IIRSA

Iniciativa para a integração da infraestrutura regional Sul Americana

Overcoming risk factors that limit infrastructure financing in South America

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Overview

- Who we are ENEL and ENELPOWER
- What we are doing in South America
- Issues for financing regional integration projects:
  - Legal
  - Operational
  - Financial
- Innovation: what can be done by GOVT, MDB, Sponsors/Lenders ("S/L")
ENEL

Est. 1962 as a Government-owned entity

Based on the amount of electricity sold Enel is the second largest utility in the world,

**Group highlights** (in millions of €)

<table>
<thead>
<tr>
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<th>2000</th>
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<tbody>
<tr>
<td>Revenues</td>
<td>25,109</td>
</tr>
<tr>
<td>EBITDA</td>
<td>8,746</td>
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<tr>
<td>EBIT</td>
<td>4,753</td>
</tr>
<tr>
<td>Net Invested Capital</td>
<td>31,712</td>
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<tr>
<td>Net Debt</td>
<td>13,383</td>
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ENELPOWER

• Former Engineering and Construction Division of Enel that has carried out EPC of:
  49,000 MW of thermal and of hydroelectric plants
  25,000 km of HV transmission lines
• Incorporated in June 1999 as a joint stock company.
BRAZIL. Investment ongoing in Transmission, potential thermo and hydro generation projects
Priority infrastructure in Brazil because it allows transfer of cheap hydro energy from the hydro generation area in the North to the load center and underserved areas in the South East.
Legal Issues for financing integr. projects

- LEGISLATION. Not completed and not coordinated across countries
- REGULATION. Required to comply with changing/uncomplete/not fully compatible rules
- SUPERVISION. Not defined or not transparent and uniform (e.g. fines and penalties unclear and uncapped)
- LIABILITY. Recourse to parent company for broad set of liabilities.
Operational Issues for financing integr. projects

- OPERATING FRAMEWORK untested, dominant position of few players
- DISPUTE SETTLEMENT. Unclear, slow and unenforceable arbitration procedures
- SECURITY. Difficult to create and maintain valid and perfected first priority lien on collateral
- PERMIT. Licencing not coordinated with rest of project preparation activities. Lenders need sponsor support
- TERMINATION. Need to cover mismatch, delays
- CONTRACTUAL FRAMEWORK. Projects depend on continuing support by authorities (e.g. granting authorities that reserve broad powers to change concession parameters)
Financial Issues for financing integr. projects

- REVENUE FLOW. Not Automatic transferability, offshore accounts, difficult.
- INSURANCE. Difficulty to secure insurance coverage adequate from lenders’ perspectives.
- TAX SCHEMES. Need to armonize, no particular special status
- FOREX. No coverage for foreign exchange risks, different indexation procedures across countries.
- INTEREST RATE. Revenues not linked to interest rates, difficult to adjust projects to change in environment
Key innovations needed to enable financing

- **GOVT.** Reduce sovereign risk (hurdle rate reduction)
- **GOVT.** Enable access to local sources of capital (large stable pool, natural hedge for project returns). Second generation reforms in the financial sector needed
- **GOVT.** Establish track record in dealing with problem situation
- **GOVT/MDB.** Increase confidence of private sector investors (x country treaties, privileged status of integr. projects)
- **GOVT/MDB** Improve project contractual framework (pledge of concession, step in rights, termination, guarantees, arbitration)
- **MDB.** Leverage international financing with creative use of political and financial guarantees.
Role of the private sector

• S/L Propose new structures to shield project from exogenous risks and allocate remaining risks efficiently
• S/L Engage rating agencies in two way debate on how to pierce sovereign ceiling
• S/L Get involved in debate to promote sensible framework
• S/L Demonstrate feasibility of private integration projects with successful transactions
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