

**CARIBBEAN CENTRE FOR MONETARY STUDIES**

**9<sup>TH</sup> ANNUAL SENIOR LEVEL POLICY SEMINAR**

**COMPETITIVENESS OF THE  
CARIBBEAN FINANCIAL SECTOR AND  
OPPORTUNITIES FOR FUNDING  
LARGE SCALE PROJECTS**

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# Competitiveness

- Competitiveness is at the core of the success or failure of firms including banks.
- Michael Porter distinguished two types of Competitive Advantage:
  - Cost Advantage
  - Differentiation Advantage



# Competitive Advantage

- A Comparative Advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage).
- For banks, their key product would be the loans that are offered and the key cost is the interest rate.



# Competitive Advantage

- Another barometer of financial sector competitiveness is the ability of banks/firms to penetrate a market without reciprocal penetration of foreign banks.
- Market penetration is normally predicated on and is facilitated by both product differentiation and lower interest rates.

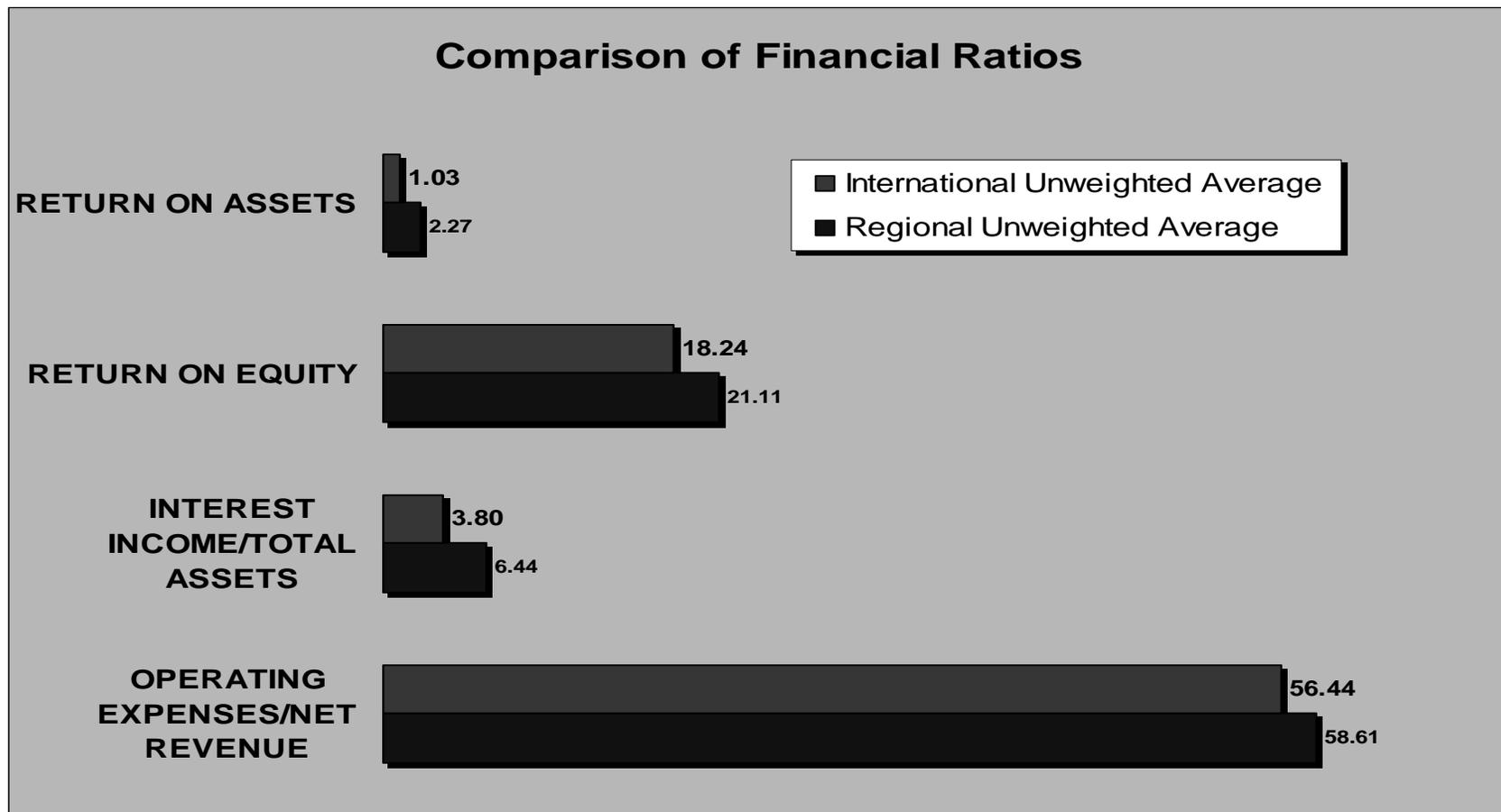


# Financial Ratios of Regional and International Financial Institutions

FINANCIAL INSTITUTIONS	OPERATING EXPENSES/NET REVENUE	INTEREST INCOME/TOTAL ASSETS	RETURN ON EQUITY	RETURN ON ASSETS
<b>Regional</b>				
RBTT	56.45	7.44	28.62	2.43
RBL	55.09	7.26	25.32	3.11
FCIB	64.28	4.63	9.38	1.26
<b>Regional Average</b>	<b>58.61</b>	<b>6.44</b>	<b>21.11</b>	<b>2.27</b>
<b>International</b>				
HSBC	51.88	3.93	21.86	1.38
Deutsche Bank	68.74	3.34	14.89	0.48
Bank of America	55.28	4.14	16.83	1.35
Merrill Lynch	49.86	NA	19.37	0.90
<b>International Average</b>	<b>56.44</b>	<b>3.80</b>	<b>18.24</b>	<b>1.03</b>



# Competitiveness of Caribbean Banks



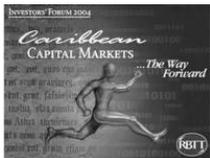
# Penetration into markets and Regional Scope

- Penetration into new markets
  - Trinidadian indigenous banks have been able to penetrate new markets without their regional competitors penetrating their home base.
    - For example, the RBTT Group has expanded its Group franchise as evidenced by its presence in most of the English and Dutch-speaking Caribbean, however, the penetration into RBTT's traditional market by other regional indigenous institutions has not been as pronounced.



# Penetration into markets and Regional Scope

- Penetration into new markets
  - RBTT Merchant Bank has recently set up an Office in Costa Rica and we have financed deals in the Dominican Republic and Costa Rica. On the contrary, neither has there been any Costa Rican, Dominican Republic banks or other Central American banks establishing similar offices here in Trinidad and Tobago nor any of these regions' indigenous banks financing significant deals in this market.
  - Other Caribbean financial players have also been able to spread their wings into Caribbean countries.



# Foreign Banks Penetration into the Caribbean

- Notwithstanding, local/regional banks penetration into the wider Caribbean and Central America, we are also witnessing the phenomena of international banks in the local financial sector.
- Every year Governments in the Caribbean approach the international capital market to issue USD/Eurobonds in order to facilitate budgetary requirements.
- Additionally, there has been a growing pool of large private sector and state enterprises which have been tapping the international capital markets.



# Caribbean's Competitiveness

- Thus institutions in the Caribbean are competitive as evidenced by their performance in the following categories:
  - ROE, ROA, operating expense/net revenue, interest income/total assets; and
  - Penetration into regional markets.

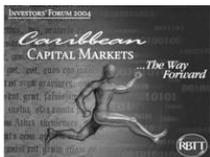
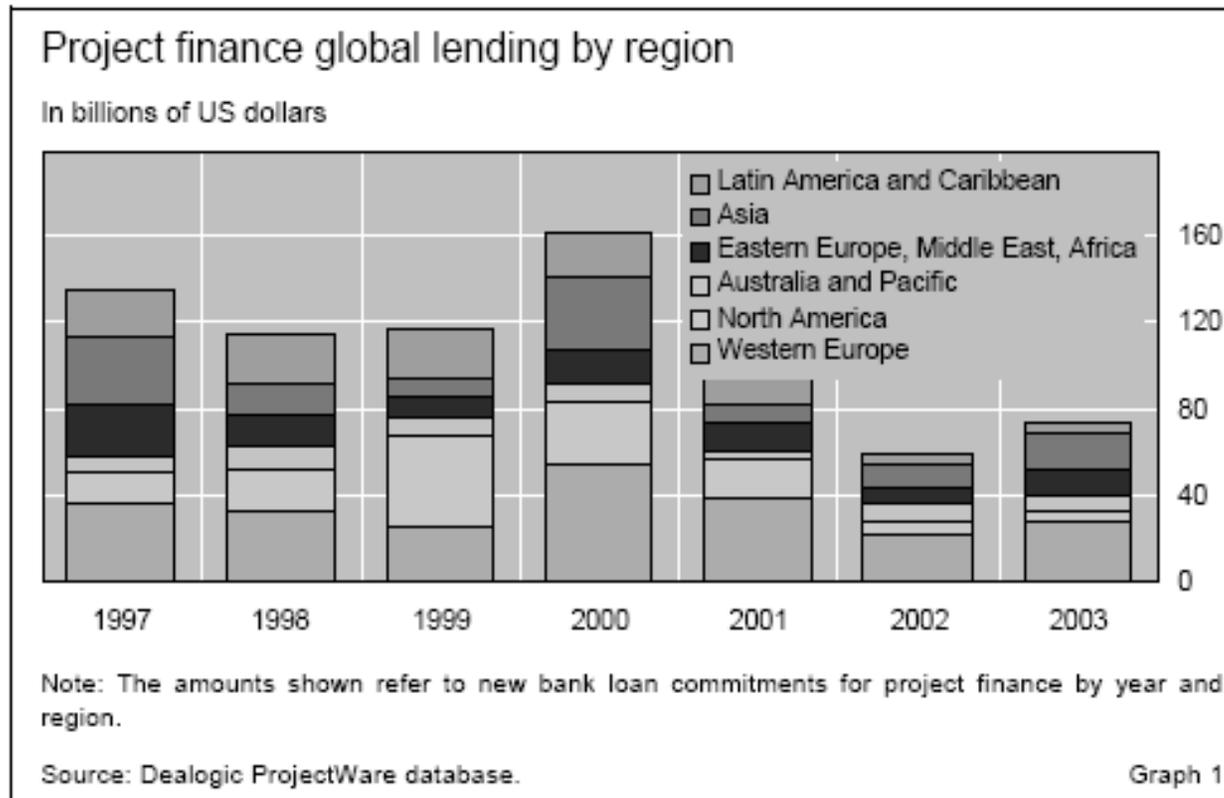


# Globalization and Project Finance

- While project finance has its origins in the natural resource and infrastructure sectors, the current demand for infrastructure and capital investments is being fueled by:
  - deregulation in the power, telecommunications, and transportation sectors;
  - by the globalization of product markets; and
  - by the privatization of government owned entities in developed and developing countries.
- Total global project financed investment grew at a compound annual rate of almost 20% through most of the 1990s and peaked at US\$217 billion in 2001. There was almost US\$200 billion in global project financed investment in 2004.



# Global Project Finance Lending



# Project Finance by Sector

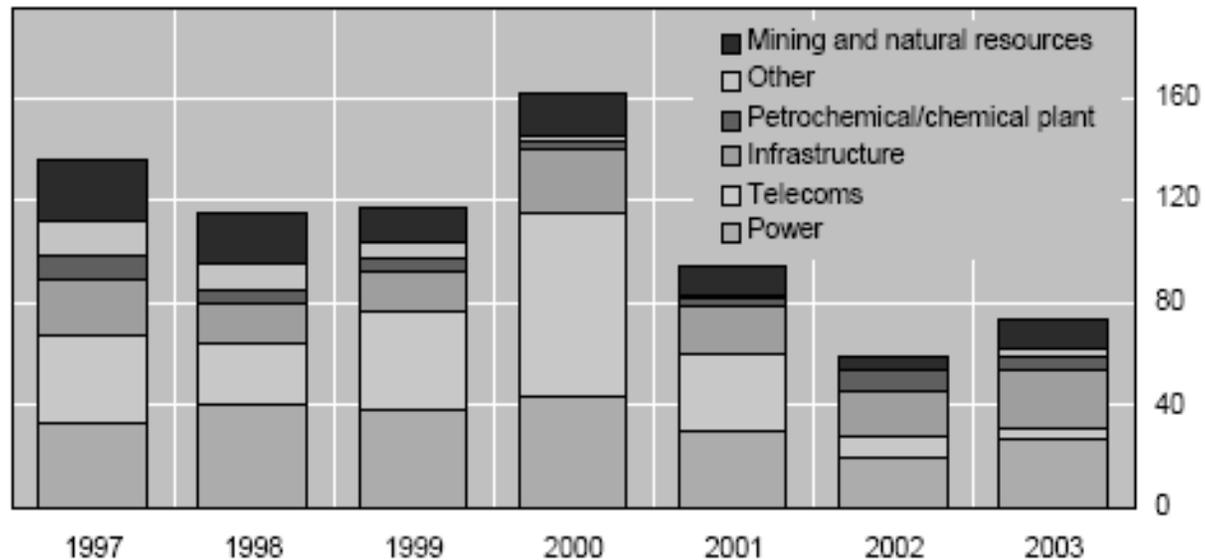
- Total project financed investment fell by 40% in 2002 due to a slowdown in the global economy combined with various regional and sectoral crises (e.g. in the US power, global telecommunications, and Argentina).



# Project Finance by Sector

Project finance global lending by sector

In billions of US dollars



Note: The amounts shown refer to new bank loan commitments for project finance by year and sector.

Source: Dealogic ProjectWare database.

Graph 2



# Future Project Financing Requirements

- However, there is a need for long-term infrastructure financing globally:
  - In US, need for between 1300 ~~1900~~ new electricity generating plants to meet growing demand over next two decades (National Energy Policy Development Group (2001)).
  - In developing countries, need for annual investments of US\$120 billion in the electricity sector until 2010 (International Energy Agency 2003)).



# Future Project Financing Requirements Trinidad and Tobago

Project Name	Sponsor	Approximate Value*
Atlantic Train IV	BP, BG, NGC, Repsol	US\$1.2 billion
Ammonia Urea Melalyne Plant	CL Energy	US\$600 million
M5000 Methanol Plant	CL Energy	US\$500 million
Cross Island Pipeline	NGC	US\$250 million
Ammonia UAN Plant	Ansa McAL/Terra	US\$450 million
Ethylene Plant	Angostura	US\$20 million
Aluminum smelter plant	Alcoa and NEC	US\$1.2 billion
Power Generation Plant 1	TBD	US\$100 million
Power Generation Plant 2	TBD	US\$380 million
Ammonia UAN Plant	Moore Family	US\$500 million
Ammonia UAN Plant	Coffeevill	US\$450 million
Petrotrin Refinery Upgrade	Petrotrin	US\$600 million
*Final figures are contingent on the completed feasibility studies and final project completion		
Project listed in red are being constructed		



# Definition of Large Scale Projects

- A Large Scale Project could be defined as a financing that exceeds the value of US\$500 million.
- These projects account for 25% of total projects and 75% of value (as a % of total projects). (Esty 2002)



# Characteristics of Large Scale Projects

- Normally have A+ rated sponsors (BP, BG, BHP, Repsol, ADM, etc.).
- Normally require funding in USD or other hard currency.
- Require large indivisible investments in a single purpose asset.
- Usually require long term financing (15 – 25 years).
- Usually require a multiplicity of myriad financial instruments.
- Usually require multiple layers of financing (debt, equity, mezzanine, EXIM, OPIC Guarantees, etc.).



# Caribbean's competitiveness in Financing Large Scale Projects

- The ability to finance large scale projects has less to do with competitiveness, as defined by ROE, ROA and efficiency ratios, **and more to do with cost of funds, capital adequacy issues and the ability to arrange and structure complex financial instruments.**



# Determinants of Caribbean financial institutions' competitiveness for funding large scale projects

- Cost competitiveness:
  - Indigenous financial institutions have to compete for mandates with institutions who have higher credit ratings – thus affording them the opportunity to offer financing to borrowers at more competitive rates.
    - Credit Rating Agencies rate financial institutions based on the credit rating of their sovereign country (economic volatility, economic diversity or lack thereof, Stock of debt and Debt burden).
    - Economies of Scale – allow for a broadened capital base to be able to fund projects.



# Factors influencing Caribbean financial institutions' competitiveness for funding large scale projects

- Availability of USD Funding
  - Local US\$ Deposit base approximately US\$1 – US\$1.2 billion vis a vis US\$500 Million in financing for a large project.
- Limitations placed by the Financial Institutions Act on Banks- :
  - In Trinidad and Tobago, for example, the Financial Institutions Act prohibits Banks from lending more than 25% of its capital base to any one entity and in the case of groups no more than 32% of its capital base.
- Average deposit life is approximately 3 years. Large projects require sometimes up to 25 years in financing.



# Factors influencing Caribbean financial institutions' competitiveness for funding large scale projects

- The restriction of the Insurance Act of relevant countries
  - Does not allow for investment in start ups which further limits and depletes available sources of funding for large scale projects.
- Emerging Financial Institutions:
  - Most projects employ an array of derivative hedging instruments (options, swaps etc.) and the local banking sector is limited in its position to offer the full array of competitively priced hedging products.
- Most sponsors have long established banking relationships and leverage those relationships with respect to projects which they are involved.



# Caribbean's Area of Expertise in Project Financing

- Projects requiring less than US\$300 million.
- Non-investment grade project sponsors.
- Payback period of less than 10 years.
- Ability to sell the facilities to institutional investors.
- Basic infrastructure financing (Toll Roads, Airports, Ports, etc) vis a vis highly complex Greenfield projects.



# RBTT Merchant Bank Limited - Highlights

- Over the past five years, RBTT Merchant Bank (RBTTMB) has structured and arranged over US\$3 billion worth in transactions in the Caribbean, Central and South American region.
- Transactions have included debt and equity private placements, securitizations and project financing bonds.
- RBTTMB's reach includes over 25 countries spanning from Bermuda to the north to Suriname to the south.
- Clients include sovereigns, utilities, top tier corporate institutions and large project sponsors.



# RBTT Merchant Bank Project Finance Highlights (St. Maarten)

- US\$ 118 million Bond Issue for Princess Juliana International Airport Operating Company Limited in St. Maarten (April '04) – Financing the expansion of the Airport.



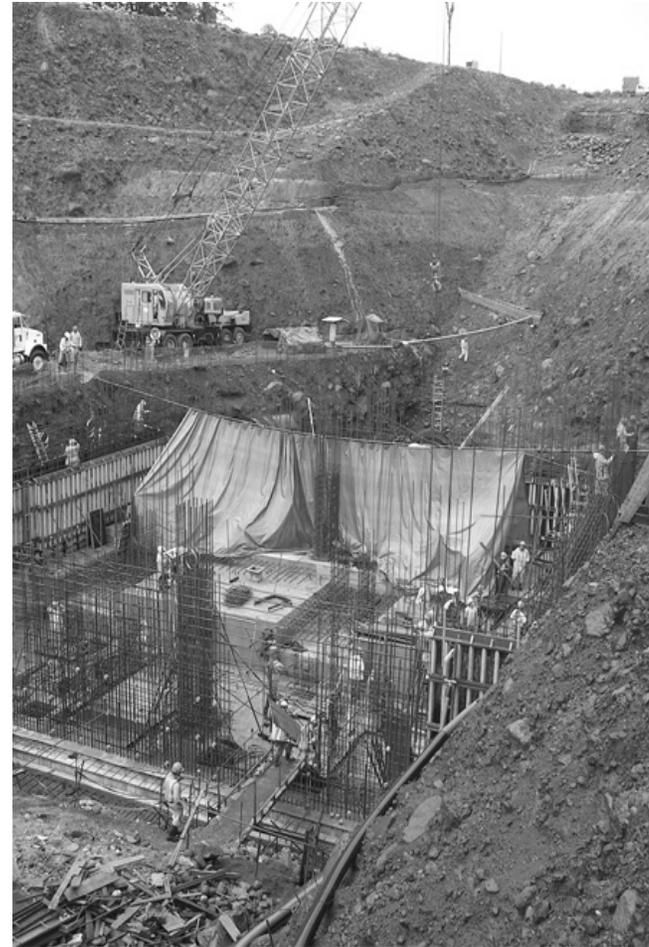
# RBTT Merchant Bank Project Finance Highlights (Jamaica)

- US\$ 130 million Bond Issue for Transjamaican Highway Limited in Jamaica (Feb '04) – Financing the construction of first toll highway in the English-speaking Caribbean.



# RBTT Merchant Bank Project Finance Highlights (Costa Rica)

- US\$ 60 million  
Syndicated Loan for  
Hidroenergia del  
General in Costa Rica  
(May '04) – Financing  
the construction of a  
40MW hydroelectric  
dam.



# RBTT Merchant Bank Project Finance Highlights (Dominican Republic)

- US\$104 Million EGE Haina Bond due 2010 (March '03)– Financing the acquisition of a multi-plant generating company in the Dominican Republic.



# RBTT Merchant Bank Project Finance Highlights (Saint Lucia)

- US\$54 million Secured Floating Rate Notes for Pigeon Point Hotel Limited (HYATT) (1999)- Construction of a 300 room up-market resort and casino.



- Thank you....

