



**FACT SHEET
EX-IM BANK'S APPROACH TO THE POLITICAL RISK ONLY (PRO)
PROCESS
FOR PROJECT FINANCE**

Project finance lenders have grown more comfortable in many emerging markets with the commercial aspects of limited recourse project financing. There has been an increase in demand for Ex-Im Bank political risk only (PRO) coverage for the term of the debt. In order to meet market demand and arrive at a transparent and cost effective process, Ex-Im Bank has created a streamlined process for its PRO coverage.

The PRO process permits Ex-Im Bank to support eligible limited recourse projects and reduces the overall time, cost and administrative burden of the review and approval process. The limited scope of PRO coverage, however, does not remove the need for due diligence. Ex-Im Bank is concerned about the credit quality of all projects, regardless of cover. In the event that a claim is paid under the PRO coverage, Ex-Im Bank's recovery prospects will depend upon the viability of the project company. The goal of the PRO process is to balance the intensive project finance due diligence requirements with the limited Ex-Im Bank role as a PRO guarantor.

The framework for the analysis and processing of project finance applications for PRO coverage is outlined below: (Please note that this fact sheet applies to those cases that are initially presented to the Project Finance Division as political risk only.)

FRAMEWORK FOR ANALYSIS

Ex-Im Bank will consider the following questions:

1. Are there aspects to the proposed project arrangements that could influence, precipitate or cause an event to occur which could result in a claim being made under the PRO Guarantee?
2. Are there industry specific issues that could result in greater political risk?
3. If a claim is made on the PRO Guarantee, is the project capable of repaying the debt?
4. Is the host country a party to an international convention or is there a project specific agreement providing some other form of government support? This could mitigate the risk of a claim being paid under Ex-Im Bank's PRO coverage or increase the likelihood of recovery after a claim is made.

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EBD-P-04

May 2001

In offering PRO cover, Ex-Im Bank will consider matters (referred to as "Ex-Im Bank Issues") which affect (a) stakeholder (notably the sponsors and Government) risk sharing, (b) identity of the sponsors (owners) and their retention of equity interest in the project, (c) financial and technical capability of all project participants, and (d) the overall structure of the commercial financing including collateral security package.

In addition, the project must comply with OECD guidelines, the requirements of Ex-Im Bank's Engineering and Environment Division, and Ex-Im Bank's policies and procedures regarding utilization.

In order to make a determination based on the Ex-Im Bank Issues listed above, the initial review and analysis will be comprehensive. Ex-Im Bank will, therefore, require complete information and documentation on all aspects relating to a project prior to the commencement of the Preliminary Project Letter (PPL) analysis.

PROCESS FOR THE PRO APPLICATION

The application process and information requirements for PRO coverage are identical to those outlined in the fact sheet "Ex-Im Bank's Approach to Project Finance" with the following clarifications:

Project Status: The project is to be substantially developed when the application is submitted. Ex-Im Bank will expect that all major project participants be identified, the major offtake agreements and fuel supply/feedstock agreements be substantially finalized, the commercial banks be selected and their term sheets be substantially executed and committed. The role of the host government and the scope of the host government support, if any, should be substantially developed.

This expedited process means that the projects seeking PRO coverage should be at a more advanced stage of development since Ex-Im Bank does not plan to be actively engaged in the day-to-day negotiations after the resolution of Ex-Im Bank's issues. By requiring the project structure to be substantially developed at the time of the initial review, Ex-Im Bank is seeking to assure that changes made by other parties to the project structure during subsequent negotiations **be minimal** so that continuous reviews are not necessary. The commercial structure may be different than a structure that Ex-Im Bank would expect to see if it were offering comprehensive cover, however, the project team will not seek to make commercial changes unless they impact the Ex-Im Issues.

Ex-Im Bank strongly recommends that applicants discuss their projects with the Business Development Group in order to assure that all required information is supplied.

It may not always be possible to wait until the project structure is substantially developed before submitting an application for Ex-Im Bank support, e.g., in competitive bid situations where U.S. exporters are competing against officially supported foreign competition. At the applicant's specific request, Ex-Im Bank may consider deviating from this approach; therefore, this requirement will be reviewed on a case-by-case basis. The time and cost for reviewing and approving a project will most likely be greater when an application is submitted to Ex-Im Bank before the project structure is substantially developed.

Financial and Legal Advisors: Both the financial advisors and outside legal (both U.S. and local) should be engaged from the start of the PPL phase. The role of Ex-Im Bank's outside counsel is expected to be more limited with PRO coverage than it traditionally has been in the transactions in which Ex-Im Bank is taking commercial risk. However; early involvement of outside counsel, should compress the evaluation time and provide a more efficient identification of Ex-Im Bank issues.

THE PPL

The initial 45 day review under the PRO coverage will be comprehensive, including a review of the project documents and structure. The review will focus primarily on the Ex-Im Issues as stated above. At the end of this 45 day period, Ex-Im Bank will issue its PPL with a focus on the Ex-Im Issues.

POST PPL

It is Ex-Im Bank's goal not to be involved in the day-to-day negotiation of the project to financial close, with the exception of the Ex-Im Issues. The applicant should be in contact with the loan officer and/or the financial advisors on a regular basis to discuss questions regarding the Ex-Im Issues. Ex-Im Bank's Office of General Counsel and the outside counsel will also monitor the progress of the transaction through periodic reviews of drafts of the major loan documents. They will also prepare Ex-Im Bank's political risk agreement and review other loan documents.

Ex-Im Bank does not intend to participate in on-going negotiating sessions to financial close except to ensure that the overall project structure satisfactorily addresses the Ex-Im Issues. The need for Ex-Im Bank, its financial advisor and/or its outside counsel to attend the financial closing to monitor any last minute changes to the documents will be determined by Ex-Im Bank on a case-by-case basis.

INFORMATION REQUIREMENTS:

The information requirements for final consideration are:

1. An executed EPC Contract, with all appendices and attachments;
2. A substantially final Acquisition List and other required "eligibility" documentation;
3. A substantially final breakdown of all project costs, including those costs associated with other financing tranches such as an Overseas Private Investment Corporation tranche, another export credit agency tranche, a multilateral tranche, etc.;

4. An updated financial model reflecting current information and assumptions, including the breakdown of project costs and the amounts reflected in the Acquisition List;
5. Substantially final forms of all project documents, blacklined against the drafts reviewed during the PPL phase; and
6. Substantially final drafts of the technical consultants' reports (engineering, environmental, fuel, insurance, etc.).