

Chapter 4: Comparison of Major Program Structures

Section B: Project Finance

Introduction

Limited recourse project finance refers to the financing of large-scale, long-term infrastructure and industrial projects based upon a financial structure where repayment is sought from future cash flows generated by the project. Export credit agencies have been providing support for limited recourse project finance transactions since the early 1990s.

Most ECAs offer support for project finance transactions and, for transactions where products are sourced from multiple countries, ECAs cooperate to establish structures that fairly balance the risks between ECAs and other financial partners.

Ex-Im Bank's Policy and Practice

Ex-Im Bank's project finance program was created in 1994 and quickly became a competitive program. Since then, Ex-Im Bank's project finance program has evolved over the years based on experience gained as well as customers' needs and expectations. Currently 100% comprehensive guarantees during the construction period and 100% comprehensive guarantees or direct loans during the repayment period are available under the project finance program. Another attractive feature of Ex-Im Bank's project finance program is the absence of project or country ceilings. Ex-Im Bank continues to be one of the most active of the G-7 ECAs in its willingness to offer the flexible terms available for project finance transactions under the OECD Arrangement.

Overall, the competitive features of Ex-Im Bank's project finance package are:

- 100% U.S. government-guaranteed support for all risks (political and commercial) during both the construction and repayment periods;
- Willingness to utilize the project finance flexibilities allowed under the OECD Arrangement;
- Maximum availability for capitalization of interest during construction (IDC); and
- Financing of local country costs.

G-7 ECAs' Policies and Practices

Across the board, ECAs offer very similar coverage for project finance transactions. All provide cover for at least 90% of the political and commercial risks during the life of the project, support local costs up to the amount of down payment, and capitalize the interest that accrues during the lengthy construction period. The only difference between ECAs is in the quality of coverage they provide. Ex-Im Bank and ECGD offer unconditional guarantees, EDC and JBIC offer direct loans and the four other G-7 ECAs (Coface, Nexi, Hermes and SACE) all offer conditional insurance. See **Figure 13** for a comparison of ECA program features for 2003.

Figure 13: Comparison of ECA Project Finance Program Features

	Product & Related Conditions**	Comprehensive Pre-Completion Cover	Comprehensive Post-Completion Cover	IDC up to 100%	Local Costs up to 15%	OECD Project Finance Flexibilities		
						First Repayment	Repayment Profile	Repayment Term
Coface (France)	95% Below Standard Insurance		✓	✓	✓	✓	✓	✓
ECGD (UK)	100% Above Standard Guarantee	✓	✓	✓	✓	✓	✓	✓
EDC (Canada)	Standard Direct Loan	✓	✓	✓	✓	✓	✓	✓
Euler-Hermes (Germany)	95% Below Standard Insurance	✓	✓	✓	✓	✓	✓	✓
JBIC (Japan)	Standard Direct Loan	✓	✓	✓	✓	✓	✓	✓
NEXI (Japan)	97.5% Below Standard Insurance		✓	✓	✓	✓	✓	✓
Sace (Italy)	95% Below Standard Insurance	✓	✓	✓	✓	✓	✓	✓
US Ex-Im Bank	100% Above Standard Guarantee	✓	✓	✓	✓	✓	✓	✓

**Conditional insurance products where post-default interest is not covered are considered "Below Standard." Conditional insurance products or direct loans where post-default interest is covered are classified as "Standard." "Above Standard" refers to unconditional coverage.

Exporter and Lender Survey Results

Only a handful of survey respondents had any experience with Ex-Im Bank's project finance program. Within this limited group, recommendations focused on Ex-Im being more flexible in its approach to structuring projects as well as offering a more expedited process. In addition to the survey respondents, project sponsors, who are responsible for the development and procurement decisions in project finance deals, are highly complimentary of Ex-Im Bank's Project Finance Division and feel that the Bank is easy to work with.

Conclusion

The project finance industry is cyclical in nature and is affected by the strength of the world economy and of key industries. Thus, over the past five years, there has been a high level of volatility in the number and dollar volume of project financings. Despite the volatility in the worldwide project finance arena, Ex-Im Bank continues to be a significant player in the ECA project finance arena. Ex-Im Bank's project finance program is therefore fully competitive with those offered by the other G-7 ECAs.

