



Project & Infrastructure Finance Risk Assessment

Global project finance volume increased to over \$300 billion in 2008, hitting an all-time high for the sixth consecutive year. Unprecedented levels of investment in infrastructure continue to fuel a global project boom, from development initiatives in emerging economies in the Middle East, Africa, and Asia to investments for renewal and advanced alternative energy technology in the Americas and Europe. At the same time, the slowdown in commercial real estate development is leading lenders and investors to focus increasingly on opportunities in project finance and infrastructure.

Adequately addressing the inherent complexities of these types of projects is a major challenge for many risk managers – understanding the roles of various parties to the transaction as well as contractual, legal, and regulatory requirements, currency and sovereign risks, and other characteristics of these investments can be a hurdle for lenders and investors. To be effective, risk assessment approaches must reflect a true understanding of these issues and address a number of unique challenges to protect the substantial investments at stake.

Key Challenges in Project Finance

- › Coordination of multiple parties with individual interests, including construction companies, suppliers, governments, off-takers, sponsors, and guarantors
- › Long-term horizon of projects makes estimating revenues and cash flows from the financed asset difficult
- › Reliance on a cash-flow stream from a single project
- › Dramatically changing risk profile through the project lifecycle, from construction to start-up to operation
- › Unique default characteristics and minimal historical data due to great variety of project types and few defaults
- › Relatively high risk of construction delays, cost overruns, and start-up problems
- › Multiple, and potentially conflicting, regulatory requirements
- › Imperfect information and markets
- › Complex or weak structural aspects of transactions

Our Approach to Project Finance

Moody's Analytics Consulting Services can work with you to develop, validate, calibrate, and document your project finance risk rating systems to enable more effective risk management. Based on our experience, no two projects are the same – each is a complex transaction with its own unique characteristics. Our approach identifies and evaluates the most important risk factors that apply to most projects in varying degrees, relating to the financing structure; the nature and viability of the project itself; and political, economic and related risks in the country in which the project will operate. Our framework enables credit and investment professionals to focus on the key risk factors using a streamlined approach that captures the substance of the deal and identifies the major drivers of performance to create a credible and pragmatic risk assessment.



Moody's Analytics Consulting Services



Our experts adopt an Expected Loss approach to address the dramatic changes in credit risk and exposure during the project's life. Our risk assessments begin with an estimation of the intrinsic project risk, reflecting a steady-state operational risk profile. Building on that estimate, we address structural risks and the adequacy of risk mitigants. In addition, we evaluate key construction period risk factors including project complexity, contractual arrangements, liquidity considerations, and start-up risks. Finally, our models take into account the credit quality of off-takers, alternative sources of cash flow, technology risks, and other operating and business factors to create a comprehensive understanding of the risk of each project.



Our Commitment

Unparalleled Expertise and Thought Leadership

Professionals with practical experience as former analysts, practitioners, and regulators – backed by over 30 years of credit risk data and a century of experience in risk assessment – provide independent evaluations and insights that reflect a true understanding of your business, wherever you are in the world

Proven Methodologies and Data

Leading edge tools, robust and validated models, transparent frameworks, and the industry's most comprehensive proprietary credit risk data set drive immediate results

Comprehensive Solutions

A multidisciplinary and integrated view of risk management across the value chain creates solutions customized to your needs, from data architecture through advanced portfolio optimization, to support more effective decision-making

Contact Us

To learn more about how Moody's Analytics Consulting Services can help you meet your credit risk challenge, please contact one of our specialists or email consulting@moodys.com.

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Moody's Analytics

Our expertise comes from decades at the forefront of credit risk analysis