

Implementing a Project Finance Initiative Through 'Satisficing' Off-Take and Limited Recourse Agreements

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Abstract

A case of investing by private finance initiative is developed. Although project finance is especially used in large infrastructural investments involving multiple risk, the paper describes a medium-sized project in the service sector for which the host government guarantees a minimum level of sales through an off-take agreement with the sponsors. Eleven alternative hypotheses on future sales over the 20-year horizon are formulated by binomial probability to obtain cash flow expectations. The model shows how the guaranteed minimum level of sales can be agreed by the bank arbitration in a Simonian way satisfying the parties. It also shows how the interest rate is computed by the bank to cover risks from the limited recourse loan clause. All numerical information needed is displayed and the computational process fully highlighted through tables.

Keywords: Limited Recourse, Off-Take Agreement, Project Finance, Risk Allocation.