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Refinancing Strategies for Infrastructure Projects in the GCC: Trends, Triggers, and Tools

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Kingdom of Saudi Arabia (KSA) and more broadly the Gulf Cooperation Council) GCC is undergoing a major infrastructure transformation. With Vision 2030 as a guiding force, the region is seeing a surge in public-private partnerships (PPPs), alongside a growing number of infrastructure projects moving from construction to operational phases. As these projects mature, refinancing is becoming an important strategy for developers and sponsors. It helps them lower financing costs, unlock equity, and better align debt structures with the realities of operating assets.

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This article explores the key trends, the triggers, the tools, and market conditions that enable sponsors to optimize debt structures, reduce costs, and unlock equity, while navigating regulatory, lender, and operational considerations shaping refinancing strategies in GCC's infrastructure landscape.

Why Refinancing ?

Refinancing, in context of project finance, refers to replacement of existing debt with new debt offering better terms after the project achieves Commercial Operation Date (COD) and reaches a stable operational phase. The key objectives include:

- Reducing the cost of capital with no more construction risk, improved credit profiles and lower market interest rates.
- Unlocking invested equity for sponsors to redeploy it into new opportunities.
- Extending debt tenors to match the useful operational life of project assets.
- Improving financial metrics like debt service coverage ratios (DSCR) and aligning repayment profiles with cash flow generation enhance the value of project.
- Facilitating transition from short-term construction finance to long-term stable debt by replacing higher-cost mini-perm loans with permanent financing post-COD.

In GCC, these objectives are relevant given the increasing number of operational water, power, and social infrastructure projects that were financed on a project finance basis between 2015 and 2020 and are now ripe for refinancing.

What's Driving the Refinancing Trend ?

Several factors are pushing both developers and authorities to actively pursue refinancing in the region:

1. Transition from Construction to Operation

Once a project achieves COD and demonstrates stable revenue generation, it becomes a lower credit risk as now there is no more construction risk and security profile also improved with operational project assets. This allows sponsors to replace high-margin construction-phase debt with lower-cost and long-term debt.

2. Favorable Market Conditions

Declining interest rates and strong demand from investors for infrastructure-backed securities make refinancing attractive.

3. Equity Recycling

Infrastructure investors, particularly global players in PPPs across GCC, often seek to free up equity to fund new projects or achieve internal return targets. Refinancing with enhanced debt sustainability enables partial equity take-outs without selling the project asset.

4. Regulatory Support

Regulators such as the Ministry of Finance (MoF), National Center for Privatization (NCP), and sector-specific authorities like Saudi Water Partnership Company (SWPC) and Saudi Electricity Company (SEC) are increasingly open to refinancing, provided it doesn't negatively impact tariff structures or public guarantees.

Refinancing Options: What Structures Are Being Used ?

Refinancing transactions are typically structured in one of the following ways, based on the project's stage, credit profile and sponsor objectives:

1. Bank-to-Bank Refinancing replaces existing loans with new loans from other lending banks, often offering better terms post-COD.

Example: Saudi Independent Water Projects (IWPs) have refinanced through local and regional banks.
Pros: Simpler execution, flexible documentation and quicker closure.
Cons: Prepayment penalties, interest rate risks and limited investor diversification.

2. Private Bond Placements suit stable and brownfield assets. Private placements attract institutional investors with long-term, fixed-rate funding.

Example: A GCC district cooling firm used private sukuk to refinance.

Pros: No public rating needed and long-term funding.
Cons: Requires strong documentation and market conditions can affect demand.

3. Islamic Financing and Sukuk for projects which are initially funded with Shariah-compliant debt. Refinancing these projects via Murabaha or Ijara-based sukuk ensures continuity and appeals to Islamic investors.

Example: A Saudi power plant used sukuk for refinancing, attracting investors from the UAE and Bahrain.
Pros: Attracts Islamic capital and offers flexible structuring.
Cons: Complex structuring and Shariah board approvals required.

4. Miniperm Refinancing replaces short-term to medium-term "miniperm" debt with long-term amortizing loans or market access. This structure is suitable for projects in public infrastructure and emerging sectors, such as social infrastructure projects, where long-term financing was either unavailable initially or offered at higher costs with refinancing risks.

Example: A UAE solar IPP moved from 6-year miniperm to 20-year amortizing debt.
Pros: Post-COD refinancing flexibility and improved terms.
Cons: Balloon repayment risk, higher upfront margins.

5. Multilateral and Export Credit Agency (ECA) backed Refinancing are useful in projects with foreign procurement, where ECAs offer concessional loans and risk guarantees.

Example: An Omani desalination project refinanced via ECA-backed loans.
Pros: Lower rates, long tenors and added credit protection.
Cons: Complex & lengthy approval process, currency and political exposure

Key Considerations and Challenges

1. **Lender Consent and Intercreditor Issues:** Existing loan documents may restrict prepayments or refinancing, requiring complex approvals from multiple stakeholders.

   Mitigation: Early advisor engagement, proactive lender discussions and explore partial refinancing.

2. **Government and Offtaker Approvals:** PPP contracts often require government approvals for financing changes.

   Mitigation: Detailed impact analysis, alignment with public objectives, buffer time for approvals.

3. **Interest Rate and Hedging Risks:** Changes in interest rates can reduce the gains from refinancing, and old hedging agreements might need to be closed out, sometimes at a cost.

   Mitigation: Scenario analysis, partial hedging, market timing strategies.

4. **Disclosure and Ratings Requirements:** Public market instruments need credit ratings and transparency, which can delay execution.

   Mitigation: Pre-rating assessments, use of private placements and building internal expertise or bring in advisors for smooth compliance.

Recent Trends in the Region

- **Water Sector:** Several IWPs and ISTPs in GCC have refinanced bank loans through private placements or syndications.
- **Power Projects:** IPPs under GCC frameworks are exploring sukuk options.
- **Social Infrastructure:** PPPs in health and education are integrating refinancing pathways from the outset.

Final Thoughts : Paving the Way for Smarter Infrastructure Financing

Refinancing is becoming a central feature of the evolving infrastructure finance landscape in Saudi Arabia and the GCC. For sponsors, early planning and expert advice are critical to assess options and optimize structures. For governments, enabling predictable refinancing processes can unlock new capital, drive efficiency, and deepen the regional capital market.

As the GCC shifts towards more complex infrastructure financing, a mature refinancing environment will support continued investment and sustainable development across the region.

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