



# PROJECT READINESS: DUE DILIGENCE AND FEASIBILITY STUDIES

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- Bankability appraisal
- Project Management and procurement plan

# INTRODUCTION

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Why is project readiness critical to a successful PPP?

- PPPs by their very nature are complex;
- Attract private sector capital;
- Many risks involved;
- Long term partnership;
- A number of key stakeholders;

# INTRODUCTION

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What is project readiness?

- Identify the project
- Register the project
- Inform the relevant finance/treasury of the expertise within that institution to proceed with a PPP
- Appoint a project officer from within or outside the institution
- Set up the project team
- Appoint a transaction advisor
- Undertake a Feasibility study

# KEY ISSUES FOR PROJECT READINESS

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## Key Issues

- Is there a need for the project?
- Are there any legal, technical, socio economic, environmental or human resource issues that impact the project?
- Is private finance required as the funding option?
- What is the optimum scope and term of the PPP contract?
- Should statutory or donor process risks be transferred to the private sector?
- Is the project affordable? Is there value for money?
- How should the project be procured and within what timeframe?

## Addressed by:

Feasibility study

Feasibility Study

Feasibility Study

Feasibility study

Feasibility study

Feasibility Study

Feasibility Study  
and Procurement  
Plan

# OBJECTIVES OF A FEASIBILITY STUDY

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- To confirm affordability of the project;
- To identify the factors that determine VFM;
- To assess the potential of a PPP to deliver VFM;
- To identify the form(s) of PPP most likely to deliver VFM;
- Assess the risks and mitigate;
- To establish the optimum scope of the PPP;
- To identify the parameters to be used to assess VFM at the procurement stage;
- To provide a sound basis for the PPP unit/Treasury/Finance to decide on procurement approach

# KEY ELEMENTS OF A PPP FEASIBILITY STUDY

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# INITIAL OUTPUT SPECIFICATION

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- Develops from objectives set out in Project Appraisal
- Outputs should be capable of being assessed against clear and measurable performance criteria
- Should reflect specific constraints on the project - eg affordability
- Provides a basis for comparing the characteristics of different PPP options
- Assists the preparation of a detailed output specification at the commencement of the procurement process



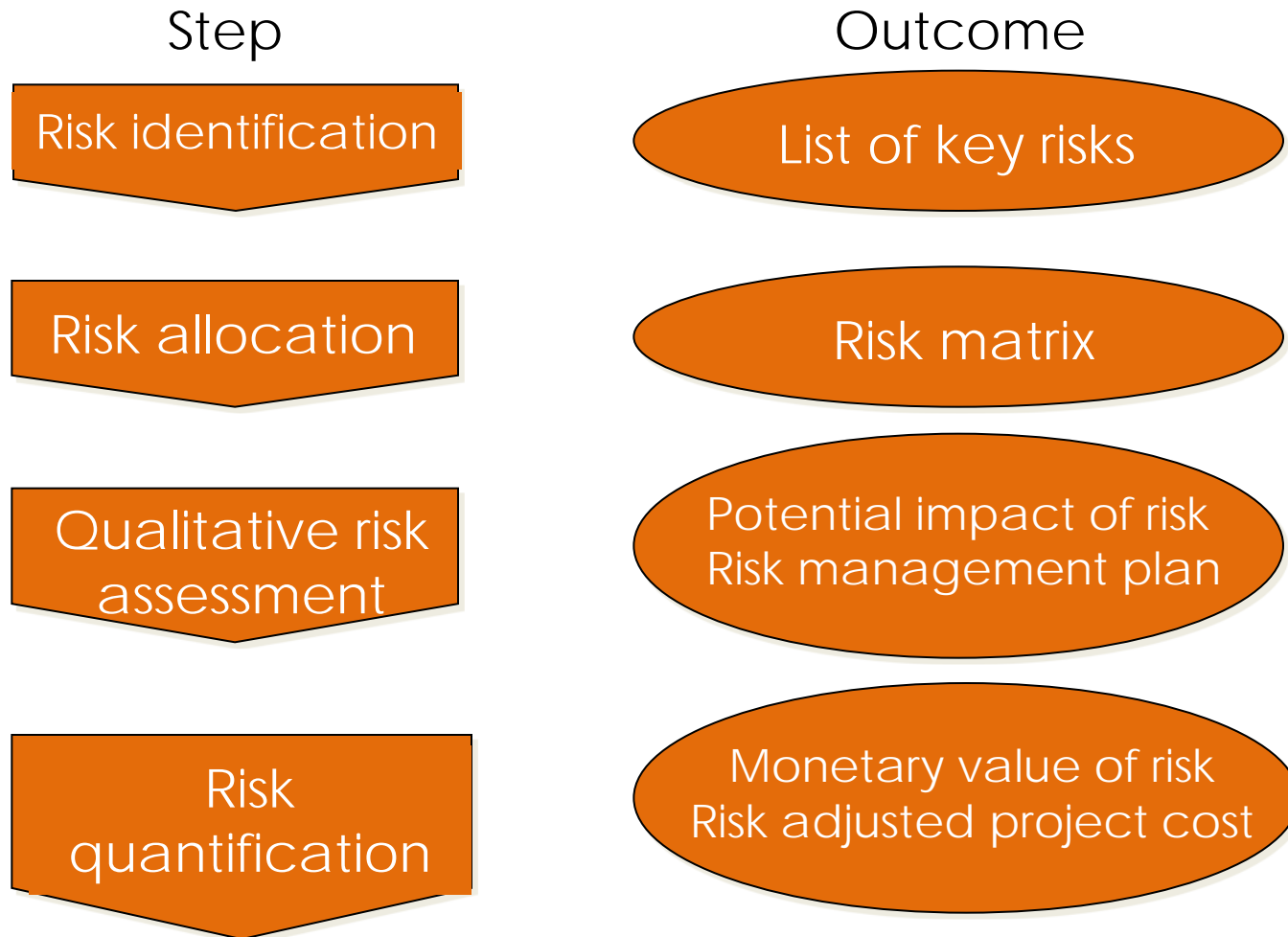
# BANKABILITY APPRAISAL

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- Required when private finance is desirable
- Assessed using precedent and market soundings
- Financiers look for projects with:
  - Contractual balance
  - Bankable and secure cashflows
  - Opportunities for innovation
  - Opportunities for financial engineering
  - Appropriate risk transfer

# PRELIMINARY RISK ASSESSMENT

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# INDICATIVE ALLOCATION OF RISK

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Risk Category	Traditional	Concession
Planning risk	✗	✗
Design risk	✗	✓
Construction risk	✗	✓
Operating risk	✗	✓
Demand risk	✗	✓
Residual value risk	✗	✓
Financial risk	✗	✓
Legislative risk	✗	✗

# AFFORDABILITY ASSESSMENT

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- Detailed costs estimates (capital, operating and maintenance) prepared
- Based on form of PPP, required user charges / service fee payments determined
- Assessed for affordability in terms of government's budget allocations over anticipated term / impact on user charges

# WHERE DOES VFM COME FROM?

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- Risk transfer (ensuring as much risk transferred as possible but the pricing is still affordable)
- Output specification (life cycle of the asset/quality/offering)
- Incentivisation
- Competitive procurement process (getting the best price/service/asset)
- Ongoing project monitoring (without this activity PPPs can become very expensive)

# VALUE FOR MONEY ASSESSMENT

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- Identify factors that represent VFM
  - risk transfer
  - reduced whole life costs
  - speed of implementation
  - quality of service
- Collate quantitative and qualitative evidence
  - precedent review → identify risk
  - market sounding → quantify risk
  - financial modelling → establish VFM
- Assess potential for value for money

# PROJECT MANAGEMENT AND PROCUREMENT

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- Project Management – scope at procurement
  - Procurement process;
  - Required approvals (internal and external)
  - Outstanding issues ie: EIA etc;
  - Stakeholders – roles and responsibilities;
  - Timetable and implementation plan;
  - Contract management
  - Budgets
  - Overcoming challenges



**QUESTIONS?**

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# COFFEE BREAK

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# ACCESSING PROJECT PREPARATION FINANCE

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# PROJECT PREPARATION

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- From 'conception to financial close'
- Importance thereof
  - Bidders
  - Funders
  - Legacy risk
- Responsible persons.
  - Procuring institution

# PUBLIC PRIVATE PARTNERSHIPS OR PPPS

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- Definition as per Treasury Regulation 16
- TR16 under the PFMA
  - Application
- Municipal PPP Regulations to the MFMA
  - Application
- National Treasury or the provincial treasury
  - Role – Issuance of approvals

# UNSOLICITED BIDS

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- Defined
- S217 of the Constitution of the Republic of South Africa
- Pros and cons
- Treasury's perspective (as per PPP manual)
- SCM Regulations
  - The purpose of the regulations
  - Deviations – Regulation 16A.6.4 under the PFMA
  - Ethics – Regulation 16A.8 and 16A.9 under the PFMA
- Relevance to project preparation

# OBSTACLES TO PROJECT PREPARATION

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- Capacity issues
- Lack of funding

# CAPACITY ISSUES

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- Lack of numbers internally
- Lack of legal, technical and/or financial expertise
- Appointment of transaction advisers
  - Regulation 16.3.1(c) under the PFMA
  - Positive impact of appointments – experience, expertise and increases chance of bankability of PPP
  - Possible consequences if no appointment – time delays, increased costs and reputational risk
- Political will

# PREPARATION FINANCE

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- Cost items - Advisory fees
- Institution's responsibility?
  - Budget allocation?
- Funding alternatives
  - DFIs (Local and other jurisdictions)
- Funding challenges
  - Application process (timing)
  - Conditions to funding
- Commonly preferred sectors



# FORMS OF PREPARATION FINANCE

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- Vanilla loan
- Grant
- Guarantees

# CATEGORIES OF FUNDING TO THE PROJECT COMPANY

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- Debt, Equity and Credit enhancements (government support)
- Equity
  - Cost of finance
  - Rationale – project risk
- Credit enhancements
  - Provider's association with the project
  - Examples, SANRAL and other PPP projects
- Debt
  - Various categories of debt – senior, mezzanine and miscellaneous
- Intercreditor issues
- Sharing in project security

# MULTI SOURCE FINANCING

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- Multiple providers of finance
- Commercial terms
  - Must be agreed and recorded in writing
- Complexity in funding structure
  - Consequences for the project company
  - Consequences for the other funders

# FACTORS TO COST OF FINANCE

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- Bankability issues
- Risk profile
  - Meaning
- Government's approach
- Bidder's approach
- Lenders' approach
- Examples of common approaches – change in law, discriminatory changes in law, heavy maintenance
- Consequences in deviating from common approaches
- Requirements for bankability
- Security concerns



**QUESTIONS?**

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# AWARDING OF CERTIFICAT ES

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# USING PROJECT PREPARATION TOOLS TO UNLOCK THE DEVELOPMENT OF PPPS

**SPECIALISED TRAINING WORKSHOP**

**FACILITATED BY:**

