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Hidro Boliviana: a Bolivian first

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Financing recently closed on the $65 million Hidroelectrica Boliviana deal ? a milestone in the Bolivian infrastructure and securities markets. The financing was denominated in dollars but placed in the Bolivian capital markets to a largely Bolivian group of institutions. The deal is the first project bond to get done there, and its size is equivalent to 0.8% of the country's GDP. And all of this for lower cost of capital than that offered by the multilaterals.

The main sponsor of the deal, Tenaska, took a controlling stake in a facility on the Taquesi and Uduavi Rivers, near Cacapi, in 1997. The 850kW plant was originally controlled by International Mining Company, which still has a 6.25% stake in the venture. Its power needs, however, are more than adequately covered by the existing facility. Tenaska's involvement with a plant that sells its power on a merchant basis makes this the first plant that it has financed without a power purchase or tolling agreement.

Two developments in the Bolivian market have made this possible. The first is the deregulation of the domestic electricity industry, which has followed the classic model of a split between generation transmission and distribution. Over the last seven years a number of companies, including Dominion Resources, have bought up assets. PPL Global and Iberdrola control a number of distributors.

The second development is the reform and privatization of Bolivia's pensions system, which was taken over originally by Banco Bilbao Vizcaya and Argentaria, although the two subsequently merged. This privatization now means that the funds are sitting on $900 million in mostly dollarized assets. Finding long-term paper with a good enough rating is more difficult, and Bolivia is beginning the same process of development that Chile went through five years ago.

So far, however, the government has not led the way in the creation of suitable domestic securities, leaving the funds at present restricted to short-dated bonds and government paper. Restrictions mean that they must hold at least domestically A-rated paper, so that a well-structured project can avoid going to the monolines to purchase a policy. The challenge for the bookrunners, Sudamer Valores, was to find a structure that would bring in 12-year money and also undercut the competition from multilaterals and insurers.

The deal has essentially gone through thanks to the largely thermal nature of Bolivia's generation capacity and an extremely tight EPC contract for the 50MW expansion. The deal was rated A on the Bolivian scale by Fitch, which noted that the contract, with a Black & Veatch/Colenco joint venture, is extremely tight and features a strong incentive to get the plant up and running on time. The contract costs $58.1 million and foresees a start date of February 2002.

The plant is located about 40km from the Bolivian capital La Paz and will provide the equivalent of 40% of the city's energy requirements. If the plant performs at the predicted availability levels it will seriously undercut the rival gas-fired generators as the lowest marginal cost generator in the region. Merchant risk in this instance, therefore, is much less important than weather risk.

The National Interconnected System (NIS) has so far proved to be a stable operating environment. Tariffs are set every six months with reference both to the marginal cost of generation of the least efficient unit as well as the opportunity cost of new generation. Producers have so far been happy with this arrangement since demand is growing healthily at a rate of about 7% per year. Moreover, producers are paid in dollars and the Bolivian economy has begun to experience prolonged stability following the hyperinflation of the 1980s. As far as investors are concerned, and with the current indexation of domestic electricity tariffs, 4-6% inflation per year is an eminently manageable risk.

Construction on the plants is already underway, funded by a bridge loan from Tenaska Capital, the repository of much of privately-held Tenaska's spare cash. Tenaska's interests in the facility are held by a myriad of different subsidiaries based in Bolivia, the US and the Cayman Islands, largely for tax reasons. Further interests are held by International Mining and the remaining 8.75% is in the hands of management and private Bolivian citizens.

Given Tenaska's burgeoning reputation in the country, and experience as a plant developer, the bookrunners were able to avoid going to any other institutions for cover. And, as Juan Carlos Virriera, Director at Sudamer Valores, points out, the all in cost of financing, at 11.25%, was considerably cheaper than the 12.5% that Inter-American Development Bank funding would have cost. There is a clear lesson here for the bank, which has given great prominence to its efforts to develop the domestic capital markets of Latin American economies, that some projects will benefit as much from forceful sponsors and assiduous bookrunners as from currently fashionable bond guarantee products.

Bolivia is not the most frequent of visitors to the project finance market ? and most activity centres on the exploitation of its plentiful gas reserves. The GasAndes project for one, will hopefully carry out its long-awaited refinancing this year. Bolivia stands to gain about $50 million a year in revenue from the pipeline, and the cash will go a little of the way to easing its status as a Highly Indebted Poorer Country (HIPC).

Signs are that this classification will actually be a spur to increased project bond issuance in the country. World Bank rules mean that countries with HIPC status cannot issue debt on their own budget, and are even discouraged from guaranteeing power purchase agreements. The concession model that has worked so well in Chile is one way to get round the regulations, and it appears that even the guaranteed minimum payment mechanism can be considered. And Bolivia's road network, as any traveller to the country can attest, is in dire need of improvements. Virreira at Sudamer puts the possible yearly pipeline for domestic issuance at $150 million, although good performance could stimulate cross-border transactions as well.