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What influences the decline of a project finance request?

A decline for a project finance request is very painful, particularly if the project has invested significant resources and energy. The following articles shed some light on the subject and discuss the elements affecting a potential decline. Decline rates for loan applications in project finance within the commercial banking sector can vary significantly based on several factors, including economic conditions, the specific sector of the project, the creditworthiness of the borrower, and the risk assessment criteria of the banks. Generally, some key factors influencing decline rates are:

1. **Economic Conditions:** During periods of economic instability, banks tend to be more conservative, leading to higher decline rates.
2. **Sector-Specific Risks:** Certain sectors, such as renewable energy or infrastructure, might have lower or higher decline rates based on perceived stability and profitability.
3. **Creditworthiness of Borrower:** Stronger financials and a proven track record in project finance can lead to lower decline rates.
4. **Regulatory Environment:** Stricter regulations can lead to higher decline rates due to increased compliance requirements.
5. **Risk Management Policies:** Each bank's internal policies on risk can significantly impact the approval or decline of loan applications.

While specific percentages can be hard to pinpoint without current data, historical estimates and industry reports can provide some insights. Typically, decline rates in project finance can range from 20% to 40%, but these numbers can fluctuate based on the aforementioned factors.

Related to enhance chances in project finance, we may consider the following elements

1. Robust Project Plan

- Detailed Business Plan:
- Executive Summary: Start with a compelling executive summary that outlines the project's vision, mission, and key objectives.
- Market Analysis: Conduct in-depth market research to demonstrate demand, competitive landscape, and growth potential.
- Technical Feasibility: Provide detailed technical specifications, designs, and engineering plans to show the project's feasibility.
- Operational Plan: Outline the operational strategy, including supply chain logistics, production processes, and management structures.
- Legal and Regulatory Framework: Detail the legal structure, regulatory requirements, and compliance status of the project.

2. Strong Financial Projections

- Comprehensive Financial Model:
- Revenue Projections: Offer detailed revenue forecasts based on market data, contracts, and historical trends.
- Cost Estimates: Provide detailed breakdowns of capital expenditures (CapEx) and operating expenses (OpEx).
- Profitability Analysis: Present projected profit and loss statements, cash flow statements, and balance sheets.
- Sensitivity Analysis: Include sensitivity analysis to show how different variables (e.g., interest rates, market demand) affect project outcomes.

3. Experienced Management Team

- Professional Backgrounds: Include resumes and biographies of key team members highlighting their experience, qualifications, and previous project successes.
- Advisory Board: Form an advisory board with industry experts to provide strategic guidance and add credibility.
- Track Record: Provide case studies or examples of similar projects successfully managed by the team.

4. Solid Collateral and Guarantees

- Asset Valuation: Offer detailed appraisals of assets to be used as collateral, ensuring they are valued correctly and adequately cover the loan.
- Guarantees: Secure guarantees from creditworthy third parties or parent companies to back the loan.

5. Risk Mitigation Strategies

- Insurance Policies: Obtain comprehensive insurance covering construction risks, operational risks, and force majeure events.
- Risk Assessment: Conduct thorough risk assessments to identify potential risks and outline mitigation strategies.
- Hedging: Use financial instruments like interest rate swaps or currency hedges to manage financial risks.

6. Strong Sponsorship

- Financial Strength: Provide evidence of the sponsors' financial health, such as audited financial statements.
- Equity Stake: Demonstrate significant equity investment from sponsors, showing their commitment and reducing the lender's risk.
- Sponsor Guarantees: If possible, secure guarantees from sponsors to cover cost overruns or project delays.

7. Regulatory Compliance

- Permits and Approvals: Ensure all necessary permits, licenses, and environmental approvals are secured before applying for the loan.
- Regulatory Strategy: Develop a clear strategy for navigating regulatory requirements and maintaining compliance throughout the project's life.
- Community Engagement: Engage with local communities and stakeholders to gain support and avoid potential conflicts or delays.

8. Effective Communication

- Documentation: Maintain well-organized and easily accessible documentation for all aspects of the project.
- Clear Presentations: Develop clear, concise presentations that effectively communicate the project's value proposition and risk mitigation measures.
- Responsive Communication: Be responsive to bank queries and proactive in providing additional information or clarifications as needed.

9. Leverage Relationships

- **Networking:** Build and maintain strong relationships with bank representatives and other financial institutions.
- **Past Successes:** If you have a history of successful projects, leverage these past successes to build trust and credibility.
- **Partnerships:** Consider forming partnerships or alliances with other reputable firms to strengthen the project's standing.

10. Third-Party Validation

- **Independent Reviews:** Obtain third-party reviews from reputable engineering firms, market analysts, or credit rating agencies to validate project assumptions.
- **Due Diligence Reports:** Commission independent due diligence reports covering financial, technical, environmental, and legal aspects of the project.
- **External Audits:** Conduct external audits of the financial model and project plan to provide additional assurance of their accuracy and reliability.

Conclusion

To enhance loan acceptance chances, it's crucial to present a well-thought-out project with strong financial backing, experienced management, and robust risk mitigation measures. By addressing the above points in detail and demonstrating thorough preparation, project sponsors can significantly improve their credibility and the attractiveness of their project to commercial banks.

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