

ASSESSING FINANCIAL FEASIBILITY

MAJOR RISK ASSESSMENTS FOR A BUILD-OPERATE-TRANSFER PROJECT

- developer risk
- economic feasibility risk
- risk of non-completion
- market risk
- risk of feedstock supply
- production risk
- environmental risk
- sovereign risk

One of the major risks facing a prospective build-operate-transfer (BOT) infrastructure project is that the project developer will not be able to find sufficient funding to implement the project. The availability of financing also has a very strong influence on the contractual structures employed. Lenders may easily place conditions upon financing that must be considered when contractual arrangements are being finalized.

Developers of BOT projects should, therefore, seek professional financial advice at a very early stage of the project. The best advice is to lock up financing before the project proceeds too far. Ideally, this should be done before product and oil supply or feedstock contracts are finalized, and definitely before final selection of equipment suppliers.

Before proceeding with detailed risk analyses, the first consideration is whether the host government is providing a sovereign guarantee and, second, whether foreign lenders will be willing to accept the sovereign guarantee of the host country, particularly on a long-term basis. One must also consider what the real value of the sovereign guarantee is, particularly in a country where the government is providing guarantees to several projects.

A further consideration is that lenders in the international market operate under internally-established country limits. This will affect their interest in a particular project, regardless of any specific project risk analysis.

If it is determined that the sovereign guarantee of the host country is acceptable to lenders and that external guarantees against political risk are available, the evaluation of specific risks from the lender's perspective can proceed. This is sometimes called a financing risk analysis because it quantifies the possibility that the sponsor may fail to obtain funding. The following sections outline the major categories of risk to be included in this analysis.

DEVELOPER RISK

The project developer may be a single company or group of companies. A harmonious relationship between lender and developer is critical. Lenders are generally reluctant to make loans if the project developer is at all doubtful. Lenders will consider the following factors in relation to each developer:

- balance sheet strength;
- past and projected earnings performance;
- technical and managerial skills; and
- track record in similar projects.