

Project Financed Investments, Debt Maturity and Credit Insurance

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Abstract

This paper studies the impact of credit insurance on both investment and financing decisions of project financed companies. Although, financial guarantees have been portrayed in the extant literature as tools for credit insurance to foster investments, there are other implications for the use of these guarantees, especially for project finance requiring huge amounts of investment. We find that under the value maximizing paradigm, the presence of credit insurance can exacerbate the under-investment problem. We also discuss the effects of guarantee subsidy, agency costs and risk on project investment incentives. Finally, our framework establishes a relationship between the project debt maturity and its investment incentives.

Keywords: Investment incentives, Credit insurance, Debt maturity structure, Project finance. *JEL Classification:* G11, G14, G31, G38.

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