BCA PERSPECTIVES · THE THREE QUESTIONS · PART 2 OF 3

Bankable to Whom: the case for capital under realistic stress

Bankability is not a property a project has. It is a case you make — to a named investor, at definable terms, under a credible downside.

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"Is it bankable?" is one of those questions that sounds precise and is not. Bankability is not a fixed property a project either has or lacks, like a licence or a title deed. It is a case — one you make, to a particular kind of investor, at terms you can actually name, under a downside you are prepared to defend. Change the investor and the terms and the same project can be bankable in one sentence and unbankable in the next.

This matters because the loose version of the question produces loose work. A sponsor asks whether their project is bankable; an obliging adviser says yes; and everyone proceeds as though a fact has been established, when all that has really happened is that one optimist has agreed with another. The disciplined version is harder and far more useful. Bankable under what stress? Bankable to whom? Bankable at what price?

Under stress, not in sunshine

The first discipline is to test the project against a credible bad case rather than the sponsor's good one. Almost every financing model looks comfortable in its Base Case; that is what a Base Case is for. The thing that decides whether capital actually shows up is whether the cash flows still cover the debt when the assumptions turn — when the currency slides, when a counterparty pays late, when a tariff is reopened. A project that services its debt only in sunshine is not bankable. It is merely exposed.

Bankability, properly understood, is the case for capital under realistic stress. Everything else is decoration.

Around that core sit four further tests, and a project must clear all of them. Are the risks allocated to the parties able to bear them, and contracted to do so — rather than left to accumulate quietly on the project company? Is the security package genuinely enforceable in the place it would have to be enforced, or only impressive on paper? Is there a real, named investor whose mandate this actually fits? And is there a credible way out — an exit, or a refinancing — at the end of the tenor? Fail any one, and the project is not bankable in its current form.

FIGURE 1

The five tests — all of which must hold

1. **Cash flow under a credible bad case** — Do the cash flows still service the proposed debt at the cover ratio the sector demands when the assumptions turn — not merely in the Base Case?
2. **Risk allocated to those who can bear it** — Are the project's risks contractually placed with the parties able to carry them, rather than left to accumulate on the project company?
3. **An enforceable security package** — Is the security genuinely enforceable in the jurisdiction where it would have to be enforced — registrable, perfected, and comprehensive?
4. **A real, named investor** — Is there an actual investor archetype whose mandate this fits, at terms you can state, rather than a hopeful appeal to "the market"?
5. **A credible way out** — Is there a defensible exit or refinancing at the end of the tenor, or does the structure simply assume one will appear?

FAIL ANY ONE, AND THE PROJECT IS NOT BANKABLE IN ITS CURRENT FORM

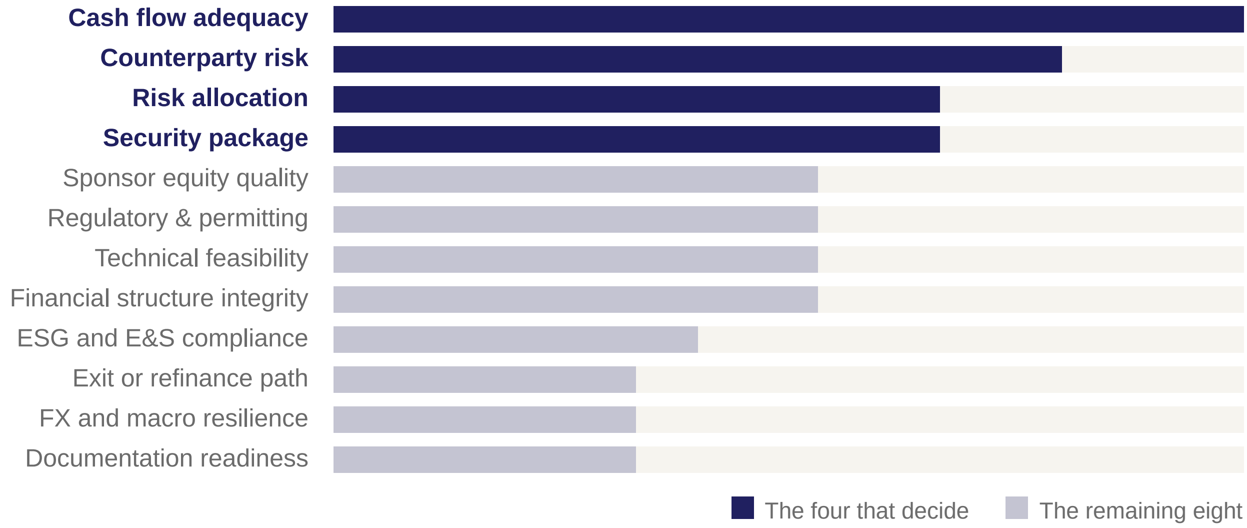
These do not vary by sector. Only the evidence that satisfies them, and the instruments available to fix them, change between a gas plant, a housing scheme and a mining concession.

A number you can take apart

We express the result as a single composite index, because one number forces a decision and travels well between people. But the number is only ever as good as its parts, and its value lies in being decomposable — into a set of weighted pillars, and beneath them into the evidence, graded tier by tier. Four of those pillars — cash flow, counterparties, risk allocation and security — carry close to half the total weight between them, because in our experience they are where deals are genuinely won and lost. The rest matter, but they seldom decide.

FIGURE 2

Twelve pillars, and where deals are actually won and lost



The floor rule. A single fatal weakness cannot be averaged away by strength elsewhere. Below a certain point on the things that matter most — cash-flow cover above all — the headline index is capped, whatever the weighted arithmetic would otherwise allow.

Bar length shows each pillar's share of the composite index. The first four carry close to half the total weight between them, which is a statement of experience rather than of theory: these are the pillars that decide.

There is one rule I would keep even if I kept no other: a single fatal weakness cannot be averaged away by strength elsewhere. A project with no cash-flow cover, or no enforceable title, does not become respectable because its sponsor is impressive and its market is large. The index carries floors for exactly this reason — below a certain point on the things that matter most, the headline number is capped, whatever the arithmetic would otherwise permit.

From nearly to yes

Most projects worth the work arrive neither bankable nor hopeless. They arrive close — conditionally bankable, a few defined interventions short of a yes. The craft at that point is not to reach for the heaviest available restructuring, but to match each specific gap to the lightest intervention that closes it: a payment guarantee here, a reserve account there, a firmer completion undertaking, a local-currency tranche. Heavier interventions cost more — in fees, in time, in the equity a sponsor must surrender — and a good structurer spends a sponsor's flexibility as carefully as their cash.

FIGURE 3

Match the gap to the lightest thing that closes it

Lightest	A payment letter of credit or escrow account against a shaky counterparty. A debt service reserve. A documentation-completion plan with a calendar. Conditions precedent and subsequent doing the work a restructuring would otherwise have to do.
Middleweight	Performance bonds and liquidated damages on the contractor. A completion support deed or standby equity undertaking from the sponsor. An independent engineer's review. A local-currency tranche against macro exposure.
Heaviest	Restructuring the capital stack outright: a mezzanine layer, tranched debt, reduced leverage, fresh sponsor equity. Effective, expensive, and dilutive — the last resort, not the opening move.

HEAVIER DOWN THE PAGE — MORE IN FEES, MORE TIME, MORE EQUITY SURRENDERED

The menu is finite and mapped gap by gap to the pillar it repairs; the grouping by weight here is indicative. The craft is restraint — a good structurer spends a sponsor's flexibility as carefully as their cash.

Readiness and fundability, then: is the sponsor ready, and is the project fundable — two questions, asked in that order. What remains is the discipline that keeps them in order: that refuses to let the second be answered before the first, and refuses to let either be skipped because a deadline is near. That discipline is the subject of the final piece.

THE THREE QUESTIONS — A THREE-PART SERIES

Part 1 · Is the sponsor ready?

Part 2 · Is the project fundable? *(you are here)*

Part 3 · What do we do next?

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