

Financial & Capital Facilitation of Joint Industrial Projects

Current Status for Financing of Projects in Iran

- From a Korean Investor's Perspective

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I

Introduction

A. Local Content Requirements

At least 51% of Total Project Costs

- In implementation of a project, the government, public organizations and entities must maximize the use of local services (e.g., construction, and installation, etc.) and local resources (e.g., goods, equipment and materials, etc.) of at least $\geq 51\%$ of the project costs. (Art 4, the Local Content Law)

Priority of Iranian Service Provider

- The order of priority in awarding contracts:
 - (1) an Iranian company (owned by Iranian natural or juridical persons)
 - (2) a foreign company (including an Iranian company with 100% foreign shareholding) or foreign-Iranian JV if appropriate Iranian company unavailable, subject to relevant authority's approval (Art 5, the Local Content Law)

Issues

- Scope of local contents
- Qualification of suppliers

B. Funding Gap

Current Positions of Korean ECAs (K-EXIM / K-Sure)

- Arrangement on Guidelines for Officially Supported Export Credits by OECD (“OECD Guidelines”) allows financing/guarantee of up to 115% of Korean contents (i.e., 49% x 115%) for a maximum period of 12 years for a project by Korean ECAs
- Risks of Snap Back
- Limitations vs. Hesitations (on Dollar payments)

Strategies of Korean financial institutions

- Increase the amount of down payment / equity investment
- Utilization of funding from World Bank / EBRD to cover the gap
- A proposed launching of a new fund to support Korean investors’ investment into Iran / Expansion of an existing fund (e.g., KOIF)
- Making available for Korean investors with USD 21 billion financial support (K-EXIM) or a definitive agreement for export insurance (K-Sure)

II

Current Status of Financial & Capital Facilitation for Projects in Iran



1. Status of Financial Package for Projects in Iran (by Korean ECAs)

- The Korean ECAs are in the process of preparing for approximately **US\$ 21 billion** financing package for projects in Iran in which Korean entities will be involved:
 - ✓ Framework Agreement – US\$ 9 billion
 - ✓ Cooperation Loan – US\$ 4.5 billion
 - ✓ EDCF Package – US\$ 1 billion
 - ✓ Advance Loan & Forfaiting – US\$ 200 million
 - ✓ Financial Cooperation Arrangement – US\$ 5.6 billion

- Financial Assistance Council (FAC) will be established to provide additional financial assistance up to **US\$ 4 billion**:
 - ✓ FAC will consist of Ministry of Strategy & Finance, K-EXIM, K-Sure, Korea Development Bank (KDB) and Korea Investment Corporation (KIC)
 - ✓ FAC will review the proposal and determine the method of financial assistance

- **Framework Agreement** – US\$ 9 billion
 - ✓ To be based on the guarantee from Iran's Ministry of Economic Affairs & Finance (MEAF)
 - ✓ To be entered between K-EXIM and Iranian commercial banks
 - ✓ Focus on Priority Projects of the Iranian Government – national importance
 - ✓ To act as a (pre-agreed) Master Agreement setting out the terms and conditions of the facilities to be provided
 - ✓ A separate Letter Agreement will be entered into for each project (to deal with the amount, the loan period and interest rate, etc.)
 - ✓ Different selection & approval process for government projects in Iran (MEAF / State Management & Planning Organization / High Economy Council / Agent Bank) vs. private projects (Agent Bank)
 - ✓ Agent Bank will be selected among Bank of Industry and Mine, Bank Mellat, Bank Pasargad, Parsian Bank, Bank Refah and Saman Bank
 - ✓ Letters of Credit to be issued by Iranian commercial banks (identical for both projects)
 - ✓ Letter of Inclusion (i.e., payment guarantee from MEAF) to be issued (identical for both projects)

- **Cooperation Loan** – US\$ 4.5 billion
- ✓ To be supported by K-EXIM for big projects which will be handled by Korean companies only or Korean consortium (together with international companies)
- ✓ To be reviewed based on bankability (profitability) of each project
- ✓ Focus on (foreign currency-based) revenue generating project vs. infrastructure project in Iran
- ✓ Oil & gas and/or petrochemical projects (by sale of own products without Iran's sovereign guarantee)
- ✓ Power projects, transportation projects and other infrastructure projects (Power purchase agreement with confirmation for tariffs / Minimum revenue guarantee for transportation or infrastructure projects)
- ✓ Korean ECAs may provide Cooperation Loan together with ECAs from another country (if a company is a consortium member or an exporter of products from such country)
- ✓ The terms and conditions of Cooperation Loan will be negotiated by and among Korean ECAs, other country's ECAs and Iranian sponsor

- **Economic Development Cooperation Fund (EDCF) Package** – US\$ 1 billion
- ✓ Works like Official Development Assistance (ODA) scheme to assist economic development of developing countries
- ✓ To be first reviewed by K-EXIM with respect to the scope of work and the costs for eligible projects
- ✓ To be approved by Ministry of Strategy and Finance (MOSF) with respect to the scope and terms of assistance required for approved projects
- ✓ Iran Government and Korean Government (i.e., Ministry of Foreign Affairs) will sign Arrangement
- ✓ KEXIM will enter into a Loan Agreement with Iran Government
- ✓ Korean companies will participate in the bidding (i.e., international tender) for those projects initiated by Iran Government

- **Advance Loan** – US\$ 200 million
- ✓ This is a re-lending from KEXIM to Iranian commercial banks (currently, Parsian Bank and Bank Pasargad)
- ✓ KEXIM will fix the amount of credit facility to such Iranian commercial banks which will then use such loan to assist Iranian customers (e.g., importers) to import required products from Korea
- ✓ To be useful for imports in auto parts, petrochemical equipment, steel products and ICT, etc.
- ✓ Duration of such Advance Loan will be limited to 2 years (maximum)
- ✓ Export/Import contract between Korean exporter and Iranian importer would be a prerequisite
- ✓ Iranian Importer would then submit a request to an Iranian commercial bank for funding
- ✓ Iranian commercial bank will submit a request to KEXIM
- ✓ KEXIM will approve the Advance Loan to such Iranian commercial bank and provide relevant terms and conditions of the Advance Loan
- ✓ Iranian commercial bank will open a Letter of Credit and KEXIM will settle the payment
- ✓ Iranian Importer will pay back to Iranian commercial bank which will then repay the outstanding amount to KEXIM

- **Forfaiting** – US\$ 300 million
- ✓ Forfaiting is a means of financing used by exporters that enables them to receive cash immediately by selling their medium-term receivables (the amount an importer owes the exporter) at a discount.
- ✓ Forfaiting eliminates risk by making the sale without recourse (i.e., the exporter has no liability regarding possible default by the importer on paying the receivables).
- ✓ The forfaiter is the entity that purchases the receivables → the importer is then obligated to pay the receivables amount to the forfaiter (which is typically a commercial bank that specializes in export financing).
- ✓ A forfaiter's purchase of the receivables, the sum of which is typically guaranteed by the importer's bank, expedites payment and cash flow for the exporter, in addition to eliminating the credit risk involved with making a sale to an importer on credit.
- ✓ Forfaiting expedites payment for the exporter and facilitates the transaction for an importer that cannot afford to pay in full for goods upon delivery.
- ✓ Forfaiting eliminates all risk of the exporter not receiving payment, including credit risk and transfer risk, as well as risks posed by foreign exchange rate or interest rate changes.

7. Financial Cooperation Arrangement

- **Financial Cooperation Arrangement** – US\$ 5.6 billion (or its equivalent in Euro)
- ✓ K-Sure will provide Financial Cooperation Arrangement in cooperation with Iran's MEAF
- ✓ Tier 1 will account for 50% of available Financial Cooperation Arrangement (with a guarantee from MEAF)
- ✓ Tier 2 will account for 30% of available Financial Cooperation Arrangement (with a guarantee from Iran's SOE)
 - More focus on the project sponsor in Iran
- ✓ Tier 3 will account for 20% of available Financial Cooperation Arrangement (with a guarantee from a private company in Iran) – More focus on the viability/bankability of the project
- ✓ Financial Cooperation Arrangement will be provided in the case of (i) Korean company acting as an EPC contractor (or sub-contractor) for the project or (ii) Korean company owning 10% or more shareholding in the business/project
- ✓ Upon consultation with K-Sure, the Korean companies will seek designation of eligible project
- ✓ K-Sure (or MEAF) will recommend such designated projects to be covered by Trade Insurance
- ✓ MEAF will determine and confirm which Tier will be applicable
- ✓ K-Sure, a lending bank and an Iranian entity will negotiate and agree on specific terms and conditions

Remarks

Thank you!

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