

PROJECT FINANCE IN NORTH AFRICA

Dr Maya BOUREGHDA CHEBEANE
Partner
Lawfirm JURISMED



Contents

- Understanding the main principles and features of project finance;
- Entering more deeply into project finance structures;
- Mixing Conventional and Islamic Project finance
- Looking more deeply at project finance in North Africa;
- The future of project finance in North Africa.

What is a project

- A viable economic entity
- A project generating cash flows
- A bankable project
- Several sectors : power plants, roads, bridges, pipelines, mines, oil & gas, railways, water treatment, factories, schools....

What is a project finance?

Project Finance involves the funding of a project with limited or no recourse to its owners, based on the strengths of the cash flows it generates

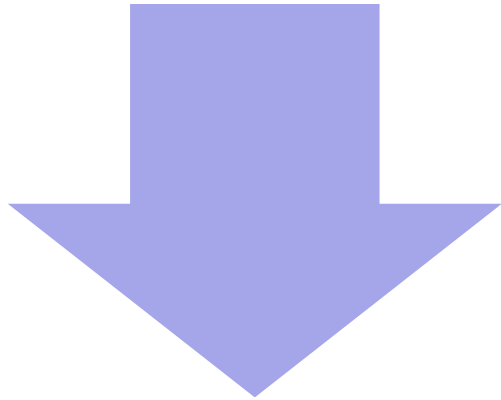
- An asset is identified and “ring-fenced” to allow a proper monitoring
- Lenders analyze thoroughly the soundness of the project and its contractual and financial structure (due diligence process)
- Lenders prime security is the underlying project contractual agreements
- Lenders have very limited or do not have recourse to the sponsors

Why Project finance?

Various drivers and advantages :

- To limit recourse to balance sheet (“limited recourse” or “non recourse” financing)
- An appropriate answer to risk sharing between parties
- Project finance is usually suitable for industrial developments requiring substantial upfront capital investments
- To achieve high leverages / longer tenors

Why Project Finance for Africa



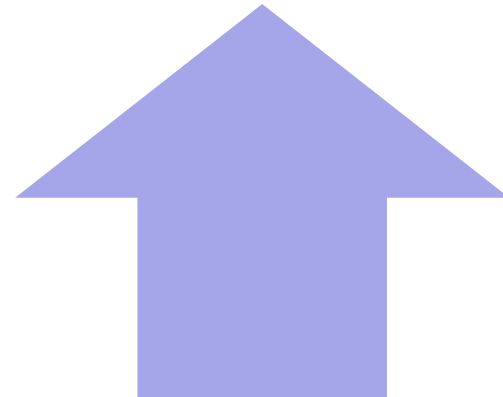
Constraints

- Government not always well suited to deal with all project risks;
- Complex structures not always integrated locally.



Advantages

- Limiting public expenditures;
- Large financing needs for infrastructure and development projects.



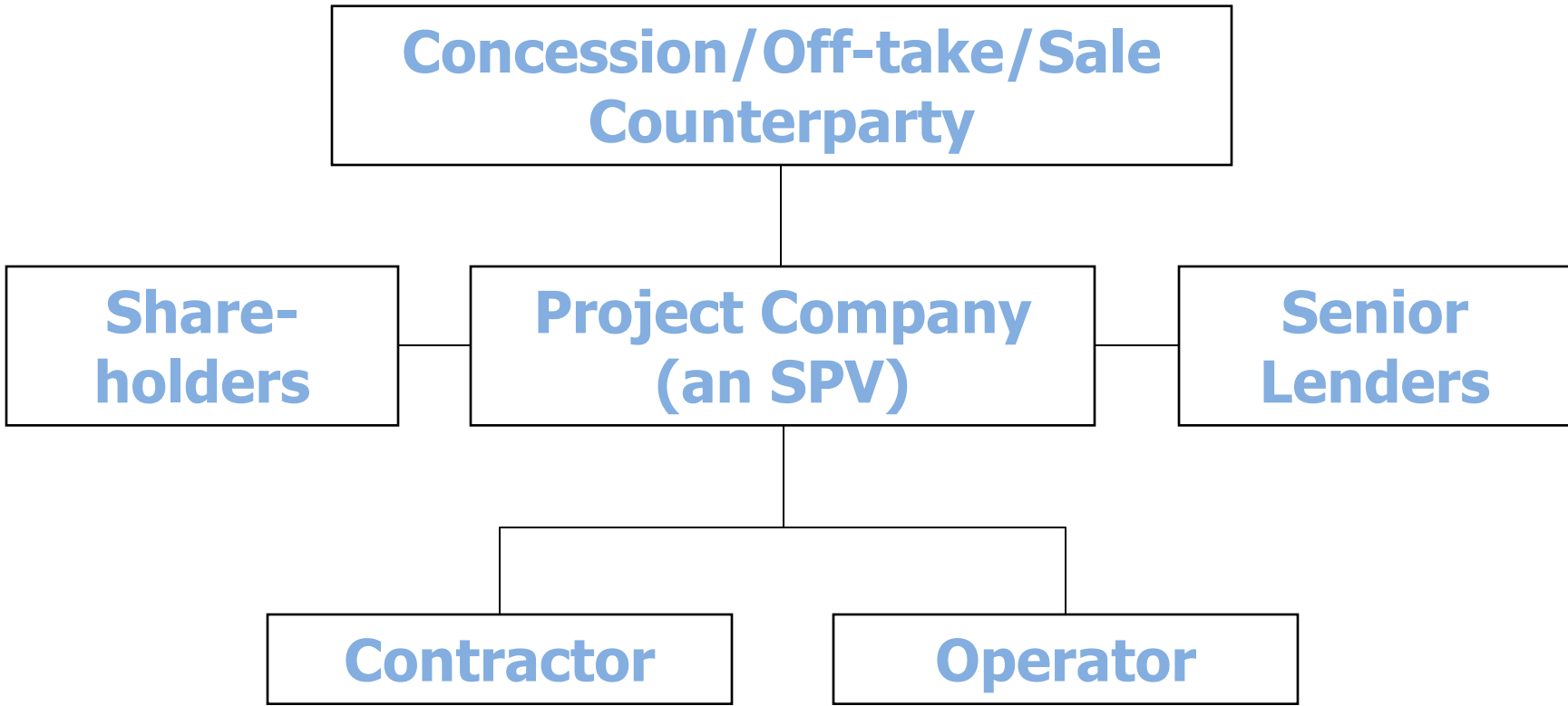
Project finance versus Corporate lending

	Project Finance	Corporate Lending
<i>Objective</i>	Lending money	Lending money
<i>Ring fenced to</i>	A « Special Purpose Vehicle » company undertaking the project	A company
<i>Depends on</i>	Adequacy of the project cash flows to repay its debt	The credit worthiness of the whole company
<i>Case of defaults</i>	Limited or non recourse Case of default against shareholders	Recourse against the Company and/or its Shareholder

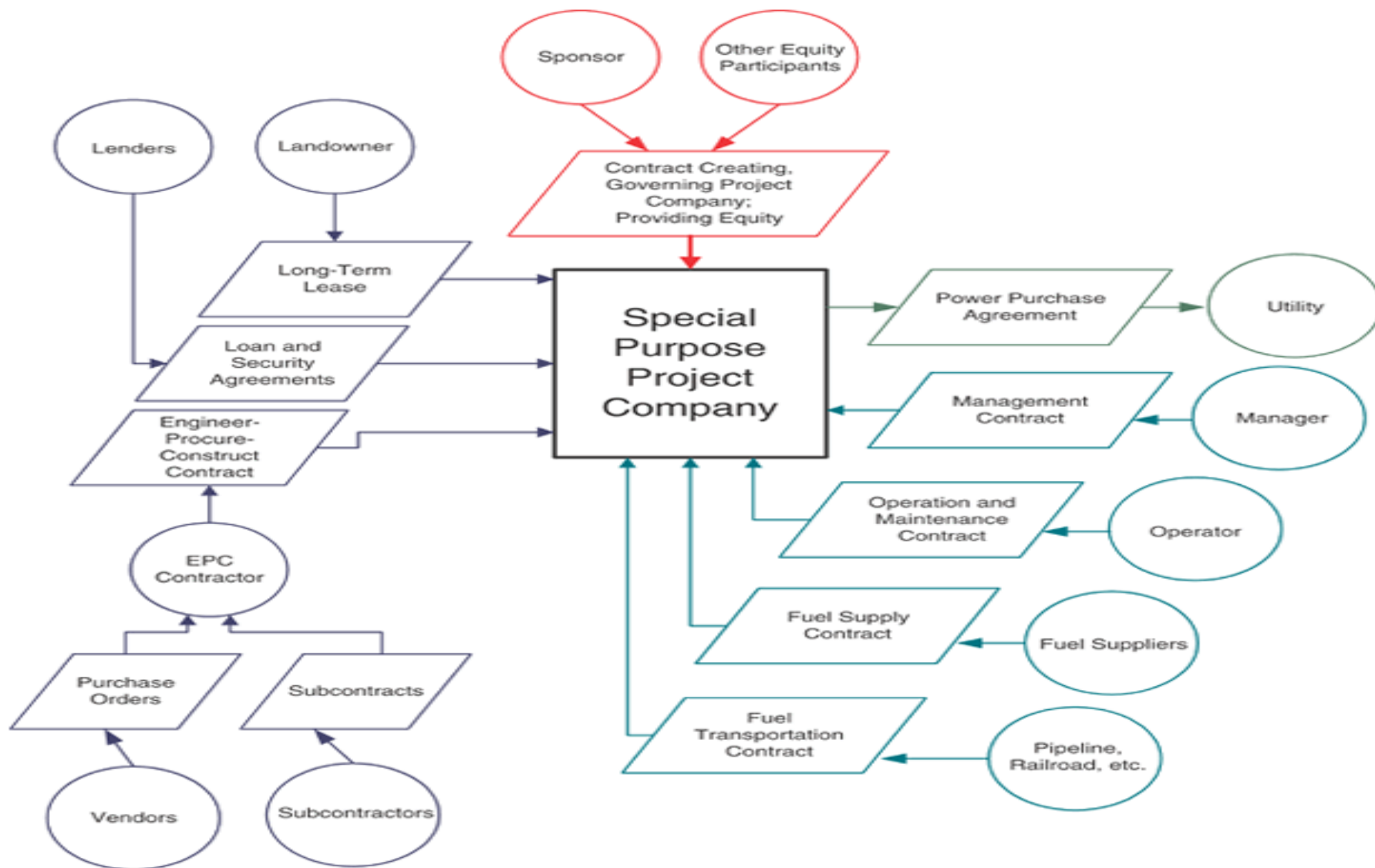
Key distinctions with “Corporate Lending”

- Borrower’s credit rating;
- Purpose of the loan facility
 - ✓ project costs
 - ✓ drawdown mechanics
- Cashflow financing
 - ✓ project accounts
 - ✓ monitoring (cash flows, forecasts, budgets etc.)
- Representations, undertakings, events of default...

Typical Project Structure



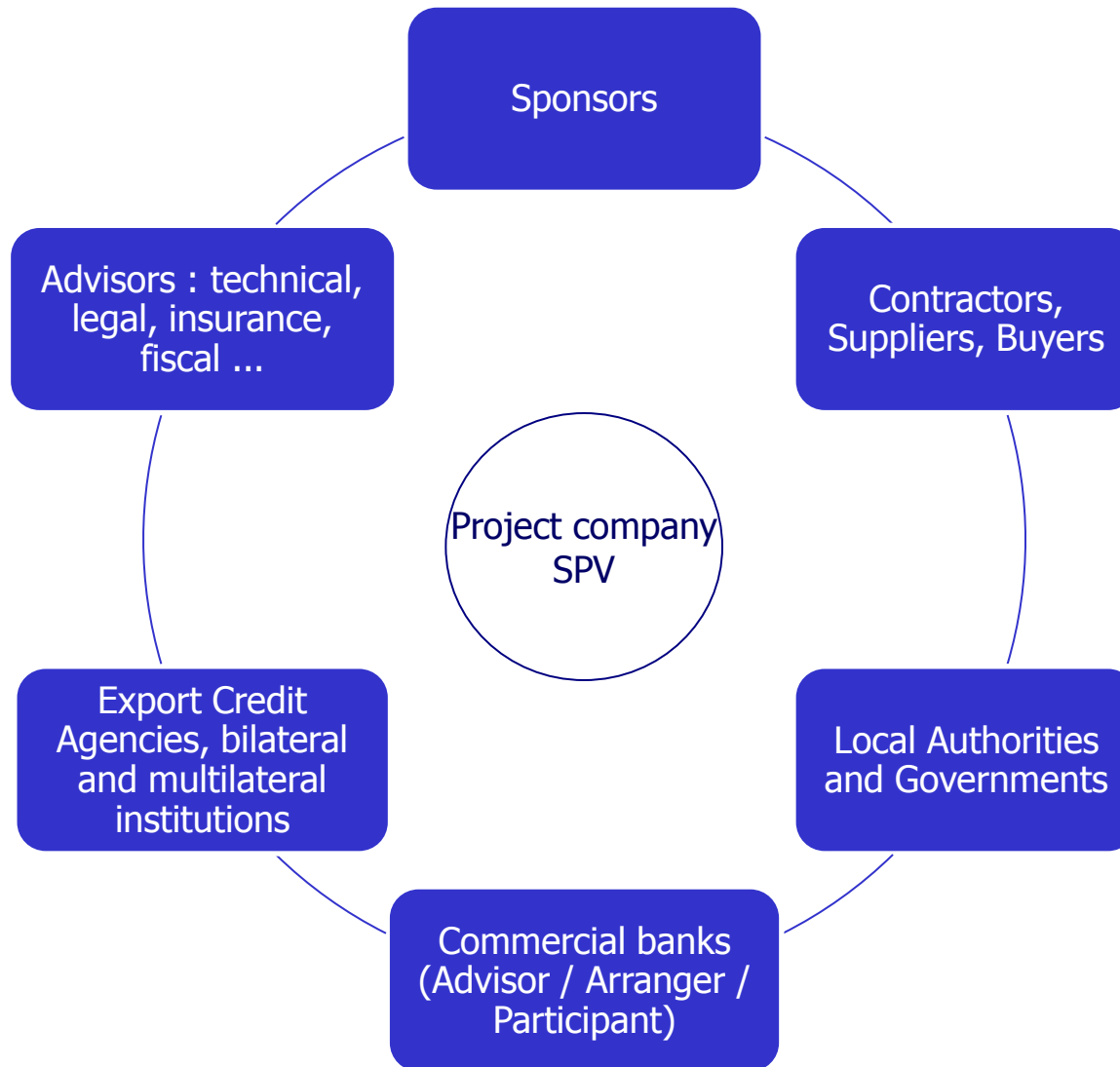
Typical Project Finance Structure



The principles of a Project Finance

- Based on the Cashflow of the Project
- Limited or non-recourse
- Primarily debt financing
- A complex contractual structure

The parties to a project finance



The different phases of a project finance

- Tender
 - ✓ Bidding by Sponsors and initial due diligence
 - ✓ Finalisation of project contracts with relevant authorities
 - ✓ Lenders due diligence on project agreements and negotiations on financing terms (term-sheet)
- Financial Closing
- Construction
- Operation

Risk allocation in project finance

- The main risks:
 - ✓ Technical and environmental risks
 - ✓ Commercial risks
 - ✓ Financial risks
 - ✓ Political and Regulatory risks
 - ✓ Force Majeure

- Risk allocation:
 - ✓ Risks assumed by the borrower
 - ✓ Risks assumed by the lenders
 - ✓ Risks outsourced

The contractual structure

- Project contracts
 - ✓ Concession agreement
 - ✓ Construction contract on a turnkey basis (EPC)
 - ✓ Offtake agreements
 - ✓ Supply agreements
 - ✓ Operating and maintenance agreement (O&M)

- Finance documents:
 - ✓ Loan Agreement/Common Term Agreement;
 - ✓ Intercreditor agreement;
 - ✓ Equity support;
 - ✓ Security documents.

The typical security package

- Basic security package include:
 - ✓ Pledge of shares of the shareholders in the Borrower
 - ✓ Pledge of all assets of the Borrower
 - ✓ Assignment of project contracts & insurance
 - ✓ Pledge of Borrower's accounts and receivables
 - ✓ Direct agreements with the parties to the commercial contracts
- Adequate Intercreditor protections
 - ✓ Unanimous voting on fundamental aspects (duration, pricing)
 - ✓ Identify conflict of interest between creditors and negotiate adequate compromises
- ECA & MLA policy if applicable

Monitoring cash flows

Controlling the assets of the project:

- Keeping a control over bank accounts
 - ✓ Account bank
 - ✓ Controlling withdrawals
- Forecasts covered by ratios
 - ✓ Calculate cover ratios to determine reserve requirements and distributions
- Budgets
 - ✓ Construction phase: agreeing the overall budget at financial close and adapting drawdowns;
 - ✓ Operating phase: agreeing annual budget.

Undertakings

- Financial undertakings
- Positive undertakings
- Negative undertakings
 - ✓ distribution lock-up tests
 - ✓ negative pledge
- Undertakings specific to each Project

Events of default

- Concept of “Material Entities (i.e. key contractual counterparties) covering, inter alia, breach of undertaking and cross-default
- Material adverse change
- Delayed completion of the Project
- Abandonment or loss of the Project
- Project Documents cancelled, revoked, voided etc.
- Loss of insurance cover
- Non compliance with Ratios
- Funding shortfall

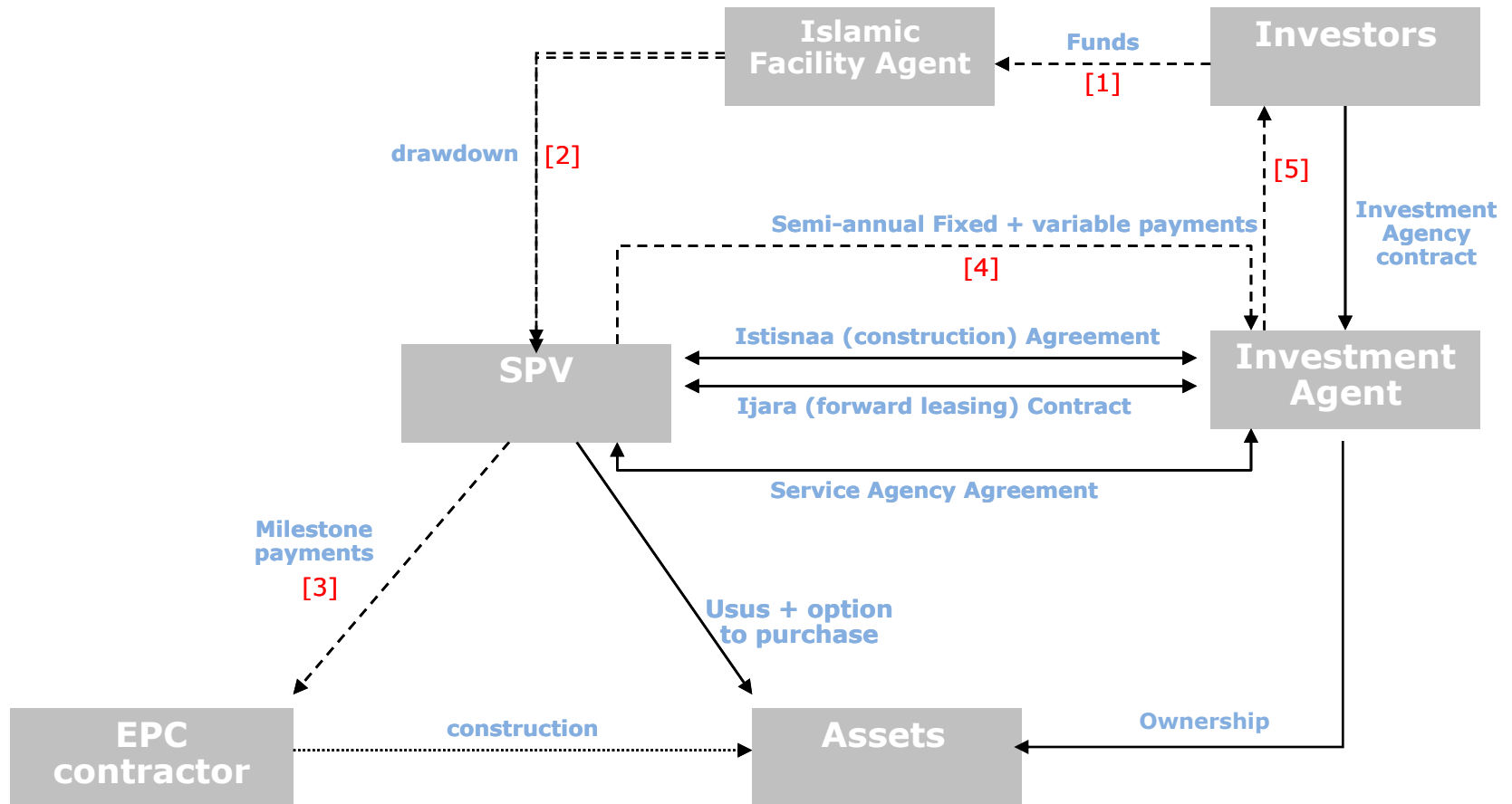
Mixing conventional and islamic finance

- Expanding sources of fund;
- Islamic finance, an asset based finance, perfectly adapted to project finance;
- Coordinating conventional and Islamic finance for the financing of the same project.

A typical structure of Islamic Project Finance

- A combination of Istisna'a/Ijarah
- The Company agrees to the construction and delivery of the assets to the Purchaser by a certain date;
- The Company as lessee and the SPV as lessor enter into an Ijara to lease the assets on delivery
- The SPV entered into a Service Agency Agreement whereby the Company was appointed as agent to provide certain services (including maintenance and insurance)

Islamic Project Finance - Ijara & Istisna'a



Co-financing: conventional and islamic

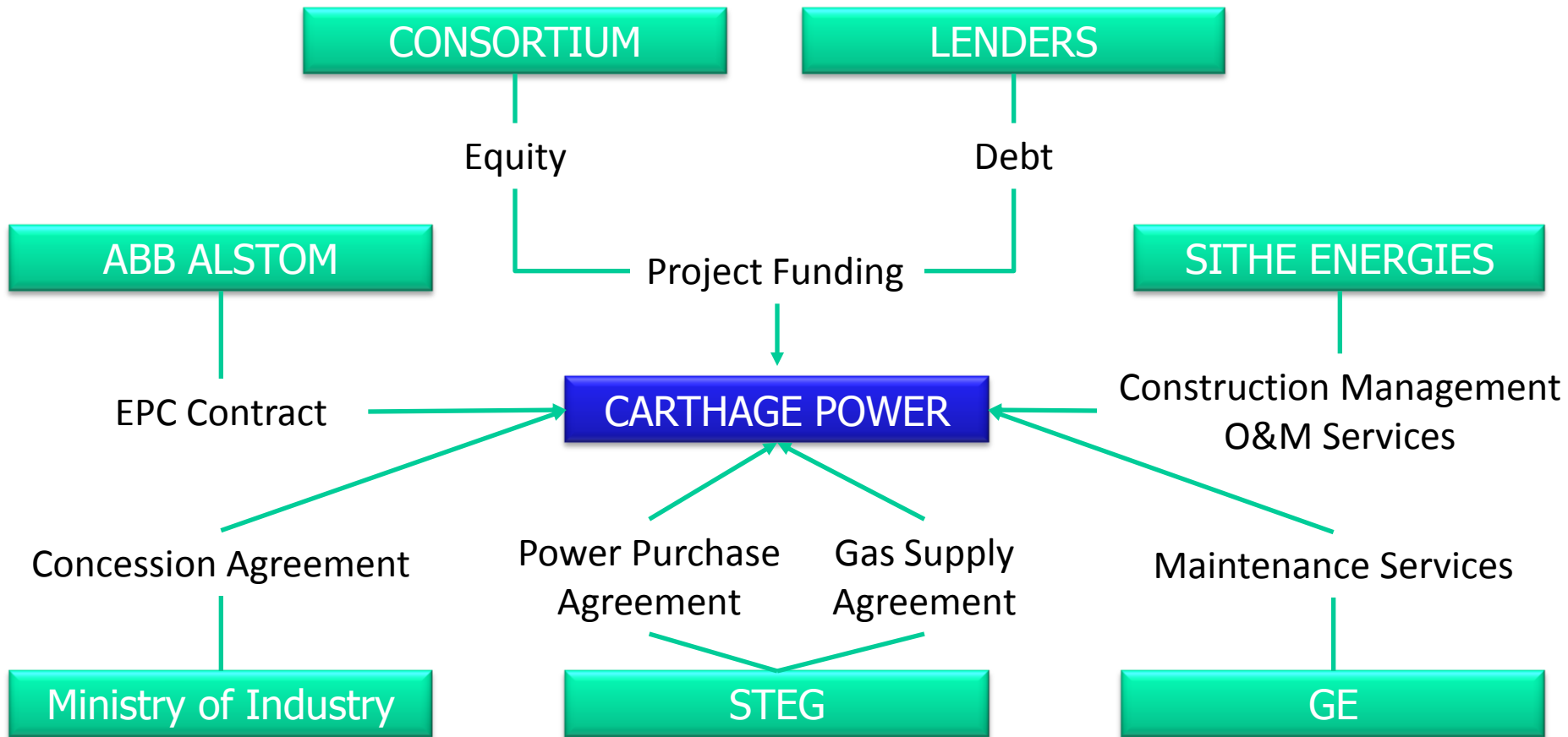
- A solution to increase financing capacities;
- Some specific legal issues;
- Dealing with specific risks;
- Addressing intercreditor issues between:
 - ✓ Lenders as secured creditors; and
 - ✓ Islamic financiers as owners

Some practical examples of Project Finance in North Africa

A power plant project financed in Tunisia : Rades Power plant

- Tunisia's first IPP, total project cost US\$261m equivalent
- 70:30 debt:equity (to meet Tunisian investment law)
- A mixture of Euro and US\$ to match tariff revenues
- A small syndication between commercial banks and credit export agency
- Commercial banks also provide a performance bond
- A VAT Facility during construction and an Interest Swap Facility

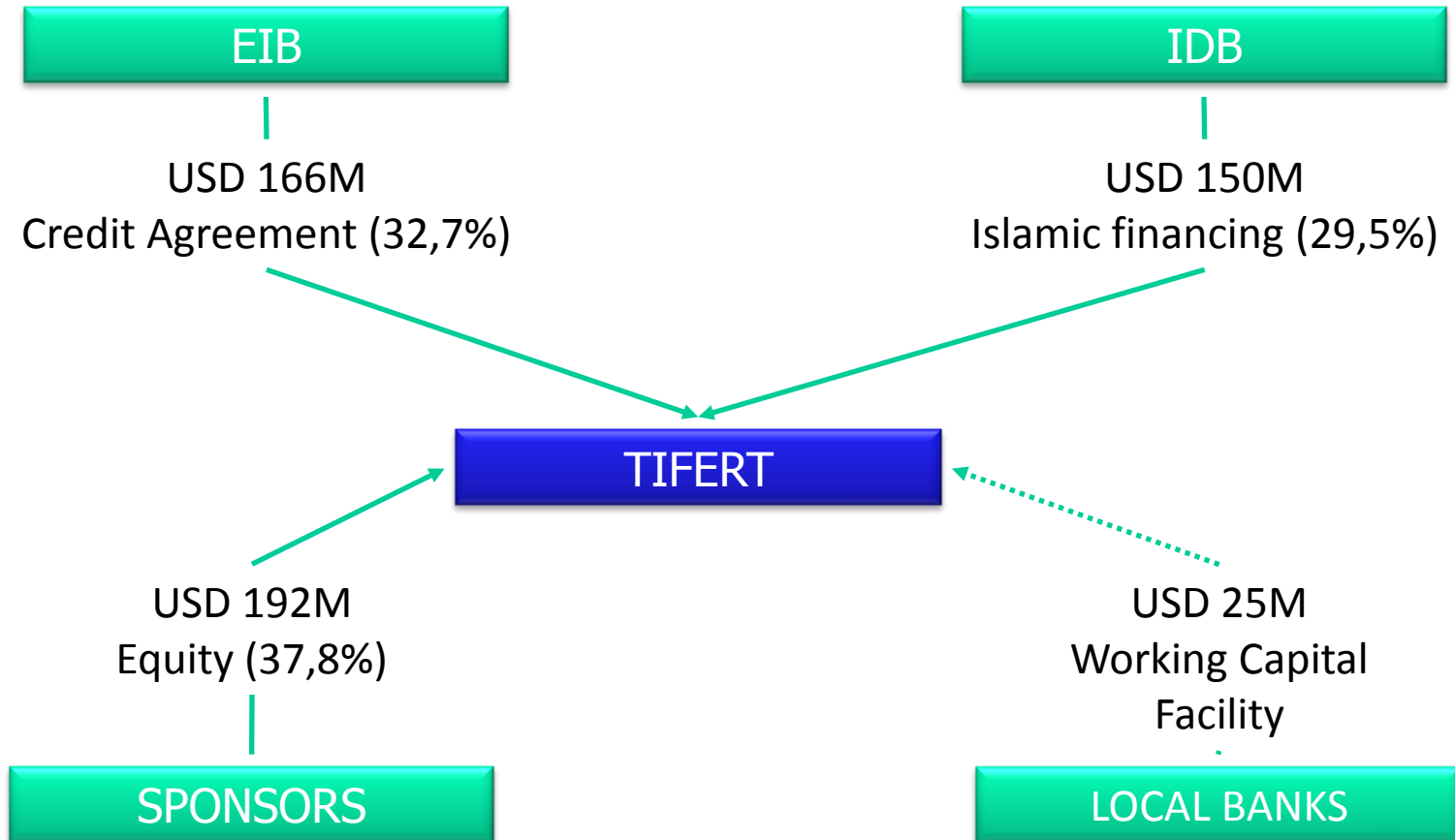
The project structure



A mining project finance in Mauritania

- The Project:
 - The expansion of a mine and the construction of a new ore carrier port in Nouadhibou, Mauritania;
 - The Financing: USD 710 millions
- The Sponsor: the National Industrial and Mining Company (SNIM)
- The Lenders: Multilateral financial institutions (AFDB, AFD, EIB, IDB, KFW) and commercial banks (BNP Paribas, Société Générale, BHF Bank)

A co-financing in Tunisian : the TIFERT Project



Project finance in North Africa: Where we stand?

- Still few project financing in North Africa compared to other region of the world;
- Limited capacity of local banks;
- Mainly multilateral financial institutions and international commercial banks are leading project finance in the region;
- High risks can render the financing too expensive;
- Few hedging products available.

The future of project finance in North Africa



The future of project finance in North Africa

- Important needs for infrastructure projects;
- Favouring project oriented financing versus public sector borrowing;
- Reducing legal constraints:
 - ✓ Foreign exchange regulations
 - ✓ Modernising security laws
 - ✓ Covering interest rates and currency
- Training local capacities.

Project Finance in North Africa

