

# OPIC and Ex-Im Bank Financing Issues and Documentation

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# Hypothetical

- Client is a formerly state-owned utility in Ukraine with 20 years of operating experience; privatized 5 years ago
  - ▣ Ukrainian Government owns 25% of the utility
  - ▣ Revenues \$400M/year; net worth \$50M
- Wants to build wind farm at a cost of \$100M
  - ▣ Choice of equipment from U.S., Germany, Ukraine and Russia
- Possible Long-Term Take or Pay Contract from Ministry of Energy
- Possible Debt Guarantee from Ukrainian Bank(s) or Ukrainian Government

# Hypothetical

- Possible arrangement
  - Equity investment by a strong U.S. company with a decent track record in developing wind projects (Max. investment \$20M)
  - U.S. company could help in the development of the wind facility and is willing to establish a long-term consulting/management arrangement
- Ukrainian utility may not want to be liable for project debt; it would be willing to invest \$20M
- Applied to local banks for loan with no success



# **OPIC vs. Ex-Im: What's the Difference?**

# Objective of Financing

OPIC	EX-IM BANK
Provides financing for foreign investment transactions, involving significant U.S. equity or management participation.	Provides financing to creditworthy non-U.S. buyers of U.S. equipment and services.

# U.S. Interest

OPIC	EX-IM BANK
<p>1. Significant U.S. participation required. Satisfied where:</p> <ul style="list-style-type: none"><li>• 25% equity in the transaction owned by a U.S. business;</li><li>• Some risk assumed by U.S. lenders to the project; or</li><li>• U.S. provider of significant services, for a fee, used during the project term.</li></ul>	<p>1. U.S. goods and services required.</p> <ul style="list-style-type: none"><li>• Ex-Im Bank requires that at least 50% of the goods and services exported under a supply contract be of U.S. origin. In order to be eligible for financing, the U.S. goods being shipped by water must be transported on U.S. vessels.</li></ul>
<p>2. NO REQUIREMENT FOR U.S. GOODS AND SERVICES!</p>	<p>2. NO REQUIREMENT FOR U.S. FINANCIAL OR MANAGEMENT INVOLVEMENT IN THE PROJECT!</p>

# Financing Structures

OPIC	EX-IM BANK
1. Corporate Loan to <u>U.S. corporate sponsor</u> . (It provides collateral, if necessary.)	1. Loan to <u>foreign purchaser of goods and services</u> . (It provides collateral, if necessary.)
2. Project loan and special purpose entity involving extensive collateral. (U.S. and probably foreign sponsors support the project until it is completed and certain operational and financial tests are met.)	2. Project loan to special purpose entity involving extensive collateral. (Foreign and perhaps U.S. sponsors support the project until it is completed and certain operational tests are met.)
3. Hybrids	3. Hybrids

# Loan Coverage

OPIC	EX-IM BANK
<p>OPIC normally covers up to 60% of the total cost of the venture, but a higher loan amount may be considered in the case of a successful existing business.</p> <p>OPIC will never support more than 75% of a project's cost.</p>	<p>Ex-Im Bank loan cover is equal to the <u>lesser</u> of:</p> <ul style="list-style-type: none"><li>(1) 85% of the value of the goods and services of the U.S. supply contract and</li><li>(2) 100% of the U.S. goods and services in the supply contract.</li></ul> <p>Ex-Im Bank has entered into co-financing arrangements with other export credit agencies, in which they participate in the financing pro rata depending on the respective amounts of goods and services exported to the project.</p>

# Loan Amount

OPIC	EX-IM BANK
Maximum \$250M	No maximum amount

# Equity Requirement

OPIC	EX-IM BANK
<p>1. The project company generally must maintain a debt to equity ratio of 60 to 40.</p>	<p>1. Ex-Im Bank projects also require a significant amount of equity. 25 to 35% equity is the norm.</p>
<p>2. This ratio would not necessarily apply to a U.S. corporate sponsor if it was the borrower.</p>	<p>2. Loans to strong purchasers or those guaranteed by a strong corporate or sovereign guarantor do not require <u>any</u> equity. They do require the borrower/purchaser to make a cash payment equal to at least 15% of the U.S. supply contract.</p>

# Sources of Funding

<b>OPIC</b>	<b>EX-IM BANK</b>
OPIC and U.S. or U.S.-owned financial institutions.	Ex-Im Bank or U.S. or foreign financing institutions.

# Term

OPIC	EX-IM BANK
Up to 15 years	1. Ex-Im Bank is currently only open for tenors of 7 years or less for Ukrainian transactions.
	2. Up to 18 years (Special tenor for alternate energy facilities).

# Cost

<b>OPIC</b>	<b>EX-IM BANK</b>
A recourse loan to a borrower will be much quicker and cheaper than a project loan which exponentially increases the cost to the sponsors.	Same.

# Additionality

OPIC	EX-IM BANK
Required.	Required.

# Experience in the Industry

OPIC	EX-IM BANK
1. In a loan to a U.S. corporate sponsor – OPIC would look primarily to the ability of borrower to repay.	1. In a loan to a foreign purchaser of goods and services – Ex-Im Bank will focus primarily on its ability to repay the loan.
2. In a project loan, the experience of the participants is crucial.	2. Same.

# Adverse Effects on U.S. Economy

Closing of U.S. operations, decline of U.S. employment or fall within a sector that has experienced significant job loss in the U.S. and/or erosion of global market share during the past decade.

OPIC	EX-IM BANK
Required.	Required.

# Environmental Assessment

OPIC	EX-IM BANK
Required.	Required.

# Project Economics

OPIC	EX-IM BANK
1. Project Structure – Power Purchase Agreement is crucial.	1. Same.
2. Corporate Structure – Power Purchase Agreement less important. Greater emphasis on financial condition of the borrower and guarantor.	2. Same.

# State Ownership

OPIC	EX-IM BANK
Allowed as long as private management.	Same.

# U.S. Government-specific Provisions

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- General Comments
- Foreign Corrupt Practices
- Money Laundering & Economic Sanctions
- Suspension & Debarment
- Environmental Matters
- Self-Monitoring Questionnaire
- Labor Laws
- Lobbying

# Provisions Not in Loan Agreement

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- Confidentiality
- Indemnity



Thank you.