UNFCCC Hands-on training on preparing project proposals
Hotel Arnoma, Bangkok, Thailand
29 June 2007

Workbook

Preparing and Presenting Proposals

Contents

NAME _____ DATE_____

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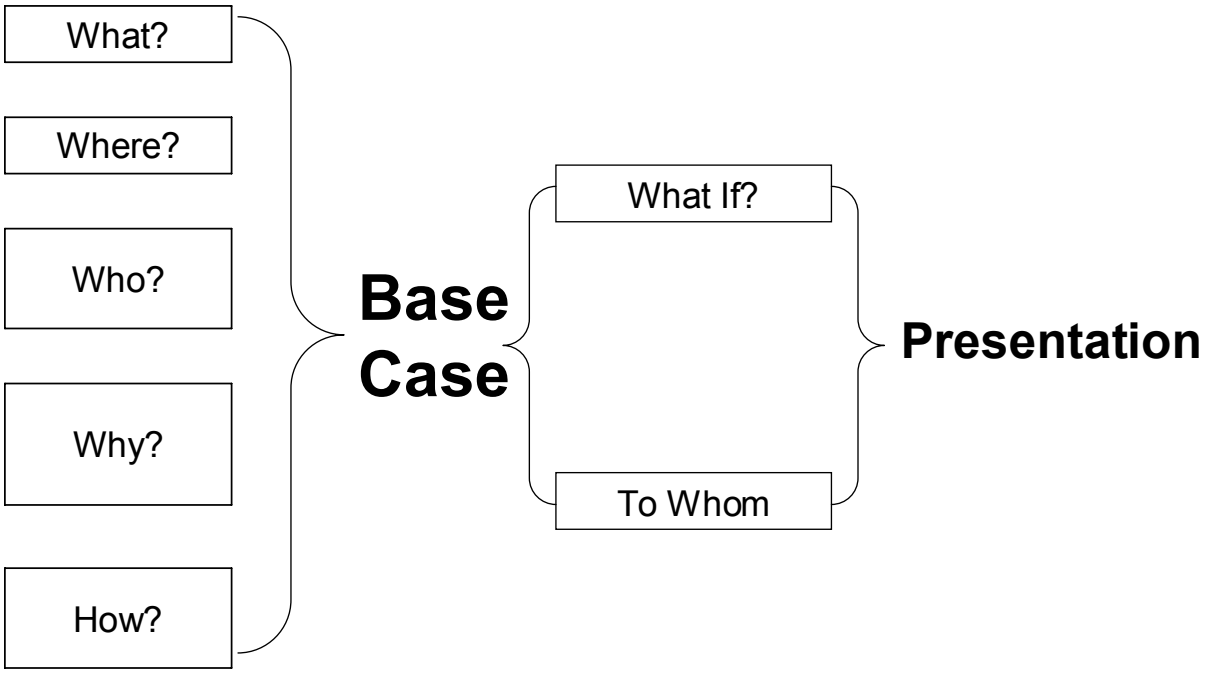
Self Assessment
I would like to improve my understanding of:

- ☐ Content and approach of the UNFCCC Guidebook “Preparing and Presenting Proposals”
- ☐ Financial and accounting concepts
- ☐ Organizing and presenting a complete and balanced proposal
- ☐ Step by step system for gathering and summarizing information
- ☐ Organized framework for evaluating a proposal
- ☐ Other:_____

Flow Chart


What?
Where?
Who?
Why?
How?
Base Case
What If?
To Whom
Presentation

Introduction

Preparing and Presenting Proposals:
A Guidebook on Preparing Technology Transfer Projects for Financing
UNFCCC 2006

- Before Preparing a Proposal
  - Seven Question Approach
  - "Champion" Self-Assessment
  - Accounting, Finance and Scheduling Concepts

- Preparing a Proposal
  - WHAT is being proposed?
    - Product, Service, Technology, Client
  - WHERE will the proposal be implemented?
    - Location, Market, Setting
  - WHO will champion the proposal and WHO else is needed?
    - Key Actors and Stakeholders
  - HOW will the proposal be implemented?
    - The Plan
  - WHY is the proposal important?
    - Benefits
  - Building a Base Case
    - Facts, Assumptions, Needed Resources
  - WHAT IF things do not go as planned?
    - Risk Assessment and Contingency Planning
  - TO WHOM is the proposal directed?
    - Matchmaking

- Presenting a Proposal
  - Types of Funding and Project Rate of Return
  - Formats
    - Introduction
    - Executive Summary
    - 3-5 Pages
    - 10-15 Pages
  - Searching, Contacting, Following Up

- Customizing a Proposal
  - Logical Framework
  - Carbon Benefit
  - Lenders
  - Investors

- Information Boxes and Lessons Learned

- Templates and Annexes

Basic Concepts

- ☐ Champion
- ☐ Enabler
- ☐ Planning, Construction and Pre-operation, Operations
- ☐ Capital Cost
- ☐ Operating Cost
- ☐ Revenue
- ☐ Capital Grants
- ☐ Operating Grants
- ☐ Loans
- ☐ Equity
- ☐ Cash Flow
- ☐ Interest, Net Present Value, Internal Rate of Return
- ☐ Project “Rate of Return”

A well-prepared proposal describes:
What? → Where? → Who? → How?→ Why? →What If? → To Whom?

Checklist

What?

- Product or service to be offered
- Technology to deliver product or service
- Client group to be provided the product or service
- Appropriateness of product, service and technology to the client group
- Resources being requested

Where?

- Physical location and characteristics where the proposal will occur
- Social → economic → demographic → cultural → income and wealth characteristics
- Regulatory framework and business climate

Who?

- Champion
- Owners and sponsors
- Governance
- Employees and staff
- Contractors and suppliers
- Approval bodies
- Stakeholders
- Advisors
- Organization structure

How?

- Current status
- Steps and schedule to completion of planning
- Steps from completion of planning to final authorization
- Steps from final authorization to beginning of construction (or roll-out of pre-operation stages)
- Steps from beginning of construction / pre-operations to completion of construction and commencement of operations
- Operations, maintenance, management, accounting and reporting plans
- Monitoring and evaluation plan
- Key contract relationships
- Financial structure

Why?

- Financial expectations
- Social and development impacts
- Environmental benefits
- Growth potential
- Replicability potential
- Other benefits

What If?

- Schedule disruptions
- Cost and revenue variances
- Output performance changes
- Key person changes
- Changes in law or regulation
- Owner, lender, investor, sponsor changes
- Staffing disruptions

To Whom?

- Customers: households, businesses, communities and specialized programs (such as carbon funds) who wish to buy all or part of the product or service being offered
- Donors: charitable institutions, governments-sponsored programs, multilateral organizations and specialized programs and organizations
- Lenders: some charitable organizations, government-sponsored development institutions and programs, specialized programs, socially responsible funds, commercial banks and other financial institutions
- Investors: partners, suppliers, contractors, government – sponsored investment companies, specialized programs and funds, venture capitalists

Base Case includes:

- Time, cost, other resources and key events to complete planning, to go from completed planning to beginning of construction or pre-operation phase and to carry out construction or pre-operation phase
- Total Cost Until Start-up and Financial Structure:
- Grants
- In-kind Services and Property
- Loans
- Investment
- Operating revenues
- Operating costs
- Cash flow from operations
- Other revenues, such as carbon benefits
- Project or Proposal Rate of Return
- Payments of interest to lenders and others
- Depreciation
- Taxes
- Payment of loan principal
- Debt Service Coverage
- Remaining cash flow
- Return on Equity to Investors

Proposal includes:

- Date
- Name of Project or Enterprise
- Location
- Champion's Contact Information
- Product or Service
- Technology
- Customers / Clients
- Current Status
- Project Size, Expected Schedule and Cost, divided between Planning, Construction or Pre-operation and Operation
- Current Needs and Request
- Market Conditions
- Operating Conditions
- Regulatory Conditions (including all required approvals)
- Owners and Sponsors
- Team
- Stakeholders
- Governance and Management Structure (Decision-making, Authority and Responsibility)
- Implementation Steps and Plan
- Cash Flow and Schedule Details
- Impacts and Returns
- Sensitivity (What If?) Analysis
- Risks and Measure to Handle

Exercise No. 1 – Preparing a Proposal

Exercise 1.1

For the last three years Jose Smith of River One Development Group has been developing a 2640 kilowatt (2.65 MW) “run of river” hydroelectric project in the Alpha Province of the Republic of Kappa. The Project would provide 1.55 MW of guaranteed electric capacity and 18.1 million kWh per year for sale to the national utility. The Project would provide this capacity at peak hours through an efficient high-head hydroelectric installation comprised of a reservoir, an open canal and a tunnel connected to a penstock and a powerhouse. The Project would connect to the national electricity system through a 3-km transmission line. The electricity would be sold to the national utility under a 15 year power purchase agreement. The electricity system has 534 MW of installed capacity and last year generated 2,921 GWh of energy. Those figures are projected to be 1,400 MW and 7,700 GWh in 10-12 years. The national utility has six similar power purchase arrangements, all indexed to foreign currency, and the utility has met all of its obligations under these agreements.

What have we learned?

- ☐ *Product or service*
- ☐ *Technology*
- ☐ *Client*
- ☐ *Location*
- ☐ *Market*
- ☐ *Regulatory Setting*
- ☐ *Champion*
- ☐ *Owners*
- ☐ *Other Key Actors and Stakeholders*
- ☐ *Implementation Plan*
- ☐ *Benefits*
- ☐ *Costs, revenues*
- ☐ *Risks and things that might go wrong*
- ☐ *The purpose of the proposals and the types of resources being sought*

Exercise 1.2

The River One Project involves four parcels of land, which are owned or under the control of River One Development Group S.A. The project will be constructed under a lump-sum, “turnkey” engineering, procurement and construction (EPC) contract. Preliminary estimates have been received from two credit-worthy and experienced firms, who have each agreed to provide appropriate performance bond and insurance policy coverage. The EPC contract and bid documents have been completed. Operations and maintenance will be provided by a subsidiary of the successful EPC contractor or by a subsidiary of the national utility, which is operating

a similar project for a private sector generator. Three national permits are required to build and operate the Project: Water Use Permit, Energy Generation Permit and Environmental Permit. All three permits have been obtained. One local permit, to improve a public road used in site access, is pending. The total capital cost of the Project is expected to be $3.45 million, which is $1,337 per kW. This estimate includes all costs up to the date project operations commence, including interest capitalized during the construction period. This estimate is the result of an independent assessment prepared for the feasibility analysis, confirmed by preliminary quotes from two qualified turnkey contractors. The following data summarize the financial aspects of this business plan: Capital Cost - $3,450,000; 50% Debt and 50% Equity are assumed. Sponsor's equity totals $415,000; Equity to be obtained - $1,310,000; Debt to be obtained - $1,725,000
The sponsors of the project are an experienced civil engineering firm, an experienced business manager and one investor with prior experience in similar projects. The Project Company, Rio Uno Hydroelectric Co. is owned by River One Development Group comprised of S&C Consultants, a fifteen year old civil engineering firm, and Thomas Higgins, Esq.

What more have we learned?

- ☐ *Product or service*
- ☐ *Technology*
- ☐ *Client*
- ☐ *Location*
- ☐ *Market*
- ☐ *Regulatory Setting*
- ☐ *Champion*
- ☐ *Owners*
- ☐ *Other Key Actors and Stakeholders*
- ☐ *Implementation Plan*
- ☐ *Benefits*
- ☐ *Costs, revenues*
- ☐ *Risks and things that might go wrong*
- ☐ *The purpose of the proposals and the types of resources being sought*

Example 1.3

Construction can commence immediately after all contracts have been signed, all needed permits have been issued and the financing arrangements – both debt and equity – put in place. Operations can commence 12 months later. The Project will provide 2,580 kW of "nameplate" capacity. At an 80% plant factor this equates to 2,064 kW of firm capacity. Because of significant penalties for failure to deliver firm capacity, however, the project sponsors have chosen to only contract for 75% of this amount in the early years of the project. Thus, all the financial projections are based on selling only 1,548 kW of firm capacity to the nation utility's distribution company. Based on twenty years of water data the project will comfortably produce 18.1 million

units of energy (kWh) per year. The Energy Law of 1997 which mandated the creation of a private sector generation of electricity for sale to the national utility under long term power purchase contracts, governs the energy sector. The key features of this law and its implementing regulations and bylaws include the separation of energy generation, energy transmission and energy distribution within the national utility. Distribution companies must contract for firm capacity from the national utility generation company, which in turn will contract with independent power producers (IPPs) such as the Project. Generators using renewable sources of energy --- wind, hydro, biomass, solar --- will receive up to a 10% price premium on top of the standard offer included in the power purchase agreements available to all generators of electricity. Renewable energy projects will also receive a 5-year income tax holiday and will be exempt from import duties on equipment. The following events, estimated to require seven months, must be completed in order to commence construction.

1. Complete the negotiation and enter a final contract with the EPC contractor (4 months).
2. Complete term sheet, due diligence and document preparation for construction and permanent debt (7 months).
3. Complete equity agreement and closing with shareholders (7 months)
4. Execute power purchase agreement with the national utility (3 months).
5. Make final land payment on Parcel #3 of the project site (1 month).
6. Complete local permit process (3 months).

What more have we learned?

- ☐ *Product or service*
- ☐ *Technology*
- ☐ *Client*
- ☐ *Location*
- ☐ *Market*
- ☐ *Regulatory Setting*
- ☐ *Champion*
- ☐ *Owners*
- ☐ *Other Key Actors and Stakeholders*
- ☐ *Implementation Plan*
- ☐ *Benefits*
- ☐ *Costs, revenues*
- ☐ *Risks and things that might go wrong*
- ☐ *The purpose of the proposal and the types of resources being sought*

Example 1.4

The estimated capital cost of the project is comprised of the following:

Land	276,000	8.0%
EPC	2,125,000	61.6%
Taxes (VAT)	120,750	3.5%
Legal and Financing	86,250	2.5%
Pre-construction	113,900	3.3%
Sponsor's fee	248,400	7.2%
Working capital	65,550	1.9%
Insurance	79,550	2.3%
Interest -construction	207,000	6.0%
Contingency	127,600	3.7%
Total	**3,450,000**	100.0%

Project Year	**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4 etc**
Capital Expenditure	(3,450,000)	0	0	0	0
Revenues		881,446	891,669	902,046	912,578
Operations & Maintenance		130,000	136,500	143,325	150,491
Net from Operations		751,446	755,169	758,721	762,087
Overhead		0	0	0	0
Net before Interest, Depreciation & Taxes		751,446	755,169	758,721	762,087
Interest		192,214	162,643	133,071	103,500
Depreciation		138,000	138,000	138,000	138,000
Taxes		0	0	0	0
Net Income		421,231	454,526	487,650	520,587
Add back: Depreciation		138,000	138,000	138,000	138,000
Less Principal payments		246,429	246,429	246,429	246,429
Net Cash Flow		312,803	346,098	379,221	412,159

The Project has negotiated a 15-year contract to sell its 1,548 MW of capacity at $10.76 per kW per month. This contract can be extended for an additional five years. Energy sales are based on the newly established national utility rate of $37.70 per MWh plus adjustments. The project has been organized on a 50%-50% split between debt and equity. Debt is assumed to be at 12% annual interest over a period of 7 years, with interest accrued for the construction year. Equal principal payments will be made each year. The 10 Year equity rate of return (IRR) is 19.16%; the lowest year's Debt Service Coverage Ratio is 1.7 times (and the seven year Average DSCR is 2.1 times). If no is debt available (all equity deal), a 15.90% IRR is realized. If 60% of the capital cost is available as debt, then a 20.42% IRR is realized by equity investors. If no tax holiday occurs then a 14.00% equity IRR occurs. If capital cost is 10% higher than estimated a 15.02% IRR and 1.9 average DSCR are realized; if 10% lower capital cost, then 24.15% IRR and 2.3 average DSCR occur. The project replaces the need for additional fossil

fuel capacity additions to the national electric grid. The site and dam construction for the project meets national and international standards. No displacement of people would occur as a result of the project. The project will employ no fewer than 45 local workers during the construction period. The project will permanently improve access to the area and reduce erosion through the upgrade of presently unpaved roads. Disruptions in water flows (Hydrology) and weather changes have been mitigated by using conservative estimates of water flow but weather patterns, especially increases in violent storms and hurricanes, are noteworthy in this area. Utilizing a turn-key EPC approach with a qualified and insured contractor reduces the risk that construction will not be completed or that substantial cost over-runs will occur. Also, by using a local, experienced and well-established contractor the project will avoid maintenance and operation breakdowns. The Republic of Kappa is a stable democracy. Orderly transitions in government have taken place for more than thirty years. The currency of Kappa is the peso, which has traded in the 10:1 to 11.5: 1 range with the US$ for the last five years. The country's population is 11.2 million, growing at a rate of 2.3% per year. GDP per capita is $1175 nominal and $4800 in comparative purchasing power. The EIU Country Risk Service gives Kappa an overall B- rating (A being the highest and D the lowest). Real GDP has grown by 3.5%-4.3% these last three years and inflation (consumer prices) has averaged 3.5%.

What more have we learned?

- ☐ *Product or service*
- ☐ *Technology*
- ☐ *Client*
- ☐ *Location*
- ☐ *Market*
- ☐ *Regulatory Setting*
- ☐ *Champion*
- ☐ *Owners*
- ☐ *Other Key Actors and Stakeholders*
- ☐ *Implementation Plan*
- ☐ *Benefits*
- ☐ *Costs, revenues*
- ☐ *Risks and things that might go wrong*
- ☐ *Purpose of the proposal and the types of resources being sought*

Exercise No. 2 – Evaluating a Proposal – RRE

Exercise 2.1

Using the following checklist, evaluate the completeness of the RRE Proposal that follows.

Proposal includes:

- ☐ Location
- ☐ Product or Service
- ☐ Technology
- ☐ Customers / Clients
- ☐ Current Status
- ☐ Project Size, Expected Schedule and Cost, divided between Planning, Construction or Pre-operation and Operation
- ☐ Current Needs and Request
- ☐ Market Conditions
- ☐ Operating Conditions
- ☐ Regulatory Conditions (including all required approvals)
- ☐ Owners and Sponsors
- ☐ Team
- ☐ Stakeholders
- ☐ Governance and Management Structure (Decision-making, Authority and Responsibility)
- ☐ Implementation Steps and Plan
- ☐ Cash Flow and Schedule Details
- ☐ Impacts and Returns
- ☐ Sensitivity (What If?) Analysis
- ☐ Risks and Measure to Handle
- ☐ Date
- ☐ Name of Project or Enterprise
- ☐ Champion's Contact Information

NOTES:

Proposal
March 2006

TO: _____

FROM: Emmanuel O'Hara
21 Franklin Street, Beta City, Theta 12345
Tel: 011 593 245 678
Email: emmanuel@hotmail.com

Rite Rural Electric (RRE) is a nine year old on-grid and off-grid electrification business located in city Beta of the country Theta. We propose to deliver electricity services through diesel mini grids and PV solar home systems (SHS) to rural communities in southern Theta. The provision of electricity to the remote communities will have a direct impact on job creation and economic development through the productive use to be implemented in the specific localities. It will improve quality of lighting in households as they shift from kerosene lamps, and candles to electric lights. Women and children will be prime beneficiaries of RRE's activities as they spend more time on these household chores.

In January 2006 RRE was awarded the concession to electrify the rural communities of Omega and Sigma in the administrative region of Kappa, 80 km from the capital city. The concession contract is for a maximum of 1,000 connections to households, businesses and community facilities. This number of connections will allow RRE to prove its operational abilities.

The potential within this concession area is an estimated at 4,400 households and 110 businesses. RRE has been granted a15-year exclusivity in its concession and has the ability to submit future proposals to APAC[1] to build upon its successful implementation of the first 1,000 connections. APAC has allowed RRE to design the details behind the actual implementation and collection strategy.

The total cost of the program is estimated at US$834,829, comprised of US$600,284 in equipment and US$234,545 in operational costs. APAC will provide financing of US$550,000 as a subsidy to cover 100% of the equipment costs of the PV and diesel mini grid installations; RRE must provide financing for US$284,829 to cover operational costs of the program and logistics requirements. Of this, RRE has already provided APAC with proof that supports US$50,284 worth of investment by RRE for the program. However, APAC will only start the disbursement of the

INCOME STATEMENT (US$)								
				Projections				
				Year 1	*Year 2*	*Year 3*	*Year 4*	*Year 5*
# systems installed				*326*	*327*	*327*	*0*	*0*
Total Revenue				*149,749*	*244,121*	*327,716*	*342,632*	*359,041*
Cost of Sales				*60,135*	*99,396*	*68,229*	*63,512*	*69,255*
Gross Profit				*89,614*	*108,565*	*238,062*	*257,696*	*268,362*
Gross Profit %				*59.8%*	*44.5%*	*72.6%*	*75.2%*	*74.7%*
Operating Expenses				*69,415*	*110,715*	*137,588*	*151,460*	*165,006*
EBITDA				*20,200*	*34,010*	*100,474*	*106,236*	*103,356*
Interest					*21,609*	*16,392*	*10,633*	*4,276*
Interest Other								
Depreciation				*5,357*	*25,108*	*46,310*	*44,782*	*44,782*
Taxes				*5,195*	*0*	*13,220*	*17,787*	*19,004*
Net Income				*9,648*	*(12,706)*	*24,552*	*33,034*	*35,294*
Net Cash Flow				*135,005*	*97,151*	*112,541*	*129,126*	*141,614*

subsidy upon proof of the availability of the remaining US$234,545 in RRE's bank account.

We are requesting financing of US$234,545.45 to cover the remainder of RRE's contribution.. Financing will be in a form of a loan with a repayment period of five years including a grace period of nine months on interest and principal, with an annual 10% interest rate.

Of the 5,700 villages in rural Theta, barely 1% currently enjoys electricity from the national power grid; in total, approximately 8.5 million people live without electricity. Extending the grid to this population is not economically or financially viable because of low population density and low electrical energy demand. Surveyed households and commercial units within the target concession area showed a strong preference for obtaining electricity services based on monthly payment as opposed to direct purchase of alternative systems either outright or on a credit payment plan. The survey indicated that the average monthly energy expenditure for lighting is about $9.82 including cost of fuels, related costs such as transport, and accessories. Kerosene sells for about 0.46 cents per liter and a typical family uses six to eight liters per month. Battery recharging costs from ~US$1 to ~US$3.50 for customers using batteries for TV and lighting.

Most of the equipment and materials for both the mini grid and the SHS will be sourced from overseas. Potential suppliers for this equipment include four recognized and reliable firms. The remaining components for the installation of the SHS and the mini grid systems are all readily available in the market. RRE has the technical experience to install and service PV systems and diesel mini grids.

The Government of Theta has set a goal to increase rural electrification to 10% by 2015, using both grid and off-grid approaches. For this purpose, reform of the energy sector has led to the creation of an institutional framework for rural electrification, with the establishment of APAC and a Rural Electrification Fund. With US$10 million of support from the World Bank and the Global Environment Facility (GEF), over the next 5 years APAC will provide subsidies to an estimated 20 different private operators for 100% of the equipment costs for the PV and diesel mini grid systems. APAC has already received the money from the World Bank for this program. RRE is the first business to be awarded a contract within this program.

Under a fee-for-service approach, RRE will provide electricity services to a total of 980 customers. The breakdown is 739 households, 142 productive applications, and 99 public lighting installations in clinics, schools or community centers; thus raising the electrification rate of the area from 0.5% to ~13%. The power will come from both individual solar home systems (50-200 Watt) and diesel mini grid stations for those villages with a larger concentration of households. Installations will be completed in a 3 year period.

RRE will provide 4 different service levels. Each level will have its own tariff and will be determined by the number of lights installed, the need of radio and/or of black and white TV connections. The tariff is <u>not</u> determined by whether the energy is provided by diesel mini grid or by PV SHS. The mini grid will run from 3pm to 10pm every day. Cash Flow Projections were made based on the following range of assumptions (see below).

** Loss in Year 2 due to the conservative projection that company will have fully invested in the infrastructure, but total connections are not completed until Year 3.*

[1] APAC is the implementing agency of the new rural electrification program for the government of Theta and the World Bank. APAC is expected to award 20 other contracts over a 5 year period.

Results of Analysis: Even when all of the variables were set to their most conservative levels, overall RRE remained slightly profitable and with sufficient cash to service the required debt.

Variables	Ranges
Ramp up schedule for completing connecting of target customers	2 year implementation, 3 year implementation
% of PV SHS as part of the customer mix	30% to 40%
Battery life and replacement assumptions	1-yr, 2-yr, 3-yr, 4-yr and 5-yr
Customer Collection Rates	85% to 100% collection
Other Revenue from RRE's traditional revenue sources	30% reduction from 3-year historical average
Cost of Diesel fuel	25% to 40% increase from today's prices

The financial success of the company is clearly based on its ability to collect the monthly revenue from its customers. If customers can't or won't pay, then the company will fail. The owner of RRE was raised in the area of the concession. He has first hand knowledge of the financial situation of the area. RRE has also conducted a study of 250 homes in multiple villages to determine customers' ability to pay. The data from the survey and the sponsor's knowledge of the area both suggest that there is an ability to pay for these services. Other risks include: political risk as this is partly financed by a government program, and operational risk surrounding the implementation of the services.

Sincerely yours,

Emmanuel O'Hara

Emmanuel O'Hara (43) is the founder, 100% owner and General Manager of RRE.. He graduated from the Polytechnic Institute of Leningrad (Russia, 1988); he also holds a master degree in industrial information systems from the "Ecole Supérieure d'Electricité" (France, 1989). He spent thirteen (13) years in Canada working with several organizations on mechanisms for delivering demand-driven community energy infrastructure, and small enterprise development projects in Africa (Senegal, Burkina Faso, and Niger), and East Europe (Poland, Hungary, and Turkey). He returned to Theta in 1996 and founded RRE in 1997.RRE currently has a staff of two engineers and two technicians. Additional staff will be trained and hired as needed. A particular focus will be on hiring local individuals to assist RRE in the implementation of the concession.

Detailed CV and Financial Model enclosed.

NOTES:

Exercise 2.2

Using the checklist that follows, evaluate the quality of the RRE proposal presentation. Determine the "grade" (5 highest, 0 lowest) you would give this proposal in various categories. Assume your role is to screen "triple bottom line" proposals for a development oriented lender and grant-maker

What?

Grade : 0 1 2 3 4 5

- ☐ Product or service to be offered
- ☐ Technology to deliver product or service
- ☐ Client group to be provided the product or service
- ☐ Appropriateness of product, service and technology to the client group
- ☐ Resources being requested

Where?

Grade : 0 1 2 3 4 5

- ☐ Physical location and characteristics where the proposal will occur
- ☐ Social → economic → demographic → cultural → income and wealth characteristics
- ☐ Regulatory framework and business climate

Who?

Grade : 0 1 2 3 4 5

- ☐ Champion
- ☐ Owners and sponsors
- ☐ Governance
- ☐ Employees and staff
- ☐ Contractors and suppliers
- ☐ Approval bodies
- ☐ Stakeholders
- ☐ Advisors
- ☐ Organization structure

How?

Grade : 0 1 2 3 4 5

- ☐ Current status
- ☐ Steps and schedule to completion of planning
- ☐ Steps from completion of planning to final authorization
- ☐ Steps from final authorization to beginning of construction (or roll-out of pre-operation stages)
- ☐ Steps from beginning of construction / pre-operations to completion of construction and commencement of operations
- ☐ Operations, maintenance, management, accounting and reporting plans
- ☐ Monitoring and evaluation plan
- ☐ Key contract relationships
- ☐ Financial structure

Why?
Grade : 0 1 2 3 4 5

- ☐ Financial expectations
- ☐ Social and development impacts
- ☐ Environmental benefits
- ☐ Growth potential
- ☐ Replicability potential
- ☐ Other benefits

What If?
Grade : 0 1 2 3 4 5

- ☐ Schedule disruptions
- ☐ Cost and revenue variances
- ☐ Output performance changes
- ☐ Key person changes
- ☐ Changes in law or regulation
- ☐ Owner, lender, investor, sponsor changes
- ☐ Staffing disruptions

To Whom?
Grade : 0 1 2 3 4 5

- ☐ Customers: households, businesses, communities and specialized programs (such as carbon funds) who wish to buy all or part of the product or service being offered
- ☐ Donors: charitable institutions, governments-sponsored programs, multilateral organizations and specialized programs and organizations
- ☐ Lenders: some charitable organizations, government-sponsored development institutions and programs, specialized programs, socially responsible funds, commercial banks and other financial institutions
- ☐ Investors: partners, suppliers, contractors, government –sponsored investment companies, specialized programs and funds, venture capitalists

Base Case
Grade : 0 1 2 3 4 5

- ☐ Time, cost, other resources and key events to complete planning, to go from completed planning to beginning of construction or pre-operation phase and to carry out construction or pre-operation phase
- ☐ Total Cost Until Start-up and Financial Structure:
- ☐ Grants
- ☐ In-kind Services and Property
- ☐ Loans
- ☐ Investment
- ☐ Operating revenues
- ☐ Operating costs
- ☐ Cash flow from operations
- ☐ Other revenues, such as carbon benefits

- ☐ Project or Proposal Rate of Return
- ☐ Payments of interest to lenders and others
- ☐ Depreciation
- ☐ Taxes
- ☐ Payment of loan principal
- ☐ Debt Service Coverage
- ☐ Remaining cash flow
- ☐ Return on Equity to Investors

Overall Grade : 0 1 2 3 4 5

Improvements and Information Needed:

Exercise 3: Reviewing and Directing Proposal Summaries

You have been asked to review four project summaries for the head of a program that provides assistance and advice to a variety of banks, bilateral programs and government agencies. Your assignment is to determine if the summaries provide a useful introduction ("executive summary") and then suggest the resources and institutions needed for the proposals to move closer to approval and implementation. NOTE: where AMOUNT, ABC or XYZ appear, please assume these to be reasonable and verified estimates.

Exercise 3.1 Hydroelectricity Project

The proposal: to build a 500-kilowatt run-of-river hydroelectric facility to supply renewable energy. This environmentally sensitive facility will be built in rural Guatemala, selling its renewable energy output at a profit to the national grid through a 10-year power sale contract as authorized by country laws and established regulations. The hydroelectric facility will be designed, financed, constructed and operated by a new company owned and managed on a day-to-day basis by three full-time partners who together have 35 years' experience building such facilities. The hydroelectric facility will be designed by an independent and specialized engineering firm, financed through a combination of equity, subordinated debt and senior debt, constructed by an experienced firm under a fixed-price contract and operated by a small, special-purpose company created expressly for that purpose and owned by the three partners. Compliance with the authorizing permits for both construction and operation will be in accordance with local and international standards. Monthly and annual reports will be made to authorizing agencies, tax authorities, lenders and investors. This small hydro facility will generate AMOUNT kilowatt-hours of renewable electricity to the national grid, avoiding the need for AMOUNT of fossil fuel and avoiding AMOUNT of carbon dioxide equivalent. Approximately 30 construction and eight permanent jobs will be created, the local watershed will be improved and a community development project undertaken to electrify 20 nearby homes. In addition, a reforestation project will restore 50 hectares of nearby degraded lands and permanently improve an access road to the area. Based on loan financing (12 years at 8.5 per cent, five-year income tax holiday) and the sales of five year's worth of carbon benefit, the owners' return on equity could exceed 12 per cent and the owners will be paid a one-time fee at financial closure of $350,000. If unforeseen conditions arise during construction – such as more difficult rock conditions being encountered – the resulting cost overruns will be borne by additional capital commitments of owner's equity. The owner's capacity to meet those commitments has been confirmed during due diligence and agreement has been reached to establish a 'stand-by' letter of credit during the construction period.

This executive summary effectively introduces

- ☐ Product or service to be offered
- ☐ Technology to deliver product or service
- ☐ Client group to be provided the product or service
- ☐ Appropriateness of product, service and technology to the client group
- ☐ Resources being requested
- ☐ Physical location and characteristics where the proposal will occur

- ☐ Social → economic → demographic → cultural → income and wealth characteristics
- ☐ Regulatory framework and business climate
- ☐ Champion
- ☐ Owners and sponsors
- ☐ Governance
- ☐ Employees and staff
- ☐ Contractors and suppliers
- ☐ Approval bodies
- ☐ Stakeholders
- ☐ Advisors
- ☐ Organization structure
- ☐ Current status
- ☐ Steps and schedule to completion of planning
- ☐ Steps from completion of planning to final authorization
- ☐ Steps from final authorization to beginning of construction (or roll-out of pre-operation stages)
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- ☐ Financial expectations
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- ☐ Environmental benefits
- ☐ Growth potential
- ☐ Replicability potential
- ☐ Other benefits
- ☐ Schedule disruptions
- ☐ Cost and revenue variances
- ☐ Output performance changes
- ☐ Key person changes
- ☐ Changes in law or regulation
- ☐ Owner, lender, investor, sponsor changes
- ☐ Staffing disruptions

Overall Quality of Summary : 0(low) 1 2 3 4 5(high)

Improvements and Information Needed:

This proposal should be directed to
1/ Technical and business development assistance providers because

2/ Lenders because

3/ Investors because

4/ Specialized Programs because

5/ Donors and charitable organizations because

Exercise 3.2 - Health Clinics

The proposal: to offer rural health care to un-served communities beyond the coverage area of existing clinics. Rural health care will be offered in north-western Zambia through an established network of four clinics and three new clinics, all facilitated by a partnership of independent non-governmental organizations.

The partnership has completed an implementation plan for the initial roll-out of services over a six-month period and has provided for mobile communications to all involved clinics, weekly reporting and twice-monthly meetings of the key staff. The Chief Executive will make monthly visits to each site and compile monthly reports of progress. At the end of six months an independent evaluation will be conducted and both improvements needed and the next 18-month programme milestones established. Results will be posted on a to-be-constructed website with both public and private sections and 'chat rooms'. Three new rural health service points will be established and four improved at a pre-operational cost of AMOUNT and a staff of 27 field workers and three administrative support engaged. Between 100,000 and 115,000 clients will be served in the initial 12 months. Thereafter, this base 12-month figure is expected to rise by 5 per cent per year for three years until reaching "normal" capacity. Services will include XYZ. The support structure will include ABC. At the end of 24 months a full evaluation will occur (interim evaluations will occur every six months) and the cost per client served determined. Fees of XZY will be charged and the Department of Health of the Government of Zambia has agreed to provide ABC. There are significant security

issues that need to be resolved. Some may involve curtailment of the programme because of safety concerns at three of the proposed sites. Others may involve greater than planned costs, for which tentative additional funding and security commitments have been obtained. A major risk involves greater than planned transport costs for both fuel and vehicle wear and tear. There are presently no additional resources available should this cost item overrun for uncontrollable reasons (international fuel oil price rises, longer transport distances and greater number of trips). Should this occur, programme cut-back may be required or requests for assistance to humanitarian assistance groups organized. Preliminary discussions on improving transport efficiency through joint transport planning have already begun.

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Exercise 3.3 - Microfinance

The proposal: to implement a microfinance programme directed at the lowest one-fifth of income groups to finance household cooking improvements. Microfinance for income generation activities will be offered to a cross-section of households in rural Bolivia

through the expansion of an existing microfinance institution, which has previously concentrated in urban La Paz. A new rural finance department will be established, with a general manager reporting to the microfinance institution's chief executive officer. Rural branches will be established after three months of headquarters training. Branch officers will meet bank and regulatory qualifications, as will the standardized systems for lending, collecting and reporting. Monthly and quarterly performance evaluations will be conducted on a branch portfolio basis and reported semi-annually to the bank's governing body, donors and banking authorities. Loan officers will each be responsible for a portfolio of XYZ loans, to be made at the microfinance institution's (MFI's) cost of capital plus 3 per cent. In addition, a one-time service fee of ABC per cent will be charged and deducted from the proceeds of the loan. With a portfolio default rate of 2.5 per cent it is expected that the combined rural operation will reach operational self-sufficiency in 36 months and financial self-sufficiency in 60 months. At that point, thought will be given to spinning off the operation as a free-standing MFI specialized in rural services. The major risks are two: insufficient market response to the credit product offering, which will make costs unsustainable, and greater than expected portfolio default, which will imply interest rate and service fee increases. The first risk may require greater than planned roll-out periods or curtailment. The second is manageable within a range of 3 to 4 percentage points before loans become unaffordable to a significant portion of the target market.

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Exercise 3.4 - Pollution to Energy

The proposal: to convert pollution into fuel through the anaerobic digestion of agro-industrial waste. Waste from the largest tapioca factory in Thailand will be converted to fuel and then to electricity under Thailand's five-year-old small power producer law. A special-purpose company will be established as a joint venture of the tapioca factory and Champion's company. Champion will serve as the chief executive officer under a three-year employment contract and be assisted by three technical officers and shareholders in the special-purpose company. Following final design by champion's company, competitive award of an engineering, procurement and construction (EPC) contract and the receipt of construction, environmental and energy-generation approvals, the waste-to-energy conversion facility will be rolled out in two phases. Phase 1 will be financed 100 per cent from owner's funding and represent 33 per cent of the facility's capacity. Upon acceptance from the EPC contractor, phase 2 will be awarded and financed 25 per cent from owner's equity and 75 per cent from two loans secured by the entire facility's outputs and contracts. Revenues are based on 95 per cent of the cost of avoided fuel and the factory has the right to purchase the facility after 10 years for the unamortized investment amount. Insurance has been obtained for accidents. Performance bonds will be obtained from the successful EPC contractor. Because of the 100 per cent equity feature of phase 1, the expected return to investors, excluding carbon credits, will be between 8 and 10 per cent. However, upon success and the implementation of phase 2 and the monetization of carbon benefits, combined with the leverage of the proposed loan (eight years at between 7.5 and 8.5 per cent) the full return to investors will exceed 18 per cent. Over 8 million litres of fuel oil will be saved and 10 of 12 effluent ponds eliminated. Further, the entire effluent from the factory from primary cassava processing (into tapioca) will exceed national and international standards. A total of 25 construction and nine permanent jobs will be created and the leaching of pollution into local water supplies (together with a nearby solid waste dump) will be completely eliminated. Engineering, procurement and construction risk will be borne by a pre-qualified, insured and performance-bonded EPC contractor. Legitimate cost overruns up to 20 per cent can be secured through additional owner's equity and or accelerating the leveraging of the project. Performance guarantees on the equipment will last 60 days beyond commissioning and acceptance and will ensure at least 85 per cent output performance. Less than forecasted output may impact owner's return but as long as performance is within 55 per cent of forecast, all debt service obligations can be met 1.2 times.

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Assessment
This training session improved my understanding of:

- ☐ The content and approach used in the UNFCCC Guidebook
- ☐ Financial and accounting concepts
- ☐ The ingredients that need to be included in a complete proposal
- ☐ How to guide others in the preparation and presentation of proposals
- ☐ How to evaluate proposals
- ☐ How to evaluate proposal summaries and direct these to resource providers
- ☐ Other _____

Suggestions:

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