

PRACTICAL INFORMATION



HERMES COVER SPECIAL NOVEMBER 2008

Expertise for Project Financing and Structured Finance

EXPORT CREDIT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

► **Hermes Cover**

► HERMES COVER SPECIAL

Expertise for Project Finance and Structured Finance

Before the Interministerial Committee (IMC) decides whether to grant cover for a project financed transaction, as a rule an expertise given by a certified auditor on the economic viability of the project is required, which must be commissioned by the applicant. As from 1 March 2004 the Federal Government laid down the following prerequisites and procedures relating to expertise for project financing:

A. AUDITOR PROFILE

The auditor must satisfy the following criteria:

I. GUARANTEE OF INDEPENDENCE

- ▶ Risk assessment from the perspective of the Federal Government
- ▶ Professional and economic independence
- ▶ Exclusion of any conflict of interests
- ▶ Discretion/confidentiality

II. INTERNATIONAL AUDITING COMPANY

- ▶ Comprehensive theoretical and practical knowledge of the instruments and elements of project financing and structured finance constructions.
- ▶ Knowledge of the underwriting instruments and special requirements of the Federal Government, export credit agencies and political risk insurers
- ▶ Experience with the operational procedures of international banks and financial institutions (IFIs etc.), financial advisors and other experts and project sponsor groups

- ▶ Assignment of experienced, qualified staff with an educational background in business studies, economics, law (international contract law), statistics and environmental studies
- ▶ Good expertise in financial modelling with the ability to carry out model checks; basic technical understanding with regard to plant configuration, manufacturing processes, factor input rates and specific product requirements; guarantee of uniform auditing standards through quality assurance
- ▶ Effectively operating, protected IT systems for the evaluation of large quantities of data including text documents and mathematical models on different data processing media
- ▶ Experience in the evaluation of market studies conducted by international consultants and market researchers

III. CO-OPERATION WITH MINISTRIES REPRESENTED IN THE INTERMINISTERIAL COMMITTEE (IMC) AND THE MANDATARY CONSORTIUM

- ▶ Close co-operation with the mandataries right from the beginning of the verification process
- ▶ Providing information to the ministries and the mandataries during the auditing process
- ▶ Preparation of the expertise in German
- ▶ Presentation of the detailed expertise results to the working group in Berlin or Hamburg
- ▶ Willingness to attend and actively participate in national and international meetings with project sponsors, banks and advisors
- ▶ Monitoring the projects after formal completion of the contract or a temporary suspension of work, if required



B. CONTENT AND SCOPE OF THE EXPERTISE

The content and scope of the expertise depend on what aspects are of significance for the individual case. The review generally aims at analysing the economic viability of the project and evaluating the justifiability of risk from the perspective of the Federal Government.

As a rule, the expertise contract is to be awarded without any restrictions. In general the expertise should cover the following main issues:

- ▶ Initial project description
- ▶ Statutory basis of the project
 - Type of company/details on those involved in the project and their participating interests
 - Main contractual arrangements
- ▶ Economic situation of the participants in the project
- ▶ Analysis and evaluation of the project design
 - Market analysis
 - Investment costs and financing
 - Collateral construction
- ▶ Evaluation of the economic feasibility of the project (cash flow analysis)
 - Basic assumptions and results of the cash flow analysis
 - Analysis of the cash flow calculation provided by the applicant
 - Simulation analysis (sensitivity analysis)
- ▶ Summary of the examination results

Depending on the individual case, additional criteria may need to be included in the analysis.

C. PROCEDURE

▶ APPLICATION PROCEDURE/INITIAL CURSORY REVIEW

The exporter/bank appoints a certified auditor of his own choice at an early stage in the proceedings, preferably before the Interministerial Committee has decided on an initial cursory review which will then be followed by the verification process.

▶ SUBMISSION OF THE EXPERTISE

The certified auditor submits his expertise to the relevant authorities (government departments/mandataries). As a rule, the applicant receives the final version of the expertise after the Federal Government has declared that it is in principle prepared to grant cover.

D. QUALITY AND COSTS OF THE EXPERTISE

The responsibility for the quality of the expertise remains with the applicant. The applicant must also bear the costs of the expertise.

The requirements set out above also apply to **STRUCTURED FINANCE TRANSACTIONS** if the Federal Government considers an expertise necessary.

CONTACT

If you have any queries, please do not hesitate to contact the Department Project Finance and Ships.

Cover from the Federal Republic of Germany for business transactions abroad

The German Government supports German business ventures abroad with its Export Credit and Investment Guarantee Schemes as well as the Untied Loan Guarantee Scheme, thus securing economic growth and safeguarding jobs. To this end, the Federal Republic of Germany provides guarantees against commercial and political risks in connection with export transactions as well as against the political risks of foreign direct investments. In addition to this framework, it is also possible to cover the commercial and the political risks of untied loans relating to projects which are in the overriding national interests of Germany.

The German Government has mandated a consortium formed by Euler Hermes Kreditversicherungs-AG and PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft to manage these promotion schemes.



Federal Ministry
of Economics
and Technology

OUR PARTNERS



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