



# **2<sup>nd</sup> Danube Financing Dialogue - Challenges and opportunities of financing SME investment projects in the Danube Region**

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## A. About Kommunalkredit

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INFRA BANKING EXPERTS







# Kommunalkredit Austria AG at a Glance



**Business Model.** Austrias Bank for Infrastructure

**Ownership Structure.** 99.78% Republic of Austria, 0.22% Association of Austrian Municipalities

**Total Assets.** EUR 16.5 billion (as of 30-06-2011 according to IFRS)

## **Geographic Focus/ Markets**

Austria, Germany, Switzerland, new EU Member States and Croatia, Serbia;  
selective strategic projects in other Western European countries in cooperation with Austrian partners

## **Sectors of Infrastructure**

Focus on social infrastructure, energy and environment, and transport

## **Products**

Provision of short- to long-term loans – as arranger, underwriter or participant, treasury products, deposits, financial advisory services and support scheme management through KA´s subsidiary Kommunalkredit Public Consulting (KPC)

## **Customers**

Municipalities, public sector entities, private infrastructure developers and operators, utilities, suppliers, project developers

# Provision of Finance and Advisory



## Energy & Environment

- Energy supply and distribution
- Renewable Energy
- Water supply and disposal
- Waste management and disposal



## Social Infrastructure

- Schools, universities, libraries
- Hospitals & care homes
- Police and court buildings, law enforcement facilities
- Administrative buildings
- Other public facilities



## Transport

- Roads, bridges, tunnels
- Rail-based transport
- Airports
- Ports, waterways



## Infrastructure consulting

- Strategic advisory, financing
- Transaction advisory for infrastructure projects

### Customer groups

- Public sector authorities
- Special-purpose entities
- Public sector enterprises
- Utilities
- Private infrastructure developers and operators

# Kommunalkredit Public Consulting



## Mandated managing body of the Austrian Ministry of Environment

- KPC is managing **grant schemes** for the Ministry as delegated agency since 1993
  - Water Supply
  - Wastewater Treatment
  - Remediation of contaminated sites
  - Renewable Energy & Energy Efficiency
- Manager and trustee of the **Environmental Protection and Water Management Fund**
- KPC is (one of four) manager of the new established **Climate & Energy Fund**
- KPC is responsible for **EU-Structural Fund** management in Austria for environmental measures of enterprises



## National and International Consulting

- **Examples of international consulting projects**

- **EU** Support of the Serbian Ministry of Mining & Energy in the sustainable development of the energy sector
- **EBRD** Feasibility Study for a water utility company in Serbia
- **OECD** Study on improving water management and climate change adaptation in the water sector in Moldova
- **World Bank** Support in the set-up of a Homeowners Association Resource Center in Ukraine
- **EIB** Consultancy services within the framework of the JASPERS Programme
- **ADA** Policy advice for and support of water and waste-water projects within the framework of Austria's cooperation with CEE

- **Examples of national consulting projects**

- **BMLFUW\*** Modified cost-effectiveness analysis for contaminated site rehabilitation
- **BMLFUW\*** Technical support for technology transfer expert group (EGTECH)
- **Verbund AG** Study of market potential for small-scale CHP plants

Technical, economic and financial consulting according  
to ISO 9001:2008 Quality Management Standard







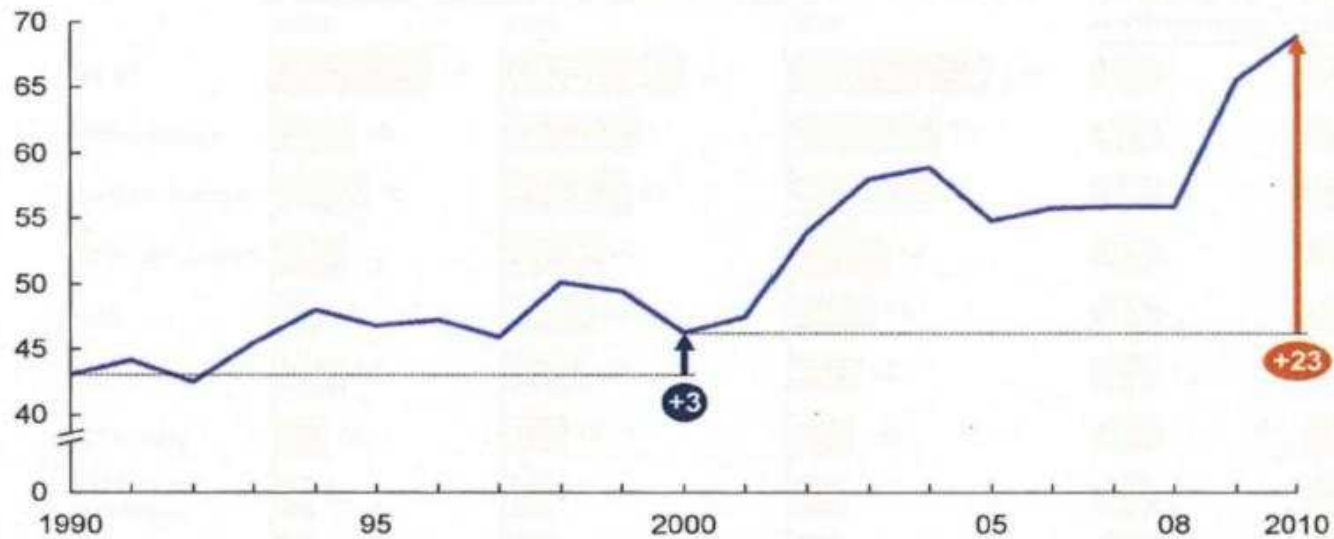
## **B. The Danube Region in the context of the European Debt Crisis**

# Public debt

**Global public debt has increased by \$24.6 trillion over the last decade, reaching 69 percent of GDP in 2010**

Gross outstanding public debt<sup>1</sup> as % of GDP  
%, end of period, constant 2010 exchange rates

Growth  
(percentage points)



Year	1990	95	2000	05	08	2010
Public debt total \$ trillion	8.9	12.8	16.5	25.4	31.7	41.1

<sup>1</sup> Defined as general government marketable debt securities; excludes government debt held by government agencies (e.g., US Social Security Trust Fund).

SOURCE: Bank for International Settlements; McKinsey Global Institute analysis



# CDS spread development for the Danube Region since 2006



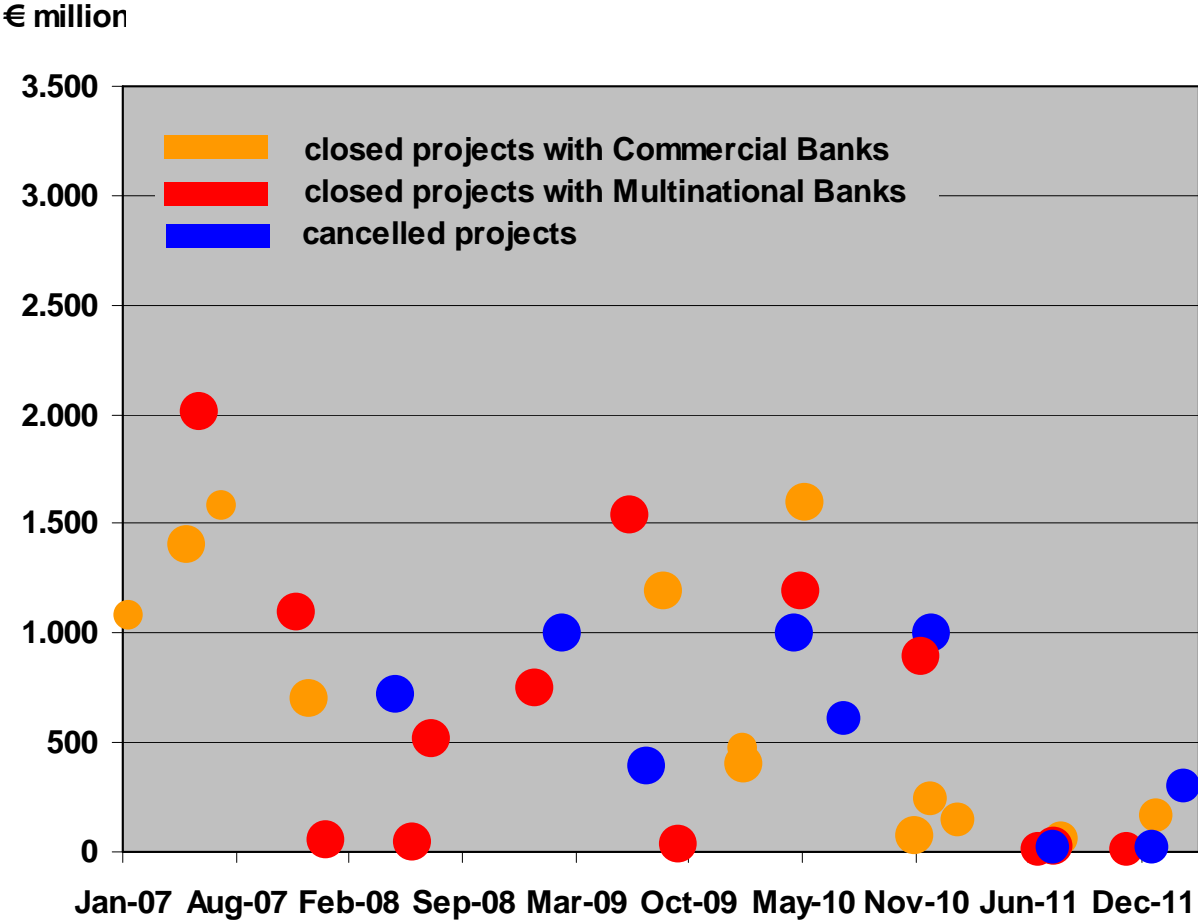


## How does the crisis unfold in the project finance market?

- shorter tenors with re-financing after 5-10 years
- risk premiums are rising
- Government guarantees and re-financing guarantees are becoming more common again

→ banks have a different risk awareness!

# PPP Projects in CEE and SEE 2007-2012







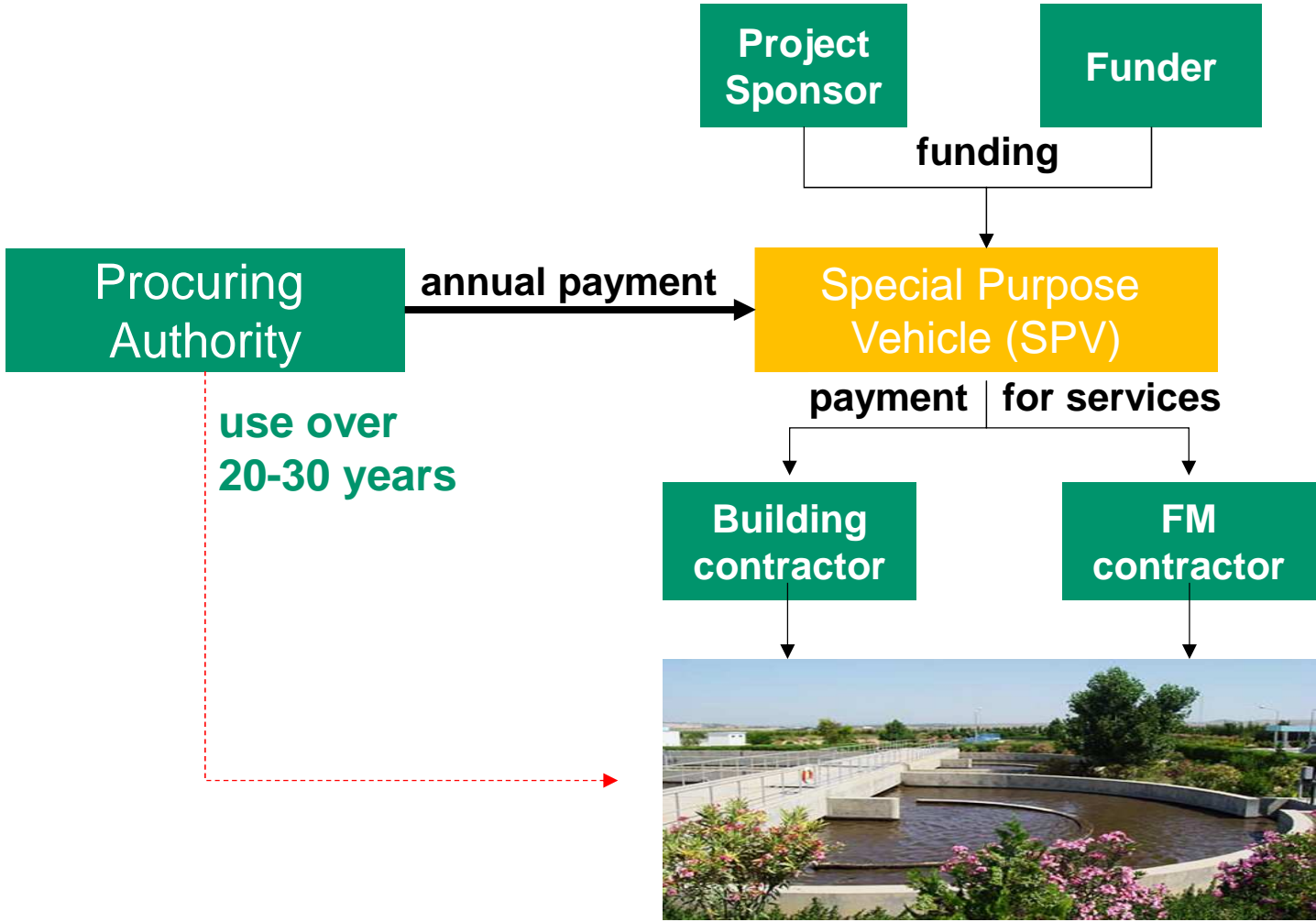
## C. Project Financing Solutions



# 1. Non-recourse Project Finance



# The Project Finance model







# 1. Non-recourse project financing Requirements

- Strong project sponsors
- Stable long term cash flows (eg from tariffs, availability payments, etc.) based on a reliable regulatory framework
- High reliability of project delivery at planned cost
- Debt sizeing based on the long term cash flows → higher equity requirements
- Full technical and legal due diligence
- Extensive documentation



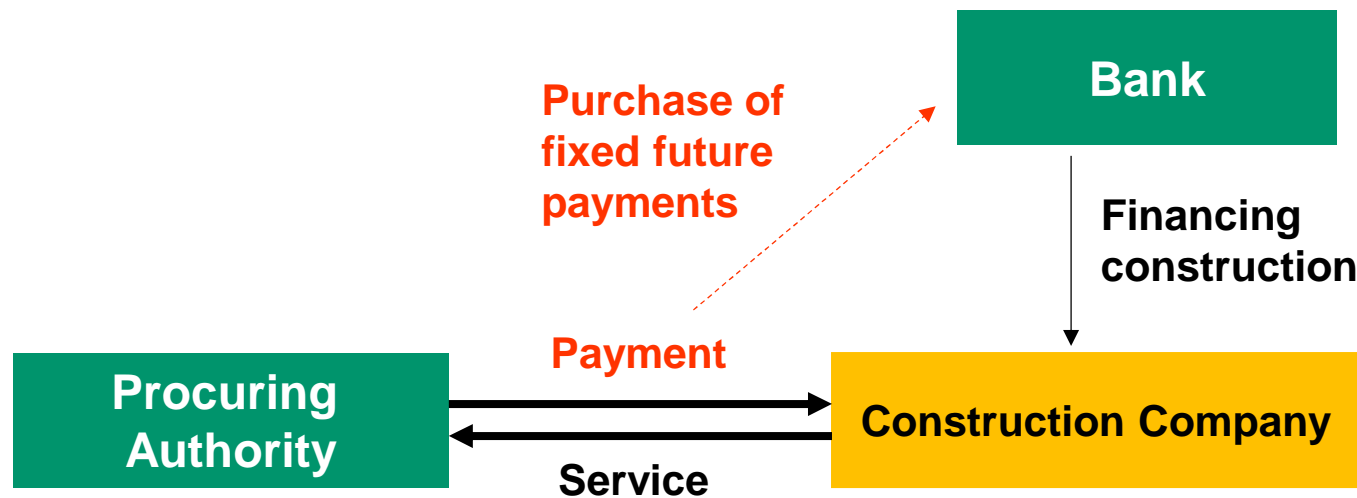
## 2. The Forfaiting Model

## 2. Forfeiting model



### Structure

- Public Sector tenders construction, operation and finance in one contract
- Risk transfer to the private sector through an availability model
- Bank purchases future public sector payments to construction company
- Public Sector signs „waiver of objections“







## 2. Forfaiting model

### Requirements

- Strong credit quality of the „payer“ / the public authority
- Stable long term cash flows
- Full technical and legal due diligence
- Standard documentation

# Non-recourse Project Finance vs. Forfeiting Model

## Non-recourse Project Finance:

- bank finances the SPV
- bank has to take private sector (SPV) risk

➔ Higher risk, higher financing margins

**= non-recourse financing**

**vs.**

## Forfeiting Model:

- bank purchases future public sector payments
- bank can rely on rating of the public sector

➔ Lower Risk, lower financing margins

**= recourse financing**



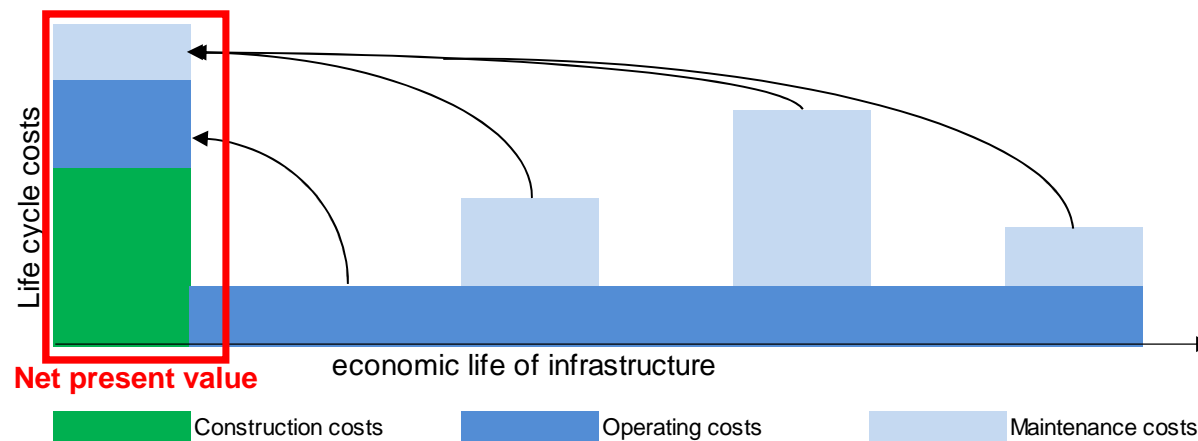
## D. Advisory – Strategic Investment Planning based on a real example



# Kommunalkredit – Life Cycle Solution Approaches



- ➔ Broad range of services and solutions for
  - Widening the financing basis of public infrastructure
  - Relief of public households
- ➔ Focus on project oriented and structured solutions; Life cycle approach
  - Project Finance and traditional Finance
  - Development of co-operative concepts with risk-taking by operating/construction companies
  - Allocation and procurement of private/institutional capital
  - Grant advisory
  - Relief of public cost structure based on new technologies and processes





## Strategic financial planning is a way of „life cycle management“ to actively pursue

Based on a specially created financial model different scenarios are analyzed

- With a specific customized financial model, the life cycle of a plant (about 50 years) and the costs of development are planned in advance and transparent.
- Proactive planning of the transfer payment enables greater re-investment by avoiding excursive developments („Active management fees)
- Effects of „Simple financial stress“ (higher interest expenses, elimination promotion) depending on investment mix
- Anticipated service life extension of the plant by active advanced care and comprehensive maintenance typically represents the biggest potential for optimization

**By strategic financial planning, significant potential for optimization and cost savings could be made transparent and quantified**



## Project procedure - Overview

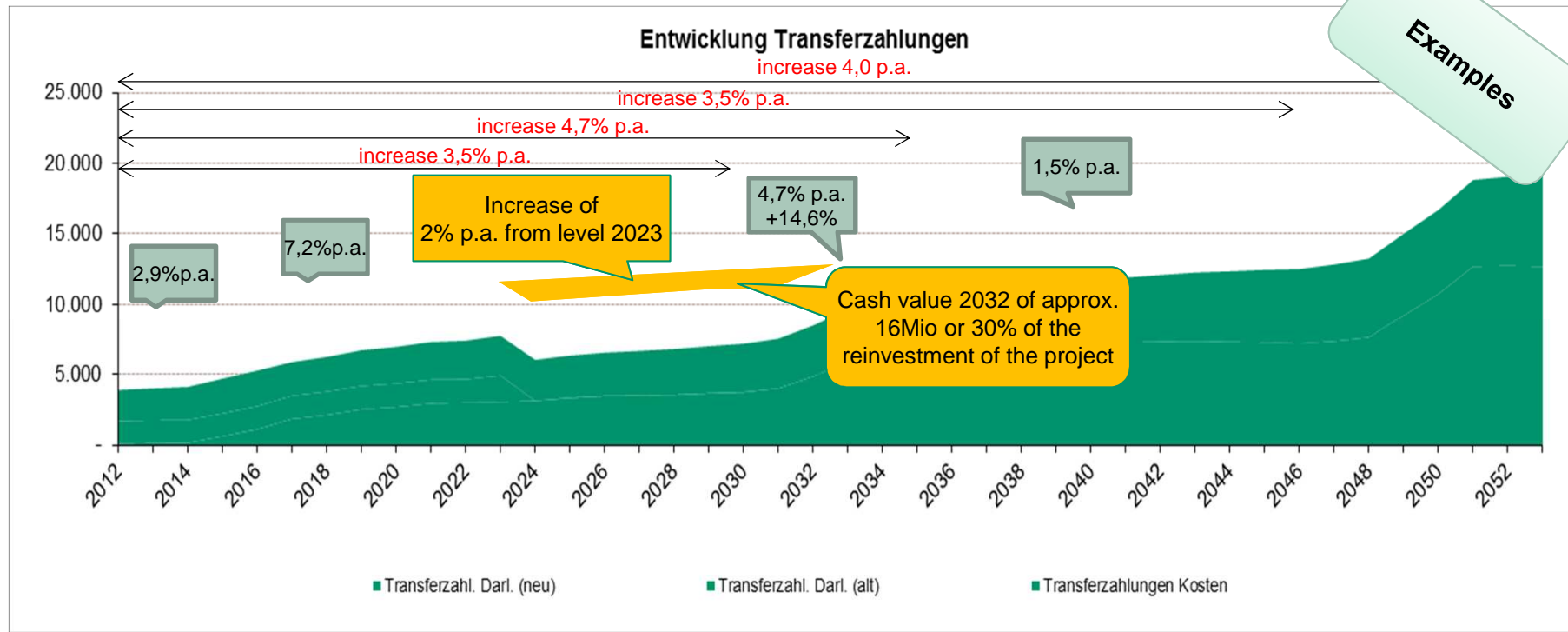
- Investment planning
  - Workshops
  - Perusal of the planning documents
  - Inspection of the plant
- Creation of the financial model („Base Case“)
  - Modeling Inputsize/Outputsize
  - Analytics
    - Amortization
    - Cash-Flow regulation
- Scenario Analysis
  - Aktive Management of prescriptions (reserves, etc.)
  - Financial stress effect
  - Lifecycle Management –optimizing value over the entire life cycle

**Project results will be developed in close collaboration between experts from KA and the customer**





# Base Case – Alternative course of transfer payments („Active Design“) – schematically



Optimization in conjunction with the investment plan could be identified by analyzing the long-term course of the cash flows.



## E. Project Finance Outlook for the Danube Region

## Where we see project financing market looking forward



- trend towards simpler structures
- smaller deals in selected sectors (wastewater, energy efficiency, renewables)
- shorter maturities
- rising risk awareness (equity, regulatory environment, technical assessment)
- stronger involvement of local banks
- stronger involvement of IFIs and ECAs







## Widening the Financing Basis

- ➔ Financing of investments with public budgets increasingly limited
- ➔ Widening the financing basis **NECESSARY** and **POSSIBLE**
- ➔ Public-Private Sector Cooperations
- ➔ Public-Private Partnerships
- ➔ Infrastructur funds
- ➔ Advisory (Transaction and / or strategic based advisory)



## Debt Funds as possible solution

### New Sources of Funds: Long-term investors

- Pension Funds
- Insurance Funds
- Other Institutional Investors with a long-term investment focus

### Role of the Banks

- Short-Term Financing (i. a. Equity Bridges, Construction Phase Financing)
- Financial Due Diligence
- Arranging & Structuring of Deals

### Advantages for Investors

- Adequate Risk-Reward Profile (Operating Risk Phase → Lower Risk)
- Matched Funding
- Sustainable, stable Cash-Flows based on Public Sector Payments in Case of Availability Schemes

### Advantages for Sponsors

- Matched Funding
- Lower Debt Costs in comparison with traditional Debt Funding

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