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PRACTICAL INFORMATION

HERMES COVER SPECIAL

Expert opinions for project financing and structured finance

EXPORT CREDIT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

► **Hermes Cover**

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Expert opinions for project financing and structured finance

Before the Interministerial Committee (IMC) decides whether to grant cover for a **project-financed transaction** or not, as a general rule an expert opinion on the project's economic viability and the justifiability of the risk involved in it must be obtained.

When commissioning an expert to prepare an opinion, the applicant (exporter/bank) should take the following aspects into account:

A. REQUIREMENT PROFILE

Experts must satisfy the following criteria:

I. INDEPENDENCE MUST BE ENSURED

- A risk assessment and economic evaluation must be carried out from the perspective of the Federal Government
- As a rule, the experts work exclusively for the Federal Government (in exceptional cases an extension of activities is possible subject to prior consultations with the Federal Government)
- The verification activities must not include any active structuring of the project's finance
- The experts must be professionally and economically independent
- Any conflicts of interests must be excluded

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
- Experience with the operational procedures of international banks and other financial institutions (IFIs, etc.), export credit agencies, financial advisors, legal advisors, project sponsors, other experts (e.g. technology, market situation)

- Assignment of experienced staff with an appropriate educational background (business studies, economics, international commercial law, statistics)
- Special knowledge of financial modelling with the ability to carry out model checks; basic technical understanding with regard to plant configuration, manufacturing processes and specific product characteristics; ability to ensure uniform auditing standards through quality assurance
- Fail-safe, protected IT systems suitable for the analysis of large quantities of data (text documents and mathematical models)
- Experience in the evaluation of studies conducted by international consultants on technology and market situation

III. COOPERATION WITH THE MINISTRIES REPRESENTED IN THE INTERMINISTERIAL COMMITTEE (IMC) AND EULER HERMES

- Close cooperation with the experts of Euler Hermes during the audit
- Willingness to provide information to the ministries and the experts of Euler Hermes during the audit
- Preparation of the expert opinion in German
- Presentation of the detailed audit results to the working group Project Finance
- Willingness to attend and actively participate in national and international meetings with project sponsors, banks and advisors
- Monitoring of the projects even after the Federal Government's offer of cover or temporary suspensions of work if required

B. CONTENT AND SCOPE OF THE EXPERT OPINION

The content and scope of the expert opinion depend on what aspects are of significance for the individual case. The audit 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 contract for the preparation of an expert opinion is to be awarded without any restrictions. The expert opinion should always cover the following main issues:

- Initial illustrative project description
- Statutory basis of the project
 - Type of company/details on the project's stakeholders and their participating interests
 - Main contractual arrangements
- Economic situation of the project's stakeholders
- Analysis and evaluation of the project concept
 - Technical concept
 - Investment costs and financing
 - Collateral construction
 - Market analysis
- 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 audit results

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

C. PROCEDURE

• SELECTION OF THE EXPERT

It is always the applicant that selects the expert. Any exceptions to this principle require the Federal Government's approval. The expert should be commissioned at an early stage in the proceedings, i.e. preferably immediately after the Interministerial Committee has decided on an initial cursory review which forms the basis of the project's audit. The choice of expert does not have any influence on the subsequent underwriting decision of the Federal Government.

• SUBMISSION OF THE EXPERT OPINION:

The expert submits its opinion to the responsible government ministries and Euler Hermes. The applicant receives the final version of the expert opinion after the Federal Government has given an official indication of cover. Interim results may be passed on to the applicant only for the purpose of checking the facts.

D. QUALITY AND COSTS OF THE EXPERT OPINION

The responsibility for the quality of the expert opinion remains with the applicant. The applicant must also bear the costs of the expert opinion. The agreement of a flat-rate fee is not permitted in this context.

The requirements set out above also apply to **structured finance transactions** if the Federal Government considers an expert opinion necessary in individual cases.

CONTACT

If you have any queries, please do not hesitate to contact the Federal Ministry for Economic Affairs and Energy (Referat VB2, email: buero-VB2@bmwk.bund.de) or Euler Hermes (Department Project Finance).

Export Credit Guarantees and Untied Loan Guarantees: instruments to promote foreign trade and investment provided by the



Federal Ministry
for Economic Affairs
and Energy

Commissioned to implement the federal funding instruments Export Credit Guarantees and Untied Loan Guarantees:



EULER HERMES

Cover from the Federal Republic of Germany for foreign business

Export Credit Guarantees and Untied Loan Guarantees as well as effective foreign trade promotion instruments of the Federal Government have been established for decades. Export Credit Guarantees (so-called Hermes Cover) protect German exporters and banks financing exports against political and commercial risks. Untied Loan Guarantees are to support raw material projects abroad regarded as eligible for promotion by the Federal Government. Both promotion instruments play an important role in fostering economic growth as well as in protecting and creating jobs. The Federal Government commissioned Euler Hermes Aktiengesellschaft to manage the federal funding instruments Export Credit Guarantees and Untied Loan Guarantees.

Information on other foreign trade promotion instruments of the Federal Government can be found at www.bundeswirtschaftsministerium.de/en under the heading Promotion of Foreign Trade and Investment.

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