JULY 2017

PRACTICAL INFORMATION

HERMES COVER SPECIAL

Project finance – decision process and FAQs

EXPORT CREDIT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

Hermes Cover

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Project finance – decision process and FAQs

PROJECT FINANCE WITH FEDERAL EXPORT CREDIT GUARANTEES (HERMES COVER)

The Official Export Credit Guarantee Scheme has been protecting German exporters and banks successfully since 1988 against the risk of non-payment arising in connection with project finance transactions. Since then, transactions in all business sectors have been covered (e.g. telecom, power, mining, oil & gas, petrochemical industry, steel, transportation systems).

This kind of business also falls under the common guarantee scheme of the German government. However, due to the complexity of project finance deals the decision process has some special elements, which we would like to highlight hereafter.

All decisions with regard to project finance transactions are made by the **Federal Republic of Germany** in an Interministerial Committee (IMC). These decisions are prepared in a special working council, in order to accelerate the decision process in the IMC. This council consists of project finance specialists from the ministries and **Euler Hermes Aktiengesellschaft**.

A further speciality of project finance transactions is that an experienced auditing company has to examine the economic, legal and financial viability of the project. The auditing company has to assess the underlying risks of the project from the perspective of the risk-taker, i.e. the Federal Government. The applicant may select and commission the auditing company according to the preconditions as laid out in the Hermes Cover Special on Expert Opinions for Project Financing and Structured Finance of July 2017.

THE THREE-STEP DECISION-MAKING PROCESS

STEP 1: INDICATION

Project presentation to Euler Hermes Documents needed: – Short project description	→ Short report by Euler Hermes	**Project presentation to the government** Discussion between Euler Hermes and the government (working council)	→ Indication	Informal feedback on the general acceptance of the overall structure of the project. A Letter of Interest may be issued if requested.

STEP 2: PRE-ASSESSMENT

Assessment of the project concept by Euler Hermes Documents needed: – Application – Financial model – Project information memorandum	→ Report by Euler Hermes	**Evaluation of the project by the government** Detailed discussion between Euler Hermes and the government (working council and IMC)	→ Decision on pre-assessment	**Formal feedback (legally not binding):** Clearance to progress into the next phase. The government will then ask for a report of an auditing company on the (final) project documentation.

STEP 3: APPROVAL

Detailed assessment of the final project structure Documents needed: – Final drafts of documents – Report of the auditing company	→ Report by Euler Hermes and report by the auditing company	**Decision by the government** Detailed discussion between Euler Hermes, representatives from the auditing company and the government (working council and IMC)	→ Approval	**Preliminary approval: Offer of cover (legally binding)** After signing: Final approval, issuance of guarantee

FAQS:

HOW LONG DOES IT USUALLY TAKE TO GET A DECISION FROM INDICATION TO FINAL APPROVAL?

In a standard project finance case, the full three-step decision-making process normally takes approximately six months. The first two steps can be taken fairly quickly, often in a matter of weeks. However, in order to get (preliminary) approval, the project must have progressed to a point in time where negotiations have resulted in final drafts of all relevant project documents. So effectively the timing is largely dependent on how quickly these documents can be made available to Euler Hermes and the auditing company.

HOW MUCH IS THE REPORT BY THE AUDITING COMPANY LIKELY TO COST?

The cost of the report will be agreed upon between the applicant and the auditing company. Euler Hermes does not have any information on the rates charged by the various auditing companies.

HOW CLOSE IS THE COOPERATION BETWEEN EULER HERMES AND THE AUDITING COMPANY?

The auditing company supports Euler Hermes and the Federal Government in the decision-making process. In that context the task of the auditing company is to assess the viability of the project on the basis of the documentation received since Euler Hermes does not accept any documentation risk. There is usually a close cooperation between the auditing company and Euler Hermes so that any potential concerns can be identified at an early stage.

DOES EULER HERMES WISH TO PARTICIPATE IN THE NEGOTIATION PROCESS?

Euler Hermes does not normally participate in the negotiation process. Nevertheless, especially in multi-sourcing transactions where several ECAs are involved in the financing and where it is crucial to establish a common position as soon as possible, Euler Hermes is prepared to join the other institutions in negotiating the terms of the transaction.

DOES EULER HERMES GET INVOLVED IN THE PROCESS OF SELECTING LENDERS' COUNSEL (TECHNICAL, ENVIRONMENTAL, LEGAL OR OTHER)?

Yes, especially in large multi-sourcing transactions where Euler Hermes is involved in negotiating or structuring the deal.

IS EULER HERMES IN GENERAL PREPARED TO UNDERTAKE SITE VISITS?

Yes, on a case-by-case basis. Especially in large multi-sourcing transactions and in cases where there are environmental concerns, we do take part in site visits.

DOES THE PREMIUM OR THE COVER SCHEME DIFFER FROM CORPORATE FINANCE TRANSACTIONS?

No, there is fundamentally no difference. Project finance transactions are covered under the general cover scheme like corporate finance transactions and the premium is basically calculated in the same way.

ARE THERE MINIMUM CRITERIA FOR THE SECURITY PACKAGE THAT EULER HERMES REQUIRES?

Euler Hermes does not have a catalogue of minimum criteria to be applied to each and every project finance transaction. Nevertheless, Euler Hermes expects the security package to contain the typical project finance elements adequately mitigating the inherent project risks. There are no strictly defined elements which by themselves would make or break a deal, the overall package has to give the lenders sufficient comfort.

IS THE OFFICIAL COVER POLICY ALSO OF RELEVANCE FOR PROJECT FINANCE TRANSACTIONS?

It is likely that the official country cover policy will be applied even more flexibly, especially in projects which generate hard currency.

www.exportkreditgarantien.de/en

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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