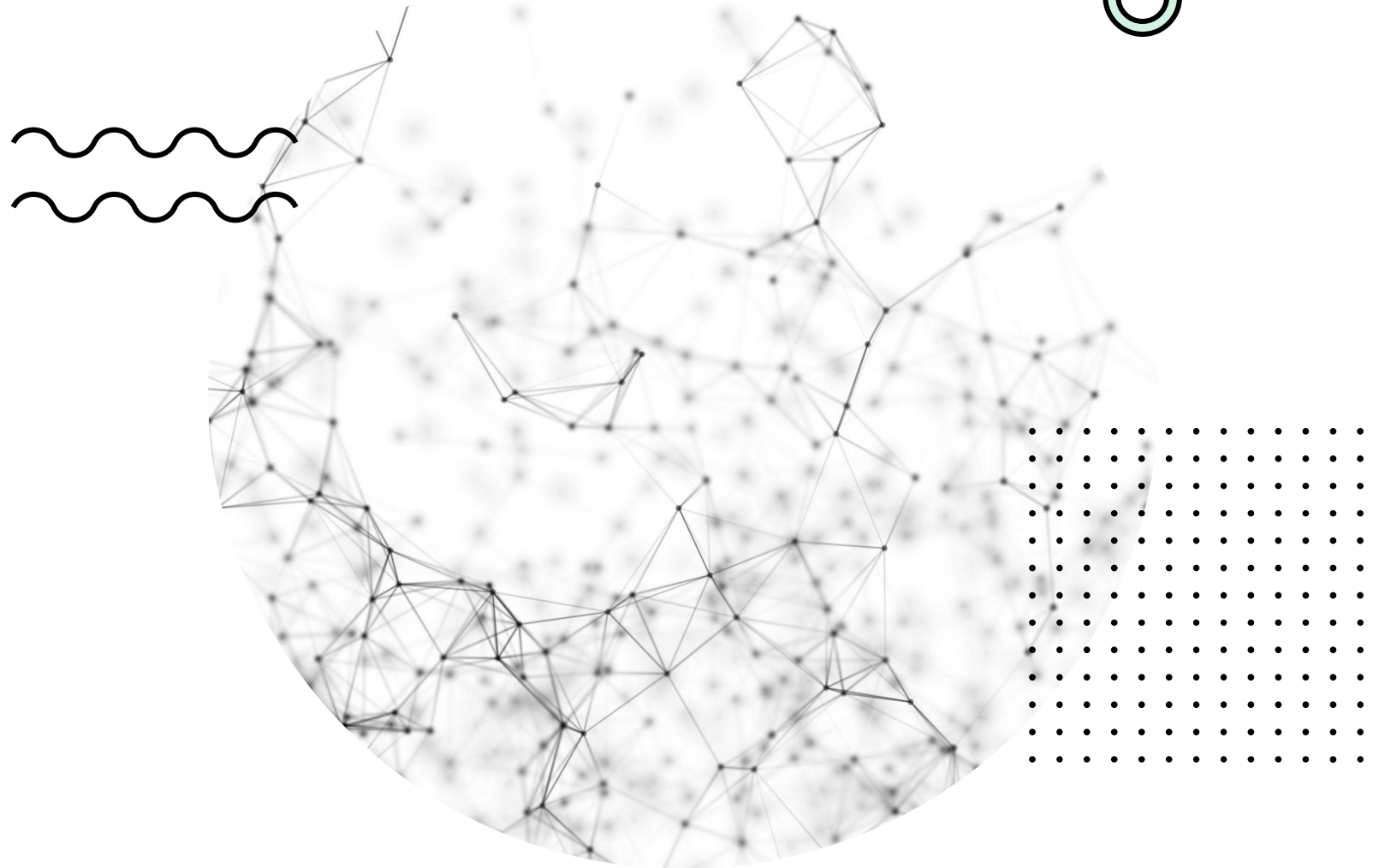


VESSEL FINANCE

M E T H O D O L O G Y
A N D
I N N O V A T I O N S

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Global Economic Trends And Shipping Industry

The shipping industry in 2023 has navigated a complex landscape shaped by economic, regulatory, and technological trends. Shipping companies have had to be agile, adapting their financing strategies to manage the higher costs associated with interest rate rises, invest in green technologies to comply with environmental regulations, and adjust operational strategies in response to shifting trade patterns and economic uncertainties. This dynamic environment underscores the importance of strategic financial planning and risk management in the shipping industry.





The impact of global economic trends on ship financing

The impact of global economic trends on ship financing is multifaceted and significant, reflecting the highly cyclical and capital-intensive nature of the shipping industry. Below are some key ways in which global economic trends can affect ship financing:

- **1. Interest Rates**
- **2. Economic Growth and Trade Volumes**
- **3. Currency Fluctuations**
- **4. Global Trade Policies**
- **5. Environmental Regulations**
- **6. Technological Advancements**
- **7. Risk Appetite of Lenders**





Interest Rates

- **Direct Impact:** Fluctuations in global interest rates, influenced by central bank policies, directly affect the cost of financing for shipping companies. Lower interest rates can reduce the cost of borrowing, making ship financing more affordable and potentially stimulating investment in new ships or the refurbishment of existing fleets. Conversely, **higher interest rates increase financing costs, which can deter investment and lead to a slowdown in fleet expansion or upgrades.**
- **Market Sentiment:** The anticipation of interest rate changes can also influence market sentiment and financing decisions, with shipping companies possibly accelerating or **delaying investment decisions based on interest rate forecasts.**
- **Example:** Throughout 2023, global central banks, including the U.S. Federal Reserve and the European Central Bank, have been adjusting interest rates in response to inflationary pressures. For shipping companies, this has meant **navigating a landscape where the cost of new loans for ships and refinancing existing debt has become more expensive**, impacting their operational costs and investment capabilities.





Economic Growth and Trade Volumes

- **Demand for Shipping Services:** Global economic growth drives demand for goods and, consequently, the demand for shipping services. An increase in **trade volumes generally leads to higher freight rates**, improving the revenue potential for shipping companies and enhancing their ability to secure financing.
- **Sector-specific Effects:** Different segments of the shipping industry (e.g., container ships, bulk carriers, tankers) may be affected differently based on the nature of the goods they transport. For example, an economic boom in China could significantly increase demand for raw materials, benefiting bulk carriers.
- **Example:** Despite concerns over global economic slowdowns, certain regions and trade lanes have shown resilience or growth. For instance, **trade between Asia and North America has seen fluctuations due to changing consumer demand and supply chain adjustments post-pandemic**. This uneven recovery has led shipping companies to strategically finance and deploy their fleets to capitalize on the most profitable routes.





Currency Fluctuations

- **Exchange Rate Risk:** Since ship financing often involves multiple currencies (e.g., borrowing in USD, earning revenue in EUR), fluctuations in exchange rates can have a **significant impact on the cost of financing and repaying loans**. Currency hedging strategies become crucial in managing this risk.
- **Example:** The U.S. dollar's strength in 2023, **driven by higher interest rates and economic policies, has had a dual effect**. It increased the cost of dollar-denominated financing for non-U.S. based shipping companies but also affected international trade patterns, influencing freight rates and, subsequently, shipping companies' revenue streams and financing needs.
- **Fact:** The difference between SOFR rate and EURIBOR rate for getting finance





Global Trade Policies

- **Tariffs and Trade Agreements:** Changes in global trade policies, including the imposition of tariffs or the signing of trade agreements, can alter trade routes and volumes, impacting the demand for shipping capacity and, by extension, ship financing. Trade tensions can lead to uncertainty and volatility, affecting lenders' willingness to finance new projects.
- **Example:** Ongoing trade tensions and negotiations, such as those **between the U.S. and China**, have created uncertainties but also opportunities. Tariffs and trade agreements have led to **shifts in trade routes, affecting demand for various types of shipping services** (e.g., container shipping vs. bulk carriers) and influencing **financing decisions** based on expected future demand.





Environmental Regulations

- **Compliance Costs:** The shipping industry is increasingly subject to stringent environmental regulations aimed at **reducing emissions and protecting marine ecosystems**. Compliance with these regulations can require significant investment in new technologies or the acquisition of newer, more environmentally friendly vessels, impacting financing needs and strategies.
- **Example:** The International Maritime Organization (IMO)'s push for reducing greenhouse gas emissions has accelerated the transition towards more environmentally friendly ships. In 2023, companies are increasingly investing in alternative fuel technologies, like LNG-powered and electric ships, which require significant capital outlays. Financing these ventures has become a critical focus, with a **mix of traditional bank loans, green bonds, and government subsidies**.





European Union Regulations and Carbon Emissions

Forthcoming EU rules will compel most maritime banks to measure and report the carbon emissions of their loan portfolios, which is expected to reduce the overall emissions associated with each bank's lending activities. Currently, a bank's carbon liability is linked to its financial exposure to a ship.



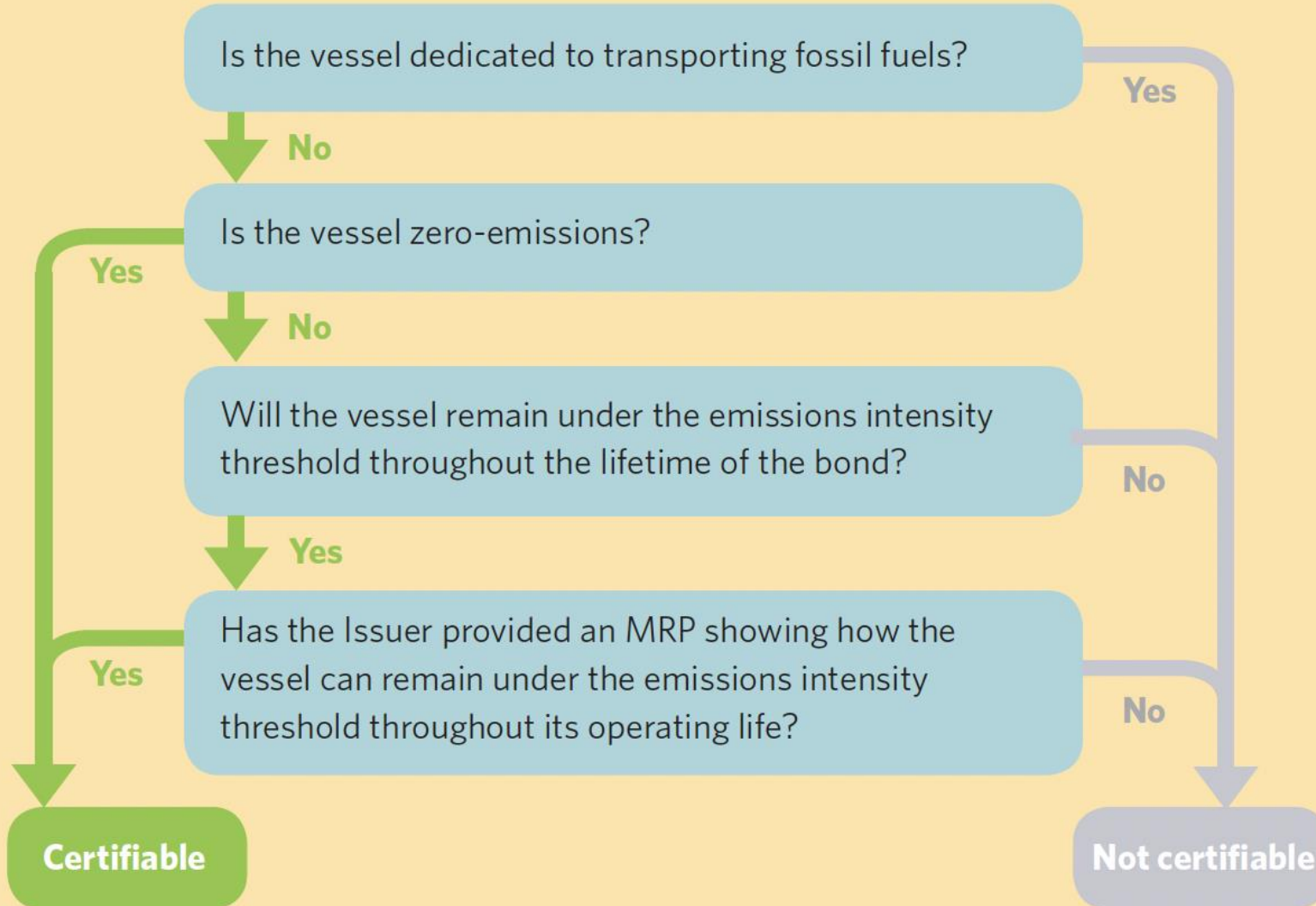


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Summary of the Criteria

Figure 1 below provides an overview of the eligibility criteria for certifying a vessel under the Climate Bonds Standard and Certification scheme.



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Role of Financial Institutions In Green Financing

Traditional commercial banks continue to offer loans to shipowners, sometimes with less focus on ecological aspects, at rates comparable to those of Poseidon Principles banks. Balancing the financial benefits of lower rates for green financing against the potential profits from non-green projects.

Banks can influence a company's sustainability journey by including environmental and social KPIs into loan contracts, helping to manage and mitigate risks and increase overall sustainability performance of the company. To ensure success, it is important for companies involved to be transparent in their reporting of compliance with sustainability targets.





Technological Advancements

- **Innovation and Efficiency:** Technological advancements can lead to more efficient and environmentally friendly ships, potentially offering cost savings over the long term. However, they also require substantial initial investment, influencing financing decisions and availability.
- **Example:** Advancements in ship design, propulsion technologies, and digitalization offer efficiencies and cost savings but require upfront investment. In 2023, shipping companies have been exploring **innovative financing solutions**, including leasing arrangements and technology-specific financing pools, to support these investments.





Risk Appetite of Lenders

- **Cyclical Nature of Shipping:** The cyclical nature of the shipping industry, with its boom and bust cycles, affects the risk appetite of financial institutions and investors. During downturns, financing can become scarce as lenders tighten credit conditions, while in upturns, more financing options may be available.
- **Example:** The cyclical downturns experienced in certain segments of the shipping market (e.g., the tanker market due to fluctuating oil prices) have influenced lenders' risk appetite. In response, alternative financing sources, including private equity and maritime-focused investment funds, have become more prominent, offering capital to shipping companies for fleet expansion or modernization projects.





Conclusion

Ship financing is closely linked to global economic trends, with changes in interest rates, economic growth, trade volumes, and regulations all playing critical roles. Shipping companies must navigate these complexities by closely monitoring economic indicators, diversifying their financing sources, and adopting flexible strategies to manage risks and capitalize on opportunities.





Role of PPPs in Maritime Infrastructure

The maritime sector includes ports, shipping, coastal and waterway transport, and maritime services. In this sector, PPPs are used to:

Develop and expand port facilities and services.

- ❖ Enhance maritime transport infrastructure, including terminals and logistics centers.
- ❖ Improve efficiency through advanced technology and management expertise from the private sector.
- ❖ Foster innovation in sustainable and green maritime infrastructure.



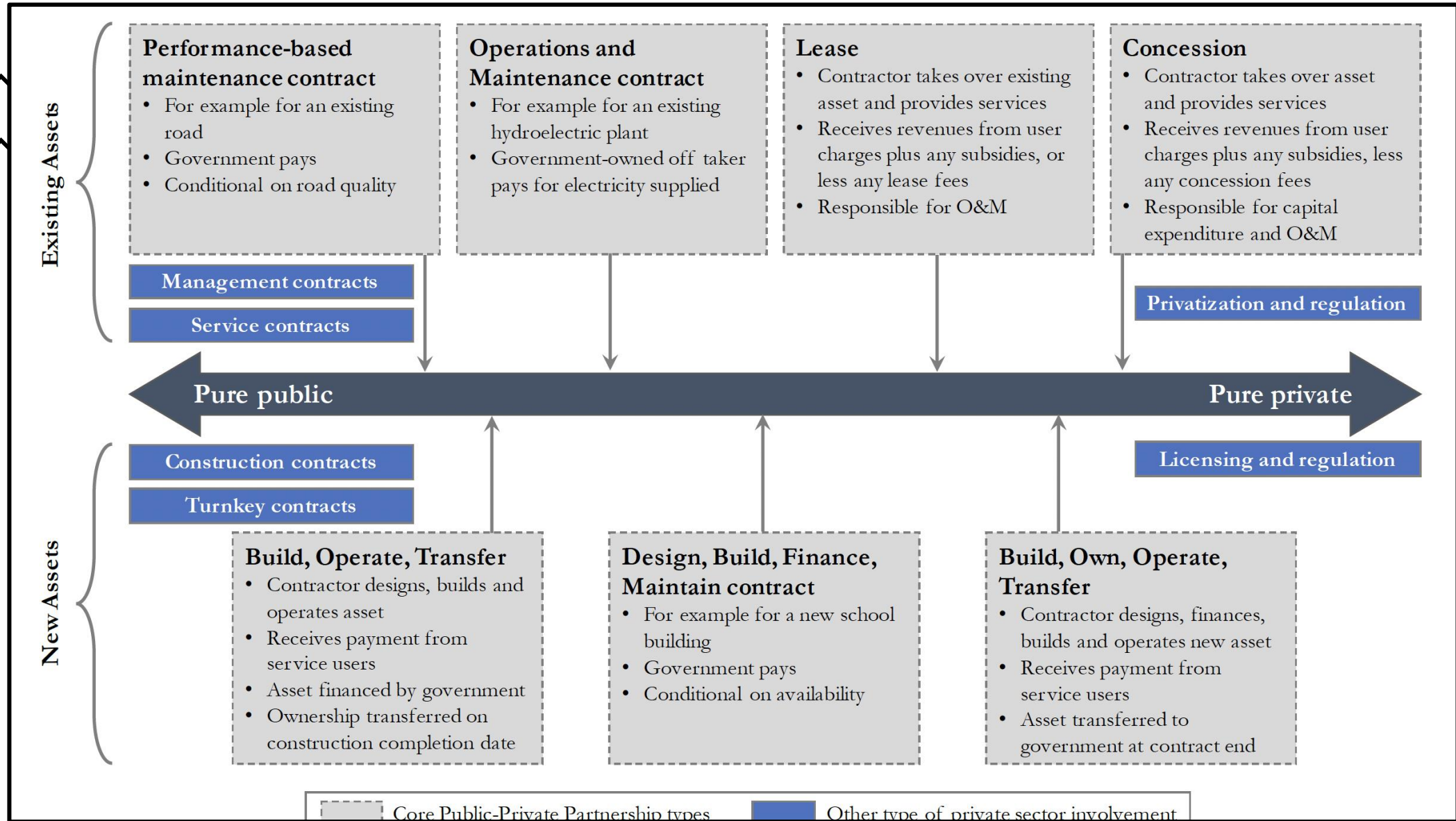
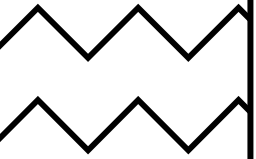
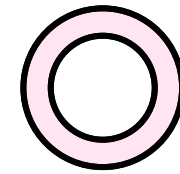


Definition of PPPs

PPPs are contractual agreements formed between public and private sector partners. These agreements typically involve the private sector in some combination of designing, building, financing, operating, and maintaining public infrastructure facilities. The essence of PPPs lies in the sharing of investment, risk, responsibility, and reward between the partners.



Examples of different PPP contracts categorized by infrastructure asset involved (PPIAF)



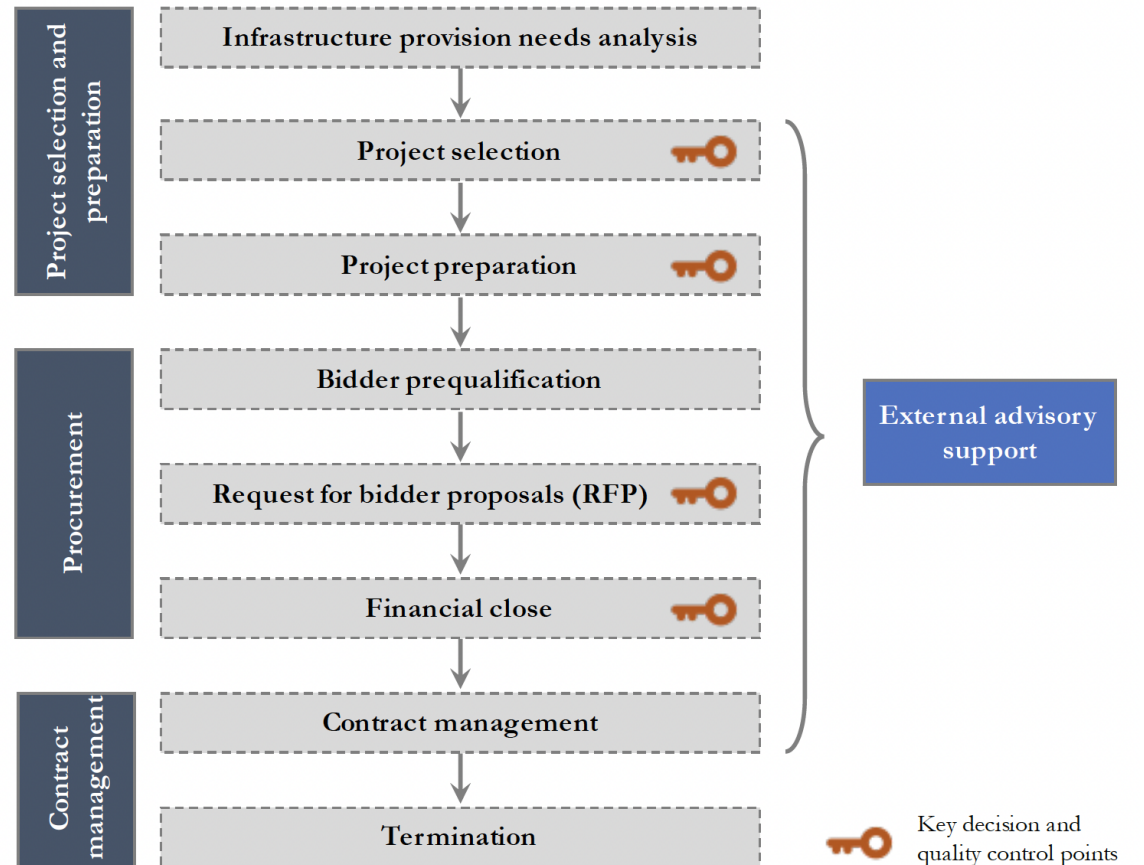
Overview of typical Public-Private Partnership life cycle (PPIAF)

From the viewpoint of the government, the PPP life cycle can be divided into the three main phases:

(1) *Project selection and preparation: Definition of priorities and aims of possible PPP program. Identification, evaluation and selection of projects. Preparation of PPP engagement, including definition of responsibilities as well as performance and financing measures.*

(2) *Procurement: Issuance of tender notice with pre-qualification criteria, short-listing of bidders, selection of winning bidder and closure of contract.*

(3) *Contract management: Facilitation of communication amongst parties. Supervision of fulfillment of contractual responsibilities of private party. Application of relevant remedies or penalties. Termination of contract.*





Strategic Importance

High Capital Requirements: Maritime infrastructure projects, such as port expansions, modernization, and connectivity enhancements, require significant capital investment. PPPs mobilize resources from both the public and private sectors, making these large-scale projects feasible.

Technological Advancements: The maritime sector is increasingly reliant on technology for operations efficiency, security, and environmental sustainability. Private partners often bring cutting-edge technology and expertise, driving innovation in public maritime infrastructure projects.

Global Trade Facilitation: Modern, efficient maritime infrastructure is crucial for global trade. PPPs contribute to the development of world-class facilities that support international trade, enhancing a country's competitiveness.





Risk and Reward Sharing

- The partnership between public and private entities in maritime projects is based on a **strategic allocation of risks and rewards**:
- **Efficiency in Risk Management:** Risks are allocated to the party **best able to manage them**. For example, construction risk might be borne by the private sector, which has the expertise to mitigate such risks, while demand risk might be shared or managed by the public sector.
- **Incentivization:** The private sector's return on investment is often linked to performance metrics, incentivizing efficiency, quality, and timely completion of projects.
- **Sustainability and Longevity:** Shared responsibility encourages the development of projects that are not only financially viable but also sustainable and beneficial to the public in the long term.





Case Study

1. Port of Miami to the



Port of Miami to the





Future Trends

The future of PPPs in maritime infrastructure is shaped by evolving challenges and opportunities:

- **Sustainability:** There's a growing emphasis on environmentally sustainable projects. Future PPPs are likely to prioritize green technologies, pollution reduction, and resilience against climate change.
- **Digitalization:** The digital transformation of maritime infrastructure, including automation and data analytics, is becoming central. PPPs will be instrumental in integrating digital technologies to enhance efficiency and security.
- **Global Regulations and Standards:** Adapting to international regulations, such as those related to emissions and safety, will be a key consideration for future projects, requiring innovative solutions and investments.
- **Flexibility and Resilience:** The COVID-19 pandemic highlighted the need for infrastructure that can adapt to changing circumstances. Future PPPs will need to design for flexibility and resilience, accommodating fluctuations in global trade patterns.



Most Promising P2P Lending and Crowdfunding Platforms in the Baltics



For Maritime Vessel

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Europe's Top 11 Peer-to-Peer Lending Platforms





Accessibility: Crowdfunding and P2P lending platforms democratize access to finance, allowing **maritime businesses of all sizes to connect directly with a global pool of investors**. This broadens the funding base beyond institutional lenders, **enabling SMEs, startups, and individuals with innovative projects to secure the capital needed to purchase vessels**, upgrade equipment, or launch conservation and research initiatives. By lowering the barriers to entry, these platforms can spur growth and innovation within the maritime sector.

Diversification: These platforms offer a diversified source of funding by tapping into a wide array of investors, from maritime enthusiasts and **environmental advocates to retail and institutional investors** looking for new opportunities. Diversification **reduces dependence** on traditional bank loans and can provide more stable funding across economic cycles. For investors, crowdfunding and P2P lending in maritime projects offer a unique opportunity to diversify their portfolios into a sector that has traditionally been difficult to access, potentially spreading risk and uncovering new growth areas.





Flexibility: Crowdfunding and P2P lending platforms provide a flexible financing framework not commonly found in traditional lending. They allow **project owners to set terms that align with their project's cash flow, objectives, and timelines**. For instance, repayment schedules can be structured to match the seasonal or project-specific revenue streams of maritime operations. Moreover, these platforms facilitate various funding models (equity, debt, rewards, or donation-based), giving project owners the ability to choose the one that best fits their project's needs and appeal to the right set of investors.

Innovation and Community Engagement: Beyond financial transactions, crowdfunding platforms offer the added benefit of marketing and community engagement. They **allow project owners to share their stories, connect with supporters, and build a community around their maritime projects**. This can be particularly valuable for initiatives focused on sustainability, heritage conservation, and technological innovation, where community support and visibility are crucial for success.





Challenges and Considerations

It's important to note that successfully funding a maritime finance project through crowdfunding or P2P lending **requires a compelling narrative, a clear goal, and often, a tangible reward or return for backers or lenders.** The regulatory landscape for financing vessels is also complex, involving safety, environmental, and commercial regulations that may impact the feasibility and structure of such financing projects.

Maritime-Specific Funding Platforms

Navisyo: A platform that **allows individuals to invest in or directly finance maritime ventures,** focusing on smaller, private boating experiences and yacht sharing. While not exclusively a lending platform, it represents a move towards more accessible maritime investment opportunities.

Boatsetter: While primarily a boat rental and sharing service, Boatsetter also offers financing options through partnerships, showing how maritime economic activities are increasingly supported by innovative funding solutions.





Used for Maritime

PROSPER

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hope related to maritime endeavors. It offers
ng innovative marine products, environmental



4. **GoFundMe:** This platform is typically associated with personal funds, especially in situations requiring urgent financial support, such as medical emergencies, professionals, and preservation of maritime heritage.



Kickstarter and Indiegogo Projects

Innovative Marine Products: Many entrepreneurs have turned to Kickstarter and Indiegogo to fund the development and production of innovative marine products. These can range from eco-friendly boat cleaning products to advanced navigation systems designed for small vessels. While these projects might not finance the vessels themselves, they play a crucial role in the broader maritime ecosystem.

Maritime Conservation Projects: Crowdfunding platforms have been used to fund various marine conservation efforts, such as coral reef restoration projects, ocean cleanup initiatives, and wildlife protection campaigns. These projects often appeal to a wide audience concerned about environmental sustainability.





GoFundMe Campaigns

Restoration of Historic Vessels: There have been successful campaigns on platforms like GoFundMe to restore historic ships and boats. These projects often resonate with local communities and history enthusiasts who are eager to preserve maritime heritage.

Support for Maritime Communities: In the aftermath of natural disasters affecting coastal and maritime communities, crowdfunding campaigns have provided a mechanism for raising funds quickly to support repairs, recoveries, and financial aid for those affected.





Prosper and Other P2P Lending Specialized Funding Initiatives

Personal Loans for Maritime Ventures: While Prosper and similar P2P lending platforms do not specifically cater to maritime projects, individuals have used personal loans obtained through these platforms to finance maritime-related ventures. This could include purchasing small vessels for commercial use or investing in upgrades for existing maritime businesses.

Crowdfunding for Research Vessels: Academic and research institutions have occasionally turned to crowdfunding to finance research expeditions or the acquisition and outfitting of research vessels. These campaigns often emphasize the scientific and educational benefits of the projects.

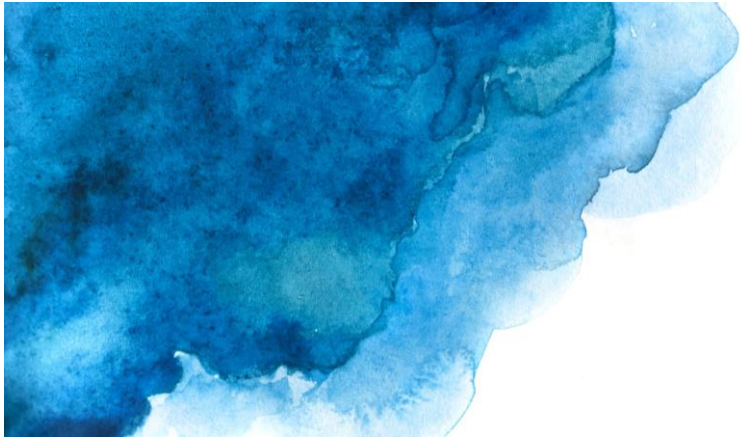




Conclusion

In conclusion, crowdfunding and P2P lending platforms are poised to offer a more inclusive, diversified, and adaptable financing landscape for the maritime sector. By embracing these platforms, the industry can unlock new growth opportunities, foster innovation, and engage a broader community in maritime ventures. This evolution in financing mechanisms aligns with broader trends towards digitalization and democratization of finance, promising to reshape how maritime projects are funded in the 21st century.





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