Project Finance – a summarised roadmap

Structuring a Project Finance transaction is a lengthy process. It is therefore critical to ask some key questions when evaluating transactions. Here are some thoughts for you to consider when presented with future transactions.

Issue	Some key points
What is the project?	☐ Specification ☐ Contractual structure (outright ownership, BOT, BOO?)
What is the Macroeconomic and political environment?	☐ Economic and political stability ☐ Tax ☐ Regulatory environment ☐ Social objectives and trends ☐ Environmental policy ☐ FX policy and stability and transferability of currency
Who are the parties involved and their roles?	☐ Have contracts been independently negotiated ☐ Who is responsible for the various aspects of the project ☐ do the parties to the transaction have the right blend of technical skills and financial ability to meet their commitments ☐ what do the parties have to lose if the project goes wrong ☐ potential conflicts of interest
Why is the project likely to succeed?	☐ Does the Project have a clear commercial rationale ☐ How sustainable is the competitive advantage ☐ What might threaten the Project's competitive advantage
What are the key risks; what could go wrong and how have the risks been mitigated?	☐ Country and political risks ☐ Operating risks ☐ Construction risks ☐ Supply risks ☐ Technology and technical risks ☐ Environmental risks ☐ Legal and documentation risks ☐ Financial risk exposures ☐ Project insurances ☐ Financial strength of the parties to the transaction
Do we believe the numbers?	☐ What are the major drivers of the project viability? Do we believe the numbers? ☐ Are the major assumptions likely to produce an acceptable cost for the user of the project services? ☐ What is the Project IRR …is it credible? ☐ What will have a major impact on the Project IRR – can the risks be mitigated, by who and at what price ☐ How cyclical or uncertain are the cashflows – can the cyclicality or uncertainty be mitigated?

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How should the project be financed?	☐ Is political risk insurance necessary or will it reduce the financing cost ☐ Can the project be funded exclusively in local currency ☐ Use of Corporate Finance vs Project Finance ☐ What financial instruments are most appropriate for the Project – loans or bonds ☐ Maturity structure ☐ Syndication strategy ☐ Is pricing appropriate for the risk
How significant are the financial risk exposures	☐ How will the project be affected by fx devaluations, interest rate and commodity price movements
What is the debt servicing capacity?	☐ Desired debt / equity mix ☐ DSCR/ LLCR ratios
What is the equity investors' perspective?	☐ Form and amount of investment – equity, subordinated debt, contributed assets ☐ What is the forecast equity IRR/ NPV; what will affect it and can the risk be managed, and at what price ☐ How will the returns be achieved ☐ What are the exit routes for the investors ☐ What is inter – relationship between the project company and the equity investors; is cash being extracted by the "back door" ☐ How much support is being provided by the sponsors to the project company
How have the project risks been mitigated?	☐ Who is assuming the construction / completion risk ☐ Operating risks – who is the operator ☐ Technical risks – manufacturers' warranties ☐ Financial hedging ☐ Market risks – purchase arrangements
Is the documentation watertight?	☐ Choice of law / arbitration ☐ Are claims likely to be enforceable ☐ Contractual arrangements between the various parties ☐ Intercreditor agreements ☐ Ability for financiers to take over contracts and enforce security in event of default ☐ Termination provisions under key contracts
What controls are there on an ongoing basis?	☐ Conditions precedent ☐ Compliance with financial and operational covenants ☐ Controls over disbursements ☐ Ongoing information on project performance vs forecasts ☐ Cashflow waterfalls and use of Escrow and Debt Service Reserve Accounts