Scaling the project finance cliff in Singapore

A new lending vehicle aims to bridge the infrastructure funding gap encountered by Singaporean developers abroad. How will it fare against the established institutions?

Clifford Capital, Singapore's new government-backed infrastructure finance vehicle, officially launched operations on 22 November. It is expected to lend about US$400 million a year to Singapore-based companies to help them develop projects overseas.

With the unstable global economic environment and stricter regulations looming under Basel III, Singaporean developers have been finding it difficult to raise long-term loans from commercial banks to support international projects. Clifford Capital is intended to fill this gap.

The focus will be on power, water and waste, offshore marine and other sectors where local companies can demonstrate a competitive advantage.

"The water sector is a priority sector for us and we are engaged in discussions with companies involved in the sector," Clive Kerner, CEO of Clifford Capital, told GWI. "We will be looking at IWPP, desalination, water treatment and bulk water supply projects with long-term offtake contracts," he said.

"Our sweet spot is in lending to projects where our own senior debt commitment is US$50-100 million. This could be on a bilateral basis or as part of a syndicate."

Funding for all sectors will mostly be in the form of long-term (15 to 20 year) senior debt, although Clifford Capital may also provide mezzanine debt and equity, depending on the nature of the project.

There are no geographical constraints to lending – the institution will consider projects in the UK and the rest of Europe, in addition to Asia, the Middle East and other regions where Singaporean companies are active.

Its first transaction is likely to involve the acquisition of existing project finance assets, in order to get the business up and running.

Clifford Capital stands somewhere between the banks, export credit agencies (ECAs) and the international financial institutions (IFIs) in its offering. While it has a clear objective to support local companies, just under 60% of its equity is held by private institutions, giving it a distinctive hybrid approach.

Clifford Capital's shareholders include Singaporean state investment agency Temasek, which holds 40.5% of the equity through Kovan Investments, Prudential (with 19.9%), and local bank DBS, Standard Chartered, Sumitomo Mitsui Banking Corp and Manulife (each with 9.9%). Generally, private banks, ECAs and IFIs are more likely to be funding partners than competitors, Kerner argues.

European banks, which formerly held a prominent position in the international project finance market, have retreated in the face of the Euro crisis, and the tougher capital adequacy rules under Basel III will likely prevent their return en masse.

As a non-bank institution, Clifford Capital has more flexibility. It will price its lending on a commercial basis, but will be able to raise low-cost capital thanks to a guarantee from the Singaporean government for its own debt instruments. The institution is on track to establish a triple A-rated US$1 billion medium-term note programme of its own in the first quarter of 2013.

In Europe, policy-makers are focusing on project bonds as the solution to infrastructure finance in a world in which private banks no longer offer large chunks of project debt.

The sticking point remains the unwillingness of bondholders to take on construction risk. Hybrid public-private financing vehicles with government-guaranteed debt such Clifford Capital could potentially help to address this gap – at least in countries that manage to cling on to their AAA credit rating.

Aqualyng bolsters its Indian desal ambitions

The Norwegian desal company has signed its second desalination joint venture in India. It is happy to put equity into projects, but will stop short of taking an EPC role.

Indian industrial water services company Fontus Water, part of the Earth Water Group, is in the process of setting up a joint venture with Norway's Aqualyng to develop desalination plants in India on a build-own-operate (BOO) basis.

The JV company is looking to invest about INR7.5 billion ($138 million) over the next three years in desalination plants with capacities of between 10,000m³/d and 100,000m³/d. The two companies expect to sign the agreement by the end of December, with Aqualyng holding a majority equity stake.

"It will be structured such that Fontus may have less than 26% equity from a regulatory point of view, but an economic interest of more than 26%," Earth Water Group managing partner Sunil Ghorawat told GWI.

Fontus and Aqualyng are both part-owned by CLSA's clean growth fund, a private equity vehicle based in Singapore focusing on water and sustainable agriculture. "CLSA facilitated this deal, so we had a very short courtship," he said.

"The projects would be financed by raising debt from institutions like IFC, which also holds an equity stake in Aqualyng," he added.

The JV will join a handful of companies that have taken on the role of developing and financing capital-intensive desalination projects in India.

"On the water side, there are not too many companies that have got into financing projects," Ghorawat said.

While Aqualyng will take a lead role in raising finance for desalination projects, and also bring its own proprietary energy recovery technology – the Recuperator – to the table, Fontus will focus on managing relationships with clients and contractors in India.

The JV is open to linking up with different EPC partners on a project-by-project basis. One obvious choice is Indian EPC major SPML Infra, which announced a partnership with Aqualyng last year to implement modular reverse osmosis desalination projects in India. No deals have yet come out of this partnership, although a senior source at SPML told GWI that the company would be open to taking on the EPC role in projects developed by the new Aqualyng-Fontus combination.