



Week One

What is Project Finance?

- A method of financing the cost of investment in large scale capital projects
- Separate from owners
- Project = **Special Purpose Vehicles (SPV)** = separate legal/ economic entities
- **Limited/ no recourse to project sponsors:**
 - a) **Recourse to Sponsor** = lenders have legal right to seek repayment of the loan from borrowers' unpledged personal property, in addition to the property to the lenders
 - b) **Non-recourse to Sponsor** = Sponsors are not the party obliged to repay the loans and interest thereon [if default, lenders (banks) can only rake collateral and can't take legal action against sponsors]
 - c) **Based on this situation, how the lenders can get back money?**
 - Debt is repaid using cash flow generated from the operation of the project (secured by the project's assets + revenue producing products)
 - d) **Project finance is 'limited recourse' to sponsors until Completion Test is met** (X met = project can't complete/ non-profitable) OR guarantee agreement from sponsors to lenders (recourse to return their loan funds)

Corporate Finance vs Project Finance (p.23)

(Pricing, tenor, complexity, security and resources)

Corporate Finance	Project Finance
<ul style="list-style-type: none"> - Lend to existing entity - Full Recourse: access to global corporate assets as security for loans - Lend against the balance sheet of the company - Pricing (debt) is low 	<ul style="list-style-type: none"> - Lend to new entity - Limited recourse: access only to assets and proceeds of the project - Lend against forecast income stream (CFs) rather than balance sheet - Pricing (debt) is high: more risky if default → only collect collateral

Parties of projects

Sponsors	<ul style="list-style-type: none"> - Equity investors/ owners - Subsidiaries of sponsors = sub contractors, suppliers, offtakers
Lenders	<ul style="list-style-type: none"> - one or more commercial banks - ECAs/ MLAs
Offtakers	parties that obligate to offtake (purchase) product/ services produced by project
Contractors	performance obligation of project company to construct and operate <ol style="list-style-type: none"> 1. Engineering, procurement and construction (EPC) <ul style="list-style-type: none"> ▪ engineering aspects of the project, procurement of equipment and design and construction of the facility, plant or project 2. Operations and maintenance (O&M) <ul style="list-style-type: none"> ▪ a plan of training, cleaning, work practices, and surveillance to maintain asbestos-containing materials (ACM) within buildings in good condition
Suppliers	Parties obligated and paid to provide feedstock (raw materials/ fuel)
Governments	Provide permission fro the project to proceed (concession agreement)
Arranger OR procurers	Parties (council/department of state) to ensure competitive tender in government initiated project (evaluate proposal, select sponsor consortium)
Advisors OR Experts OR professionals	<ol style="list-style-type: none"> 1. Due Diligence advisors to lenders <ul style="list-style-type: none"> ▪ technical, legal, financial, insurance auditing, tax, accounting, market and environmental advisors 2. Advisors to sponsors <ul style="list-style-type: none"> ▪ technical, legal and financial advisors 3. Advisors to procuring authority/ government (gov. initiated project) <ul style="list-style-type: none"> ▪ technical, legal and financial advisors