

Financial Close: Challenges and Solutions

UNITED NATIONS ECONOMIC AND SOCIAL COMMISSION
FOR ASIA AND THE PACIFIC

and

Public Private Partnership Unit (UKAS), Government of
Malaysia

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Ernst & Young Infrastructure Advisory

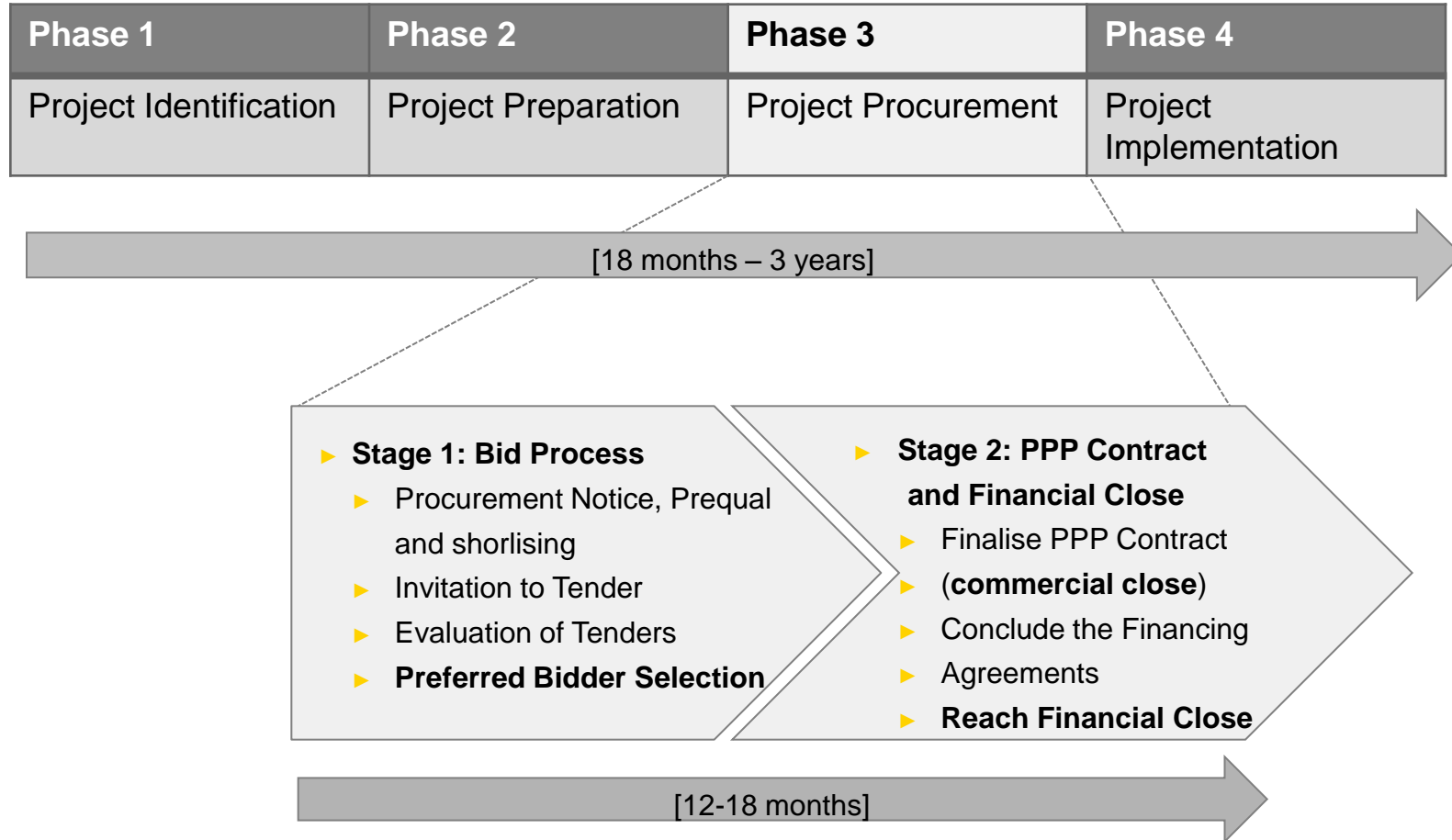
Leading PPP / Project Finance adviser

- ▶ Our Infrastructure Advisory Group is recognised as a global leader advising Governments in the PPP and delivering infrastructure projects.
- ▶ Our global team numbers more than 1,000 people worldwide has advised on more than 800 transactions and we have industry teams specialising in key sectors including:

Power	Water and Utilities	IT
Transport	Health Care	Telecoms
Education	Defence	Prisons
Waste	Urban Regeneration	Real Estate Advisory

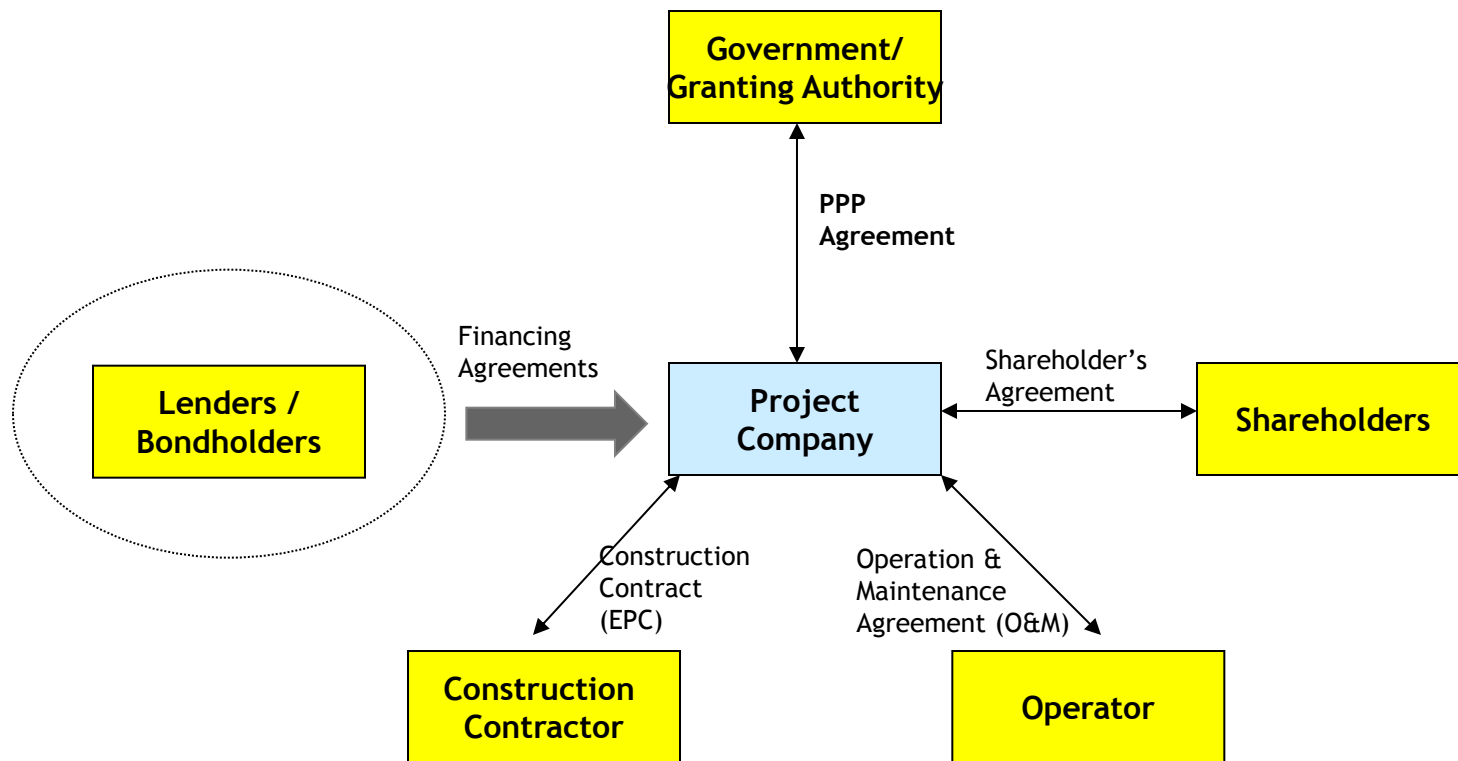
- ▶ We have more than 100 infrastructure sector advisors based in the Asia Pacific and with presence over 10 countries in Asia. Our services include:
 - ▶ Infrastructure Delivery Strategy
 - ▶ Value for Money Guidance
 - ▶ Feasibility Study and Business Case Development
 - ▶ PPP Capacity Building
 - ▶ Financing Options and Financial Management
 - ▶ Economic Analysis & Financial Modelling
 - ▶ Commercial and Financial Advisory
 - ▶ Tender Support – Options Analysis to Financial Close

Financial Close - Delivering A Project



Financial Close – Project Financing

Large infrastructure projects are usually funded using limited recourse project financing. Many project documents to be concluded to reach financial close:



Financial Close – Lenders Due Diligence

There may be many types of lender financing the project, each with different perspectives and risk appetite:

- ▶ International lenders – financial and project risks (government payment risk, project cash flow coverage ratios, credit worthy contractors, FX risk, interest rate risk, inflation risk etc)
- ▶ IFIs – bureaucratic, environmental and social requirements
- ▶ Domestic lenders – broadly in line with international lenders

They will not finance the project unless they are satisfied with the terms of the Project Agreements (including the PPP and Finance Agreements) and the associated risk allocation

Will not permit loans to be drawn until due diligence is satisfactory (technical, financial and legal) and financial close conditions are met.

Financial Close – What is it

What do we mean by “financial close”?

In international project finance transactions the common definition of financial close is:

When the project documentation has been executed and the conditions precedent have been satisfied or waived. Drawdowns of the loan will then be now allowed.

Conditions precedent (CPs) are conditions/matters that must be dealt with before the bidder is allowed to draw on the loans. They will be listed in the loan agreement and the PPP Agreement.

Financial Close – PPP Agreement

CPs in the PPP Agreement may include:

- ▶ Financing in place eg Financing Agreements agreed and CPs executed
- ▶ Land Agreements executed eg Leases
- ▶ Required insurances obtained
- ▶ Developer has been granted access to Land
- ▶ Independent Engineer appointed
- ▶ All necessary approvals / permits for construction have been received
- ▶ Performance Bonds in place

Financial Close – Loan Agreements

CPs in the Loan Agreement may include:

- ▶ PPP Agreement signed and effective
- ▶ Granting Authority resolution or equivalent approving execution of PPPA
- ▶ Direct Agreement with Granting Authority is signed and effective
- ▶ Other security documents received (eg share pledge, assignment of project documents, guarantees)
- ▶ All government consents, approvals and licenses have been obtained
- ▶ Projects insurances obtained
- ▶ Legal opinions received
- ▶ Construction/EPC contracts agreed
- ▶ Other major procurement contracts agreed
- ▶ Evidence of equity subscription docs from Sponsor (Shareholder)
- ▶ VGF agreements in place

Preferred Bidder to Financial Close – What can go wrong

Failure to agree on critical issues during negotiations:

- ▶ Unrealistic expectations and deadlines
- ▶ Too many “open” commercial issues at PB stage
- ▶ Change in political support
- ▶ Grantor does not understand issues, lack of consensus, no stakeholder consensus
- ▶ Bidder consortium members on unable to agree to risk allocation (eg between EPC contractor and operator)
- ▶ Project becomes unaffordable

Failure to meet CPs:

- ▶ Delays in government consents and approvals
- ▶ Social and Environmental Safeguards in place
- ▶ Land Agreements and Access rights granted

Preferred Bidder to Financial Close – What can we do

- ▶ Determine the approach from Preferred Bidder to Financial Close eg
 - ▶ No Negotiation
 - ▶ Competitive Negotiation
 - ▶ Negotiate with the Preferred Bidder
 - ▶ Additional Bidding Round
- ▶ Appropriate Risk Allocation / Institutional Framework in place
- ▶ Empower the government project team to deliver the Project – clarity on approvals and representation from different agencies
- ▶ Identify government obligations / conditions precedents to achieve Financial Close
- ▶ Seek buy in and consents from other agencies / stakeholders as necessary in a timely manner
- ▶ Plan and prepare sufficient time and process to meet all the CPs / Financial Close requirements in timely manner
- ▶ Work with Experienced Advisers (Technical, Legal and Financial) and PPP Unit
- ▶ Capacity Building

How EY works with Governments to successfully deliver Projects

- ▶ Options Analysis
- ▶ Feasibility Analysis
- ▶ Economic, Affordability and Financial Analysis
- ▶ Assessment of Private Sector Interest
- ▶ Develop Reference Project
- ▶ Develop Commercial Principles
- ▶ Risk Analysis
- ▶ Develop PPP Partnership Model
- ▶ Payment/Monitoring Mechanisms
- ▶ Scenario Testing
- ▶ Market Sounding
- ▶ Develop the Public Sector Comparator
- ▶ Contract Packaging and Tender Strategy
- ▶ PPP Contract Development
- ▶ Develop the Finance Plan
- ▶ Develop the Tender Strategy, Documents and Evaluation Criteria
- ▶ Develop the Shadow Bid Model
- ▶ Bid Evaluation
- ▶ Negotiation with the Preferred Bidder
- ▶ Financial close procedures
- ▶ Operational / Performance related input
- ▶ Project monitoring /management (financial and commercial)

Phase 1	Phase 2	Phase 3	Phase 4
Project Identification	Project Preparation	Project Procurement	Project Implementation

THANK YOU

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