Security & Sustainable Development

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> "POLITICAL RISK CAN INCLUDE A GOVERNMENT COUP D'ÉTAT THAT WOULD JEOPARDIZE ALL ASPECTS OF A PROJECT"
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THE MILLENNIUM DEVELOPMENT GOALS

1: Eradicate extreme poverty and hunger
2: Achieve universal primary education
3: Promote gender equality and empower women
4: Reduce child mortality
5: Improve maternal health
6: Combat HIV/AIDS, malaria and other diseases
7: Ensure environmental sustainability
8: Develop a Global Partnership for Development

PROJECT FINANCE AND Leasing Structures

Tools To Fuel Economic Growth Of Developing Countries

BY TRACY A. BADCOCK, OVERSEAS LEASE GROUP, INC.

> 'THE MORE RISKY THE ENVIRONMENT, THE HIGHER THE COSTS MAY BE TO FINANCE'

PROJECT FINANCE ALLOWS for the development of power and electricity facilities; oil, gas and mineral mining; water supply and waste management; telecommunications and vital infrastructure creation that countries need for economic growth and stability. Investopedia explains project financing is a loan structure that relies primarily on the project's cash flow for repayment, with the project's assets, rights, and interests held as secondary security or collateral. Without this tool, many countries would not be emerging to build civilization, operate financially and trade with the world. Generally, Project Finance includes a sculpted structure of financing that meets the various requirements of a project inclusive of construction, assets, and operation. These types of Project Finance schemes are usually large scale and expensive. Universal Project Finance is based on funding of the tangible assets in conjunction with the worthiness of the deal dictated by the forecasted cash flow expected for debt repayment.

Some multinational companies will limit risk involvement when they are part of a Project Finance format within a developing nation suffering from a weak economy. Companies utilize banks, Export Credit Agencies "ECA" (World Bank, International Monetary Fund, etc.), or other sponsors willing to adopt a role in the financing of the assets required, the construction and in some circumstances, the management operation of their projects. Multinational companies bidding on the projects often lease equipment assets for the duration of the project allowing them the use the equipment for the term of the project without having to purchase outright before the project begins. Overseas Lease Group, Inc. has worked with numerous commercial companies so that their leased equipment assets are an actual "cut-out" of the overall Project Finance deal they have directly with the sponsor (Governments, Government Agencies, etc.) Projects created by host governments of developing countries with poor, but emerging economies, may be intricate regarding the Project Finance platforms and the approach utilized. The Build Operate and Transfer ("BOT") approach includes the Build Operate and Own ("BOO") and the Build Lease and Transfer ("BLT") formats. The BOT generally includes a formal bidding structure to obtain the contractors and operators that will assume all project risks, arrange the financing for the equipment and actually operate the project according to the contracted date that the country assumes the day to day operations. For example, a government of Sub-Sahara Africa requires an urban street lighting project and they announce requests for bidding to include the assets, the construction and the operation including maintenance for a period of time. The bid would include the contractor either to purchase said equipment outright or set up a lease structure as part of the Project Financing proposal. At the end of the term, the government or sponsor will own the equipment. Under the heading of a BOO structure, a private company owns all equipment and assets for eternity and they manage or operate the resource to deliver people residing within the host country. This variation can require a very long payback period for the project financing. BOO structures are utilized for such infrastructure as Water Treatment and Management, Waste Management, Electric Power, etc. In a BLT plot, a private entity builds a complete project and leases it to the government. The ownership remains with the private company and they lease the operations management to another group. Upon expiration of the lease according to pre-determined contracts, the ownership of the asset and day to day operations management are transferred to the government. Many variations of these schemes are created to suit projects specifically.

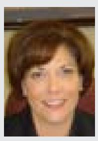
One of the most important factors to all players within the Project Finance arena is the risk involved when funding, financing, building or managing a project in a developing country. Risks that are addressed within project agreements and covered via insurance certificates include political, business, construction and monetary risks. Political risk can include a government coup d'état that would jeopardize all aspects of a project, changes in laws or regulations, price control and exchange restrictions. Communicating with local project partners may help to alleviate any or at least give for warning of any Political Risk changes on the horizon. Monetary risk ranges from inflation, foreign currency exchange, macroeconomics

and taxation fluctuation, financier breach of contract and many additional occurrences. The more risky the environment, the higher the costs may be to finance. The standard process for Project Finance in developing countries will review the risks to determine cost of financing in addition to evaluating credit rating regardless of the sponsor. (i.e. Government, Private entity, etc.) Normally, the evaluation process for Project Financing incorporates the project cash flow estimation and guarantee the monetary flow from the project will be channeled, as well as, allocated outside of the local financial system, the risk analysis and allocation, and contractual agreements that safeguard from unforeseen and expected risk challenges. Cash Flow repays the financing of a standard Project Finance deal and therefore is assessed for return on investment regarding the funding source's decision to participate. In the leasing industry, we have the "Hell or High Water" clause that covers all encompassing risk. A hell or high water clause is a clause in a contract, usually a lease, which provides that the payments must continue irrespective of any difficulties which the paying party may encounter.

The possibilities of utilizing lease structures in Project Finance are endless and can be maneuvered for each scenario. Private companies, Governments, Government Agencies, Non Governmental Agencies (NGOs) and International Non Government Organizations (IGOs) can incorporate lease financing as part of turn-key projects and Project Finance schemes. While standard Project Financing utilizes the project cash flow to repay finance debt, Overseas Lease Group, Inc. ("OLG") finance and lease structure programs are based on the financial status and credit worthiness of the government, company, NGO, etc. requiring our services. Dun and Bradstreet states, "When credit markets are tight it is especially important to keep cash reserves available for unexpected opportunities and to preserve credit line availability for emergencies. Financial consultants and accountants commonly agree that leasing is the most effective use of operating capital. Leasing lets you acquire equipment with a fixed, affordable monthly payment, leaving credit lines and cash reserves free for business development opportunities or unexpected expenses". More organizations and governments are incorporating leasing programs into their project plans. A variety of opportunities are available to match project equipment requirements. Versatile Lease Credit Facility or a Master Lease options allow for available pre-determined funds that may be accessed under an overall agreement for leasing various assets including vehicles, heavy equipment, agricultural and farm equipment, medical equipment, mobile structures, disaster relief asset reserves, or other specific assets required. Leasing offers flexibility to include logistics, specific needs for ongoing asset relocation, and internal organization sub-leasing or rental programs. Just as in general Project Finance, leasing arrangements follow a process that evaluates risk and financial grade.

As a government, company or organization, there are options available from vendors and companies regarding Project Finance and leasing options. What does all of this information mean regarding the MDGs? It means there are avenues available to assist with emerging economic growth of developing countries. In turn, these avenues facilitate the following specific MDG goals and targets, *"Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day, Achieve full and productive employment and decent work for all, including women and young people, Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources, Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss, Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation, By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers, Develop further an open, rule-based, predictable, non-discriminatory trading and financial system, Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term."*

AUTHOR



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A Lessee financial evaluation is required. Contact us directly for more information and an OLG Lessee Questionnaire.

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