We would base our rating on our experience of rating similar projects under construction and on the opinion of an independent technical advisor.

More specifically, investment-grade rated projects typically comprise, but are not limited to, a robust structure accompanied by a construction credit support package (see table 2). This package could comprise an on-demand, unconditional, and irrevocable letter of credit or performance bond provided by a financial institution with a minimum rating above the project rating. These institutions cover the estimated replacement costs associated with an insolvent or failing construction contractor, delays, or costs overruns. This type of third-party construction liquidity support helps mitigate the potentially constraining factor of a weak construction counterparty.

Investment-grade rated projects also include experienced contractors to carry out the required works, with the periods allowed for each construction activity reasonable and achievable for the design and volume of work. (For more details on our construction counterparty criteria, see "Project Finance Construction and Operations Counterparty Methodology," published Dec. 20, 2011).

However, based on our experience, construction risk is seldom the main reason for a project to default. In the power sector, for example, defaults can occur as a result of technical and design failures, poor operational performance, and unexpected capital spending (see "Project Finance Default And Recovery: Shale Gas Fuels Rise In U.S. Defaults").

Table 2

Construction Support Packages Of Recently Rated Transactions In EMEA

	Long-Term Rating	SPUR	Construction support package
Holyrood Student Accommodation PLC	AA-/Stable	BBB/Stable	Design and build (DB) contractor Parental Company Guarantee (PCG) from Balfour Beatty PLC +15% adjudication bond and a 3% on-demand retention bond, to be released 1.5% on completion with the balance after two years. There is a 10% cap on full pass-through of deductions for any defects, plus a latent defects liability period of 12 years post completion.
Sustainable Communities for Leeds (Finance) PLC	AA-/Stable	BBB-/Stable	DB contractor PCG from Keepmoat. The combination of the adjudication bonds and letter of credit is set at an initial aggregate value of £27 million. This amount falls to £3.7 million seven months prior to the scheduled completion date. The retention amounts from the interim payments from the design and build company are set at a rate of 13.75%, falling to 10% at month 28 and 5% at month 46 of the construction period. There is a latent defects liability period of 12 years post completion.
ULivingAtHertfordshire	A-/Stable	A-/Stable	DB contractor PGG from Bouygues Construction. In addition, there is an on-demand performance bond of up to 12.5% of the building contract value. The total liability cap is 70% of the contract value, including a liquidated and ascertained damages (LADs) cap of £5 million. The latent defects liability period is 12 years post completion, with a liability cap of 60% of the contract value.
Watercraft Capital S.A.	BBB/Negative	BBB/Negative	Joint-and-several obligations between ACS Servicios, Comunicaciones y Energía, S.L. (ACS SE) and Cobra Instalaciones y Servicios, S.A. Although construction was completed in July 2012, ACS SE is still providing a top-up unlimited corporate guarantee.

EMEA--Europe, the Middle East, and Africa. SPUR--Standard & Poor's underlying rating.

7. Minimal Political And Regulatory Risk

One factor preventing investors from investing over the longer term, particularly in countries with less established track records in PPPs than the U.K, is political and regulatory risk. The BLP/Preqin survey ranked government and regulatory interference and political risk as by far the biggest concerns facing investors, almost 60% of respondents regarding this the biggest threat to a sustained flow of infrastructure transactions over the next 12 months.

In our experience, transaction structures supported by independent, stable, and transparent regulatory frameworks, or frameworks enshrined in law, reduce the risk of periodic policy changes. Such changes can discourage investor participation and in certain cases have the unintended effect of increasing default risk on project debt. The most recent example is a change in the Spanish feed-in tariff policy for renewable energy projects, which, we understand, has led to an increase in defaults on renewable projects in Spain.

In our analysis of a regulatory framework we consider, among other things, its stability and predictability; how operating and capital expenditures are recovered; how financial stability is supported; and to what extent the framework is insulated from political intervention.

The level at which the regulatory framework can withstand political risk is crucial. We assess as credit-positive a regulatory framework that is completely insulated from the political process and where there has been no record of any effort by political forces to intervene in setting the regulatory parameters, even during stressful periods.

The most common approach is for the regulator to be independent in stipulating how much profit an entity can earn.

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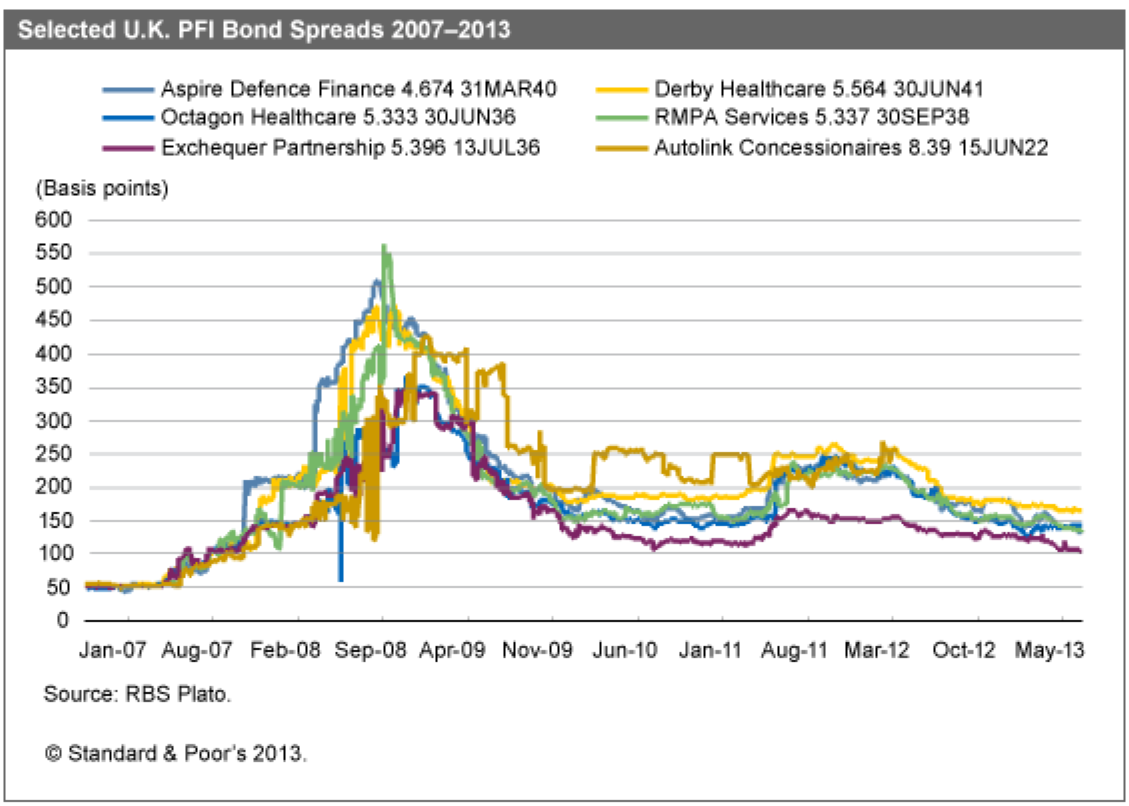
This model, found in the U.K., is in our view credit-supportive. Nonetheless, independent economic regulation can still be subject to political risk if consumer tariffs are considered unaffordable, a point demonstrated recently by the opposition Labour party's proposal in the U.K. to abolish the regulator and cap energy prices for two years should it win the next general election.

8. Pricing And Yields That Are Attractive For Lenders And Borrowers

According to the BLP/Preqin survey, the availability and cost of long-term debt finance is a major issue for fund managers. However, with long-term yields for government debt at a historical low and credit spreads tightening in the capital markets in general, all-in pricing for project bonds (that is, the reference government bond yield plus the credit spread associated with the project itself) is at an all-time low.

This is good for borrowers. While attractive pricing is still available in the bank market, mainly due to declining swap rates, tenors are typically much shorter, with 15-20 years being the maximum available. All-in bond yields have declined to about 5%, while PFI bond spreads have contracted to about 150 basis points (bps; see chart 2), broadly equivalent to U.K. corporate bond spreads. Recent transactions for long-dated rated project bonds have been priced at credit spreads ranging between 115-235 bps depending on the rating and tenor, with all-in yields of between 5.0%-6.5%. This is still considerably more attractive for investors than the 4%-5% yields available on sovereign debt with equivalent ratings.

Chart 2



9. Ongoing Strong Collateral And Security, With High Rates Of Recovery

In addition to stronger resilience to default than corporate debt, project finance debt also delivers a better rate of recovery. The average recovery rate across our rated project finance universe is about 75% (see "Project Finance Default And Recovery: Shale Gas Fuels Rise In U.S. Defaults"). The majority of lenders received recovery close to 100% and very few received close to 0%. This reflects the specific characteristics of project debt, which typically benefits from a strong collateral package with first-ranking priority security given to lenders.

In many cases, strong collateral in combination with contractual features (such as concessions) can assist defaulted projects in operating as going concerns, thereby maximizing cash generation and improving recovery prospects. Nevertheless, recoveries vary greatly by industry, with the transport and power sectors having the highest recoveries at about 88% and 63%, respectively. Oil and gas, by contrast, has the lowest recovery rate at less than 10%. For unrated loans, data collected by S&P Capital IQ show that defaulted loans have achieved almost full recovery (that is, between 91% and 100%). Either way, this post-default performance is considerably stronger than in corporate finance, where average recoveries are about 45%.

10. Liquidity And Asset Diversification

Liquidity in the project finance market can be viewed in two ways, in our view. First, critical mass is required for project bonds to be included in public indices such as the FTSE Global Bond Index. These indices make the bonds attractive to institutions that need to benchmark their portfolios and track performance. However, such liquidity requires sizeable and frequent issues, which until recently have been lacking in EMEA.

Second, project finance loans have traditionally been the sole preserve of the bank market, and as such do not typically fit the liquidity requirements demanded by institutional investors. Because these loans are rarely traded on the secondary market, they usually offer an "illiquidity premium" to attract investors, sometimes as much as 50-100 bps. Institutional investors interested in holding such assets to maturity to match their own liabilities are therefore able to benefit from this significant uptick in yield.

Institutional investors can also use project finance to diversify their asset portfolios because the sector has a low correlation to other asset classes. AG Insurance, for example, has close to two-thirds of its €62 billion of insurance assets in government bonds, a sector that's seen declining yields while maintaining a high correlation with sovereign credit performance. The attraction of project finance and infrastructure debt under such circumstances is clear.

The Outlook For The Long-Term Infrastructure Debt Market Is Positive

Based on the above factors and recent evidence pointing to growing institutional demand, we believe the outlook for the development of a healthy market for long-term debt in infrastructure projects is positive. Nonetheless, this outlook will be shaped by the continued evolution of the capital markets for project finance and, especially, how project structures are able to mitigate certain risks as well as meet investor demands for transparency and predictability.

Note

More details of the Berwin Leighton Paisner/Preqin Mid-Term Infrastructure Market Review of Sept. 12, 2013, can be found at http://www.blplaw.com/download/BLP_Preqin.pdf.

Related Criteria And Research

The articles listed below are available on RatingsDirect.

- Project Finance Continues Its Growth Around The World, Aug. 12, 2013
- Project Finance Default And Recovery: Shale Gas Fuels Rise In U.S. Defaults, Aug. 9, 2013
- Postsale Report: Watercraft Capital S.A., Aug. 9, 2013
- Postsale Report: Ruwais Power Co. PJSC (Shuweihat 2), Aug. 6, 2013
- Standard & Poor's Responds To The European Commission's Green Paper On Long-Term Financing Of The European Economy, Aug. 1, 2013
- Shadow Banking Looks Set To Capture A Larger Share Of Project Financing In 2013, April 16, 2013
- Proposed Changes to Global Project Finance Construction Risk Methodology, Jan. 30, 2013
- Request for Comment: Global Project Finance Methodology--Construction Phase, Jan. 28, 2013
- How Europe's New Credit Enhancements For Project Finance Bonds Could Affect Ratings, Nov. 13, 2012

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