

PRACTICAL INFORMATION



HERMES COVER SPECIAL **AUGUST 2009**

Flexible terms and conditions for project finance transactions

**EXPORT CREDIT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY**

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FLEXIBLE TERMS AND CONDITIONS FOR PROJECT FINANCE TRANSACTIONS

Since 1988 the cover given by the Federal Government of Germany for export business has included project finance schemes. When assessing whether the risk involved in such business is acceptable, it is not so much a matter of the creditworthiness of the borrower or guarantor as in normal export business – but more of the profitability of the project itself. Project finance transactions can be covered on more favourable conditions as regards the timing of the first repayment, repayment profile and credit period, when the economic situation of the project concerned calls for it (tailored repayment). This opens up the option of adapting the repayment conditions of a project finance scheme to the expected cash flow development of the project.

SCOPE OF APPLICATION: ONLY PROJECT FINANCING BUSINESS

Project finance, as understood by the OECD, is the financing of the investment costs of an economic entity in which the borrowed funds are repaid out of the (future) cash flow generated by the economic entity, with all of its assets serving as collateral for the lenders. The essential preconditions (basic criteria) for deciding whether a transaction is project finance are as follows:

- There must be a legally and economically independent project company (a “special purpose company”) which acts as vehicle for the project, with revenues for its own account.
- The risks must be shared among all parties involved in the project in an appropriate way (fair burden sharing) – among others the exporter, the lenders, the offtakers, the shareholders of the project company and the investors. There must also be adequate capitalization of the project company.
- The economic entity must generate sufficient cash flow to cover the operating costs and to service the debt towards the lenders over the entire repayment period.
- The proceeds of the project must first of all be used to cover the operating costs and the debt service.
- The repayment obligations of the project company may not be secured by means of state payment guarantees (an exception are performance bonds and other undertakings, e.g. under offtake agreements).
- Adequate security must be agreed upon for the proceeds and assets of the project, e.g. assignment of proceeds, charges on assets and the setting up of escrow accounts and
- The liability of the investors after completion of the project must be limited or excluded (“limited or non-recourse”).

FLEXIBLE REPAYMENT TERMS

For projects which meet the criteria set out above, the repayment terms for the borrowed funds can be structured according to the flexible conditions when the economic situation of the project concerned calls for it. A flexible repayment profile is then allowed (declining instalments, mortgage-style repayment, increasing or variable instalments), provided that the following conditions are adhered to:

- The first instalment of principal must be repaid within two years of the starting point of the loan (usually the commissioning) and must be at least 2 % of the credit amount;



- ▶ No single instalment of principal or a series of principal payments within 6 months may exceed 25 % of the credit amount;
- ▶ Interest must be paid in at least annual instalments, with the first payment falling due no later than 6 months after the starting point;
- ▶ The entire credit period may not exceed 14 years (from the starting point);
- ▶ The weighted average credit period may not exceed 7.25 years. The weighted average credit period (Average Weighted Life, AWL) is considered to be the period after which half the borrowed amount, weighted according to the amount and date of the principal payments, has been repaid.

SPECIAL RULES FOR EXPORTS TO HIGH INCOME OECD COUNTRIES

These rules have only limited applicability to project finance schemes in High Income OECD Countries, defined by the World Bank according to the per capita income of the population. Besides the criteria set out above, the following additional criteria must be fulfilled in this case:

- ▶ There must be a co-financing agreement with other private financing institutes in which state export credit insurers have minority status (i.e., less than 50 % of the total borrowed funds are allowed to be supported by one or more export credit insurers). A *pari passu* clause must guarantee equal treatment of all creditors up to the end of the credit period.
- ▶ The premium payable for cover may not be lower than market rates for the risk in question and must be proportionate to the markup charged by the private lenders involved in the project.

In the event that the credit amount supported by one or more state export credit insurers exceeds 35 % of the total borrowed funds in a project financing scheme, flexible conditions can only be granted if the total credit period is no longer than 10 years and the weighted average credit period does not exceed 5.25 years.

OBLIGATION OF NOTIFICATION

The member states of the OECD have agreed to notify every case in which these conditions are applied.

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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