Project Finance and Structured Finance

Flexible Solutions to Cover and Finance Your Project-Based Transactions
OeKB is entrusted by the Austrian Federal Ministry of Finance with the handling of the Republic’s Export Guarantee Scheme.
Project Finance

Sizeable project-based transactions may be structured using what is referred to as project finance.

Key features of project finance

- Conventional types of security, such as bank or sovereign guarantees, are not available or insufficient. In some projects, security may be available but not regarded as sufficient for financing purposes.
- In the case of project finance transactions, a special purpose company is founded.
- The main security is the future cash flow generated from the project’s proceeds.
- Recourse to the project sponsors is either not possible (non-recourse financing) or limited (limited-recourse financing).

Typically, in both the construction phase and in the operating phase, a number of project security instruments are available (see page 4). They improve the project’s successful completion and the projected future cash flow. The kind of security package used depends greatly on the project type and the host country.

Flexible financing and collateralisation solutions tailored to the requirements of the individual project open up international business opportunities when "conventional" types of security may not be applied.
Examples of security for projects:

- Assignment of rights to the lenders
- Concession agreement/granting
- Contractually agreed supply of raw materials
- Contractually agreed sale (off-take) of products (e.g. long-term marketing agreements)
- Pledging of all revenues of the special purpose company to the lenders
- Management contract on the proper operation of the project
- Contracts for the technical support and maintenance of the facilities
- Insurance packages
- Mechanisms for avoiding convertibility risks and transfer risks (e.g. offshore accounts and convertibility/transfer guarantees)
- Collateral security
- Government incentives for investment (e.g. tax concessions, import duty exemptions)
- Step-in rights of the lenders with respect to the relevant project agreements and rights

Project finance has benefits for everyone

- Project finance allows companies to limit their risks and may also improve their balance sheet ratios.
- The limitation of risks and the use of customised security structures make large-scale financing easier.
- The strain on public budgets is eased and efficiency of performance tends to be higher when responsibilities formerly entrusted to governments (e.g. state-owned companies) are shifted to the private sector.
Structured Finance

A special form of project finance is structured finance. It is used when no separate project company (special purpose vehicle) is formed.

All existing financing and the future financing requirements are analysed and then structured accordingly. This type of financing is thus also primarily based on using the expected cash flows generated by the project.

In structured financing, countertrade agreements are often concluded to serve as additional security. In countertrades, the loans obtained for the investment are serviced out of the revenues from the sale of goods during the life of the loan.

The marketing of the products requires experience in the market and the industry.

Public private partnerships (PPP)

Public private partnerships (PPP) are a form of project finance used for projects that are both in the public interest and attractive to private investors.

Example: The public sector needs to make urgently required investments, usually in infrastructure, but the available budget is limited.

Possible solution: Private capital and expertise are integrated into projects intended to perform public-sector functions. In public private partnerships, projects are thus carried out jointly by public authorities and private companies.

In contrast to full privatisation, in a public private partnership the overall responsibility remains with the public sector.
Realise Your Projects with OeKB’s Assistance

The advantages of carrying out project finance transactions with the support of OeKB at a glance:

- Guarantees and refinancing from a single source
- Many years of expertise in project finance and structured finance
- Network with other ECAs and international financing institutions
- Individual solutions tailored to the requirements of your project
- Attractive financing through commercial banks

Oesterreichische Kontrollbank AG (OeKB) began acquiring experience in the complex field of project finance in the 1970s. Since then, several hundred projects have been reviewed. OeKB has a department devoted exclusively to project evaluation and analysis.

In principle, project finance is suitable for transactions all over the world and for all sectors. However, based on the structure and range of activities of the Austrian export industry, our activities have been concentrated on certain sectors. As a result, OeKB has acquired special expertise in the fields of energy, paper and pulp, metallurgy and infrastructure. Geographically, our focus has been on Central and Eastern Europe and the former Soviet Union as well as on OECD countries, South America and South-East Asia.

Complex projects require a more detailed risk assessment, particularly in order to prevent problems later on in the implementation stage. Despite OeKB’s substantial assistance, participation in such project finance transactions requires more time and effort on the part of the exporters and financing banks than does ordinary export financing. The earlier you contact OeKB, the better we will be able to assist you in preparing the necessary documents.

Examples of projects realised with the support of OeKB are available on our website: http://www.oekb.at/en/export-services/projects

Comprehensive feasibility studies as well as environmental and social impact assessments (ESIA), prepared by reliable experts experienced in the sector of the respective project, must be attached to the project application or made available at an early stage of OeKB’s processing of the application.
More Information on Security Instruments and Finance

The full range of Austrian government guarantees and OeKB credit facilities is available for project finance and structured finance transactions.

There is no general upper or lower limit for the involvement of the OeKB or the federal government in project finance or structured finance.

In multisourcing, i.e. the participation of various export credit insurers, financial institutions and commercial banks in the financing transaction, we are strongly committed to sharing information and co-ordinating evaluation activities.

The risk analysis ascertains the general feasibility of a project and its sensitivity in the event of changes of important conditions such as raw material prices, energy costs or other prerequisites, for example the loss of investment funding, or the enactment of stricter environmental laws.

The result is a recommendation of those conditions and requirements considered necessary for a guarantee commitment and the subsequent financing of a project. In addition, the risk analysis also provides the basis for indications of the terms and costs of cover (cover percentages, premiums ...).

Requirements for the participation of OeKB

- At least part of the goods or services involved is of Austrian origin.
- Positive effects on the Austrian current account balance (as required by OeKB’s mandate of promoting Austrian exports)
- The project observes criteria of environmental and social responsibility in accordance with international rules.¹


Terms and conditions

The part of the project covered by a guarantee of the Austrian government falls under the international rules set out in the *OECD’s Arrangement on Officially Supported Export Credits (known as the Arrangement)*.

For *project finance* and *structured finance*, the repayment terms may therefore be adjusted to match a project’s expected future cash flows. To ensure transparency under the OECD rules, advance notification of projects for which this flexible treatment is to be used is required.

What are the costs?

The costs of the project analysis as well as any fees for external advisers are invoiced to the applicants. If a guarantee is provided, a monitoring fee is typically charged for the duration of the commitment.

What is the usual procedure?

- The project meets the general criteria for project finance (see page 7).
- The applicant submits the required documents and presents the project (see pages 15 - 19).
- OeKB carries out an in-house, and in many cases also an on-site, project evaluation and environmental impact assessment, using external advisers when necessary.
- OeKB works closely with all partners involved in the project: project developers, sponsors, financial advisers, other financing partners, environmental auditors, external experts.
- As the federal government’s authorised agent, OeKB does not take part in the negotiation of contracts underlying a project.
- Based on the results of the analyses, OeKB makes suggestions for the covenants to be included in the loan agreement, specifies certain key figures, stipulates security requirements, and takes over the project monitoring (results, environmental and social impacts) on the basis of the requested reports.
- Upon a positive decision by the relevant bodies, the applicant is informed about coverability and the terms and conditions for cover. A federal guarantee / a loan agreement is entered into.
What has to be documented in the course of an assessment?

- Feasibility studies: The likely profitability of a project can only be determined on the basis of comprehensive and objective documentation.
- Project structure: It needs to be aligned to the type of project, the environment, the sector and the partners.
- Security instruments tailored to the project
- Contractually secured and factually proven guarantee of major key elements of the project such as:
  - Supply of raw materials
  - Production of the goods or services that the project is designed to deliver
  - Sale of those products and/or services
  - Repayment of the loans

Further characteristics of project finance transactions

- **Appropriate allocation of risks** to those project members best able to assess, manage, and therefore bear them
- A **sufficient equity base** for the project (adequate for the sector, generally about one-third of the project value, depending on the project risks)
- A **cash-flow-coordinated repayment profile** that can be expected to cover operating costs and debt service sufficiently in every phase of the project
Minimise Your Risks – Export Insurance

Cover may be provided for:

- Exports (of goods and services)
- Tied finance facilities

Up to 100% cover (depending on the host country) is available for political risk; commercial risk can be covered up to 95% (subject to risk assessment).


Customised guarantees

If the project analysis demonstrates sufficient feasibility, guarantee commitments for project finance and structured finance are also available outside the general cover policy.


Guarantees for project finance and structured finance are typically issued subject to customised conditions.

Depending on the project stage, we will provide you with written information on cover options:

- in the offer phase - Letter of Interest;
- in the negotiation phase – Offer of Cover;
- once the contracts have been concluded, but prior to the start of production, delivery, performance of services – Guarantee.

Guarantee premiums – tailored to your requirements

The amount of the guarantee premium depends primarily on the sum insured, the country risk, the period of risk exposure and the credit rating of the contracting party.

If you are interested in an estimate of the likely guarantee premium, please use our free premium calculator at: [https://premium-calculator.oekb.at](https://premium-calculator.oekb.at)
The advantage of OeKB support: cover for the entire project

Large-scale projects, with their complexity and need for risk sharing, are being increasingly carried out with international participation. As an exporter or financing bank, you benefit through easier co-financing and multisourcing thanks to co-operation with OeKB.

Easier handling of large-scale projects with the support of OeKB through

- Contacts with other export credit agencies
- Relations with international financing institutions (such as the World Bank)
- One-stop support for sizeable transactions
- Co-operation agreements with financing institutions and credit insurers (e.g. co-insurance, reinsurance and parallel insurance agreements)

Attractive Financing Terms

The portions of a project that are covered by export guarantees or credit insurance can be financed via commercial banks with investment grade credit ratings on attractive terms through OeKB’s Export Financing Scheme.

OeKB provides financing at commercial terms, both in euros and in foreign currencies.

Refinancing in euros

- **Floating/fixed-interest financing or financing in tranches**

  These are credit facilities with a floating interest rate (tranche A) and a fixed interest rate (tranche B). The ratio of the two parts of the loan depends on the time allowed for payment of the export transaction to be financed: The longer the life of the loan, the higher the fixed-interest part of the loan.

  Advantages:
  - Your business calculation becomes easier.
  - Your interest rate risk is reduced.

- **Financing based on EURIBOR plus margin depending on maturity of the loan**

  The current interest rates can be viewed on the OeKB website at: [www.oekb.at/interest](http://www.oekb.at/interest)

Financing in a foreign currency

Financing in a foreign currency is possible on the basis of individual quotations at floating or fixed terms.


The advantage of OeKB support: Refinancing for the entire project

When some of the goods or services originate in Austria and cover commitments by ECAs exist for the remainder, OeKB can refinance the entire project volume.
Benefit from our Expertise. Contact Us:

Oesterreichische Kontrollbank AG
Strauchgasse 3
A-1010 Vienna

Tel. +43 1 531 27-2824
Fax +43 1 531 27-5411
E-mail: project.analyses@oekb.at

Export Guarantees – Project Underwriting -
We look at your project and find a solution for you.

Ferdinand Schipfer
Tel. +43 1 531 27-2610
Fax +43 1 531 27-5690
ferdinand.schipfer@oekb.at

Project and Environmental Analyses –
We analyse your submitted projects.

Werner Schmied
Tel. +43 1 531 27-2240
Fax +43 1 531 27-5411
werner.schmied@oekb.at

Credit Department –
We offer attractive financing for your projects.

Dieter Nell
Tel. +43 1 531 27-2520
Fax +43 1 531 27-5533
dieter.nell@oekb.at
You will find more information on export guarantees, export financing and project analyses:

- on our website at [www.oekb.at/en/export-services](http://www.oekb.at/en/export-services) and in the Download Center at [www.oekb.at/downloads/export-services](http://www.oekb.at/downloads/export-services) or

- in special brochures on the subjects of **export guarantees** and **export financing**.

These brochures are available online in the Download Center or may be ordered from:

OeKB Corporate Communications  
Tel. +43 1 531 27-2859  
Fax +43 1 531 27-5698  
[corporate.communications@oekb.at](mailto:corporate.communications@oekb.at)
Annex

Documentation check list

In order to be able to review project finance applications, we need the following information:

1. **Brief description of every project sponsor:**
   - Company history, establishment date, legal form, ownership, subsidiaries, core activities, total assets
   - Data on sponsor’s experience in the host country and in the project’s industry
   - Explanation of how the project relates to the sponsor’s strategic direction/goals

2. **Annual reports** of the past three years for every project sponsor; additional requirements in the case of project finance for activities in existing plants: detailed **structured data** for the past three years and budgets for the next five years on **revenues** (including a breakdown of export versus domestic foreign currency revenues, if any, for non-convertible currencies; revenue mix by customer, country, and product) and **expenses** (in detail; in the case of non-convertible currencies these may be grouped separately)

3. **Summary of the project concerned**, including name, location, purpose, organisational form, ownership, equity, security structure, status of licenses/approvals, local partners, marketing and distribution, financing (see attached **Project Description form**)

4. **Brief characterisation of the role of the host country.** For projects with currencies that are not completely freely convertible: description of the measures to avoid transfer risk (e.g. escrow account)

5. **Schematic representation of the contract structure** and the significant existing or intended contractual relationships and **security**

6. **List of references** of the general contractor and/or most important suppliers as far as known; list of references of comparable projects to document the proven **technological feasibility** and the experience in the host country and continent

7. **Information on operator/management company:** company history, ownership, core activities, list of references, documentation of relevant experience in industry and host country

8. **Independent feasibility study** reporting on the project’s economic and financial viability and political and environmental acceptability; information on the level of expertise of the experts used (in terms of subject area and geographic region; e.g. list of references)

9. **Environmental and social impact assessment** (ESIA); in line with local and international standards
10. The following information, if not already included in the feasibility study or in the environmental and social impact assessment:

   a. Technical description, flow sheet, layout

   b. Detailed derivation of estimated **operating costs** (price and quantity details)

   c. **Procurement situation** for raw materials and supplies, including corresponding contract documents

   d. Description of the **management**, training of staff, staff costs and qualifications

   e. Report on **environmental and social aspects**

   f. Discussion of the amounts and appropriateness of the **investment value** and the risks regarding **time and cost overruns**

   g. **Timetable** for construction and commissioning, milestones

   h. **Market information** on the project’s products/services, including the price and volume trends for the past 5 to 10 years; competitive situation, current and future supply and demand situation; forecast, identification and geographic location of main customers; marketing and logistics strategy; description of the planned marketing activities and marketing agreements/off-take agreements (e.g. take-or-pay agreements)

   i. **Detailed project costs**, broken down by main categories of the key construction and commissioning cost items, interest over construction period, financing of working capital

   j. Projected **procurement of funds**, including source, amount, currency, time of input

   k. **Cash flow projection** over the repayment term of the requested export-credit-insured loan (including sensitivity analysis: a realistic base scenario, an optimistic and a pessimistic scenario); explanation of how any cash deficits will be covered

   l. Derivation and assumptions of the **cash flow projection**, including basis for sales quantity and prices, operating and administrative expenses, depreciation, amortisation and impairment losses, taxes, inflation, exchange rate movements.
Description of your project

1. **Project name**
   Location/country

2. **Subject of the project**

3. **Production capacity**

4. **Contact person**

5. **Project memorandum**
   Date, author

6. **Feasibility study**
   Date, author

7. **Environmental and social impact assessment (ESIA)**
   Date, author

8. **Financial adviser**
   Name, address

   **Consulting engineer**
   Name, address

9. **Supplier(s)**

10. **Total project value** (EUR ‘000)

11. **Austrian portion of the total project value** (EUR ‘000)

12. **Foreign portion of the total project value incl. local costs for the Austrian goods or services to be delivered (%)**

13. **Requested amount of cover** (EUR ‘000)
    Type of guarantee

14. **Securities offered**

15. **Operator**
    Name
    Ownership
    Brief description of owner(s)
    Capital
    Qualifications
16. **Management**  
Company, name of manager  
Qualifications / references

17. **Marketing of products**  
Company  
Qualifications  
Quantities, prices, contract terms

18. **Details on equity**  
Source  
Time and form of contribution  
Amount

19. **Use of funds/financing requirements (EUR '000)**

- Project development
- Deliveries of goods
- Performance of services
- Construction, land development
- Assembly
- Interest on building finance, financing costs
- Taxes
- Reserve
- Working capital

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Total
20. **Procurement of funds/amount, source**² (EUR ‘000)

- Equity (see item 17)
- Shareholder loans
- Local financing
- Market financing
- International financial institutions (e.g. IFC, EBRD, ADB)
- State-supported export loans thereof OeKB

Total

² Capital contributions in kind or in non-convertible currency should be shown separately or marked.