

DEVELOPING A BUILD-OPERATE-TRANSFER PROJECT

The development of a build-operate-transfer (BOT) project requires the integration of a series of strategic financial, technical, commercial and legal processes. Project development usually includes at least six stages:

- The host government's commitment to the project is confirmed. This involves selling the project developer's credentials, as well as ensuring that the government understands the full dimensions of the BOT arrangement.
- Pre-feasibility studies to determine whether the concept presented by the host government is sufficiently feasible to proceed further.
- If pre-feasibility studies are positive, formal feasibility studies are prepared. They analyze available technologies, economic and financial viability, sources of supply and other key components. Project development company partners may be part of the initial project team, or they may be brought in to meet specific project requirements.
- Detailed engineering studies are completed to estimate project costs.
- A financing plan is developed for potential investors and lenders. The roles and credentials of the partners are identified. A lender is identified, and preliminary terms are set.
- Finally, all contracts and loan documents are completed.

The development process will take approximately 18 to 24 months before the first shovel is in the ground. There are many financial issues to be worked out. The most important considerations include allocating risk, setting up an appropriate financial structure and finding sources of financing.

BOT projects involve a type of limited recourse financing. This means financing on the basis of project risks and cash flow, with only limited recourse to, or guarantees from, the project developers.

Putting together a BOT financing package requires a series of careful analysis. A detailed risk analysis is used to assess whether all the risks will be satisfactorily allocated. An economic analysis is conducted to demonstrate that there are acceptable rates of return for the project developers. Finally, a financial analysis demonstrates adequate cash flow for the lender. This is a complex process, but one which is necessary to assure that the objectives of the lenders, governments, investors, contractors, suppliers and users have all been assessed and reconciled.