

*International Finance Course*  
LUISS Guido Carli, Academic Year 2017-2018

---

*How to Analyse, Structure and Finance direct  
investments in real assets abroad with a project  
finance approach*

by  
Federico Merola ("**FM**")  
(19th November 2018)

---

# Financing the Deal: Syndicated Loans and Bond Issues

## 2. Financial Structure in a PF Deal: potential roles for a bank in a PF deal

---

Funding an international PF deal is extremely complex and in both cases (syndicated loans and project bonds) the size and complexity require a large number of banks dividing all the major roles in structuring the debt:

- ✓ Advisors;
  
- ✓ Arranger, Lead Arranger, Co-Arranger;
- ✓ Underwriter/Lenders;
- ✓ Agent;
  
- ✓ Guarantor;
- ✓ Trustee.

## 2. Financial Structure in a PF Deal: potential roles for a bank in a PF deal

**Table 6.1** Types of Service Proposed by Financial Intermediaries

Advisory (consultancy services)	<ul style="list-style-type: none"><li>• Analysis of technical aspects (together with technical advisors)</li><li>• Analysis of regulatory and legislative aspects (together with lawyers)</li><li>• Due diligence reporting as regards parties involved in the deal</li><li>• Development of assumptions for risk allocation</li><li>• Preparation of the business plan and performing sensitivity analyses</li><li>• Establish financial requirements and methods to fund these</li><li>• Identify methods to obtain debt and equity capital</li><li>• Organize and negotiate terms of financing (arranging)</li><li>• Organize and negotiate terms of bond issues (global coordination)</li></ul>
Lending (financing services)	<ul style="list-style-type: none"><li>• Granting bridge financing</li><li>• Underwriting bank financing</li><li>• Granting pool financing (lending)</li><li>• Granting leasing for plant</li><li>• Contribute to equity</li><li>• Contribute to mezzanine finance</li><li>• Issuing guarantees and letters of credit</li><li>• Technical management of relations with the SPV</li><li>• Agency, maintaining documentation, monitoring use of funds by the borrower</li></ul>

---

# The Financial Advisor

### 3. The Financial Advisor

---

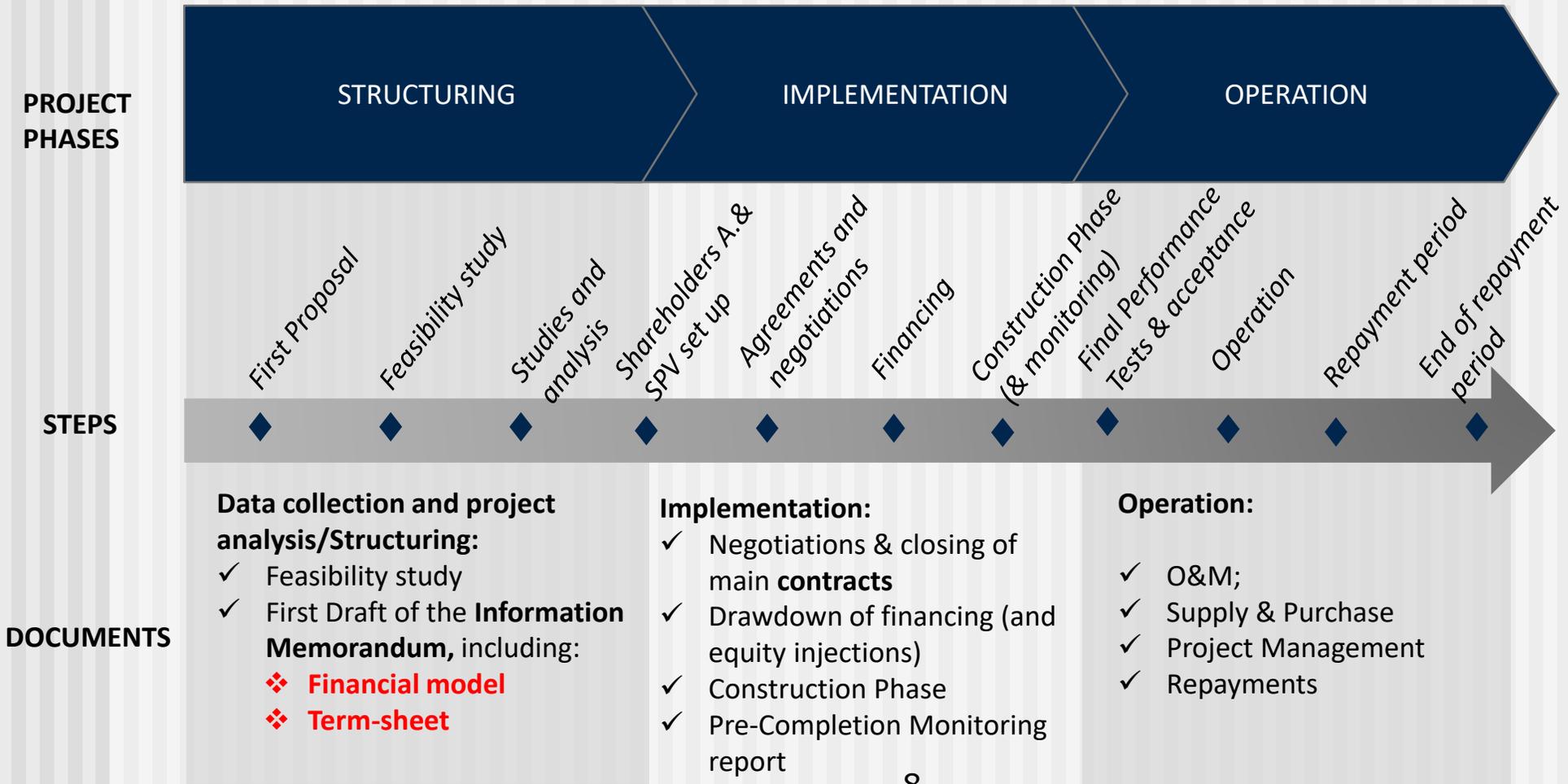
- In an international PF deal there are usually more than one Financial Advisor (“**FA**”), very often a bank (**investment bank or commercial bank?**) but also specialised advisory firms;
- Typically the FA supports the following players:
  - ✓ the SPV and its shareholders;
  - ✓ Public entities involved;
  - ✓ major counterparts (off takers, etc..).
- The initial and most important FA is the one assisting the sponsors/SPV in structuring the deal;

### 3. The Financial Advisor

---

- The FA has to support the SPV in various activities including:
  - ✓ assessing the risk analysis of the deal;
  - ✓ structuring the best financial proposal for the project (the deal has to be “bankable”);
  - ✓ selecting the arranging banks of the deal;
  - ✓ negotiating the financial/commercial documentation;
  - ✓ etc.
- The FA of the SPV cooperates with legal, technical, tax, insurance advisors, in order to summarise all data in a document called Information Memorandum

### 3. The Financial Advisor during the life of the project

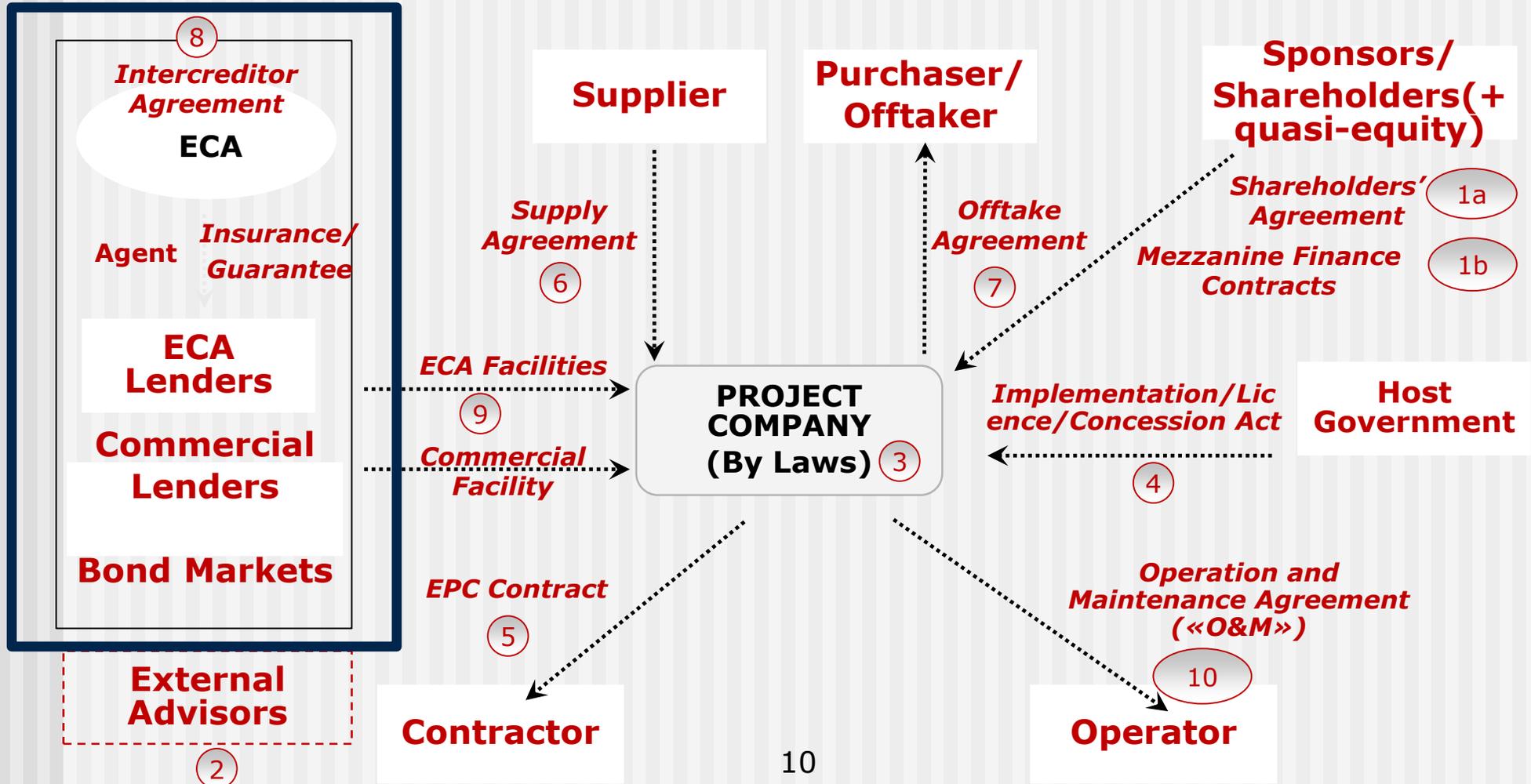


### 3. The Financial Advisor: main responsibilities

---

- Verify the feasibility, sustainability and bankability of the project
- Proposing the best financial structure of the deal
- Structuring the initial Information Memorandum of the Project to be sent to potential arranging banks (including the risk analysis, a Term Sheet of the debt financing and a Financial Model);
- Assisting the sponsors/SPV to select the arranging banks, negotiating with them major terms and conditions of a financing;
- Assisting the SPV in drafting and negotiating commercial contracts, so that they (and the Project) may be considered “bankable”;
- Assisting the Sponsors/SPV in dealing with arranging banks during the life of the project

### 3. The Financial Advisor: main responsibilities



### 3. The Financial Advisor: INFORMATION MEMORANDUM

In presenting the initiative to the proposed Arranging Bank an initial Information Memorandum has to provide the following information:

**A. GENERAL INFORMATION.**

- Executive Summary;
- Objectives;
- Organisation;
- Output/services.

**C. SPONSORS.**

- History and track record;
- Economic-Financial soundness
- Role in the Project.

**E. TECHNOLOGY.**

- Technology to be used
- Maturity and track record of the technology
- Technology providers;
- O&M

**B. MARKET.**

- Market analysis;
- Information on players and structure of the sector
- Market trends;
- Potential position of the project in the market.

**D. COST OF THE PROJECT.**

- Detailed cost assumption;
- Working Capital;
- Financial Costs;
- Other cost including cost over-runs.

**F. ENVIRONMENTAL IMPACT.**

- Analysis of the potential environmental impact;
- National and International Regulation impacting the Project
- SPV's policies on environment;
- Risk analysis of any environmental impact

### 3. The Financial Advisor: INFORMATION MEMORANDUM

---

**G. INSTITUTIONAL PICTURE.**

- Regulation impacting the project
- Tax rules;
- Licenses, permits and concessions;
- Public Authorities involvement;
- Guarantees

**I. ECONOMIC-FINANCIAL ASSUMPTIONS**

- Economic Assumptions;
- Tariffs and revenues;
- Operational costs;
- Financial Profile of the deal;
- Debt Repayment capability;
- Main economic-financial indicators

**K. GUARANTEES.**

- Guarantee provided;
- Other risk mitigations factors;
- Insurance coverage

**H. FINANCIAL STRUCTURE.**

- Equity;
- Debt;
- Terms and conditions of the Senior Debt;
- Other potential financial sources;
- ECAs and Multilateral

**J. CONTRACTS.**

- Various Contracts and social commitments;
- Concession Contracts;
- Offtaker/Purchase contracts;
- O&M & etc.

**L. PROPOSAL.**

- Offering proposal for Arranging;

### 3. The Financial Advisor: involvement in financing

---

- May a FA of the SPV participate to the financing of the project ?  
Is that advisable ?
- Usually, **the advisory service provided to the SPV does not include a financing commitment**, which would be in conflict of interest;
- Within the international markets the separation between Advisors and lenders is the most common situation, in order to avoid potential conflict of interests (specialisation model);
- However, it may happen that the Financial Advisor – when is a commercial bank – participate in the financing. In such case it would be advisable that it will just take a minor stake of the financing to reduce the impact of potential conflict of interests;

### 3. The Financial Advisor: involvement in financing

---

- At a local level, it may happen that sponsors, underestimating the risk of conflict of interests and overestimating the positive effect of having the FA committed with the project, ask to their FA to lend money;
- This solution is not advisable for sponsors

### 3. The Financial Advisor: how it is paid ?

---

- ✓ Retainer Fee: to cover costs (or part of the costs);
- ✓ Success Fee: as a % of the Debt raised (to pay the profit of the FA)

It is possible/fair to ask to a FA to take the risk of a Successful Transaction (without a retainer fee)  
???????

---

## The Arranger / Arranging bank(s)

## 4. Financial Structure in a PF Deal: debt sources

---

- ✓ Banking Loan (usually syndicated loans);
- ✓ Export Finance Loan;
- ✓ Multilateral institutions facilities;
- ✓ Institutional Investors financing (i.e. Infrastructure Debt Funds);
- ✓ Co-financing and Multi-source ECA PF facilities;
- ✓ Project Bonds.

## 4. Financial Structure in a PF Deal: Lenders

---

Commercial Banks

Multilateral Financial Institutions  
(World Bank, IFC, EBRD, EIB, ecc...)

Institutional Investors: insurance companies,  
infrastructure Debt Fund (Private Debt)

Bond Holders

Others

## 4. Financial Structure in a PF Deal: potential roles for a bank in a PF deal

---

In a PF deal you may find this statement:

«Funds provided by:

- ✓ Arranger;
- ✓ Co-Arranger;
- ✓ Book Runner;
- ✓ Underwriter;
- ✓ Lead-Manager;
- ✓ Co-Lead-Manager;
- ✓ Agent;
- ✓ ECA Agent;
- ✓ Global Coordinator;
- ✓ Regional Coordinator;
- ✓ Others.»

## 4. The Arranging bank(s)

---

- The Arranging Banks have to implement and negotiate with the SPV and its FA the financial structure of the deal, including:
  - ✓ terms and conditions of the financing,
  - ✓ its syndication strategy and
  - ✓ the Underwriting - “Final Take” structure;
- At a second stage, the ABs provide their underwriting commitment together with their syndication strategy, carry out in order to reduce the exposure and risk;

## 4. The Arranging bank(s)

---

- Usually, major international deals need a number of ABs covering major key roles in the project.
- However, at a **local level in small PF** projects you may have:
  - ✓ only **one Arranging Bank** or even
  - ✓ a so called **Club Deal**, involving just a restricted number of arranging banks (being also lenders – there may not be syndication);

## 4. The Arranging bank(s): key qualifications

---

- Financial Strength and sufficient amount of equity capital (to sustain significant commitments);
- Track record and reputation;
- Flexibility and market knowledge;
- Good International coverage on the financial markets;
- Efficiency and lower cost of debt;
- Specific capability to act in one or more than one of the roles requested).

## 4. The Arranging banks

---

In order to structure and organise a project financing, you need:

- A) **Sponsors + Advisor**: finalise a *Preliminary Term Sheet/ financial Model and Preliminary Information Memorandum*;  
Syndication strategy;  
Arrangers' selections
- B) **Arrangers**: Negotiate the Term Sheet (structure and Pricing of the financing) with availability to provide an underwriting commitment for the entire amount of the financing:
- Underwriting commitment and final syndication strategy;
  - Final Term Sheet and Information Memorandum;
  - Initial syndication
  - Documentation and final syndication

## 4. The Arranging banks

---

- The arranging banks are usually taking a full **underwriting commitment** (=commitment to provide the entire financing) with the attached risk of failing syndication;
- A **syndication** is usually carry out in order to **reduce** the actual **risk of an AB on a single transaction**;
- The **Arranging banks are diversifying their roles** and in order to provide their services in a huge and complex deal;
- For their services, the Arranging Banks are paid with **articulated fees structures + interest rates**

## 4. The Arranging banks: major roles

---

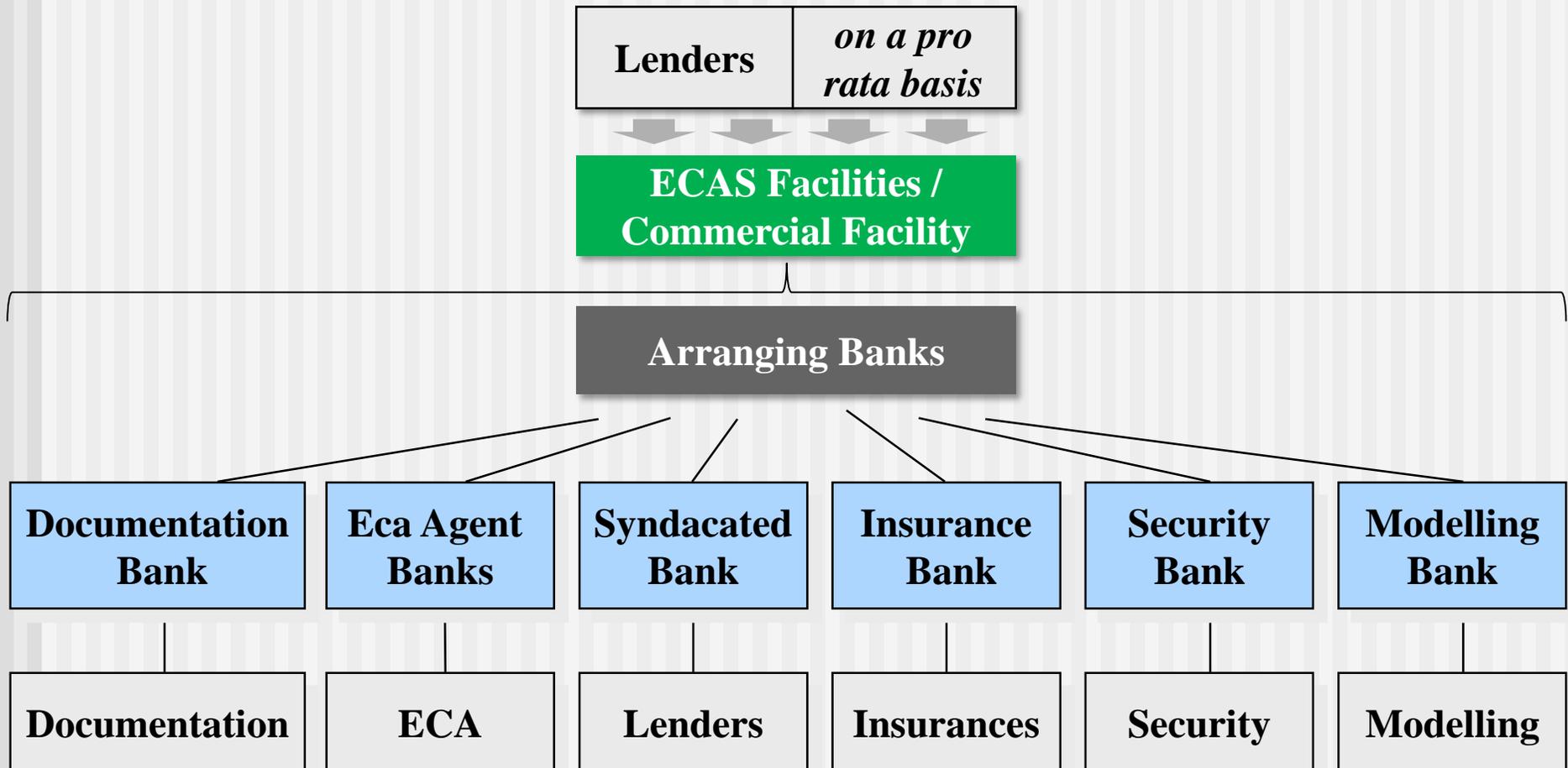
- ✓ **Senior Arranger:** supervising the arranging activities
- ✓ **Modelling Bank:** taking responsibility in structuring the financial model
- ✓ **Head of syndication:** coordinating the syndication strategy and activity
- ✓ **Agent bank:** coordinating all the financial flows related to the financing + controlling CPs to the first drawdown and CPs to each drawdown
- ✓ **ECA Agent:** negotiating Terms and conditions of its ECA's coverage + coordinating all the financial flows related to the ECA financing + controlling CPs to the first drawdown and CPs to each drawdown of the ECA Loan

## 4. The Arranging banks: major roles

---

- ✓ **Documentation Bank:** verifying and negotiation key contracts of the deal with the Legal Advisors selected by the ABs
- ✓ **Security and Insurance Bank**
- ✓ Other

## 4. The Arranging banks: major roles



## 4. The Arranging banks: underwriting solutions

---

- **Best Effort**: there is no actual commitment. The ABs just will do their best to syndicate the financing;
- **Full (partial) Underwriting commitment**: there is a commitment for entire (a portion of the) financing, shared by the Abs but jointly loable (in solid);
- **Conditional / Unconditional Underwriting commitment**: commitment with (or without) specific conditions (apart from those deriving from the agreed and signed Term Sheet);
- **Firm Commitment**: unconditional
- **Final Take**: final portion of the total financing taken by a single AB

## 4. Simple Underwriters and Lenders

---

- ❑ **Simple underwriters and lenders** are those banks simply underwriting a portion of the PF Facility structured by the Arranging banks;
- ❑ The main difference/hierarchy among various categories of underwriters is based on the entry phase and the amount of participation;
- ❑ Underwriters (lead manager, manager) arrive just after the Underwriting Commitment provided by the Arrangers (usually on a preliminary basis, just analysing the Term Sheet);
- ❑ Given that they allow the ABs to reduce their risk at an early stage, are recognised a portion of the underwriting fees got by the ABs

## 4. Simple Underwriters and Lenders

---

- ❑ Lenders comes into the deal during the final stage of its syndication, on the basis of the full legal documentation;
- ❑ Lenders may be classified on the basis of the subscribed amount;
- ❑ N.B.: Any Arranging bank is requested to keep a minimum level of **final take** over the life of the financing. Why ?

## 4. Syndication key issues

---

- ❑ Size of the deal;
- ❑ Country risk and Project Risk;
- ❑ Pricing;
- ❑ Impact on “capital allocation” of the bank to the project (weighted /unweighted Ratio);
- ❑ Financial Ratios;
- ❑ Other projects on the market;
- ❑ Placement Power

## 4. The Agent Bank

---

- ❑ The Agent bank is responsible for managing the SPV's flows and payments during the project life;
- ❑ Normally the Loan Agreement establishes that cash flows received by the SPV are credited to a bank account managed by the Agent Bank and from which the Agent Bank draws funds based on priorities assigned to various payments (cash waterfall);
- ❑ Each credit line has to have an Agent Bank verifying conditions precedent to "*first drawdown*" and "*to each drawdown*";

## 4. The Agent Bank

---

- ❑ In case of more than one credit line and more than one Agent bank, there is a generale Agent Bank coordinating the single-line Agents
- ❑ Such general Agent bank follows and coordinates the drawdown phase as well as the repayment phase, managing all various single agent banks (ECAs Agent and Commercial Loan Agent)

## 4. The Arranging bank(s): some key questions

---

- How much Underwriting the AB(s) may sell on the market during syndication ?
- What kind of role they may preserve during the life of the deal/financing ?

## 4. Abs&Lenders remuneration structure

---

<b><u>Fees</u></b>	<b><u>Description</u></b>
Spread	<i>Fixed margin added to a variable interest rate on 6 months financing</i>
Underwriting fee	<i>Fee for the commitment to underwrite the loan until a certain amount</i>
Success fee	<i>Remuneration in case of success of syndicated loans</i>
Management fee	<i>Fee for structuring, participation and management of financing</i>
Commitment fee	<i>Remuneration for the lenders' commitment (availability to draw)</i>
Agency fee	<i>Fee for services supply by the agent bank</i>

## 4. The Arranging banks: remuneration (“Fee Letter”)

---

- Underwriting Fee (Up front, as % of the commitment)
- Success Fee: (Up front, often a given amount or a % of the syndicated amount)
- Management Fee (up front, as % of the actual financing)
- Commitment Fee (on a regular basis as a % of the amount of debt still to be drawn)
- Agency Fees: up front fixed amount fee (divided in more tranches up to closing) + a fixed amount to be paid on a regular basis (it may be different pre and post-completion)

## 4. The Arranging banks: remuneration (“Fee Letter”)

---

- Plus the usual interest rate on the actual financing provided (base variable rate plus margin), diversified on different credit lines on the basis of their risk and tenor

After the sponsors have recognised the arranging fee, the mandated arranging banks may return part of their fees to other banks participating the syndicate

## 4. The Arranging/lending banks: remuneration

FEES	descrizione	Definizione	Contributo agevolato (*)
<b>1. Margine annuale</b> <i>pre-completion</i> <i>post-completion</i>	Pagabile ogni 6 mesi posticipatamente	LIBOR a 6 mesi + 2% p.a. LIBOR a 6 mesi + 1,15% p.a.	Libor 6 mesi + 1,375% Libor 6 mesi + 1%
<b>2. Management fee</b> <i>20% subito</i> <i>80% al primo tiraggio</i>	Pagata anticipatamente come % del finanziamento effettivo	2% flat	0,875%
<b>3. Success fee</b> <i>50% subito</i> <i>50% al primo tiraggio</i>	Pagata anticipatamente come importo	US \$ 300.000	Nessuno
<b>4. Underwriting fee</b> <i>40% subito</i> <i>60% ad una certa data</i>	Pagata anticipatamente e calcolata in % dell'impegno	50 b.p. flat su totale	Nessuno
<b>5. Commitment fee</b>	Pagata annualmente in % degli ammontari utilizzati	0,75% p.a.sul non utilizzato	0,375%
<b>6. Agency fee</b> <i>periodo pre completamento</i> <i>periodo post completamento</i>	Pagata annualmente secondo l'ammontare fisso prefissato	US \$ 75.000 p.a. US \$ 60.000 p.a.	US \$ 75.000 p.a. US \$ 50.000 p.a.
(*) La differenza tra quanto dovuto alle banche e quanto agevolato dallo Stato è a carico del Debitore SPV estera			

## 4. A multisource ECA's PF Facility: various ECAs

---

CESCE (Compañía Española de Seguros de Crédito à la Exportacion SA), Spagna;  
COFACE (Compagnie Française d'Assurance pour le Commerce Extérieur) Francia;  
ECGD (Export Credit Guarantee Department), Gran Bretagna;  
EDC (Export Development Corporation), Canada;  
EKN (Exportkreditnamnden), Svezia;  
EXIM Bank (Export-Import Bank), USA;  
GERG (Geschäftsstelle für die Exportrisikogarantie), Svizzera;  
HERMES Kreditversicherungs AG, Germania;  
Österreichische Exportfonds, Austria;  
MITI (Ministry of International Trade and Industry), Giappone;  
OND (Office National du Dueroire), Belgio;  
SACE (Sezione Speciale per l'Assicurazione del Credito all'Esportazione), Italia.

## 4. A multisource ECA's PF Facility: interest rate contribution

---

### **Financial Institutions providing interest rate support:**

BFCE (Banque Française du Commerce Extérieur), Francia;  
JEXIM (Japan Export-Import Bank), Giappone;  
Kreditanstalt für Wiederaufbau, Germania;  
OKB (Österreichische Kontrollbank AG), Austria;  
PEFCO (Private Export Funding Corporation), USA;  
SEK (AB Svenska Export Credit), Svezia;  
SIMEST, Italia.

## **4. International financial institutions and multilateral banks**

---

A special category of bank that very often participates actively in international syndicated loans is the international/multilateral financial institution which plays a leading role in PF deals in “developing countries”:

ADB (African Development Bank);

ADB (Asian Development Bank);

CDC (Commonwealth Development Corporation);

EBRD (European Bank for Reconstruction and Development);

EIB (European Investment Bank);

IBRD (International Bank for Reconstruction and Development);

IDA (The World Bank International Development Association);

IDB (Inter American Development Bank);

IFC (International Finance Corporation);

MIGA (Multilateral Investment Guarantee Agency);

OPIC (Overseas Private Investment Corporation).