CSC

We are the business behind business®

Project Finance Market Outlook Report 2024

CSC's exclusive insights on the key industry trends, opportunities, and obstacles

Project finance continues to play an essential role in financing capital intensive projects across an ever growing field of asset classes, driven by the demand to build, develop, and modernize vital infrastructure across developed economics and emerging markets.

CSC recently commissioned research among 200 global industry professionals working in project finance. We sought to understand their views on which regions are seeing the greatest activity for project finance deals and how this will change in the near future.

We asked respondents for their insights into the sectors that are benefiting the most from project finance currently, as well as the opportunities that will emerge in the next two years. We also asked them to identify the barriers that might get in the way of progress, and how well-prepared investors are to overcome them.

Overall, our respondents were positive about the ongoing and successful use of project finance, especially now that restrictions and other headwinds placed on infrastructure projects caused by the pandemic have receded.

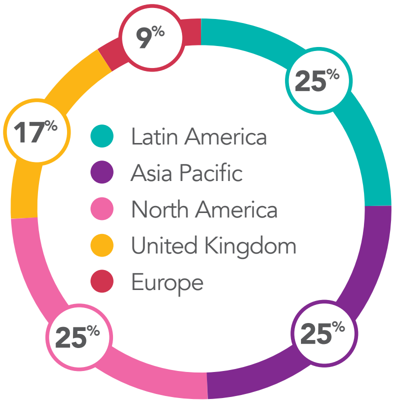
Latin America, which has traditionally played catch-up with regions such as the U.S., is enjoying a resurgence in project financing thanks to a range of factors. These include generally calmer political environments as well as innovative financing and regulatory regimes.

Population growth, demographic changes, and rising standards of wealth across the APAC region are also creating demand for new infrastructure, leading to additional project finance opportunities. Regulation in the form of the European Long-Term Investment Funds framework (ELTIF 2.0) and the Inflation Reduction Act (IRA), as well as positive action taken by Export Credit Agencies (ECAs), are also driving activity.

While changing regulation is usually seen as a challenge, respondents are remarkably optimistic about their ability to deal with complex situations. This may be because every project finance transaction is different and needs a nuanced and flexible mindset to bring it to completion.

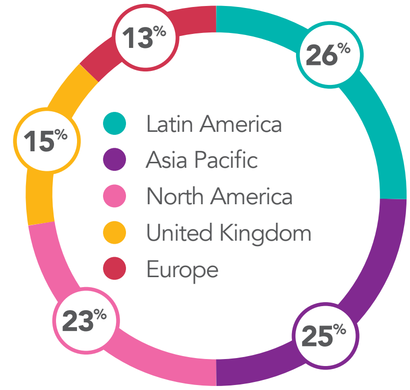
We set out the main findings of our research on the following pages.

Overview



Respondents are split across North America, Europe, the U.K., Latin America, and Asia Pacific.

They are engaged in project finance activities and across different disciplines and industries including banking and finance, construction, and energy.



The regions in which respondents are primarily involved are North America, Latin America, Asia Pacific, the U.K., and Europe.

We found that:

86%

believe that project finance will grow in popularity over the next five years.

Growth is expected in all surveyed regions, but North America is benefitting the most in terms of project finance activity in the next two years.

63%

of respondents feel the biggest challenge to successful project finance transactions is adapting to ever-changing subsidies and tax programs.

Introducing CSC's Project Finance services

In the expanding landscape of project finance, implementing and administering complex transactions demands a partner with unmatched expertise and a comprehensive suite of services that will collaborate with your deal's working group to close, and ensure smooth administration over the life of the transaction.

Our Trust and Agency services ensure smooth implementation with transactional accuracy, collateral package security, and compliance with the terms of your financing. As your trusted partner, we're invested in the efficient implementation and ongoing administration of your project.

What we offer

Our comprehensive suite of reputable Trust and Agency services is tailored to meet the unique needs of infrastructure and project finance, and empower your project's success from conception through maturity.

Our services include:

- Account bank and depositary bank *(Available exclusively in the U.S.)*
- Administrative and facility agent
- Bond Trustee and Agency services
- Calculation agent
- Collateral and security agent
- Escrow and paying disbursement agent
- Intercreditor agent
- Security trustee
- Special Purpose Vehicles (SPV) services
- Customized solutions and services

Report contributors

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Project finance by region

The regions that respondents see as experiencing the largest increases in activity in the next 12-24 months are North America, Latin America, and the U.K., followed by Europe and Asia Pacific. Drivers behind growth include rising awareness of the need for renewable energy infrastructure; legislation and regulation such as ELTIF 2.0 in Europe; and investor-friendly government policies around the world.

Which of the following regions do you think will see an increase in project finance activities over the next 12-24 months?

38.5%
North America

29%
Mexico, Central America, and the Caribbean

28.5%
United Kingdom

28.5%
Europe

26%
Asia Pacific

In the U.S., the IRA is a positive tailwind for major project development. Export credit agencies are also helping drive sponsorship of project finance structures and attract other investors.

In Latin America, there are signs that political risk is receding in certain countries, but unfortunately reemerging in others, says Michael Morcom, CSC managing director, Latin America.

For example, Mexico's new president-elect, Claudia Sheinbaum, has commented on multiple occasions that she would increase private sector investment in infrastructure projects and is supportive of renewable energy initiatives. This led to cautious optimism in the market, since overshadowed by concerns about proposed reforms that will be easier to pass with the ruling party's near super-majority in congress. Market participants are now taking a wait and see approach until they better understand the policy direction of the new administration.

Another example is that countries such as Brazil are introducing new regulations for infrastructure debentures, or allowing power purchase agreements (PPAs) to be denominated in U.S. dollars, with the goal of attracting more foreign investment, Morcom says. Other countries in the region showing "signs of life" following a few years of under-investment include Chile, Colombia, Peru, and even Argentina, he adds.

It's a no-brainer in terms of sun and wind in the northern part of Chile, where you have the desert—it's a textbook situation.

Michael Morcom,
CSC Managing Director, Latin America

"Chile is a particularly interesting case, as during the pandemic, non-retired participants in the pension program had three separate opportunities to withdraw funds from their pension accounts," Morcom explains. "So Chilean pension fund managers, which had among the deepest pockets of liquidity for long-term assets such as project finance investments, had to adopt a much higher cash position to meet these and potential future withdrawals. So we've seen a lot of Chilean projects getting financed in the international markets rather than in local markets in recent years."

The country presents real opportunities for renewable energy, in part, given its geography, says Morcom. "It's a no-brainer in terms of sun and wind in the northern part of Chile, where you have the desert—it's a textbook situation."

Latin America is slightly behind globally when it comes to investment in the infrastructure and energy sectors, and it's not going to be addressed overnight, Morcom adds. "But investment in the sector is a key objective for many of the regions' administrations, and will fuel economic and GDP growth."

APAC is also increasingly active in project financing, says Con Kleanthous, CSC managing director, APAC. "There's a lot of interest in renewable projects, particularly in Australia where there is a strong commitment to net zero. Solar and wind are particularly favorable in Australia due to the abundance of natural resources and land, and the fact that it's an orderly and safe place to do business."

Japan is another particularly active country that is exporting capital through its large banks to projects in the APAC region, as well as globally, Kleanthous adds.

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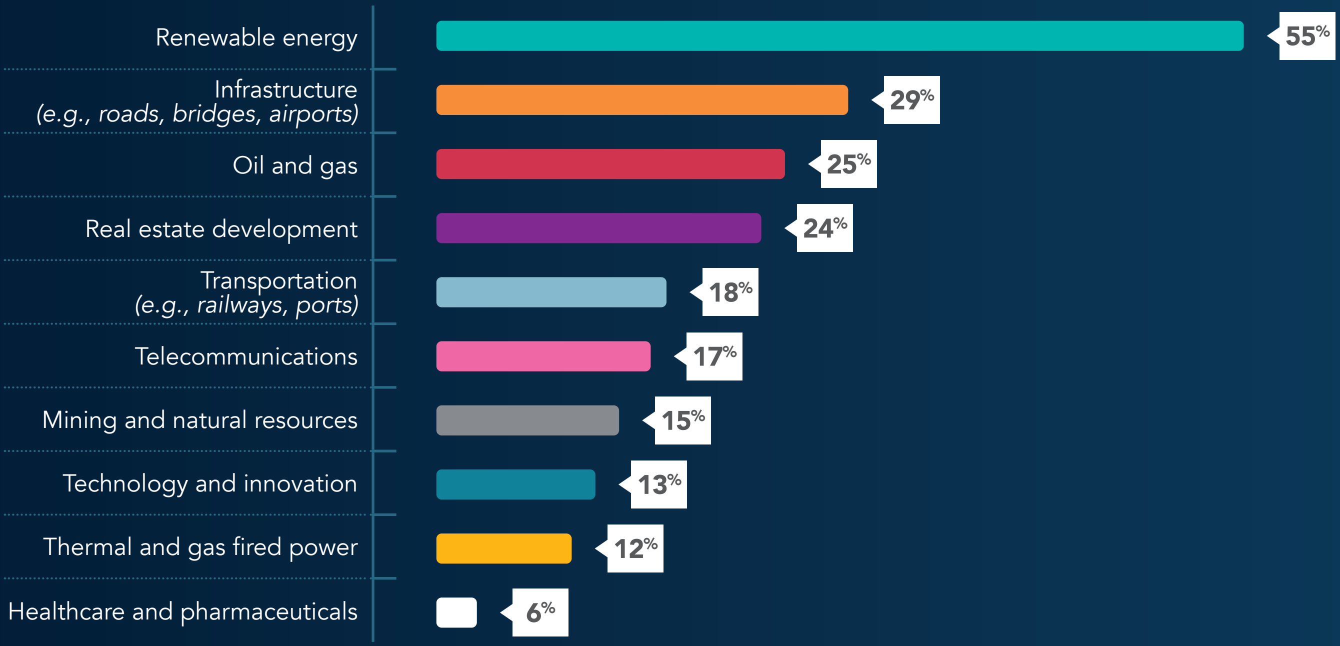
Con Kleanthous
CSC Managing Director, APAC

Project finance by business sector

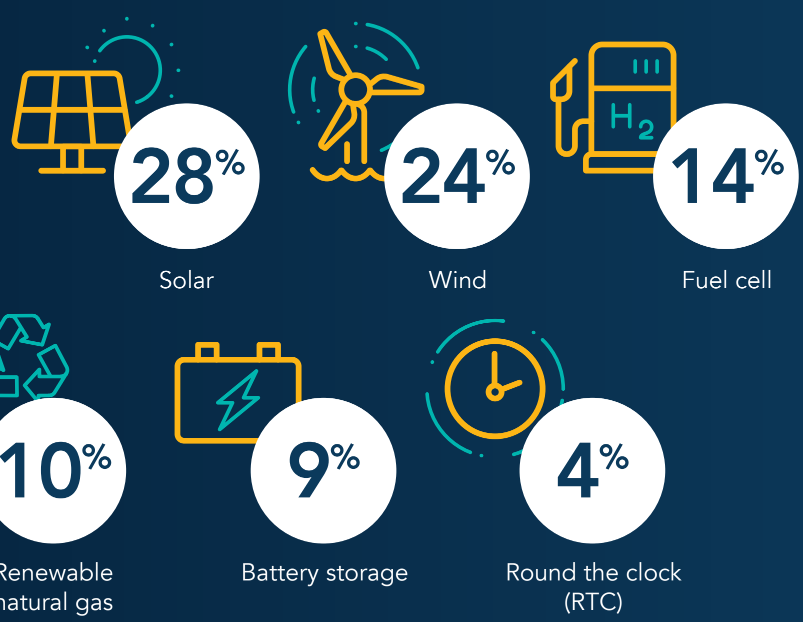
What are the primary areas of project finance that you are focused on?

The top four primary sectors currently seeing the greatest levels of activity, according to our research, are renewable energy projects such as wind, solar, and hydrogen, cited by 55% of respondents; infrastructure including roads, bridges, and airports (29%); oil and gas (25%); and real estate development (24%).



Which of the following renewable energy technologies is likely to see the biggest increase in project finance deals over the next 12-24 months?

Breaking down the renewable energy sector into more detail, respondents ranked projects most likely to see the biggest increase in project finance deals over the next 12-24 months as: solar (28%), wind (24%), fuel cell (14%), and green hydrogen (12%).



Given the capital intensive nature of project finance, growth in emerging technologies will continue to take second place to wind and solar across all regions, although fuel cells are increasingly being used to bridge the gaps in power availability.

“We often see battery storage going hand-in-hand with solar developments for revenue smoothing,” explains Kleanthous.

And while solar and wind projects lead the way, they also create what David Bell, CSC commercial director, EMEA, calls a “ripple effect.” “Wind farms and data centers, as examples, will need transportation, power connection, and other supporting requirements. The logistics around these projects represent additional development and financing considerations.”

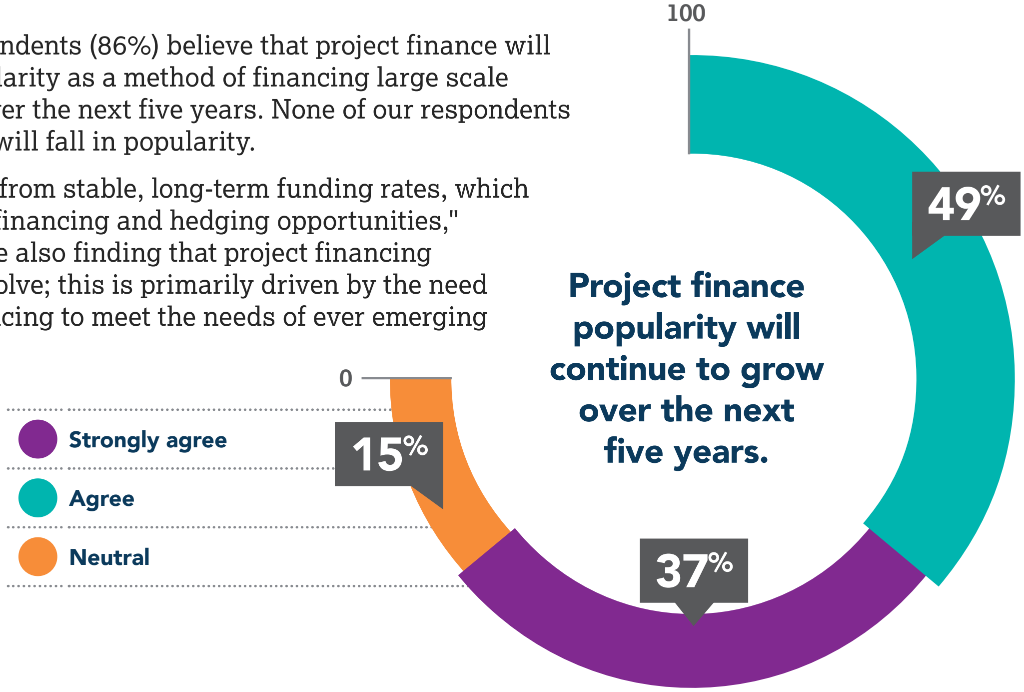
“There is interest in various renewable energy technologies, but wind and solar are at the forefront because of their proven track record on bankability,” explains Bryan Gartenberg, CSC managing director, U.S. “As emerging technologies are proven to be successful from a financing perspective, we can expect to see more growth in newer asset classes like hydrogen.”

> *We often see battery storage going hand-in-hand with solar developments for revenue smoothing.*
>
> **Con Kleanthous**
> *CSC Managing Director, APAC*

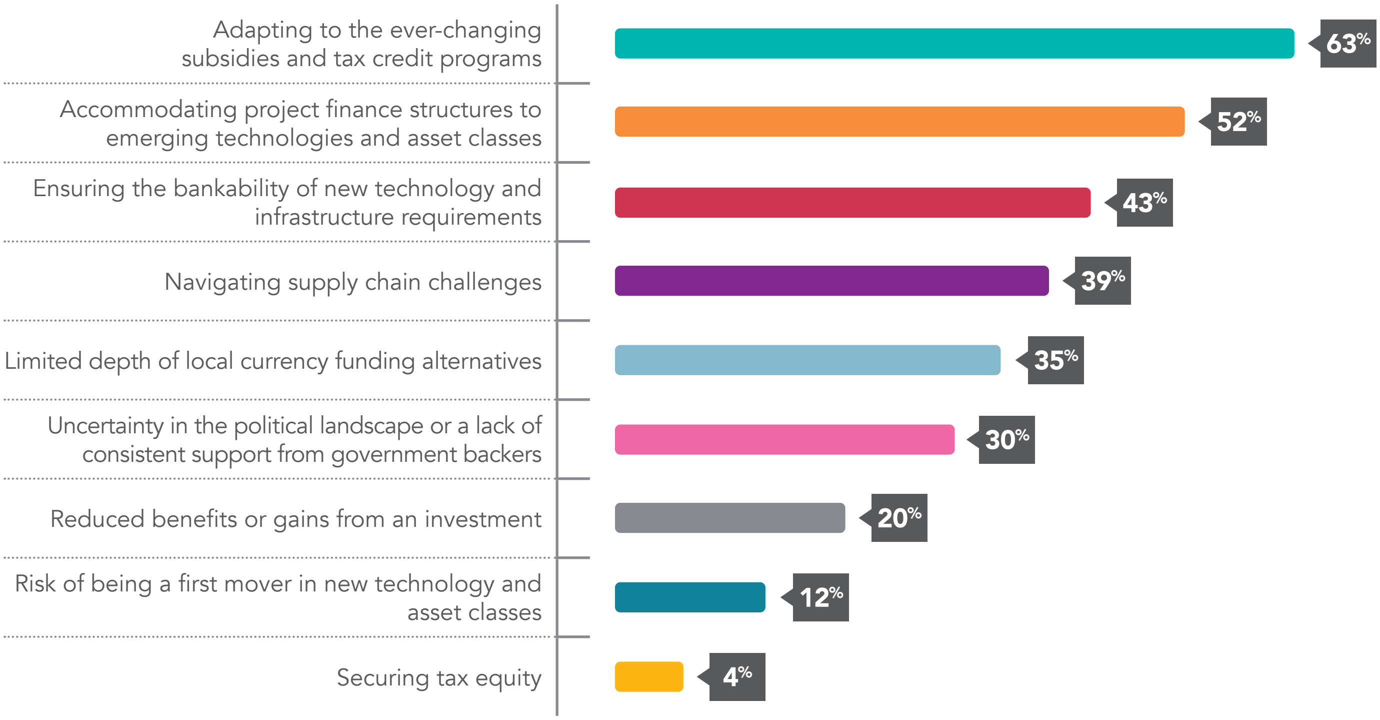
Opportunities and obstacles

The majority of our respondents (86%) believe that project finance will continue to grow in popularity as a method of financing large scale infrastructure projects over the next five years. None of our respondents said that project finance will fall in popularity.

“Project finance benefits from stable, long-term funding rates, which encourage substantial refinancing and hedging opportunities," adds Gartenberg. “We are also finding that project financing structures continue to evolve; this is primarily driven by the need to accommodate PF financing to meet the needs of ever emerging asset classes.”



Respondents view the high-level challenges involved in project finance as:

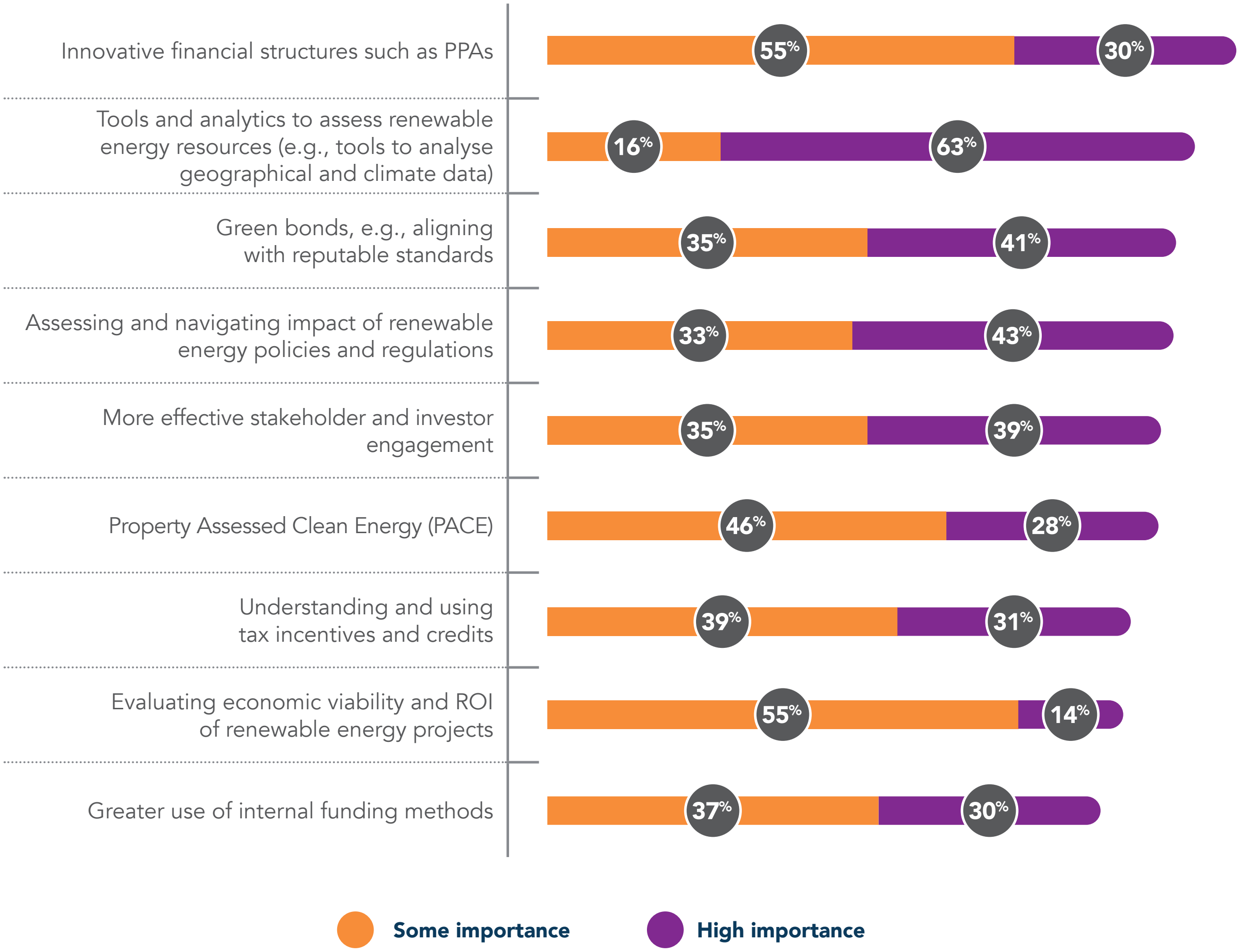


Subsidies are a particular challenge in Australia, says Kleanthous. “Each state in Australia has its own bespoke subsidy programs which adds to the complexity for sponsors.”

In New Zealand, the Ministry of Business Industry and Employment (MBIE) is currently consulting on a regulatory framework that would allow offshore wind projects to move to the next stage of feasibility investigations and design. This legislation is expected to be in place by the end of 2024 so permits can be granted in 2025.

There has also been a significant increase in levels of due diligence in the past 12 months, says Bell. “More parties are interested in which suppliers are involved, where materials are coming from, and the quality of partners. Standardization in these areas is needed, especially as ESG means different things to different people.”

Rate the importance of the following areas in their potential to bridge the gap between the risks unique to renewable energy projects and investors’ requirement for stable returns?



Successful project finance transactions

Looking at the barriers to successful project finance transactions, respondents placed supply chain problems at the top of the list, followed by emerging asset class infrastructure (such as hydrogen transport and storage), and bankable technology. The pandemic exposed the fragile nature of component supply chains, but while it can be challenging to source products such as turbines and photovoltaic panels, higher prices rather than broken supply chains are likely to be the bigger problem in the next year or so.

The availability and bankability of newer technologies will improve as they are proven in the field. “Most developers and lenders are happy to be a second mover, very few want to be a first mover,” says Gartenberg.

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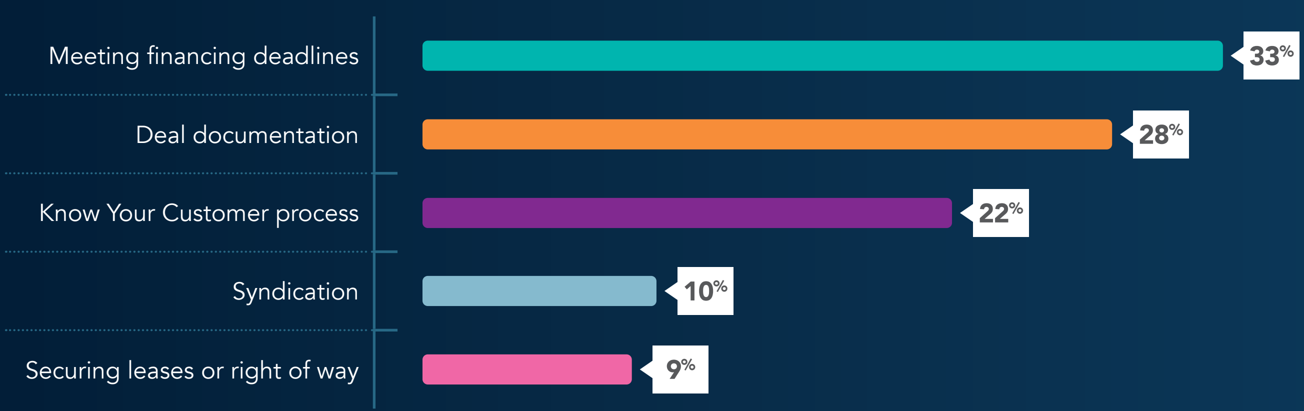
> *CSC Managing Director,*
> *Corporate Trust and Agency Services, U.S.*

Barriers to successful project finance transactions:

1. Supply chain problems
2. Emerging asset class infrastructure
3. Bankable technology

Respondents said the greatest execution challenges when implementing project financing were meeting financing deadlines, deal documentation, and Know Your Customer (KYC) processes.



Complexities in deal documentation are magnified in cross-border transactions, stresses Morcom. “Having a straightforward U.S. deal under one legal jurisdiction is challenging enough. When you introduce multiple legal jurisdictions and currencies, it just adds another layer of potential complexity.”

“Project finance is a global story,” adds Bell. “A project can go across multiple countries, and investors will need different legal documents for each region, operate with different currencies, and be cognizant of different local financial and regulatory landscapes. The phrase ‘inter-creditor agency,’ for instance, is used in multiple territories but can mean different things in different countries.”

In Australia, managed investment trusts are used to provide concessionary tax rates to attract offshore capital into project finance transactions from a sponsor and equity perspective, observes Kleanthous.

“The most important concept to note about project finance is its adaptability and flexibility to drive new solutions when responding to changing factors such as tax and subsidy programs, technology, and economic conditions,” explains Gartenberg.

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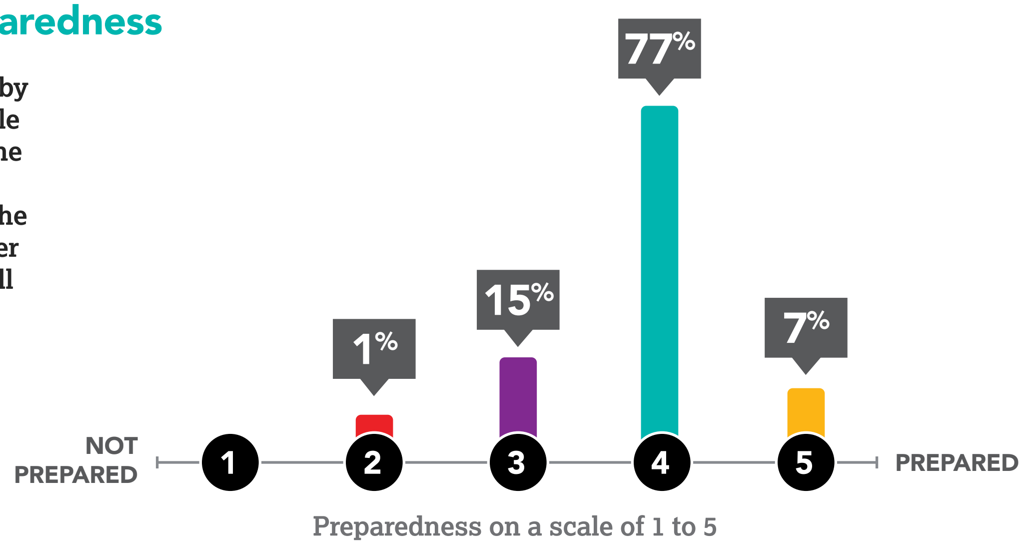
Bryan Gartenberg,
CSC Managing Director,
Corporate Trust & Agency Services, U.S.

In terms of the importance of project finance structures in driving the growth of renewable energy investment, respondents ranked these factors as the least to most important:

PPAs	Third-party ownership	Tax equity structures such as the inverted lease model

Project finance preparedness

This adaptability is borne out by the research. It found that while respondents see adapting to the ever-changing subsidies and tax programs as a challenge, the majority say that they are either well prepared or extremely well prepared to adapt to rapidly evolving regulations.



The value added by trust and agency service providers

Most project finance structures would not be possible without the participation of knowledgeable, experienced parties to the transaction, including a strong trust and agency service provider. A corporate trust service provider acts as a neutral intermediary between the parties involved in a project finance deal. The provider takes on various roles, such as collateral agent, account bank, administrative agent, and inter-creditor agent, to ensure that the deal runs smoothly and all stakeholders' interests are protected.

Having a strong corporate trust services provider can make a material difference in the success of a project. An experienced corporate trust provider has the skills necessary to shepherd project finance deals through to their successful conclusion.

Respondents in our study of project finance professionals said that they particularly value the following attributes from their corporate trust providers:

Proven experience across similar transactions and asset classes.

A full suite of administrative processes and bespoke solutions before, during, and after a deal.

The use of innovative technology with real-time access to account activities.

CSC provides tailored, independent, and expert services with a strong commitment to closing deals for our clients. Our success is measured by our clients' achievements, not just by fulfilling contractual obligations.

With a 125-year history, private ownership, and independence as a non-lending institution, we are committed to long-term relationships. Clients can trust that we will remain engaged throughout the entire transaction. CSC will stay involved through the maturity of the deal and any potential refinancing of the project.

About CSC

CSC is a leading provider of global business administration and compliance solutions, including a comprehensive suite of administration, financial, and agency services for debt issuances, securitizations, structured finance transactions, and restructuring mandates. We have office locations and capabilities in more than 140 jurisdictions across Europe, the Americas, Asia Pacific, and the Middle East, deploying experts in every market we serve. Our Global Capital Markets team has a wealth of expertise and deep institutional experience. We carefully analyze each deal and tailor services accordingly to provide bespoke solutions to our clients' requirements.

We're the trusted partner of choice for 90% of the Fortune 500®, more than 90% of the 100 Best Global Brands, and more than 70% of the PEI 300. Founded in 1899 and headquartered in Wilmington, Delaware, USA, CSC prides itself on being privately held and professionally managed for more than 125 years. Our broad geographic coverage means we possess local knowledge and infrastructure to support capital market participants worldwide. We are the business behind business®. Learn more at **cscglobal.com**