

## ***Project Finance Fact Sheet***

### **Project Finance**

The term "Project Finance" refers to the financing of projects that are *dependent* on the project cash flows for repayment as defined by the contractual relationships within each project. These projects do not always rely on the typical export credit agency security package which has recourse to a foreign government, financial institution or established corporation to meet a reasonable assurance of repayment criteria. By their very nature, projects rely for successful completion on a large number of integrated contractual arrangements.

### **Clear Information Requirements**

The requirements for submission of an acceptable project finance application are contained in the Attachment entitled: ***PROJECT CRITERIA AND APPLICATION INFORMATION REQUIREMENTS***

### **Application Process**

Submission. The project finance application must include submission of:

- 1) the standard corporate sponsor information data, and
- 2) five copies of the materials listed in the Attachment – one copy on CD or DVD media.

Preliminary Review. Capital Interfunding, Incorporated – Project Finance Group ("Project Finance Group") will review the material submitted within five to ten business days from the date that the application is received by the Project Finance Group. This review will determine if the application includes the required information to proceed with an evaluation. The Preliminary Review is done at no charge to the prospective client.

Incomplete Applications. If the application presented is determined to be incomplete by the Project Finance Group, it will be returned to the applicant with an explanation of its deficiencies. If the application is not determined to be suitable for limited recourse project financing, but could still be considered for another form of Capital Interfunding Inc. financing, it will be forwarded to the appropriate person and the applicant notified.

Evaluation Fee. Before the Project Finance Group begins its in-depth review, the applicant will be required to pay an evaluation fee, and execute a contract with Capital Interfunding Inc. No in-depth evaluation by the Project Finance Group will commence without payment of the negotiated fee.

Other Fees. For most projects, Capital Interfunding Inc. will require, either in conjunction with lenders/investors or for its own use, the advice of independent outside legal counsel, independent engineers and insurance advisors. In addition, there may be other fees associated with conducting proper due diligence. Payment for these and any other fees will be the responsibility of the project sponsors or the applicant, and will be incurred only after specific project sponsor's or applicant's written authorization, with appropriate fees escrowed.

Preliminary Project Letter (PPL). Assuming the evaluation process is satisfactory, the Project Finance Group will issue a PPL. The PPL will indicate that Capital Interfunding, Incorporated is prepared to move forward on a financing transaction and the corresponding general terms and conditions. These terms and conditions will be based upon the information available at the time of application. The evaluation and issuance of the PPL will be generally completed within 45 days of commencement of the evaluation.

Evaluation Post-PPL. After issuance of the PPL, Capital Interfunding Inc. will work with the applicant to proceed to obtain a Commitment by the lenders/investors for the project.

**PROJECT FINANCE GROUP**

**PROJECT CRITERIA AND APPLICATION  
INFORMATION REQUIREMENTS**

**I. GENERAL PROJECT**

- The project should have long-term contracts from creditworthy entities for the purchase of the project's output and the purchase of the project's major project inputs such as fuel, raw materials, and operations and maintenance. Such contracts should extend beyond the term of the requested Capital Interfunding Inc.-arranged financing.
- The project should contain an appropriate allocation of risk to the parties best suited to manage those risks. Sensitivity analysis should result in a sufficient debt service coverage ratio to ensure uninterrupted debt servicing for the term of the debt.
- Total project cost should be comparable to projects of similar type and size for a particular market.
- Product unit pricing and costs should reflect market based pricing.
- Devaluation risk needs to be substantially mitigated through revenues denominated in hard currencies, revenue adjustment formulas based on changing currency relationships, or other structural mechanisms.

Information Required

1. Summary of all aspects of the project, as contained in an independently prepared feasibility study and/or a detailed information memorandum, prepared by a qualified party; to include description, location, legal status, ownership, and background on key elements of the project structure, such as status of agreements, licenses, local partner participation and financing.
2. Draft agreements must be available for key elements of the project, including supply and *off-take* agreements, PPA, etc.
3. A breakdown of anticipated project costs through commissioning, including interest during construction and working capital requirements, by major cost category and country of origin.
4. A summary of the anticipated project financing plan and security package, including the proposed source, amount, currency and terms of the debt and equity investments; the sources of finance in the event of project cost overruns; and description of escrow accounts. Information on the terms, security requirements, and status of financing commitments of other lenders to the project, if applicable, should be provided.
5. Projected annual financial statements covering the period from project development through final maturity of the proposed Capital Interfunding Inc.-arranged financing, to include balance sheet, profit and loss, source and application of funds statements and debt service ratios. Projections should include sensitivity analysis for not only the expected scenario, but pessimistic and optimistic cases as well.

***This information should also be provided on a CD or DVD with the project's financial model in Microsoft Excel. The structure of the financial model should be in a format that is 'user-friendly.' Capital Interfunding Inc. must be able to review and adjust the assumptions in the model (no read-only files).***

6. Assumptions for the financial projections, including but not limited to the basis for sales volume and prices; operating and administrative costs; depreciation, amortization and tax rates; and local government policy on price regulation.
7. Market information, to include: ten years of historical price and volume data; present and projected capacity of industry; product demand forecast with assumptions; description of competition and projected market share of the project as compared to the shares of the competition; identity and location of customers; and marketing and distribution strategy.
8. A description of the principal risks and benefits of the project to the sponsors, lenders, and host government.
9. A description of the types of insurance coverage to be purchased for both the pre- and post-completion phases of the project.

## **II. PARTICIPANTS**

- Project sponsors, off-take purchasers, contractors, operators, and suppliers must be able to demonstrate the technical, managerial and financial capabilities to perform their respective obligations within the project.

### Information Required

1. Sponsors must provide a brief history and description of their operations, a description of their relevant experience in similar projects, and three years of audited financial statements, in English.
2. If the sponsors are part of a joint venture or consortium, information should be provided for all the participants. A shareholders' agreement should also be provided.
3. Off-take purchasers and suppliers should provide a history and description of operations, at least three years of audited financial statements, in English, and a description of how the project fits in their long-term strategic plan.
4. Contractors and operators must provide resumes of experience with similar projects and recent historical financial information.

## **III. TECHNICAL**

- Project technology must be proven and reliable, and licensing arrangements must be contractually secured for beyond the term of the Capital Interfunding Inc.-arranged financing.
- A technical feasibility study or sufficient detailed engineering information needs to be provided to demonstrate technical feasibility of the project.
- At this time, Capital Interfunding Inc.'s funding sources are not prepared to accept project completion risk. Pre-completion, the applicant's financing structure may only utilize approved insurers' political-only guarantee program, as available at the time of financing commitment issuance.

### Information Required

1. Technical description and a process flow diagram for each project facility.
2. Detailed estimate of operating costs.
3. Arrangement for supply of raw materials and utilities.

4. Draft turnkey construction contract and description of sources of possible cost increases and delays during construction. Detailed description of liquidated damage provisions and performance bond requirements of this contract should be provided.
5. Project implementation schedule, showing target dates for achieving essential project milestones.
6. A site-specific environmental assessment, highlighting concerns, requirements and solutions. The information to be provided should cover topics similar to that required by the World Bank and OPIC environmental assessment procedures.

#### **IV. HOST COUNTRY LEGAL/REGULATORY FRAMEWORK & GOVERNMENT ROLE**

- Host government commitment to proceeding with the project needs to be demonstrated.
- Legal and regulatory analysis needs to demonstrate that the country conditions and the project structure are sufficient to support long-term debt exposure for the project through enforceable contractual relationships.
- ECA's and other insurer's relationships with the host government will be addressed on a case-by-case basis. A normal *Project Incentive Agreement* (PIA) with the host government may be required. The PIA addresses certain political risks and ECA's or other insurer's method of resolution of conflict with the host government pertaining to these issues. Only certain markets will require a PIA.

#### Information Required

1. A description of the host government's role in the project, and progress made toward obtaining essential government commitments to include authorizations from appropriate government entities to proceed with the project.
2. A definition of the control, if any, that the government will have in the management and operation of the project, and status of any assurances that the government will not interfere in the project's operation. If the government is also a project sponsor, these issues will be of particular importance.
3. Evidence of the government's current and historical commitment and policies for availability and convertibility of foreign currency.
4. Status and strategy for obtaining government undertakings to support any government parties involved in the project, to the extent that such undertakings are needed to provide adequate credit support for such entities.

The foregoing is intended to be reflective of the general requirements and procedures of ECAs (Export Credit Agencies), e.g., Export-Import Bank of the United States, etc.

**The foregoing is not intended to imply a commitment to lend or promise of a commitment to lend or fund any project directly by Capital Interfunding, Inc. Such commitments shall be in writing by the lender/investor.**

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