



## **“Infrastructure & Major Projects Financing: Structures, risks and constraints”**

December 12, 2013

# About EDC

- ▶ Canada's Export Credit Agency
- ▶ Crown corporation wholly owned by Government of Canada
- ▶ Financially self-sustaining
- ▶ Operates on commercial principles



- ▶ Served 7,427 customers in 2012, doing business across 187 countries covering over 75,000 buyers

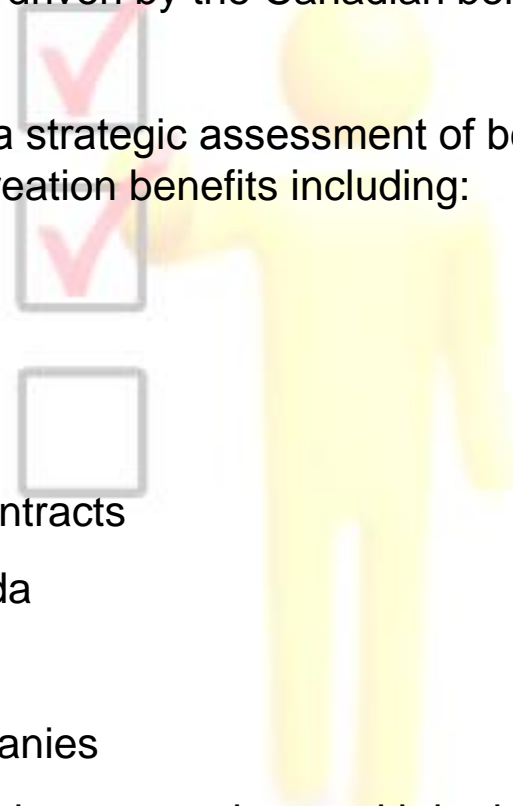
# EDC's Role



- ▶ To support and develop Canada's export trade and international business efforts
- ▶ Financing and insurance solutions for Canadian exporters and investors

# EDC Mandate and Benefits

- EDC's mandate is to support Canadian exports and foreign investments. The amount of EDC support on a project is therefore driven by the Canadian benefits as well as credit considerations.
- EDC's approach to Canadian benefits involves a strategic assessment of both immediate and longer-term Canadian wealth-creation benefits including:
  - Export of goods and services
  - Canadian foreign direct investment
  - Dividends to Canadian companies
  - Stream of future revenues under related contracts
  - Research and development levels in Canada
  - World product mandates
  - Follow-on opportunities for Canadian companies
- EDC's typical objective is to hold a level of commitment consistent with both the level of Canadian benefits in a project and the hold position of other financial institutions.



# What We Do

## ► Programs:

- Insurance
- Financial services
- Bonding products
- Small business solutions

## ► Customers:

- Canadian exporters
  - Canadians investing abroad
  - International buyers of Canadian goods/services
  - Foreign direct investors
- Work in partnership with other financial institutions



# Statement of Commitment to CSR

- ▶ At EDC we are committed to carrying out our mandate in a socially responsible manner consistent with our corporate values.

## CSR Operating Principles



Business  
Ethics



Environment



Transparency



Community  
Investment



Employee  
Engagement

## Vision / Core Values

# Connecting with Canadian Businesses Across Canada

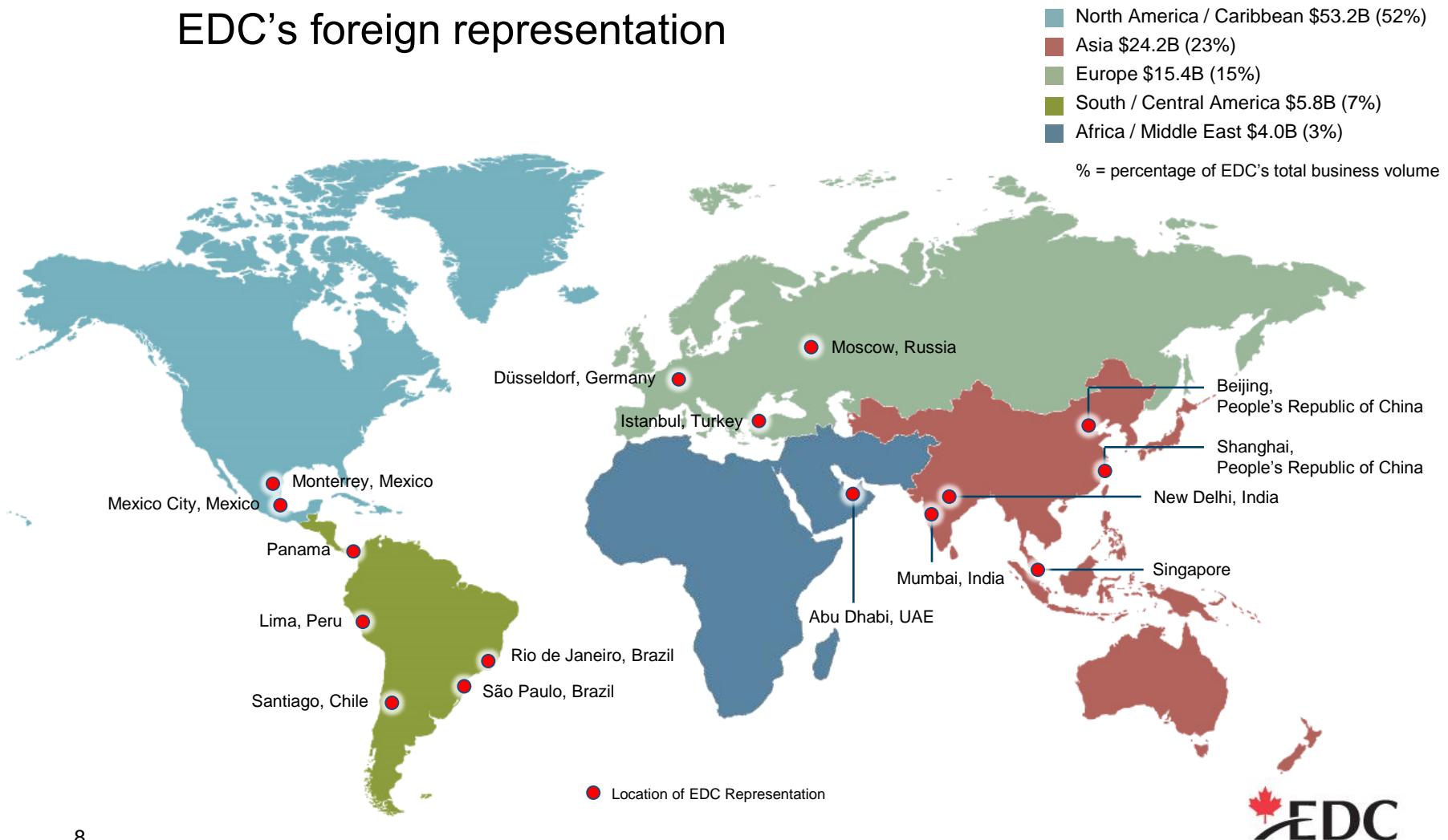
## ► 17 offices across Canada





# Supporting Business Worldwide

## EDC's foreign representation





# Financial Solutions

- ▶ Corporate lending – bilateral loans
- ▶ Structured financing – project finance
- ▶ Political risk coverage – bank syndications
- ▶ Pull deals – financing ahead of procurement

# The EDC Advantage

- Full Capital Solution

- Arranging
- Underwriting
- Political Risk Insurance

- Commercial Aptitude

- World class experience
- Timely financial close

- International Focus

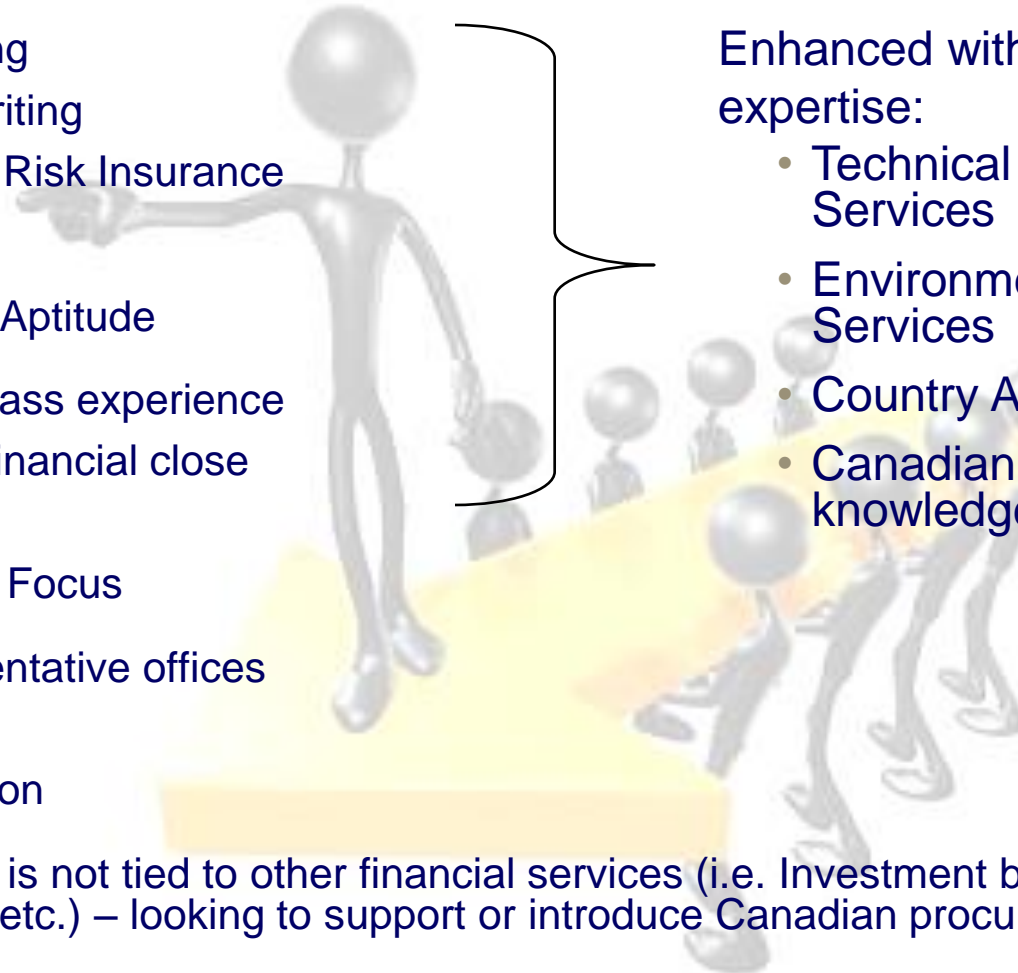
- Representative offices

- Trade Creation

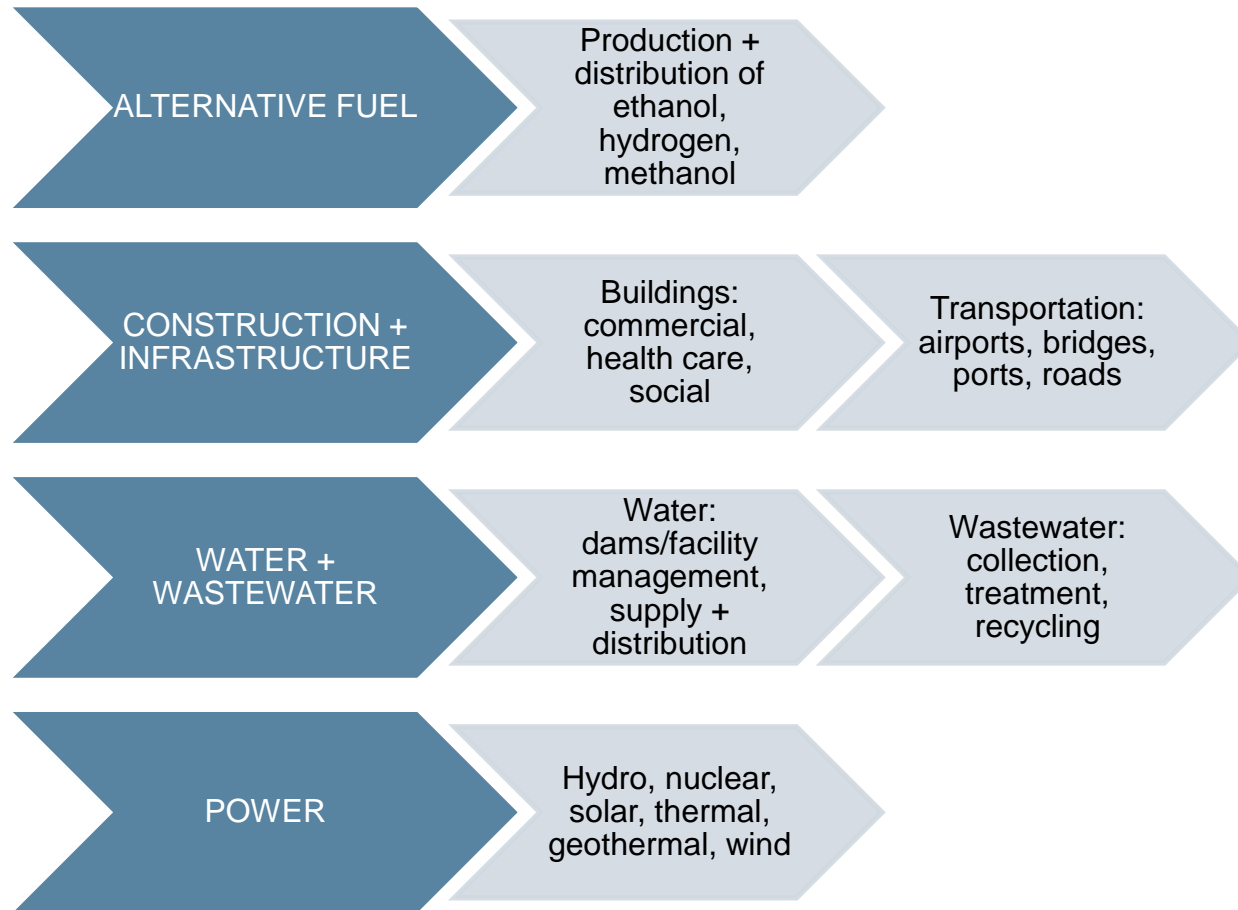
- Lending is not tied to other financial services (i.e. Investment banking, trading, etc.) – looking to support or introduce Canadian procurement

Enhanced with in-house expertise:

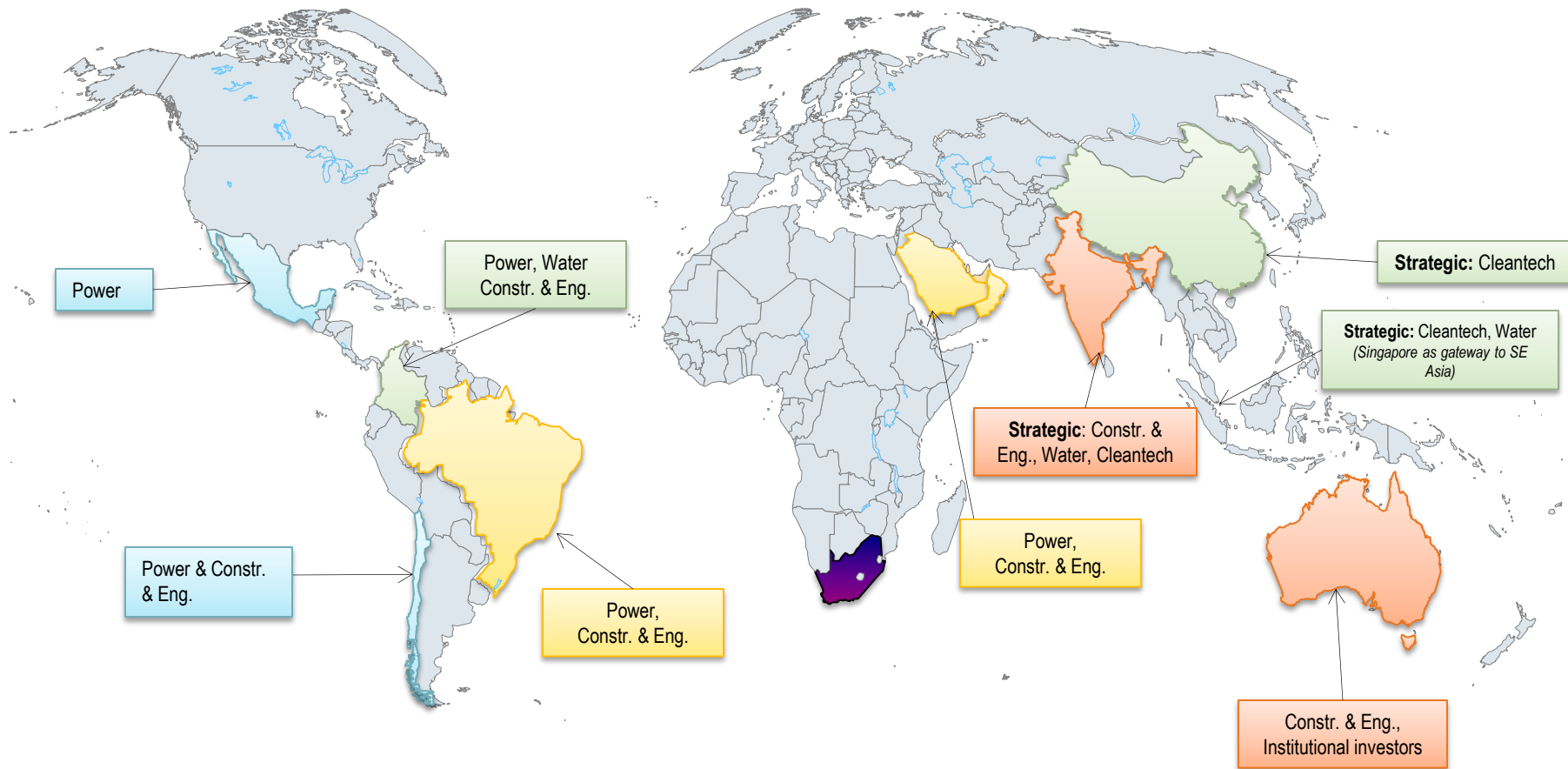
- Technical Advisory Services
- Environmental Advisory Services
- Country Analysis
- Canadian capabilities knowledge



# INFRASTRUCTURE = Priority sub-sectors



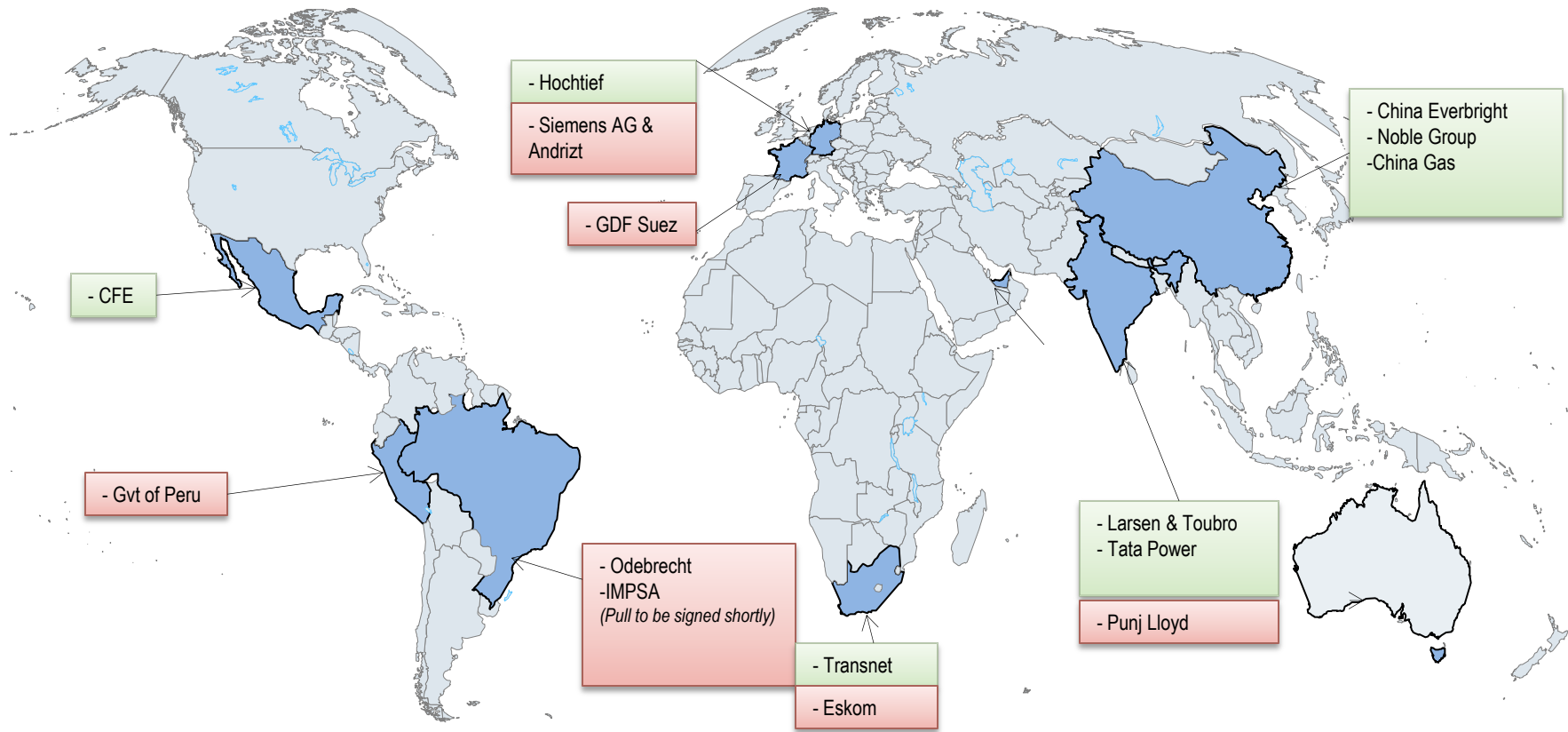
# Priority markets



Multi-sector development – established  
 Multi sub-sector focus – development  
 Sub-sector specific – established  
 Sub-sector specific – development  
 Up and coming



# Pull Transactions and ISAs



Pull transactions  
Other International Strategic Accounts



# Canadian Capabilities

- ▶ EDC has broken down its business into six broad sectors
- ▶ Benefits:
  - ▶ Deeper understanding of the underlining risks in underwriting business
  - ▶ Closer knowledge of Canada capabilities and interest
  - ▶ Building relationships across supply chains
  - ▶ Ability to innovate

# EDC's Project Finance Criteria

## **Initial considerations in reviewing a project on a preliminary basis include:**

- ▶ Canadian Benefits
- ▶ Strong Sponsor Commitment
  - Equity, strategic interest, offtake
- ▶ Viable Project
  - Technically; Economically
- ▶ Strong Cash Flow Coverage
  - Debt Service Coverage Ratio
  - Loan Life Ratio
- ▶ Country Risk
  - Macro Issues
  - Infrastructure (i.e. legal)
- ▶ Strong Participants
  - Sponsors, Offtakers, EPC'ers
  - Financially; Technically; Track record
- ▶ Adequate Return for Risks
- ▶ Other Senior Lenders Involved with EDC



# Project Finance Risks

**The identification of risks is essential in an analysis of a project financing. Key risks include:**

- ▶ **Market Risk**
  - Supply and demand assessment
- ▶ **Input Risk**
  - Fuel supply; mineral reserves, feedstock, etc
- ▶ **Construction and Development Risk**
  - Technology Risk
  - Performance Risk
    - meeting capacity requirements, etc.
  - Construction cost overruns and delays
- ▶ **Political and Regulatory/Legal Risks**
- ▶ **Currency and Foreign Exchange Risk**
- ▶ **Sponsor Risk**

# Project Finance Risks (cont'd)

- ▶ **Environmental Risk**
- ▶ **Corporate/Social - Public Consultations/Bribery and Corruption**
- ▶ **Operational Risk**
- ▶ **Insurance Coverage Risk**
- ▶ **Financing Risk**
  - Transaction Structural Risk
  - Documentation Risk
  - Underwriting / Syndication Risk

**Ultimately all tied to the underlying commercial risk of non-repayment of the loan.**

# Problems that can arise

- ▶ Construction cost overruns
- ▶ Completion delays
- ▶ Environmental problems
- ▶ Technology/Performance problems
- ▶ Inaccurate cash flow projections
- ▶ Market problems
- ▶ Political Risk/Currency and foreign exchange risk

**These problems are the best advocates for proper risk identification and a complete due diligence process.**

# Sources of Funding

## Debt Tranche

- ▶ Islamic Tranche
- ▶ Commercial Bank Tranche:
  - ▶ Local Currency Tranche
  - ▶ US Denominated Tranche
- ▶ ECA Tranche
- ▶ Multilaterals
- ▶ Government Owned Entities

## Equity Tranche

- ▶ Sponsors
- ▶ Sovereign Wealth Funds
- ▶ Investors
- ▶ Government Owned Entities
- ▶ Multilaterals (ex: IFC, EBRD...)
- ▶ MoF

# Key EDC Contact

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