Developing Bankable Transport Infrastructure Projects: Case Studies, Experiences and Learning Materials for LLDCs and Transit Countries

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Developing Bankable Transport Projects

What is a Business Case?

“A Business Case is a comprehensive collection of evidence and analysis that sets out the rationale for why an investment should be implemented to solve a problem or address an opportunity. Each Business Case is developed using the same guidance to ensure a flexible but consistent and comparable approach across a wide range of investments. Investments include a range of policies, initiatives, and programs that require expenditure” – Metrolinx (2017)
Developing Bankable Transport Projects

- Efficient early-stage screening and advisory of project proposals can improve chances to receive construction finance quicker and guarantee successful operations. The pre-development stage is especially important and may include preparation of a pre-feasibility study.
- A key factor to consider at the project preparation and planning stage is a clear project definition - identifying the need or justification of the project and the expected outcomes.
- It is important that feasibility studies are prepared accurately and to a high standard. It is estimated that 80% of infrastructure projects fail at feasibility (McKinsey, 2020).
Development of Bankable Transport Projects: Key Steps

Pre-Development:

• Effective early-stage screening.

• Developing SMART, compact and replicable project cycles is necessary to accelerate the planning, design and implementation of scaled-up quality projects. SMART project cycles mean infrastructure development processes that set Specific, Measurable, Attainable, Relevant and Time-bound goals.

• Identify priority projects via master plans / policy documents.

• The private sector is more likely to invest in existing assets with a track-record of financial viability rather than new projects laden with upfront costs and risks.

• Continuous involvement of affected stakeholders and transparent two-way communication to address local demands and concern
Development of Bankable Transport Projects: Key Steps

Pre-Development:

• Identify strong project sponsors and project champions can be pivotal in driving projects from concept to completion.

• The African Union Development Agency (AUDA-NEPAD) designed a project screening and advisory tool called the PIDA Quality Label (PQL) as part of the Service Delivery Model (SDM) - The objective is to shorten the time needed to get from project proposals through to financial closure, with initial quick checks and the use of scoring and technical advisory systems.

• Development of a common handbook on infrastructure development which states clear institutional and procedural guidelines and guidance, could reduce uncertainties and confusion regarding who needs to do what in a time-bound manner (This idea is already envisaged in PIDA 2021-30).
Development of Bankable Transport Projects: Key Steps

Pre-Development:

• The African Union (AU) and AUDA-NEPAD Procurement Manual is also an additional resource that can be utilised in project preparation.

• SOURCE (undergoing testing) is an online multilateral platform for quality infrastructure led and funded by multilateral development banks (MDBs). It brings a systemic change in the way governments define, develop, and manage their infrastructure projects for both traditional procurement and public-private partnerships. It has a checklist that can be used to identify project aspects that investors are looking for.

• The International Finance Corporation’s Anticipated Impact Measurement and Monitoring (AIMM) system allows for estimating the expected development impact of projects, including on the wider economy.

• AfDB established the Africa50 Infrastructure Fund, an investment facility that will attract funding from the private sector, governments, and DFIs to
Development of Bankable Transport Projects: Key Steps

Project Definition:

- A focus on viability, implementation strategy and financing.
- The potential of the project to promote development, social, and environmental objectives, as well as economic efficiency, should be addressed.
- Identify expected service outcomes in line with overall development priorities, project concepts, access benefits, project boundaries and scope, technical options and demand projections.
Development of Bankable Transport Projects: Key Steps

Feasibility Studies:

• A scope including all those activities which affect government’s decision as to whether to go ahead (technical, economic, financial, institutional, legal, and land).

• Design evaluation, compliance with legal regulations, financial viability, cost-benefit analysis, socio-economic impact assessments and social and environmental impact assessments, and stakeholder consultations.

• Robust feasibility assessments identify expected service outcomes in line with overall development priorities, project concepts, access benefits, project boundaries and scope, technical options and demand projections.

• Future demand projections for ensuring long-term sustainability of infrastructure projects.
Development of Bankable Transport Projects: Key Steps

Capacity of the Technology:

• Make an assessment of various technology options.
• Choose an appropriate technology for the project.
Development of Bankable Transport Projects: Key Steps

Site Acquisition & Access:

- Land acquisition and resettlement affect people’s livelihoods such as the loss of assets, job security, food security and economic conditions.
- During this phase, projects may experience delays largely due to weak legal frameworks in land ownerships, disagreements for resettlement and compensation with local populations, as well as political crises.
- Identify Requirements and conditions for compensation depending on standards set by funding organisations.
Development of Bankable Transport Projects: Key Steps

Site Acquisition & Access:

- The proactive management of land acquisition and resettlement issues in the early project stage can in fact provide significant development opportunities for affected populations and create better outcomes for displaced and host communities.

- Keeping various stakeholders continuously engaged during the infrastructure development is therefore critical for building awareness and consensus for the effective and efficient implementation of projects, while mitigating potential risks of conflict throughout the infrastructure life cycle that could cause delays.
Development of Bankable Transport Projects: Key Steps

License, permits, and authorizations:

- Acquisition of necessary licenses, permits and authorisations required to develop the project.
Development of Bankable Transport Projects: Key Steps

Shareholders’ credibility

- Competent and committed project proponents / shareholders.
- Creditworthy shareholders / project proponents.
Development of Bankable Transport Projects: Key Steps

Public sector’s reliability

• Public sector support for the projects.
• Public sector track record in implementation of transport projects.
Development of Bankable Transport Projects: Key Steps

EPC contractor’s credibility

• Construction risk can be mitigated by a competent general contractor overseeing and implementing a management structure that enables coordination among sub-contractors with appropriate risk-sharing measures.

• Delays can further be avoided with suitable penalty clauses. In addition, performance records of local contractors should be kept to reference for future projects.

• The adoption of digital technology and innovative practices can help build better, cheaper, faster and safer infrastructure. In the long term, temporary facilities could be established to assemble parts close to construction sites, which could dramatically reduce construction time and labour costs.

• In addition, innovation-friendly regulations and policies, as well as technological solutions, can reduce life cycle costs.
Development of Bankable Transport Projects: Key Steps

Financial structure

• Contact with potential financiers.
• Establish the project financial structure.
• Identify the nature and scale of all the project risks.
• Define the balance between government support and provisions (such as defined tariffs) to secure specific government objectives.
• Allocate risks between government and the concession company.
• Tariffs close to revenue-maximizing, and with an appropriate tariff escalation formula that allows potential revenues to be captured over time, for the main vehicle classes.
• Projects with an existing income stream, e.g., from an existing estuarial crossing/tunnel, or an existing public sector expressway. This is hugely beneficial to financing.
Development of Bankable Transport Projects: Key Steps

Financial structure

• A project that has been well prepared — in technical terms, in securing planning consents and in proving the feasibility of land acquisition — thereby reducing implementation risks.
• A large project, which recognizes the high fixed bidding costs associated with BOT projects.
• Create investor friendly policies.
• Show commitment to policy, and harmonise policies i.e. policies should point in the same direction.
• Development, within government, of an effective transport strategy and project identification process.
Development of Bankable Transport Projects: Key Steps

Insurance arrangement

- The success of attracting private finance for infrastructure depends on reducing perceived risks. This can be addressed in part through donor-provided risk capital and insurance (Collier and Cust, 2015).
Development of Bankable Transport Projects: Key Steps

Concession agreement

• Particularly in the case of PPPs, it could support the negotiation stage by linking up with resources, such as the CONNEX Initiative, a contract negotiation support provider which was initiated in the G7 context.

• Concession period.

• Support agreement/guarantee.

• Termination provisions.

• Construction contract.

• Operation and maintenance agreement.

• Offtake purchase agreement.
Development of Bankable Transport Projects: Key Steps

Concession agreement

• Input supplier agreement.
• Guarantee from multilateral investment agency.
• Direct agreement.
• Catastrophic risk.
• Arbitration.