

The Determinants of The Loan Spread in The Infrastructure Sector and Development Role Of
Project Finance: Experience Of The ASEAN Four Countries

Abstract

The objective of this paper is investigating the the critical risk and return attribution factors as well as the deregulation effect behind the project finance loan spread and project interest rate differential across the ASEAN-4 countries. In order to address the research questions: (i) what are the cross-countries determinants of the project finance loan spread over the London Interbank Offered Rate (LIBOR)? (ii) what is the cross-countries determinants of the project finance loan interest rate charged on the project? This paper finds that in ASEAN-4, the micro loan characteristics: Loan size and LIBOR whilst the macro characteristics: inflation, net export and GDP growth influence the loan spread in the project finance. However, simultaneously at the country level, the determinants of the loan spread are distinctive to each country's infrastructure industry characteristic.

Hence, the policy makers, project developers and lenders can have a better understanding of the drivers behind the project finance loan spread and project interest rate pricing. This paper will provide contribution to the academic literatures through, based on the literatures review and best of our knowledge, (i) it is the first paper to investigate the determinant of the loan margin and interest rate at the cross-countries level and specific regional level, in the ASEAN-4, due to the lack of the availability of the project finance data particularly the loan margin. By dissecting the analysis at the country level, the distinctive characteristics at the country level relative to the aggregated level emerge; (ii) insights to

policy makers on the policy implication on how to reduce the loan pricing: margin and project interest rate charged on the project finance, hence, to reduce the total project cost.

Keywords: Project interest rate, IPP, LIBOR, loan spread, private sector participation, project finance.

