PROJECT READINESS:
DUE DILIGENCE AND FEASIBILITY STUDIES

SHEILA GALLOWAY
UTHO CAPITAL
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• Bankability appraisal
• Project Management and procurement plan
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;
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

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 and Procurement Plan
OBJECTIVES OF A FEASIBILITY STUDY

• 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

- Initial Output Specification
- Affordability Assessment
- Risk Assessment
- Value for Money Assessment
- Bankability Assessment
- Legal Viability Assessment
- PPP Option Selection
- Parameters for final VFM Assessment
- Indicative Implementation Plan
INITIAL OUTPUT SPECIFICATION

• 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 - e.g. 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

- 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

**Step**
- Risk identification
- Risk allocation
- Qualitative risk assessment
- Risk quantification

**Outcome**
- List of key risks
- Risk matrix
- Potential impact of risk
- Risk management plan
- Monetary value of risk
- Risk adjusted project cost
# Indicative Allocation of Risk

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<th>Risk Category</th>
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<tr>
<td>Legislative risk</td>
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AFFORDABILITY ASSESSMENT

• 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?

- 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

• 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 ➔ quantity risk
  – financial modelling ➔ establish VFM
• Assess potential for value for money
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?
COFFEE BREAK
ACCESSING PROJECT PREPARATION FINANCE

PHOLOGO PHEKO
PARTNER, FASKEN MARTINEAU
PROJECT PREPARATION

• From ‘conception to financial close’
• Importance thereof
  o Bidders
  o Funders
  o Legacy risk
• Responsible persons.
  o Procuring institution
• Definition as per Treasury Regulation 16
• TR16 under the PFMA
  o Application
• Municipal PPP Regulations to the MFMA
  o Application
• National Treasury or the provincial treasury
  o Role – Issuance of approvals
UNSTOLEN BIDS

- 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

• Capacity issues
• Lack of funding
CAPACITY ISSUES

- 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

• Cost items - Advisory fees
• Institution’s responsibility?
  o Budget allocation?
• Funding alternatives
  o DFIs (Local and other jurisdictions)
• Funding challenges
  o Application process (timing)
  o Conditions to funding
• Commonly preferred sectors
FORMS OF PREPARATION FINANCE

• Vanilla loan
• Grant
• Guarantees
CATEGORIES OF FUNDING TO THE PROJECT COMPANY

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

• Multiple providers of finance
• Commercial terms
  o Must be agreed and recorded in writing
• Complexity in funding structure
  o Consequences for the project company
  o Consequences for the other funders
FACTORS TO COST OF FINANCE

• Bankability issues
• Risk profile
  o 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?
AWARDING OF CERTIFICATES
USING PROJECT PREPARATION TOOLS TO UNLOCK THE DEVELOPMENT OF PPPS

SPECIALISED TRAINING WORKSHOP

FACILITATED BY:

1. Gauteng Infrastructure Financing Agency
2. UTHO
3. Fasken Martineau