FCC Agri-food Project Finance

Overview

FCC Agri-food Project Finance is a new lending capability established as part of the Government of Canada's National Food Security Strategy to support value-added processing and manufacturing projects.

Value-added agri-food projects can play an important role in strengthening domestic capacity and improving supply chain resilience. Many of these projects, however, are too complex or capital intensive for conventional lending.

FCC Agri-food Project Finance will provide a suite of debt financing solutions for different project types, stages and profiles. It is not a source of equity investment or grants.

What is Project Finance

Project Finance is a specialized type of financing for capital-intensive infrastructure. It is best suited for construction of new physical assets in a dedicated legal entity with high-certainty cash flows and supporting contracts.

Project Finance relies primarily on a specific project's future cash flows for repayment. This differs from standard corporate and commercial lending, which relies more on the borrower's existing business operations, financial capacity and credit strength. Because of this, Project Finance focuses on the project's economics, contractual arrangements, risk allocation and projected cash flows.

What makes Project Finance different

	Project Finance	**Corporate and Commercial Finance**
	Funding a project through an off-balance-sheet special purpose vehicle (SPV)*	Funding a project through a corporate capital raise
Accounting structure	Off-balance-sheet via SPV	On-balance-sheet
Capital tenure	Aligns with life of the project	Indefinite time horizon
Underlying financing considerations	• Future project cash flows • Contractual agreements • Risk identification and risk sharing	Corporate financial health and performance
Collateral	Project assets once developed	Existing corporate assets and cash flows
Other considerations	• Contractual relationships between sponsor, developer, and project • Beneficial for project pipeline	• Potential loss of control; especially for an early stage company • Capital structure will be impacted

A project finance structure **allows stakeholders to appropriately share risks** (through equity and debt investments) on the future success of the project while the corporate **sponsor can avoid dilution and loss of control** that is commonly associated with corporate financing.

*SPV = a new company is formed by the project sponsors to own and operate the project

Typical characteristics of Project Finance:

1. **All project assets exist in a single-purpose legal entity**. This creates a ring-fenced, stand-alone project, with the project's assets, contracts, permits and risks kept separate from the parent company or sponsor. The entity holds everything needed to develop, build and operate the project. This includes physical assets, material contracts, permits and other required elements.

2. **Underwritten to future project cash flows**. Providers of Project Finance underwrite to the ability for the project assets to reliably generate cash flow, not historical corporate performance, balance sheet strength or physical collateral. This requires extensive due diligence to identify and manage risks – usually more than would be needed for traditional corporate finance.

3. **Creditworthy contracts are the primary basis for risk management**. Project Finance uses complex and detailed contracts to manage project risk through development, construction, operations and commercialization. These contracts may include Engineering, Procurement and Construction (EPC), input/feedstock supply, product offtake/purchase, operations and maintenance, land control and required permits.

4. **No (or limited) financial and legal recourse to a parent company or sponsor**. This can improve capital efficiency for capital-intensive projects. However, projects are expected to be substantially de-risked so they can be financed on their own merits, with no or limited reliance on another organization's financial strength.

5. **Blended capital structure across development, construction and operations**. Project Finance uses a planned mix of equity, debt and, where applicable, grants. This blend supports each phase of the project, from development and construction to commissioning and long-term operation. It reflects the project's changing risk profile at each stage and the order in which capital providers are repaid.