

Banking risk management regarding project financing**ادارة المخاطر البنكية بمناسبة تمويل المشروع****Hamida Feth Eddine Mohamed**

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Received:09/11/2024**Accepted:29/01/2025****Published:02/02/2025****Abstract:**

The role of banks in the financing of investment projects for economic institution is essential since it is the responsibility of this financial institution to set up the necessary funds for the benefit of the project manager in order to carry out this operation, which is not immune to risks. which can arise at any time during the life of the project and even beyond since the banker will then have to collect in return the cash flow brought by the incoming flows on the project account.

In this conception, the risk factor always remains present in the banker's profession since the gain is subordinated by the notion of probable risk, which requires the banker's prudence

Keywords: risk, bank, institution, financing

الملخص: ان دور البنوك في تمويل المشاريع الاستثمارية لصالح المؤسسة الاقتصادية أمر أساسي لأنه يقع على عاتق هذه المؤسسة المالية مسؤولية توفير الأموال اللازمة لفائدة مدير المشروع من أجل القيام بهذه العملية التي ليست محصنة ضد المخاطر والتي يمكن أن تنشأ في أي وقت خلال عمر المشروع وحتى بعد ذلك بحيث يصعب على البنك بعد ذلك تحصيل التدفق النقدي الناتج عن التدفقات الواردة في الحساب البنكي للمشروع. وفي هذا المفهوم يظل عامل المخاطرة حاضراً دائماً في مهنة البنك بحيث أن تحقيق الربح يخضع لمفهوم المخاطر المحتملة الأمر الذي يتطلب حذر شديد للبنك.

الكلمات المفتاحية : المخاطر، البنك، المؤسسة، التمويل

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1- INTRODUCTION

As part of the promotion of investments and economic activity through businesses; we cannot ignore the role of banks which remains crucial and essential in financing large-scale projects, because in truth credit itself is a predominant part of banking activity par excellence.

That said, since banks must contribute to the financing of investment projects, it is essential to balance the balance between the gain generated through the credit granted and the notion of risk in terms of project financing which grow automatically and which it is inseparably linked to the credit itself, in other words there is no credit without risk and there will be no gain without taking risk, that said, the banker's profession is associated with very varied and high risks.

The problem is as follows:

What are the risks incurred by the bank when financing companies in terms of investment projects and what are the means of covering them?

To approach this subject, we must first look at the set-up of the project financing operation and then secondly examine the project risks and their coverage.

The importance of the study

The importance of the study lies in knowing the most important risks that could befall the bank on the occasion of financing the project and how to manage those risks professionally and reduce their severity so that they do not negatively affect the bank's profitability on the occasion of performing its tasks.

Objective of the study:

This study examines the extent of the financing operation and the main stakeholders in the implementation of the project as well as the characteristics of the risks appropriate to the bank credit operation which can taint the relationship between the bank and its client at the during the implementation of the project while demonstrating possible solutions in order to reduce these costs according to international banking practice.

Methodology and Approach:

We followed the comparative descriptive analytical method since we proceeded to describe the texts and opinions of the doctrine in comparative law with the link to banking activity.

We will discuss this topic in two parts as follows

The first axis Setting up the Project Financing operation

The second axis the multiple risks linked to the project and their coverage

2.Setting up the Project Financing operation

In fact, any investment cannot in any case be based on the personal contribution of the partners or the project promoter, the company or the project company needs bank assistance to carry out its project, particularly this one. he must seek funds from banks, however the latter cannot give their approval to finance such a project before they carry out a certain preliminary feasibility study to grant or not the promoter financing authorization.

2.1- Bankability of the Project

The bankability of the project means in the eyes of the banks that this project presented by the company is bankable and therefore financeable on the contrary it cannot respond favorably to the request of the promoter.

the term bankability comes from Anglo-Saxon jargon, a project said to be bankable if its structure is acceptable as a basis for project financing, this acceptability presupposes the prior verification of a strong economic rationality of the project and its economic potential and also financial the objectives of the sponsors, it then assumes that the evaluation of the different risks linked to the project as identified by the lending banks as well as their final allocations between different stakeholders are considered reasonable by the banks, that they allow it to propose financing in view of the economic balance of the project and that they are compatible with the objectives of the investors¹

¹- Virginie Haubert- MC Getrick et Guillaume Ansoloni, Financement de projet, en jeux juridique et bancabilité d'une opération, édition revue banque 2011, p26

The notion of bankability, as Graham Vinter points out, is an art, and not a science, it is neither a legal reality nor a financial notion, it evolves over time and it is characterized by its subjectivity from one bank to another and from one project to another and according to sectoral customs.²

2.2Project Stakeholders

1-investors:

Whether it is a natural or legal person under private law, he must create a company dedicated to this objective and it must take the form of one of the companies provided for in commercial law, this company cannot be endowed of legal personality that after its constitution by a notarial deed and being the subject of a registration before the national trade register center of the place of its head office, it results in this that any act introduced by the said company is deemed to be commercial Likewise, it benefits from specific rules specific to commercial law such as the administration of evidence, the competent court and the rules of safeguard and reorganization or judicial liquidation which remain applicable in this regard.

In terms of project financing, investors prefer to create a company specially dedicated to their objectives, it takes the form of a capital company and this so that all the obligations which arise from it on the occasion of the work and acts carried out by it must be supported by the company itself and not by the shareholders who contribute each of them a limited fraction in financial contribution at the stage of its formation.

2-The state;

the role of the state and these emanations, that is to say the local authorities, is essential in terms of implementation and safeguarding and even the contribution of advantage to the success of the project, because in truth the promotion of investments is a task which is incumbent on the state to host the project on its soil, that said the state must do such a thing as to establish a financial legal climate that is not only attractive but stable and continuous,

² Virginie Haubert- MC Getrick et Guillaume Ansoloni, op. cit. , p 27

Graham Vinter, Project Finance : A legal guide ,swit and maxwell, 3éme édition 2007, p. 139.

likewise it remains the guarantor of this project due to the fact risks that can arise and affect the smooth running of the project at different stages, namely construction or operation.

The motivations of public promoters, that is to say the state, are essentially two:

- Delegate to the private sector missions for which the private sector is presumed to be more efficient both in terms of management and cost control and the effectiveness of carrying out the missions

- Produce equipment without burdening the finances of states or communities or their rating, in this case it is a logic of debudgeting ³

3-the Funders:

In the majority of cases, credits are granted by a single credit institution, that is to say a bank, but from the moment the operation reaches a certain amount, several banks intervene to develop a financial package to make faced with the request of the customer consortium, then they constitute what is called a banking pool⁴

The banking pool is defined as a meeting of two or more banks whose purpose is to distribute the burden of a loan granted or to be granted to a borrower⁵. This type of credit called syndicated credit was born in the United States of America after the 2nd world war and then it was established in Europe in the 70s due to lack of liquidity and the financial crisis, its purpose is to finance financing operations for large-scale projects which weigh billions of dollars, but also to saving or restructuring an economy on the verge of bankruptcy, and the financing of public

³ - ZineSekfali, Droit des financements structurés, RB édition 2004, p539

⁴ - Stéphane Piedelièvre, Emmanuel Putman, Droit bancaire, édition Economica 2011 p387

⁵ -Youmna Zein, les pools bancaire aspect juridique, édition économique paris1998, p4

⁶ -Jeans Jacques Pluchart, Article intitulé pour une approche institutionnaliste de la syndication bancaire internationale, Revue française de gestion 2004/04, N° 151, p97.

⁷ - Michel Lyonnet Du moutier et clément Fourchy, Financement de projet et partenariat public privé, 2^{ème} édition EMS mangement et société 2012, p144et s

infrastructure projects which marks the current trend⁶, such is the case with the financing of the Channel Tunnel project from which 220 European banks participate to the tune of 100 billion of francs or 13 million euros⁷

It should be observed, however, that certain highly developed economies such as the United States of America and Canada their method of financing is based on the capital market and not on conventional banks, since its advantage is linked to the reduction and distribution of risks on several intervening in the market and financial centers in terms of stocks and bonds, in addition the existence of permanent liquidity which remains very abundant, that says 92% of the economy of the usa. is based on the role of capital markets by ricochet the financing of private or public projects go hand in hand while the intervention of the latter in Europe does not exceed 42% compared to conventional banks⁸

It should be noted on this subject that the setting up of infrastructure projects, particularly public ones, can take several forms such as the traditional public market or the delegation of public services like the concession, but the current trend is emerging and focusing towards a new mode of public procurement, namely the public-private partnership with its own and specific legal regime which is totally different from the previous ones.

This mode of cooperation between public authorities and the private sector was born in 1992 in England under the name of Project Finance Initiative, sponsored by the Prime Minister at the time Mr Toni Blair, it was a government program ⁹and since it has spread across Europe and particularly in France, introduced by a law in 2004 subsequently modified in 2008, it is defined as follows:

“the partnership contract is an administrative contract by which the state or a public establishment of the state entrusts to a third party, for a period

⁸ Benoit Malapert, article intitulé le rôle de marché des capitaux dans le financement de l'économie américaine, revu d'économie financière, N° 123 octobre 2016, p 185

⁹ - Michel Lyonnet Du moutier et clément Fourchy, opcit p78

determined depending on the amortization period of the investments or the financing method chosen, a mission global project having as its object the construction or transformation, upkeep, maintenance, operation or management of equipment or intangible assets necessary for public service as well as all or part of their financing with the exception of any participation to the capital »

But for some authors it is a new mode of public management¹⁰

3. The multiple risks linked to the project and their coverage

We will see the risks of the project without examining the banking risks which are standard and applicable to any classic credit operation known to everyone, that said the risks listed below represent a burden with serious consequences which must be managed and well distributed among the stakeholders for the benefit of the banks lending the funds on the one hand, and on the other hand it is obvious to control them or even manage them well in order to safeguard the project and the relations between bank and project company.

Risk is defined as the possibility that the actual profitability of an investment is different from the profitability expected by investors, however the analysis of technical and contractual risks is essential with a matrix for identification and distribution of the latter allowing a optimization of financing conditions¹¹

3.1-identification of project risks:

1-host country risk

The notion of host country risk essentially covers the political risk due to revolutions or a cost of state, the change in regulations, these target the risks of political change in regulation and or behavior of the authorities to the

¹⁰ - Abdellah Zertiti, Article intitulé les partenariats publics privé: potentiel et limite la vie économique, revue de politique économique suisse 6/2006, p52.

Voir aussi Guillaume farde et Stéphane saussier, la diversité des partenariats publics privé, méthode et recherche mangement, économie le partenariat public privé, 1^{er} édition DE Beock juillet 2015, P36.

¹¹ - Hugues Martin Sisteron, Financement Islamique et financement de projet en France, collection étique et norme de la finance, tome 1 IRJS édition 2012,p201

detriment of investors. a project, such is the case of nationalization, expropriation, non-transferability of flows and dividends generated by the project or modification of procedures for granting administrative authorizations such as building permits or import-export.¹²

2-Revenue risk

This is a risk which occurs at the exploitation stage, that is to say that the project as a finished product is put into service except that the profitability is not there or is insufficient to cover maintenance expenses or repayment of bank debt, particularly when it is a public project such as the case of highways and dams.

3-Financial risk and Foreign Exchange risk

It is possible that the interest rate increases and the financial costs also during the operating period, since the interest rate is variable depending on the credit contract, likewise there is a risk of variation in the exchange rate when it occurs during a supply contract or purchase and sale contract where the construction costs involve separate currencies, in cash it frequently happens that investments in so-called hard currency (Dollars or Yen) produce weak currencies in this state the project has a foreign exchange risk¹³

4-the risk of additional costs and non-compliance with project completion deadlines

The risk of additional costs resulting from one or more delays in the process of carrying out a project constitutes a major risk, many projects have experienced particularly significant delays in the construction phase, this is the case of euro tunnel this risk can also arise from an underestimate of the costs of work or modifications made to the contract initially planned

Regarding the risk of non-compliance with project completion deadlines, which is mainly due to the project company or its subsidiaries for non-exogenous reasons, or force majeure, the latter must imperatively accomplish the task assigned to it. entrusted including their obligation

¹² -- ZineSekfali, opcit p543

Hervé courtot, la gestion des risques dans les projets, édition economica1998,p162

¹³ Hugues Martin Sisteron, opcit p 214

towards the project owner as provided for in the head contract or agreements between other companies intervening under penalty of financial sanctions

5- Technological risk

This risk covers in particular the lack of reliability of the technology selected for the needs of a project or when during the implementation involves technologies which are not tested due to the complexity of maintenance or operation for the work.¹⁴

3.2 -project risk coverage

this risk hedging option is very important in terms of infrastructure project financing, it must be established in advance between the stakeholders of the main contract, also distributed between the other stakeholders and the project company and which must not only be identified but also it is necessary to find optimal coverage and allocation in order to minimize these risks or even manage them well on several levels and throughout the duration of the project, this aims to carry out this project until its delivery so that it must generate revenues and gains continuously and in the long term, for this the coverage of these risks must be indicated at this stage.

1-host country risk:

The consortium the company must before concluding the contract with the state, call on specialized organizations such as The Economist Intelligence Unit which is the leader in terms of information on countries at risk, likewise the Oxford Analytica Company provides political, economic and social analyzes and presents itself as a bridge between the world of ideas and the world of business and which also provides information mainly on emerging markets¹⁵

Likewise, this risk can be covered directly or indirectly by governments, and- or by international financial institutions, but it can be improved by borrowing funds from local banks which will suffer, if project income no

¹⁴ -- Michel Lyonnet Du moutier et clément Fourchy, opcit p168

¹⁵ - Anne Marie Toledo, Paul Lignières, le Financement de projet, édition July 2002 p130

longer allows repay debts because the assets will have been expropriated, for example.¹⁶

2-Revenue risk:

It will be covered by long-term purchase contracts which secure this income risk, such may be the case of a contract with a “Take or Pay” clause at the end of which the co-contractor is bound by a firm purchase obligation. of the project company's production or a determined or minimum volume of this production, this type of contract is common in major financing of international projects, particularly in the energy or natural resources sector.¹⁷

3-Financial and Foreign Exchange risk:

In this case it is necessary to choose a fixed and not floating interest rate, that is to say variable and in the currency which will be the one in which the project income will be received, which is of interest to lenders when the income are in a strong currency but when the income is received in local currency is low such as in water distribution or road tolls while the loans are financed in foreign currency in the event of devaluation or depreciation of the local currency the gains are not able to service the bank debts, at this stage this risk can be reduced due to the use of Dollars as a transaction currency.¹⁸

4-the risk of additional costs and exceeding deadlines:

to deal with this risk of additional costs, the latter is transferred to the manufacturer, he is first asked to sign a turnkey contract at a fixed price and on a certain date, this request ensures that the infrastructure meets has operating performance in accordance with the requested specifications, and will be delivered within the expected deadlines and without exceeding the set budget, in the second stage penalties for delay or fixed damages and interest are required from the manufacturer to deal with the failure to fulfill

¹⁶ - Anne Marie Toledo, Paul Lignières, opcit p133

¹⁷ - Virginie Haubert- MC Getrick et Guillaume Ansoloni, opcit p60

Paul Lignières, Partenariats public –privé, 2ém édition Litec lexis Nexis 2005 p234

¹⁸ - Anne Marie Toledo, Paul Lignières, opcit 131

Paul Lignières, opcit p234

their obligations contractual in the event of delay or poor performance, these penalties will generally be capped at 20% to 30% of the construction amount¹⁹, because the consequences of this additional cost, in addition to the additional cost itself, lie in the increase in costs. capitalized interest implying an additional increase in the financing requirement²⁰.

5-the risk of Technology Transfer:

To resolve this risk, it can be stipulated in the main contract that the manufacturer undertakes for the benefit of the state to transmit know-how to employees and state agents through short-term internships, and to help them to properly manage this work at the maintenance and operation stage.²¹

4-Conclusion:

Finally we deduce through this modest article that investment in project matters whether private or public-private collaboration involves several stakeholders each in their own field, but remains the banker who must bear the great burden in this equation since he is the financier of this investment which is also his responsibility to control the risks linked to the project with know-how previously acquired throughout and through his experience.

Through this research paper, we have reached the most important recommendations, which we will mention below

- The necessity of continuous training for managers and employees of public banks to raise the challenge in the field of financing related to major projects in order to support the national economy and avoid lending from foreign banks in hard currency.

- The necessity of decriminalizing some of the activities carried out by banks in order to keep pace with the field of investment and attract businessmen and capital in support of the banking philosophy based on taking risks to achieve financial profit.

¹⁹ - Michel Lyonnet Du moutier et clément Fourchy opcit 163

²⁰ - Hugues Martin Sisteron, opcit p 205

²¹ - Hervé courtot, opcit p 160

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