Financial Obligations, Guarantees and Assurance Schemes

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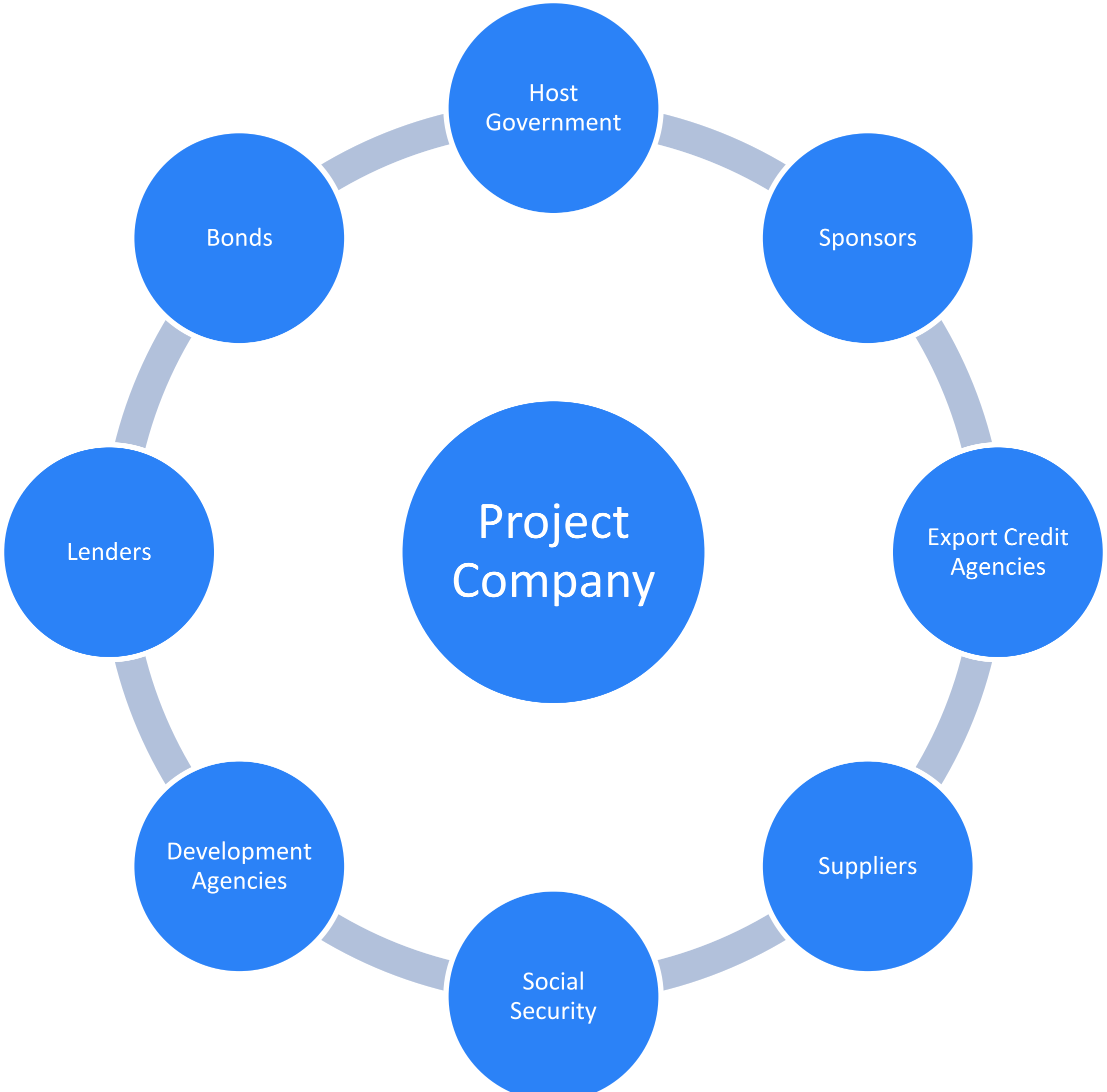
Topic Content

- Financing Parties
- Finance Sources
- Assurance schemes

Parties Providing Finance



Each project has its own financiers and documents crafted specifically for it

Finance Sources 1/

1- Sponsors: Sponsors are responsible for part of the finance in terms of equities, equity bridges and/or subordinated loans and may be loans.

A- Equities: the ratio shall be not less than 10% of the Construction cost.

The request for proposal and instruction to bidders shall specify:

- the minimum equity ratio (15-25)% (this ratio shall be maintained during the whole life of the project)
- minimum share per sponsor or shareholder (to avoid complexity and risks)
- equities shall not be transferred or sold to other parties without approvals and only after project construction completion (commitment and risk issues)

B- Loans: either subordinated or pure loans and equity bridges may be part of the equity during construction only. This reduces project overall cost

Finance Sources 2/

2- Lenders: These may be commercial banks or financial institutions. They shall be responsible for providing the rest of the construction capital cost. As the risk taken by the lenders/banks is only the government's credit risk in many cases, they request that many agreements and securities are assigned to them, including the step-in right in many cases

3- Government/ Owner: Government may contribute to the project cost with certain amount either fixed or percentage – Grant Component. This will:

- Act as "Anchor Tenant" to attract private sector investors and lenders
- Give leverage to private sector investment / funding, (advisable to provide 20-50% of the Project Costs, with up to 80% from both Investors and Lenders)
- Reduce the services cost during the whole life of the project

Finance Sources 3/

4- Suppliers: in some projects (oil and gas mainly). Rarely, the suppliers of construction materials are engaged in project finance. But in such case, suppliers would require higher cost for the material because of the deferred payments.

5- Export Credit Agencies: they are involved by way of :

- political risk insurance that may not be available from the insurance market
- interest rate support
- direct lending by the government or the sponsors
- commercial risk insurance

Although this provides lower rates, it requires a sovereign guarantee that may add or affect the borrowing capacity or rating of the government.

6- Social Security: many countries encourage the pension funds in project finance for two main reasons: Lower currency risk and profit opportunities

Finance Sources /4

7- Bonds: Bonds offer long term, long repayment profile and fixed rates which make the bonds attractive. Bondholders share the risks especially in case of defaults.

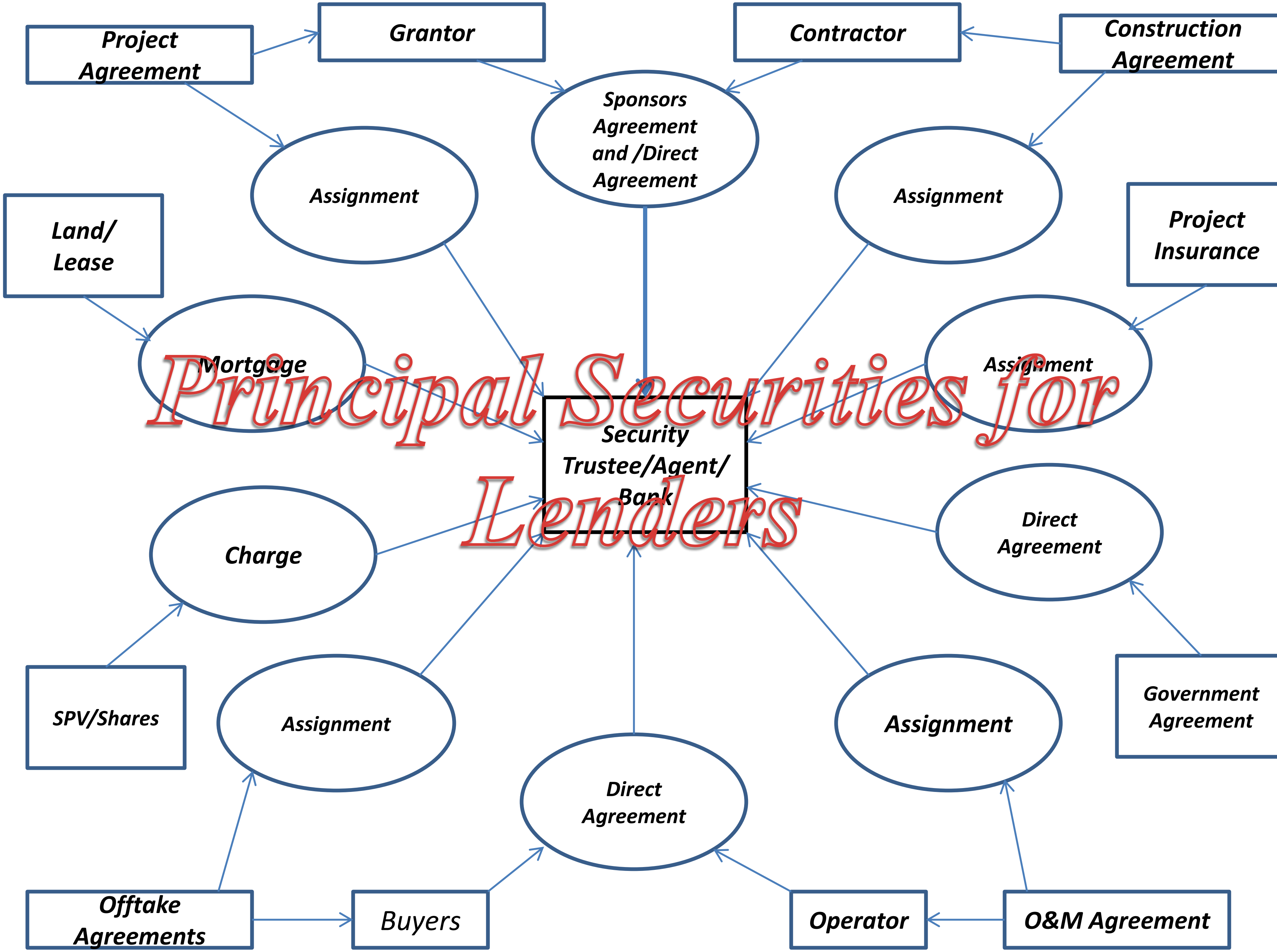
Difficulties, conflict with lenders and the small appetite restrict the bonds issuers, thus, bonds would be a viable option <u>after</u> the project completion.

Bonds payment structure is in one large sum at closing! This does not fit the project needs for periodic withdrawals against milestones and may increase the cost.

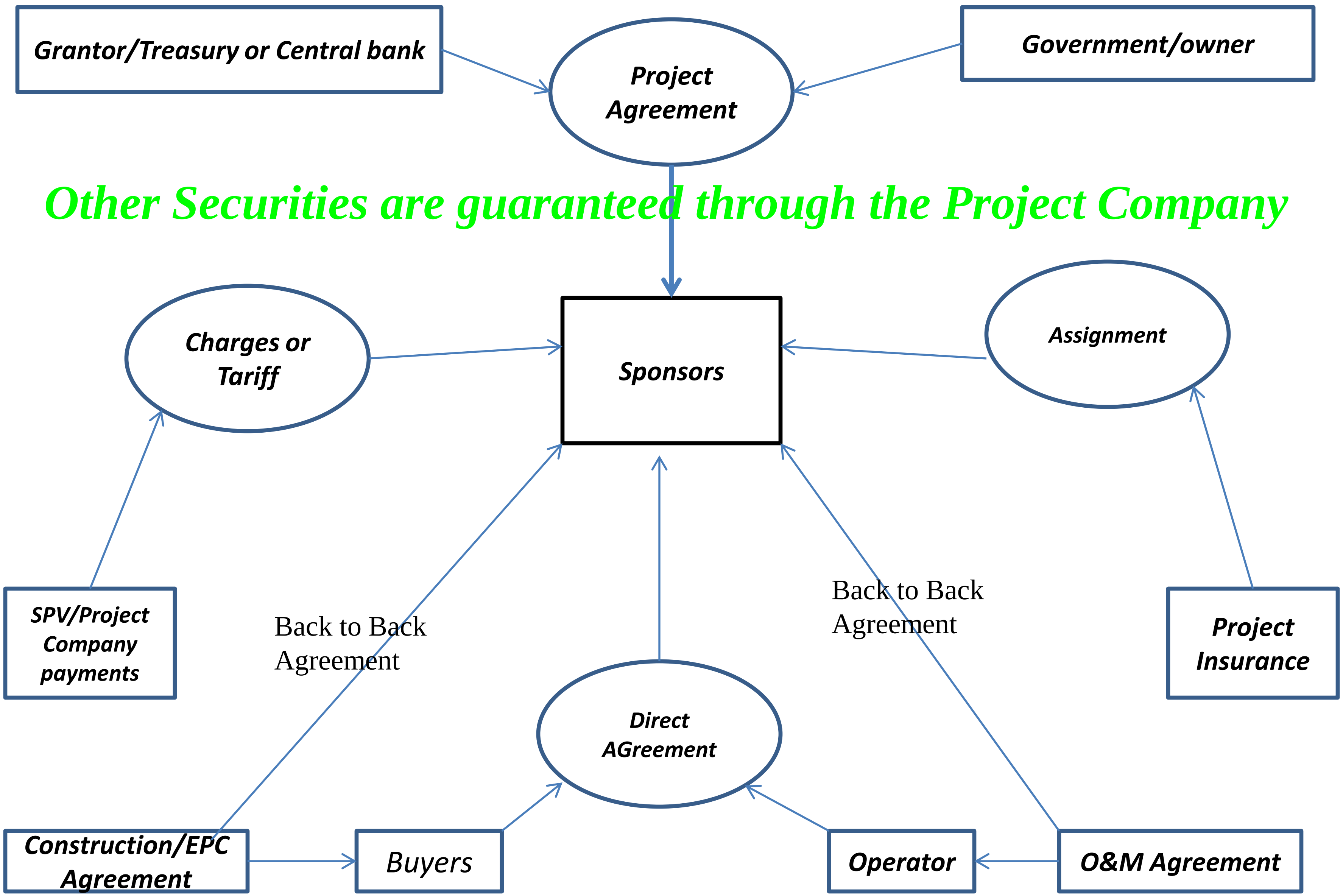
Guarantees and Securities

All parties involved in project develpment and finance look for certain securities and guarantees.

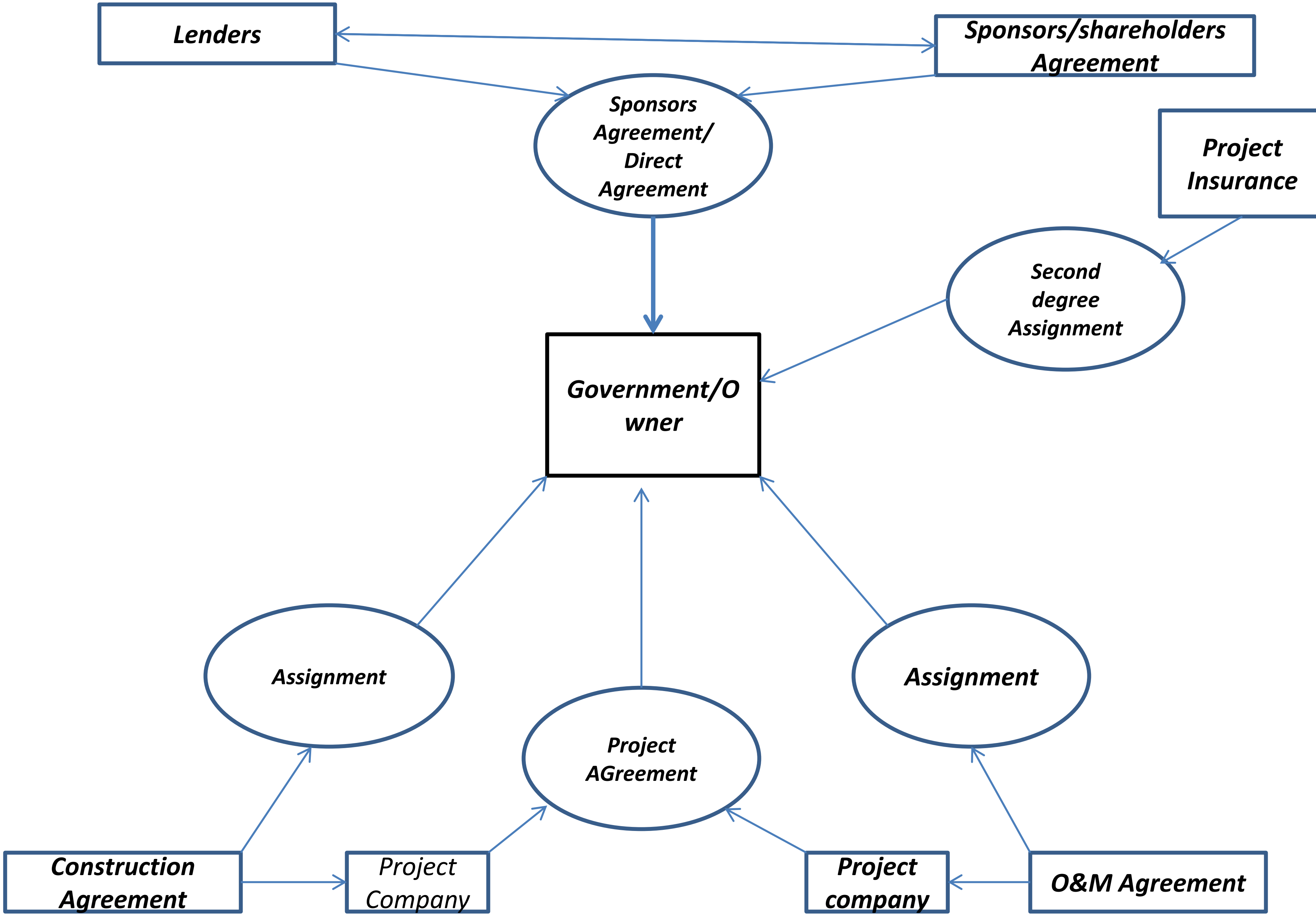
All parties shall work together and be sensible in order to achieve a successful project that would generate adequate revenues to maintain the project operational for the life time and repay all debts. The main and most important is the project assets.


Principal Securities for Lenders
Project Agreement
Grantor
Contractor
Construction Agreement
Sponsors Agreement and /Direct Agreement
Assignment
Assignment
Land/ Lease
Project Insurance
Mortgage
Assignment
Security Trustee/Agent/ Bank
Charge
Direct Agreement
SPV/Shares
Assignment
Assignment
Government Agreement
Direct Agreement
Offtake Agreements
Buyers
Operator
O&M Agreement

Principal Securities for Sponsors



Principal Securities for Owner/Government



Project Insurances

- **During Construction Phase :**

✓ Physical damage to project facilities

✓ Physical damage to other assets (cars,offices etc)

✓ Employees compensation and third party-liability insurance

✓ Environmental liability insurance

✓ Delay in startup insurance against increased cost resulting from delay caused by an insured loss cost

Project Insurances

- **During Operations Phase :**

✓ Physical damage to project facilities

✓ Physical damage to other assets (cars, offices etc)

✓ Employees compensation and third party-liability insurance

✓ Environmental liability insurance

✓ Business interruption or loss of profits