Project finance: What to expect in a post-pandemic world

Of the few positives that might be spawned by the tragedy that is COVID-19, even more public demand for renewables and telecoms expansion are high up the list. But how will the financing market respond and adapt to such a radically changed world in such a short space of time?

By Will Marder, Managing Director, Project Finance at Wilmington Trust

Change is constant, they say. That is true in the project finance sector, even if the pace of that change may be slower than in others. Our corner of the financial system has seen a fair amount of change since the global economic crisis. Banks and other financial institutions have exited the space, while others have entered. A number of the traditionally active commercial banks left and never came back, with the void being filled by large global financial institutions, especially the Japanese banks.

Coming into 2020, we noted the large supply of capital looking for transactions – specifically in the form of debt from infrastructure funds and institutional investors. These lenders were especially active in 2019, as they looked for ways to deploy capital somewhere north of where commercial banks were in the capital stack. Indeed, the infrastructure debt funds have cemented themselves as disrupters in our market. Today, it is difficult to address our sector without touching upon the real and anticipated effects of the COVID-19 pandemic. So the question is, what is the outlook for the remainder of 2020?


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Tax equity providers may be in short supply, as those entities need to have considerable tax appetite to monetize tax credits. And that tax appetite comes from only one thing – income. As banks and corporates look forward in the short-term and the mid-term, do they foresee income being impacted by the pandemic, and if the answer is yes, how long will that last? Shrinking taxable income impacts not just decisions about committing to new transactions, but also the ability to monetize credits from deals entered into years ago. With regards to the tax incentives themselves, it remains to be seen if the current administration supports further extensions or amendments of the PTC and ITC. For the time being, they appear more focused on supporting the oil & gas industry.

Debt capital remains plentiful, but with some question marks emerging over the heads of certain providers, like cartoon bubbles. Foreign banks lending in U.S. dollars may find that cost of capital is rising, as COVID-19 has created a flight to quality, driving up the relative value of a dollar. Other types of lenders, such as institutional investors and infrastructure funds, have long-term committed capital that needs to be deployed, which is good news for borrowers. Deals continue to close, especially those that had firm commitments from before the pandemic.

It remains to be seen if new debt commitments take a pause while we wait to see if the economy begins to open back up.

One interesting outcome of the COVID-19 pandemic is that the world has gotten a feel for what greenhouse gas emissions could look like in a world where the public at large is not commuting to work or traveling for work or for pleasure. As we emerge from under the veil of this pandemic, will we (as a global society) change our daily habits? Will more corporations move to smaller workspaces, and take advantage of concepts like "hot desking" to simultaneously reduce their carbon footprint and their expenses, while improving work/life balance by giving staff the flexibility to work from home? Whatever the answer, it appears that two sectors are poised to move even further front and center in the project finance spotlight: renewable energy and telecommunications.

First, with regard to renewable energy, there is a unique opportunity to address climate change now; to make sure that when the economy ramps back up, it does so in a less carbon-intensive manner. Many countries and cities have gotten a taste of what things would be like in a world where people are not driving as much for business or personal travel. Work-from-home scenarios have taken many people and their cars off the road. According to Thunder Said Energy, passenger vehicles contribute to more than 14% of total global greenhouse gas emissions, by far the largest single contributor.

Despite the current administration's focus on the oil & gas sector, it seems certain that renewable energy technologies will seem all the more attractive as the economy emerges from the pandemic. Sustainability and ESG principals will drive investing decisions, in the hopes that we don't back-pedal post-crisis and ramp GHG emission back to pre-virus levels overnight. This coincides perfectly with the ramp-down of U.S. government tax credit programs, and provides some additional motivation behind the sector, moving it further into the mainstream and ensuring it long-term financial health.

Second, with reference to telecommunications, technologies have been tested like never before by so many people working from home, engaged in distance learning and generally being quarantined inside. We are all reliant upon high quality cell phone connections and high-speed Internet to keep our businesses running and our favorite entertainment channels streaming into our homes. Certain communications technologies have proven successful in terms of keeping people in touch with their clients – such as video chats and webinars. In this "new normal" scenario, there will likely be an increased focus on data infrastructure – 5G telecom service, data centers, and fiber optic build-out – to feed our increasing need for connectivity. This will likely drive project finance activity in these sectors, as companies look to expand 5G networks and build new state-of-the-art data centers.

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These two factors are well connected – as people leverage digital communications technologies, and favor telecommuting over taking the train, car, or bus, greenhouse gas emissions will go down. Coupled with a ramp-up in renewables development, we may see a meaningful further shift away from fossil fuel-fired generation.

For Wilmington Trust, the COVID-19 pandemic has demonstrated our ability to work seamlessly while remote, to maintain connectivity with critical banking technology, while at the same time maintaining connectivity with our clients. As a third-party provider of trust and agency services, our ability to keep funds and information flowing is paramount. We have also worked hard to promote employee engagement, hosting team video chats that allow colleagues to keep in touch with each other.

While change may be constant, questions swirl around how we, as a global financial community, will respond to and adapt to that change. COVID-19 has been incredibly challenging on many levels, we hope to find new developments and opportunities in the project finance sector as we return to normalcy. ■