FINA 773
International Project Finance
Fall II 2015

Instructor:  J. Robert Sheppard, Jr.
Phone/Voice Mail:  (704) 363-9304
e-mail:  sheppajr@mailbox.sc.edu
projfin@bellsouth.net
Office Hours:  4:00 pm – 6:00 pm, Monday (to be held in a conference room to be announced)

Specific Learning Objectives

The course will give students an understanding of the following topics:

1. The fundamentals of non-recourse, project financing (structures, credit aspects, modeling)
2. Financial markets for project finance, including syndicated bank loans, capital markets, export credit agencies, multilateral institutions, and the private equity market
3. Infrastructure sectors and their business risks, as well as an appreciation of historical and institutional factors that affect infrastructure development in different regions of the world
4. Transaction structures and the documentation used to structure individual project financings
5. Political risk, especially as it affects infrastructure investment and financing
6. Currency risk as it affects infrastructure projects
7. Local currency financing (availability, limitations as a source of long-term, fixed-rate financing), and
8. International organizations relevant to infrastructure investment and finance.

Students will learn to:

1. Analyze business opportunities for their potential to be structured as a project financing
2. Analyze the risks entailed by various forms of project and project financial structures
3. Model a project financing
4. Assess alternative project financing strategies
5. Understand how transactions are priced and be able to price a transaction (within the classroom constraint of assumed market conditions)

Required Course Materials (Items 1, 2, and 3 require purchase by students)

2. Kennedy, Robert E., InterGen and the Quezon Power Project: Building Infrastructure in Emerging Markets, Harvard Business School Case, Product # 799057
(3) Esty, Benjamin C. and Matthew Mateo Millet, *Petrolera Zuata, Petrozuata C. A.*, Harvard Business School Case, Product #299012
(4) Additional cases will be supplied by the instructor, available on Blackboard
(5) Selected articles and papers to be supplied by the instructor, available on Blackboard
(6) Online video materials, available on Blackboard

**Course Schedule**

Monday (6 classes) 6:00 pm – 9:10 pm
Saturday (2 classes) 10:00 am – 1:10 pm

(A 10-minute break will be taken approximately half way through class)

**Lecture Notes**

Material presented by the instructor will include PowerPoint presentations. Copies of the slides will be available on Blackboard.

**Course Grading**

Course grading will be determined based on the following elements:

- Mid-term exam (one hour)  14%
- Class participation   20%
- Longer case analyses (3 cases)  21%
- Shorter cases/problem situations   15%
- Final exam    30%

The mid-term exam will be relatively brief and is intended to insure comprehension of basic concepts. (If a make-up exam is necessary, it will be administered as soon as reasonably possible after the originally scheduled time for the exam.)

Three major written case analyses will be required. Each analysis will be limited to three pages of text, plus exhibits (if any). There is no limit applicable to exhibits.

Regular class participation is expected. Students will be called upon to answer questions and to present their analyses of cases and problem situations; in addition, they are expected to demonstrate initiative in class participation.

Grades will be based on the following scale:

- A 100 – 90
- B  89 – 80
- C  79 – 70
- D  69 – 60
- F  Below 60
University of South Carolina Honor Code

It is the responsibility of every student at the University of South Carolina Columbia to adhere steadfastly to truthfulness and to avoid dishonesty, fraud, or deceit of any type in connection with any academic program. Any student who violates this Honor Code or who knowingly assists another to violate this Honor Code shall be subject to discipline.

This Honor Code is intended to prohibit all forms of academic dishonesty and should be interpreted broadly to carry out that purpose. The following examples illustrate conduct that violates this Honor Code, but this list is not intended to be an exhaustive compilation of conduct prohibited by the Honor Code:

1. Giving or receiving unauthorized assistance, or attempting to give or receive such assistance, in connection with the performance of any academic work.
2. Unauthorized use of materials or information of any type or the unauthorized use of any electronic or mechanical device in connection with the completion of any academic work.
3. Access to the contents of any test or examination or the purchase, sale, or theft of any test or examination prior to its administration.
4. Use of another person’s work or ideas without proper acknowledgment of source.
5. Intentional misrepresentation by word or action of any situation of fact, or intentional omission of material fact, so as to mislead any person in connection with any academic work (including, without limitation, the scheduling, completion, performance, or submission of any such work).
6. Offering or giving any favor or thing of value for the purpose of influencing improperly a grade or other evaluation of a student in an academic program.
7. Conduct intended to interfere with an instructor’s ability to evaluate accurately a student’s competency or performance in an academic program.

Whenever a student is uncertain as to whether conduct would violate this Honor Code, it is the responsibility of the student to seek clarification from the appropriate faculty member or instructor of record prior to engaging in such conduct.

Suspected violations of the honor code will be reported to the Office of Academic Integrity. Violations of the honor code will result in disciplinary measures.
Course Outline:

The course will cover the following topics in the order listed below. A certain amount of time will be devoted at the beginning of each class to questions, if any, regarding video materials that were assigned to be viewed prior to class.

Assignments are listed under the class at which the assignment is due. Assignments should be submitted electronically prior to the start of the class at which they are due.

Class 1: Monday, October 26

Topics:  Introduction and Overview of Project Finance  
EPC Contracts, Input and Output Contracts  
Modeling Project Finance Transactions

Case: Cogenergy (US) (a conceptual exercise, without quantitative data)

Reading: Yescombe, *Principles of Project Finance*, Chapters 2, 3 (skip §3.7), 6, 7, 8, and 13

Assignment: Read the Cogenergy case (available on Blackboard) and come to class prepared to discuss it

Class 2: Saturday, October 31

Prior to Class 2, the following online materials should be viewed:  
The Project Finance Market  
Typical Project Finance Transactions  
Political Risk Insurance

Topics: Review of Cogenergy calculations (assigned for today)  
Modeling Project Finance Transactions  
Risk Allocation  
Political Risk  
Risk Mitigation

Case: Cogenergy case (with quantitative information)

Reading: Yescombe, *Principles of Project Finance*, Chapters 4, 9 (skip §9.10.2), 11, and 12 (skip §12.1 and §12.2)

Assignment: Prepare Cogenergy construction loan calculation and a model for first 10 years using lease financing
Class 3: Monday, November 2

Prior to Class 3, the following online materials should be viewed:

Multilateral Development Banks and Other Official Agencies
Project Finance Documentation
Local Currency Financing

Topics: Review of Problem Set
Foreign exchange risk
Bank market syndications

Reading: Yescombe, *Principles of Project Finance*, Chapter 5 (skip §5.6), 14 (skim, beginning with §14.16.2), and 16
The following items in Course Documents on Blackboard:
(1) MIGA PRI Contract (familiarize yourself with it – don’t read all parts of it in detail)
(2) Sheppard, “We Shall Overcome” in *Project Finance International Multilaterals Report*
(3) Sheppard, “Effectiveness of Multilaterals” (originally published in *Project Finance International*, March 9, 2011 – a follow-up article to “We Shall Overcome”)

Assignment: Prepare answers to the Problem Set posted in the Course Content section of Blackboard

Class 4, Saturday, November 7

Prior to Class 4, the following online materials should be viewed:

PESD Study
Business Strategies in the Power Sector

Topic: Discussion of the MegaPower case
Application of the Contractual Model to International Projects

Case: MegaPower (posted in Blackboard’s Course Contents section)

Sheppard, “Theoretical Considerations Concerning Approaches to Mitigate Foreign Exchange Risk for Developing-Country Infrastructure Projects”

Assignment: Case analysis of MegaPower, 3 pages maximum, plus exhibits (no limit on exhibits)
Class 5, Monday, November

Prior to Class 5, the following online materials should be viewed:
Capital Markets
Country Selection Analysis

Topics: Mid-term Exam (about one hour)
AES Tietê Bond Issue
Dominican Republic Toll Road Bond Issue

Reading: The following items posted in the Course Documents section of Blackboard:
(1) Moody’s Pre-sale Report for Tietê
(2) Fitch’s Pre-sale Report for Tietê
(3) Sheppard, “AES Tietê: Protecting International Infrastructure Transactions from the Risk of Devaluation”
(4) Tiete transaction diagram (PowerPoint)
(5) Tiete Comparables Memo

Class 6: Monday, November 16

Prior to Class 6, the following online material should be viewed:
Comparison of Regulatory Regimes
Other Latin American Transactions

Topics: ElectroPublic

Reading: Argentine Gas Trust Analysis (Moody’s)
Talca-Chillan Toll Road Case Note (Chile)

Assignment: With your team, fill out the bidding form and prepare to present your proposed financing for ElectroPublic with recommended pricing, terms, and bidding strategy.

Class 7, Monday, November 23

Prior to Class 7, the following online materials should be viewed:
Basel II & III
Equator Principles
Carbon Credits
Transport Projects

Topics: Discussion of Petrozuata case
Follow-up information on subsequent Petrozuata developments

Reading: Yescombe, *Principles of Project Finance*, Chapter 17
Sheppard, “Carbon Credits: An External Financing Source for Latin American Project Financing”
Sheppard, “Transport Projects”

Assignment: Please prepare an analysis of the Petrozuata case, responding to the issues raised at the end of the case, including whether you think the proposed bonds will receive an investment-grade rating, with your recommendations about a financing strategy that can finance the project regardless of what rating is actually achieved for the proposed bond issue; you do not need to address the cost of capital issues presented in the case (limited to three pages of text), plus exhibits (no limit on exhibits)

Class 8, Monday, November 30

Prior to Class 8, the following online materials should be viewed:
- Infrastructure Funds
- Thailand/Asia Power
- Whole Business securitization

Topics: Discussion of Quezon case
Risk analysis of Lake Kivu (Rwanda) project
Project Finance in Africa
Infrastructure Funds
Whole Business securitization
Course review

Case: Quezon (Philippines) (a case dealing with equity valuation issues in relation to country risk)
The case is available at:
http://cb.hbsp.harvard.edu/cb/search/quezon?Ntk=HEMainSearch&N=0

Reading: Yescombe, *Principles of Project Finance*, Chapter 12, §12.1 and §12.2
Orr, “The Rise of Infra Funds”

Assignment: Quezon case analysis, up to 3 pages of text, plus exhibits