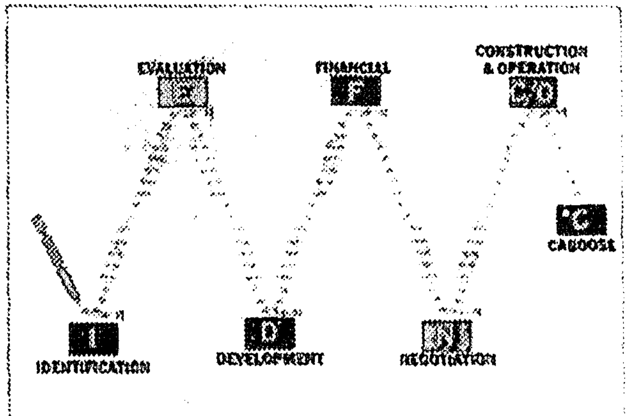
Author - Industry Canada

Publication Date - 1998-04-27

International Project Development Roadmap



In order to help existing and future Canadian exporters, the government of Canada (Industry Canada), following numerous consultations with exporters all over Canada decided to support and facilitate the understanding of the various stages/steps required to forward an infrastructure project :

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This initiative is in the form of a "practical guide" which offers "user friendly" information required to ensure the rational and orchestrated development of international capital projects. The "guide" will indicate the way to government services and provide a directory of other sources that may be of interest. The conceptualisation of the "guide" is based on a step-by-step approach or "roadmap" that can be consulted at any stage of project development. Industry Canada will be pleased to receive Feedback.

Author - Industry Canada

Publication Date - 1998-04-02

International Project Development Roadmap

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Canada
http://strategis.ic.gc.ca

Author - Industry Canada

Publication Date - 1998-04-29

International Project Development Roadmap

Prepared for Industry Canada
By: Experco Ltd
With the participation of: Rosenberg International Inc., Kilmo International Inc., and Gateway Media Productions Inc.

Purpose of Report

It is well known that Canada is an exporting country. Our exporting strength is recognized throughout the world. Traditionally we have done business with the United States and European countries and to some extent with emerging countries in Latin America and the Pacific Rim.

The export climate is in a state of evolution and, because of this, so are existing and on-coming Canadian exporters who are becoming aware of new opportunities and are adapting to profound new changes. In fact, movements like the disappearance of numerous dictatorships in the world replaced by democracies, the fall of protectionist barriers (the opening of markets), the propulsion of privatization schemes, the globalization of markets and the desire of developing countries to work in partnership (multi-disciplinary teams) with the private sector, are opening up the world to trade and to new business opportunities for Canadian industry (services, equipment manufacturers, builders, financiers).

However a problem exists. Canadian exporters are not necessarily well prepared to meet these new challenges for different reasons : They do not really know how to work within a multi-disciplinary team; they have little experience in structuring capital infrastructure projects within models like Building-Own-Transfer (BOT), Building-Own-Operate-Transfer (BOOT) or multi-disciplinary teams, etc.; they have limited financial engineering experience and are usually unaware of or inexperienced in funding sources like IFIs or in the technical assistance that is offered by Canadian and/or provincial agencies to help them in understanding how to develop these new international markets.

But the markets are there. In Latin America, South East Asia, China and in Eastern Europe, the need for capital infrastructure projects is staggering. Billions of US dollars will be spent/invested in the next few years in basic infrastructure projects such as potable water, environment, energy (hydroelectricity, gas and oil), transportation (ports, airports, highways and railroads) and agriculture. These markets will be open for bids on the world market particularly to those countries where technology is developed and who have had good diplomatic and humanitarian relations with the host country. Canada is privileged in the sense that it is recognized all over the world as a very developed country where technology is first-class and with whom most countries have excellent diplomatic relations.

While here in Canada we are working in a mature economy where business opportunities are becoming more and more difficult to find and where there are more regulatory constraints, increasing business opportunities are opening up in other parts of the world in sectors where we have capabilities. We must wake up to this new world order; get involved; change our basic traditions by adapting them to the different needs, cultures and requirements of foreign clients by structuring ourselves accordingly; by rolling up our sleeves and facing, with energy if not desperation, these challenges of the next century which is the development of infrastructure in emerging countries.

The Concept

The "roadmap" is not actually based on a road but on another great form of Canadian transportation, the train. So, it is a "railmap". The guide is easy to use and provides a clear and linear decision-making tool. In order to understand the premise of the guide one must be able to distinguish the different types of capital projects. There are three types of international capital projects:

- projects bought by governments or their government-owned corporations and which typically enjoy some degree of sovereign guarantee
- projects bought by a private sector company
- projects of privatized infrastructure; in such cases, the rights of ownership are constrained by the terms of the Concession Agreement (e.g.: stipulated social objectives, stipulated terms of transfer of project to government, rate caps, etc.)

If your project is one of the first two types, you should get on another train, although some stations may be of interest. If your project is of the third type, sit down and hold on!

The train is travelling from station to station where passengers embark. A passenger represents "a possible step to follow". Every station has a specific number of passengers. When arriving at a next station, other passengers, specific to that other station, embark.

While the train is travelling from one station to another, it might shunt to secondary tracks for the reader to get more specific information (what are called secondary road maps). There are two types of secondary tracks :

A- Export Assistance available to meet the requirements/needs of a passenger
B- Financial Institutions that can be sources of information and financing

In addition to this information, there are "links" to other information sources that may be of use and may provide additional information to the reader. These links are identified in the text through hypertext linking. These links are underlined.

Along the long trip from the Identification Station to the Construction and Operation Station, a caboose accompanies the train. The caboose has the necessary "tools" for the train to move efficiently providing examples and definitions.

To embark on this train, one must have the fundamentals required in developing the international market. these include :

1- Corporate commitment to develop international markets
2- A clear marketing strategy;
- countries
- sectors of activity
3- Adequate marketing documentation

Now that you are ready to board the train we welcome you aboard and wish you a successful trip.

Info Export - Department of Foreign Affairs and Trade
http://www.dfait-maeci.gc.ca/english/trade/assist.htm

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Author - Industry Canada
Publication Date - 1998-04-06

Feedback - Comments - Suggestions

he Service Industries and Capital Projects Branch requests your help in improving our nternational Project Development Roadmap" information product aimed at assisting you in the development of International Capital projects.

Please take a moment to share your views with us so we can continue to provide information of value to the development and growth of service industries.

Did you find the information contained within "International Project Development Roadmap" to be useful?

☐ Yes ☐ No

If Yes, how will the information on this site be of benefit to you?

Was there a specific section/stage in the site of particular value to you?

☐ Yes ☐ No

If Yes, which section(s)/stage(s):

☐ Identification ☐ Financial Structuring
☐ Evaluation ☐ Negotiation
☐ Development ☐ Construction and Operation
☐ Caboose

Do you have any comments/suggestions concerning any of the sections/stages within "International Project Development Roadmap"?

How would you rate "International Project Development Roadmap" (1 being completely unsatisfied, and 4 being completely satisfied) with respect to:

Comprehensiveness of information	1
Usefulness (relevancy) of information	1

Would you recommend this site to other business people?

☐ Yes ☐ No

Are you aware of other electronic sources of information related to any of the topics that we might usefully refer to in our site?

☐ Yes ☐ No

If Yes, Please specify:

Would you like us to get back to you?

☐ Yes ☐ No

If Yes, please provide the following:

Name	
Organization	
City, Province	
Telephone	
E-mail address	

How do you wish to be contacted?

- [ ] By E-mail
- [ ] Telephone

Submit Form Reset Form

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Canada
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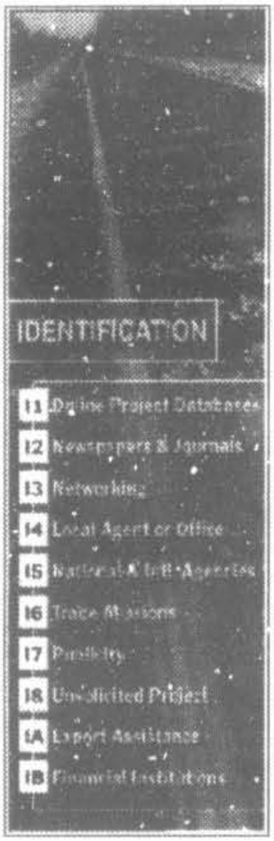

There are numerous ways of identifying a project. These were regrouped in eight types or passengers. Although the roadmap is based on the BOT project, the identification also allows for the identification of other types of projects. Identifying a project can, in itself, be a daunting task and it may be advisable to contact the resources listed in:
Identification - Export Assistance

I1- Online Project Databases*ect Databae*

The development of the World Wide Web (WWW) has made the identification of projects much easier and user-friendly, particularly for International Financial Institution (IFI) sponsored projects. The following is a broad overview of the listings that are available. As the WWW is growing at a phenomenal rate new sites are developing and some basic and sometimes in-depth searching is necessary. An all-in-one search page is currently available at:
http://www.albany.net/allinone

The Canadian Government
The Department of Foreign Affairs and International Trade (DFAIT) IFINET

This is a good database if you wish to avoid going through the IFI databases. This is a user friendly system that has all the information on Bank projects at one site.This is a registration based database where a username and password are necessary. It can be found at:
http://www.dfait-maeci.gc.ca/ifinet/menu-e.htm

The Strategis site has the International Business Information Network (IBIN). IBIN has project listings as well as some other useful information, and links to other relevant sites. This listing can be found at:
http://strategis.ic.gc.ca/ibin

Open Bidding System (OBS)

The OBS can be found at http://www.merx.cebra.com/. This is a fee-based project listing system in which projects, goods and services that are required by the Canadian government and private industry can be perused.International capital projects may be listed through sources like the Canadian International Development Agency(CIDA) and even IFI's. (See figure 3 for an example).

International Financial Institutions (IFI)

The World Bank Group

The World Bank does not have an online project listing but you can find project information through the search function. The World Bank Group's home page can be found at:
http://www.worldbank.org/

,and project information documents can be found at:
http://www.worldbank.org/html/opr/procure/bopage.html

Make sure to look at the date of entry and stage of development World Bank projects and many other IFI and United Nations (UN) projects can be found in the UN Development Business journal, the description of which can be found in : http://www.worldbank.org/

The Inter-American Development Bank

The IDB project listing is probably the most user friendly and can be found at:
http://www.iadb.org

Again be sure to look at the stage of development for the project.

Home Page: http://www.iadb.org/

Asian Development Bank (AsDB)

The Asian Development Bank is also user friendly and can be found at:
http://www.asiandevbank.org

This listing separates projects on the basis of technical assistance and loans. The technical assistance projects are based on three classifications, but are mostly based on consulting services. You can even pre-qualify your firm online for the technical assistance projects by registering your firm in the ADB database and as you browse the projects you can give an Expression of Interest (EOI). The loans section is where capital projects are listed.

Home Page: http://www.asiandevbank.org/

The European Bank for Reconstruction and Development (EBRD)

The EBRD has a good listing that can be found at: http://www.ebrd.com

Other IFI sites

There are other development banks like the African Development Bank (ADB) and the Caribbean Development Bank (CDB), these banks are presently not listed. However keep a look out for new developments. As the Internet grows many different institutions will begin to use it as a tool to generate interest in projects.

Miscellaneous Databases

Companies, Regional Development Banks and Investment Promotion Agencies either identify projects or have projects that they advertise on the Internet. Some examples can be found at; http://aloha.com/%7Euci/chinainv/project.htm (see figure 1, 2 and 3)

China investment opportunities

FIGURE 1

D0009 : City Waste Water Treatment in Ningxia

Foreign government loan needed to build a city waste water treatment plant in Ningxia. The project needs a total of US$20 million. Phase 1 needs US$4.75 million foreign government loan.

FIGURE 2

GLOBAL TENDER NOTIFICATION INVITATION TO BUILD-OWN-OPERATE-TRANSFER A NEW PORT COMPLEX AT ALEWADI NEAR TARAPUR, DISTRICT THANE IN MAHARASHTRA

Maharashtra is in the forefront of industrial development in India. The Government of Maharashtra, invites sealed Bids on BOOT (Build, Own, Operate and Transfer) basis for establishing a modern all-weather multi-user port at a green field site at Alewadi, which is strategically located near Tarapur, a premier industrial township, 65 nautical miles to the north of Mumbai (formerly Bombay), the financial capital of India, to meet growing demands of trade, industry and commerce. The description of work and other details are given below.

Work Description	Bid Security / Earnest Money	Construction Period	Concession Period
Construction,operation,maintenance, and management of the Port at Alewadi	IRS, 5 million of US $150,000	36 months	30 years

Commercial bid form will be on sale on payment of amount of IRS. 15,000 (Rupees Fifteen Thousand only) of US$ 500 (US $ Five Hundred only).

Contacting Us

* Commissioner Water Transport, Indian Mercantile Chambers, 3rd Floor, 14 Ramjibhai Kamani Marg, Ballard Estate, Mumbai, 400 038, India, Tel No. 92(22)2612143, 91(22)2614331 Fax no 91(22)2629752

FIGURE 3

PROJECT EXAMPLE OBS PROJECT EXAMPLE CANOUAN AIRPORT REDEVELOPMENT PROJECT SOLICITATION NUMBER : FD-CIDA-005-208 OBS REFERENCE :	a) contractor's experience and record or similar work b) contractor's financial capability; c) qualification and experience of contractors supervising personnel. The Tender Document are in the English Language and could be

FD-CIDA-005-208
CLOSING DATE : 21/06/96 17:00
EASTERN
GSIN : 5131A
Construction
TENDERING PROCEDURE : O-2

The Government of St-Vincent and the Grenadines (GSVG) has applied for a loan from the Caribbean Development Bank (CDB) towards the cost of the Canouan Airport Redevelopment Project in St-Vincent and the Grenadines, and intends to apply a portion of the proceeds of this loan to eligible payments under the contract for which this Invitation to Bid is issued.

GSVG, through its executing agency, Ministry of Communications and Works (MCW), invites tenders from suitably qualified construction firms or consortium to construct the following works under this project :

The Redevelopment of Canouan Island Airport including extension of a runway 1,000 m x 30 m (aerodrome reference CODE 2C), and the scope of works includes the following approximate quantities :

- Land reclamation 150,000 m
- Earthworks 160,000 m
- Soil substitution 15,000 m
- Armour stone shore protection 70,00 m
- Granular sub-base 11,000 m
- Granular crushed stone base 6,000 m
- Asphaltic concrete 2,700 m
- Terminal Building 720 m

Contractors or consortium eligible for submitting bids will be limited to firms or joint ventures of firms which are legally incorporated or otherwise organised in and have their principal place of business in one of the member countries of CDB.

Contractors will be required to submit full post-qualification information along with their bids. Tenders and post-qualification information are to be submitted in the English Language. Post-qualification information is to be submitted in a prescribed form inserted in the bid obtained from the first and second address below against payment of US$300. for each tender which is for the cost of printing and forwarded by courier services.

Submission must include completed post qualification forms and must be made in sealed envelopes marked "Tender for Canouan Airport Redevelopment Project" to the third address below by June 21, 1996. Completed post-qualification forms only must be submitted simultaneously to the fourth address below. GSVG is not bound to accept the lowest or any tender and will not defray the cost of post qualification submissions or bid preparation.

1. The Chief Engineer
Public Works Department
Ministry of Communications and Works
Kingstown
ST-VINCENT AND THE GRENADINES
Tel : (809) 457-1289 Fax : (809) 457-1289

2. Kocks Consult GmBh
Consulting Engineers
Stregemannstrasse 32-38
D-56068 Koblenz
GERMANY
Tel : (809)457-1289 Fax : (809)457-1289

3. The Chairman
Central Tenders Boards
Administrative Building
Ministry of Finance & Planning
Kingstown
ST-VINCENT AND THE GRENADINES

4. The Chief Project Officer
Economic Infrastructure Unit
Caribbean Development Bank
P.O. Box 408
Wildey, St. Michael
BARBADOS, W.I.
Tel : (809)431-1600
Fax : (809)426-7269

document and will include inter-alia, details of the following :	

Online Project Database / Newspapers and Journals / Networking / Local Agent or Office / National & Intl. Agencies / Trade Missions / Publicity / Unsolicited Project / Export Assistance / Financial Institutions / Return to Sitemap

12 - Newspapers and Journals

Newspapers/magazines and journals can be particularly useful in identifying a project. A good Canadian government source is CanadaExport which is a monthly publication of market information and project listings. A subscription is available free of charge and is also available online at:

http://www.dfait-maeci.gc.ca/english/news/newsletr/canex/men''.htm

The Engineering News-Record is also a good source of information on upcoming projects and market information.

National (country-of-focus) newspapers are very important because the private and public sector publish their invitations to tender. Often these appear in a particular national newspaper or a project gazette.

Some good International sources are newspapers and specialized journals like the Economist, Financial Times, Euromoney, Project Finance International and the New York Times. Large infrastructure projects need to attract attention so that legitimate bidders get interested. These types of publications have a large and varied readership.

The following are two publications that focus on major International Financial Institutions.

1) Inter-American Development Bank Monthly Operational Summary

The Inter-American Development Bank has a monthly operational summary (MOS) called IDB Projects which is published 10 times a year by the Office of External Relations of the Inter-American Development Bank and distributed by The John Hopkins University Press.

Although the information is available online this may be an easier way to get the information if access to the WWW is not available.

Subscriptions are currently US$150 per year and payment should be made in US dollars, payable to John Hopkins University Press, and sent to :

The John Hopkins University Press (JHUP)
P.O. Box 19966
Baltimore, MD 21211
Tel : (410) 516-6987
Fax : (410) 516-6968
Email :jlorder@jhunix.hcf.jhu.edu.

2) United Nations Development Business

The United Nations publishes the Development Business Journal which is available by subscription. Development Business, which is published twice monthly, contains World Bank procurement information as well as other project information, including invitations to bid, related to projects financed by the African Development Bank, the Asian Development Bank, the Caribbean Development Bank, the European Bank for Reconstruction and Development and the Inter-American Development Bank.

Development Business provides the following information on World Bank projects :

Monthly Operational Summary (MOS), a monthly report listing all of the projects being considered for financing by the World Bank. The MOS tracks projects from the point when the World Bank begins identifying them, to approval by the Bank's board of Executive Directors. (Development Business also publishes an Inter-American Development Bank MOS and the African Development Bank Quarterly Operational Summary).

To order a subscription for **Development Business** contact at tel : (212) 963-8524.

Online Project Database / Newspapers and Journals / Networking / Local Agent or Office / National & Intl. Agencies / Trade Missions / Publicity / Unsolicited Project / Export Assistance / Financial Institutions / Return to Sitemap

I3 - Networking

Networking is an all-encompassing term that refers to getting out and meeting the people that can help in identifying a project.

The following are ways in which to network :

- meeting with the appropriate trade official in Canada and trade commissioner in your country-of-focus;
- meeting the key decision-makers in your country-of-focus;
- developing a rapport with potential business associates in your country-of-focus;
- belonging to trade associations;
- participation in social and technical activities;
- meet with IFI representatives involved in your country(ies) of choice; keep your eyes open at all times; you might get lucky.

Online Project Database / Newspapers and Journals / Networking / Local Agent or Office / National & Intl. Agencies / Trade Missions / Publicity / Unsolicited Project / Export Assistance / Financial Institutions / Return to Sitemap

I4 - Local Agent or Office

Selecting an agent requires patience and planning. The agent's role has to be clearly defined and some element of control must be maintained. An agent generally receives a commission or salary based on sales, or possibly a retainer. Communication and some element of control is required so that the agent does not overstep his/her bounds of representation. A strong contract offers some protection. (See Agent contract in Caboose)

Another way of establishing a presence would be to open an office, especially if you expect to continue to visit on a regular basis. An office is expensive and requires trustworthy personnel and careful supervision. It is advisable that an office be opened only when a project is secured.

Online Project Database / Newspapers and Journals / Networking / Local Agent or Office / National & Intl. Agencies / Trade Missions / Publicity / Unsolicited Project / Export Assistance / Financial Institutions / Return to Sitemap

I5 - National and International Agencies

Maintaining close contacts and understanding the goals of certain organizations like the United Nations (UN), the Canadian International Development agency (CIDA), USAID, the World Health Organization (WHO) and the World Trade Organization (WTO) will help in identifying a project.

Online Project Database / Newspapers and Journals / Networking / Local Agent or Office / National & Intl. Agencies / Trade Missions / Publicity / Unsolicited Project / Export Assistance / Financial Institutions / Return to Sitemap

I6 - Trade Missions

The Canadian government creates opportunity by organizing trade workshops and trade missions abroad. These missions may be broad based and encompass many different sectors or may be more focused. Contact an International Trade Centre to get a list of trade events, workshops or missions. The information is also available in Canada's International Business Strategy, the DFAIT web site and on the Strategis' web site under International Business Report.

The Provinces have become more active in promoting business abroad and organize their own trade missions. The International Trade Centre or Provincial commerce ministries (see IA) should have this information at their disposal.

Online Project Database / Newspapers and Journals / Networking / Local Agent or Office / National & Intl. Agencies / Trade Missions / Publicity / Unsolicited Project / Export Assistance / Financial Institutions / Return to Sitemap

I7 - Publicity

It is very important to market your capabilities through brochures, videos and other types of information dissemination like web pages or CD-ROM's. It is also important that you distribute your company's information to the right places as it can be expensive to give out your brochure to everyone, although that would be ideal. The quality of your brochure directly reflects on your firm, so it is important that time and money be spent in creating an attractive and informative media package. Remember that it has to be in the language of your country-of-focus.

Online Project Database / Newspapers and Journals / Networking / Local Agent or Office / National & Intl. Agencies / Trade Missions / Publicity / Unsolicited Project /

Export Assistance / Financial Institutions / Return to Sitemap

I8 - Unsolicited Project

Identifying a need can lead to an unsolicited project. This is a good way to avoid the risk of bidding for a competitive project. This strategy is good for projects where government involvement is minimal, but is unusual for privatization projects because competitive bidding is usually a requirement.

Development costs for the Identification Station ($)

There are many ways of paying for the costs required to go through the Identification of a project :

1. Own Resources or through a Consortium

2. PEMD - Market Development Strategies

3. Provincial Programs

4. CIDA INC

5. Financial Institutions (to get a loan or line of credit)

Business Development Bank of Canada
http://www.bdc.ca

Nota Bene

For more specific information go to :

Export Assistance

Financial Institutions

Online Project Database / Newspapers and Journals / Networking / Local Agent or Office / National & Intl. Agencies / Trade Missions / Publicity / Unsolicited Project / Export Assistance / Financial Institutions / Return to Sitemap

IA - Export Assistance

Canadian Government
Program for Export Market Development (PEMD)

The PEMD is made up of three different programs : (1) the Market Development Strategies program (MDS), (2) the New-To-Exporting Companies program, and (3) the Capital Projects Bidding program. All of these programs are repayable based on a percentage of foreign sales. The MDS and New-To-Exporting companies programs are the most relevant in this stage while the Capital Projects Bidding program will be discussed in DA. Preference will be given to companies with annual sales greater than $250 000 and less than $10 million, and/or with less than 100 employees for a firm in the manufacturing sector and 50 in the service industry.

The main program is Market Development Strategies (MDS). The MDS program supports the implementation of a one to two year marketing strategy. The MDS will provide funds on a 50/50 basis to support activities related to training, trade shows, product testing, product demonstration costs and related costs for the implementation of the business plan. The PEMD contribution is a minimum of $5000 and a maximum of $50 000.

The New-to-Exporting Companies program supports companies with very little or no experience within foreign markets. It allows for a maximum contribution of $7500 to support companies for a market identification visit or participation at an international trade fair.

Contacts for the PEMD

The information for a PEMD can be found by contacting an International Trade Centre (ITC). Call ITC for locations throughout the provinces. In Quebec the MDS and the new-to-exporting programs are administered by FORD-Q offices

PEMD Handbook online at
http.//www.infoexport.gc.ca/section2/export_menu-e.asp

Canada Business Service Centres

Your first stop, particularly if you are new to exporting, is one of the 11 Canada Business Service Centres (CBSCs) across Canada. These centres bring the services of federal and provincial governments and, in some cases, the private sector, together under one roof. Your first point of access to the full range of government services and sources of information, CBSCs have experienced staff on hand to help you cut through red tape, research your export questions, and direct you to the best sources for additional information.

Contact : Call toll-free for information or go in person to the CBSC nearest you. A toll-free "fax on demand" service lets you order documents 24 hours a day, any day of the year, or you can contact the CBSC web site at

http://reliant.ic.gc.ca

The CBSCs can direct you to an array of services that provide valuable information for export market development.

Ontario

Canada/Ontario Business Call Centre
Yonge Richmond Centre
151 Yonge St., 9th Floor
Toronto, Ontario
M5C 2W7

Tel: (800) 567-2345

Quebec

Info entrepreneurs
5 Place Ville Marie
Suite 12500, Plaza Level
Montreal, Quebec H3B 4Y2

Tel: (800) 322-INFO (4636)

Newfoundland

Canada Business Service Centre
90 O'Leary Avenue
P.O. Box 8687

Prince Edward Island

P.E.I. Business Service Centre
75 Fitzroy Street
P.O. Box 40

St. John's, Newfoundland
A1B 3T1

Tel: (800) 668-1010

Charlottetown, Prince Edward Island
C1A 7K2

Tel: (800) 668-1010

Nova Scotia

Canada/N.S. Business Service Centre
1575 Brunswick St.
Halifax, Nova Scotia
B3J 2G1

Tel: (800) 668-1010

New Brunswick

Canada/N.B. Business Service Centre
570 Queen Street, 1st Floor
Fredericton, New Brunswick
E3B 6Z6

Tel: (800) 668-1010

Manitoba

Canada Business Service Centre
240-250 Graham Ave.
PO Box 2609
Winnipeg, Manitoba
R3C 4B3

Tel: (800) 665-2019

Saskatchewan

Canada/Saskatchewan Business Service Centre
122 - 3rd Avenue North
Saskatoon, Saskatchewan
S7K 2H6

Tel: (800) 667-4374

Alberta

The Business Link
10237-104 St., Suite 100
Revillon Annex, Main Fl.
Edmonton, Alberta
T5J 1B1

Tel. : (800) 272-9675

British Columbia

Canada/B.C. Business Service Centre
601 West Cordova Street
Vancouver, British Columbia
V6B 1G1

Tel: (800) 667-2272

Northwest Territories

Canada/NWT Business Service Centre
c/o Resources, Wildlife & Economic Development
P.O. Box 1320
Yellowknife, Northwest Territories
X1A 2 L9

Tel: (800) 661-0599

Yukon

Canada/Yukon Business Service Centre
c/o Yukon Chamber of Commerce
201-208 Main St.
Whitehorse, Yukon
Y1A 2A9

Tel: (800) 661-0543

Industry Canada

Located across Canada, the regional offices of Industry Canada provide advice, encouragement and assistance to individual companies in their international marketing activities. These offices are staffed both by Industrial Development officers and by Trade Commissioners who maintain communication with the Department of Foreign Affairs and International Trade and carry out counselling and educational services on a continuous basis. Regional offices can be found at the same coordinates as the ITC's.

Service Industries and Capital Projects Branch (SICP)

The Service Industries and Capital Projects Branch (SICP) is the hub of expertise within Industry Canada for Canada's service industries and provides link-ups to capital project opportunities.

SICP focuses on business and professional services; distribution and marketing; construction, engineering and related services. The SICP's vision is to increase the competitiveness of Canada's service and capital project industries through the client-focused delivery of innovative information products, services and policies.

For further information contact :

Industry Canada
Service Industries and Capital Projects Branch
235 Queen Street
Ottawa, Ontario K1A 0H5

Fax : (613) 952-9054

Home Page http://strategis.ic.gc.ca/sicp

or a regional officer in one of Industry Canada's Offices:

Building Abroad - Industry Canada
http://strategis.ic.gc.ca/construction

Canadian Company Capabilities - Industry Canada
http://strategis.ic.gc.ca/cdncc

Canadian Capabilities in International Capital Projects (CCICP)
- Industry Canada
http://strategis.ic.gc.ca/ccicp

Take a World View is a new interactive user-friendly software kit. It is designed to help firms working in knowledge-based industries to sell their services in foreign markets.
http://strategis.ic.gc.ca/twv

Department of Foreign Affairs and Trade

The Department of Foreign Affairs and International Trade in Ottawa is organized into a number of geographic branches which are responsible for all bilateral relations between Canada and their respective areas. Each branch has a Trade Development Division dedicated exclusively to trade promotion. Support may include :

- provision of country and project reports, market surveys and sectorial studies
- organization of trade fairs abroad and outgoing and incoming trade missions
- provision of current information on tariffs and non tariff restrictions to the foreign markets
- support facilities for overseas projects financing
- arrangement of ministerial or other senior representation for trade related events.

The Trade Commissioner Service of the Department of Foreign Affairs and International Trade (DFAIT) currently has over 125 offices around the world. When your company has identified export markets of interest, contact the commercial section of the appropriate country.

In countries where there are no Trade commissioners or Commercial Officers, contact the appropriate (DFAIT) division or the country's responsible (e.g. Angola - see Zimbabwe).

Trade Commissioner Service, Overseas Programs and Services

Trade Commissioner Service, Overseas Programs and Services supports Canada's trade and investment objectives and assists Canadian businesses to succeed globally. It provides the linkages to information on international markets and business opportunities, extends educational and promotional support, and carries out strategic policies and programs to help Canadian firms pursue those opportunities. This is done in large part through the domestic Team Canada network for emerging exporters, and the specialized services of the Trade Commissioner Service worldwide for export-ready companies. International Business Opportunities Centre (IBOC) is a division of International Business and Communications that can assist you in the identification of a project and can be found on the infoexport web site.

For further information contact :

International Business Operations
125, Sussex Drive
Ottawa, Ontario
K1A 0G2

Info Export
http://www.infoexport.gc.ca/menu.asp

International Trade Centres

International Trade Centres (ITC's) across Canada, jointly operated by Industry Canada and the Department of Foreign Affairs and International Trade, provide international business development business services to Canadian exporters through: counselling exporters; identification of market opportunities; advising on the development of export marketing plans; information on joint venture and technology transfer opportunities; information about financial support under the Program for Export Market Development (PEMD) and other departmental programs to expand into foreign markets; recruiting participants for trade fairs and missions, and distributing international business development publications produced by the Department of Foreign Affairs and International Trade.

Ontario

International Trade Centre
151 Yonge St.
Toronto, Ontario
M5C 2W7

Tel : (416) 973-5053
Fax : (416) 973-8161

Quebec

International Trade Centre
5, Place Ville-Marie, 7th Floor
Montreal, Quebec
H3B 2G2

Tel : (514) 283-6328
Fax : (514) 283-8794

Newfoundland

International Trade Centre
P.O. Box 8950
Suite 504, Atlantic Place
215 Water Street
St. John's, Newfoundland
A1B 3R9

Prince Edward Island

International Trade Centre
P.O. Box 1115
75 Fitzroy Street
Charlottetown, Prince Edward Island
C1A 7M8

A1B 3R9

Tel : (709) 772-4782
Fax : (709) 772-5093

Tel : (902) 566-7443
Fax : (902) 566-7450

Nova Scotia

International Trade Centre
1800 Argyle St., 5th Floor
World Trade & Convention Centre
Halifax, Nova Scotia
B3J 2V9

Tel : (902) 426-7540
Fax : (902) 426-2624

New Brunswick

International Trade Centre
1045 Main Street, Unit 103
Moncton, New Brunswick
E1C 1H1

Tel : (506) 851-6452
Fax : (506) 851-6429

Manitoba

International Trade Centre
P.O. Box 981
400 St. Mary's Avenue, 4th Floor
Winnipeg, Manitoba
R3C 4K5

Tel : (204) 983-4540
Fax : (204) 983-3182

British Columbia

International Trade Centre
300 West Georgia Street
Suite 2000
Vancouver, British Columbia
V6B 6E1

Tel : (604) 666-0434
Fax : (604) 666-0954

Alberta

International Trade Centre
Canada Place, Suite 540
9700 Jasper Avenue
Edmonton, Alberta
T5J 4C3

Tel : (403) 495-2944
Fax : (403) 495-4507

International Trade Centre
300, 639 - 5th Ave. S.W.
Calgary, Alberta
T2P 0M9

Tel: (403) 292-4575
Fax: (403) 292-4578

Saskatchewan

International Trade Centre
Princeton Tower, 7th Floor
123 - 2nd Avenue South
Saskatoon, Saskatchewan
S7K 7E6

Tel : (306) 975-5315
Fax : (306) 975-5334

International Trade Centre
P.O. Box 3750
1919 Saskatchewan Drive
2nd Floor
Regina, Saskatchewan
S4P 3N8

Tel: (306) 780-6325
Fax: (306) 780-8797

Canadian International Development Agency (CIDA)- Industrial Cooperation Program (INC)

CIDA is in charge of almost all of Canada's aid programs through bilateral assistance and the industrial cooperation program. A number of programs are available through the INC financial mechanisms (see DA). The investment mechanism has the viability and project support programs and the professional services mechanism has the capital projects preliminary study and the capital project detailed study (see DA)

Canadian companies that wish to find a joint-venture partner and conduct business in the developing world can do so through the INC program using the viability study mechanism.

Viability study

Canadian entrepreneurs may obtain up to $100,000 to cover the cost (travel, living expenses, translation, etc.) of signing an agreement with a partner and obtaining the approval of authorities supervising the investment in the target country. The applicant must be able to demonstrate that it has found a potential partner (or even two or three partners) that have indicated an interest in doing business with the applicant.

Contact Canadian International Development Agency (CIDA)

200 Promenade du Portage
Hull, Quebec
K1A 0G4

Tel. : (819) 997-5006
Fax : (819) 953-6088
Home Page http://www.acdi-cida.gc.ca/

Virtual Library on International Development - CIDA
http://w3.acdi-cida.gc.ca/Virtual.nsf/

Provincial Governments

Most of the Provincial governments have programs (and some Cities as well) that can assist you through many of the different stages of project development. It is important to contact your provincial trade and commerce ministries to find these relevant programs and to gather potential market information.

Ontario

Ontario International Trade Corporation
8th Floor, Hearst Block, Queen's Park
900 Bay Street
Toronto, Ontario M7A 2E1

Tel : (416) 325-8778
Fax : (416) 325-6985

Ontario Ministry of Economic Development, Trade and Tourism
900 Bay Street
Toronto, Ontario M7A 2E1

Tel : (416) 325-6846
Fax : (416) 325-6814

Quebec

Ministere de l'Industrie, du Commerce, de la Science et de la Technologie

10, Place d'Youville
Québec (Québec)
G1R 4Y4

Tel : (418) 691-5950
Fax : (418) 644-0118

http://www.micst.gouv.qc.ca/ (in french only)

Quebec - Ministere des Affaires Internationales

APEX Program
380 St. Antoine St. W.
Montreal, Québec H2Y 2X7

Tel : (514) 499-2171
Fax : (514) 499-2163

http://www.micst.gouv.qc.ca/ (in french only)

Newfoundland

Newfoundland Industry, Trade and Technology

Prince Edward Island

Prince Edward Island Enterprise
West Royalty Industrial Park

P.O. Box 8700
St. John's, Newfoundland A1B 4J6
Tel : (709) 729-5600
Fax : (709) 729-5936

http://www.gov.nf.ca

Charlottetown, Prince Edward Island
C1E 1B0

Tel : (902) 368-6300
Fax : (902) 368-6301

http://www.gov.pe.ca

Nova Scotia

Nova Scotia Trade Development Centre
Economic Renewal Agency

World Trade and Convention Centre
P.O. Box 519
Halifax, Nova Scotia B3J 2R7

Tel : (902) 424-3672
Fax : (902) 424-5739

http://www.gov.ns.ca/ecor/

New Brunswick

New Brunswick Trade and Investment
Department of Economic Development and Tourism

Centennial Building P.O. Box 6000
Fredericton, New Brunswick E3B 5H1

Tel : (506) 453-28[illegible]
Fax : (506) 453-3783

http://www.gov.nb.ca/edt/index.htm

Manitoba

Manitoba Industry Development

Department of Industry Trade and Tourism
410 - 155 Carlton Street
Winnipeg, Manitoba R3C 3H8

Tel : (204) 945-2445
Fax : (204) 957-1793

http://www.gov.mb.ca/itt/trade/index.html

Saskatchewan

Saskatchewan Economic and Cooperative Development

6th Floor 1919 Saskatchewan Drive
Regina, Saskatchewan S4P 3V7

Tel : (306) 787-2232
Fax : (306) 787-3989

http://www.gov.sk.ca/

Alberta

Alberta Economic Development and Tourism

10155-102nd St.
Edmonton, Alberta T5J 4L6

Tel : (403) 427-4323
Fax : (403) 422-9127

http://www.edt.gov.ab.ca/

British Columbia

British Columbia Trade Development Corporation

Suite 730
999 Canada Place
Vancouver, B.C. V6C 3E1

Tel : (604) 844-1900
Fax : (604) 660-2457

Northwest Territories

Northwest Territories Department of Economic Development and Tourism

P.O. Box 1320
Yellowknife, Northwest Territories
X1A 2L9

Tel : (403) 669-2377
Fax : (403) 873-0169

Yukon

Yukon Economic Programs

Department of Economic Development
P.O. Box 2703
Whitehorse, Yukon
Y1A 2C6

Tel : (403) 667-5466 or 800-661-0408
Fax : (403) 667-8601

Regional Agencies
Atlantic Canada Opportunities Agency (ACOA)

Atlantic Canada companies seeking to develop export opportunities may be eligible for assistance from the Atlantic Canada Opportunities Agency. The ACOA Business Development Program provides support to businesses as they look to expand existing markets through the development of Marketing Plans. Efforts include monitoring trade opportunities arising from global economic change, communications efforts to promote the region; trade missions and associated activities, as well as better coordination with federal and provincial bodies that influence trade and investment opportunities.

ACOA Head Office

Blue Cross Centre
644 Main Street P.O. Box 6051
Moncton, New Brunswick E1C 9J8

Tel : 1-800-561-7862
Fax : (506) 851-7403

Home Page http://www.acoa.ca/

Western Economic Diversification Canada (WD)

Western Economic Diversification Canada's mandate is to promote the development and diversification of the economy of Western Canada and to advance the interests of Western Canada in national economic policy. Instead of providing direct financial assistance to individual companies, WD is seeking new innovative partnerships with both the public and private sectors to address the information, business services and financing needs of small and medium-size enterprises (SMEs). One such innovation is the International Trade Personnel Program (ITTP), a pan-western initiative developed to strengthen the export competitiveness of western Canadian business in international markets. WD provides funding for eligible organizations to hire recent post-secondary graduates for a specified period (up to three years). The graduate will assist in and offer support to specific projects that are part of the organization's overall international trade development effort.

Manitoba

P.O. Box 777
Suite 712, The Cargill Building
240 Graham Avenue
Winnipeg, Manitoba
R3C 2L4

(204) 983-0697
Toll-Free Number 1-800-561-5394

Saskatchewan

P.O. Box 2025
Suite 601, S.J. Cohen Building
119 4th Avenue South
Saskatoon, Saskatchewan
S7K 3S7

Phone : (306) 975-4373
Toll-Free Number 1-800-203-9041

Alberta

Suite 1500, Canada Place
9700 Jasper Avenue
Edmonton, Alberta
T5J 4H7

British Columbia

P.O. Box 49276
Suite 1200, Bentall Tower 4
1055 Dunsmuir Street
Vancouver, British Columbia

Phone : (403) 495-4164
Toll-Free Number 1-800-550-9558

V7X 1L3

Phone : (604) 666-6256
B.C. Toll-Free Number
1-800-663-2008

Trade Associations

Trade associations may be useful in providing timely information on projects and assist in the development of a project. Contact your local Industry Canada regional office for a list of trade associations or see the Strategis site at "http://strategis.ic.gc.ca/" and click on business information by sector. The following are examples of associations that may be of interest; the Alliance of Canadian Manufacturers and Exporters and the Association of Consulting Engineers of Canada.

Alliance of Canadian Manufacturers and Exporters

The Alliance of Canadian Manufacturers and Exporters, formerly known as the Canadian Exporters Association, was founded in 1943 to promote Canadian international business and to advance the interests of exporters.

The Alliance is an association of firms involved in international trade and investment. It provides a unique forum for those involved in international business to pool their collective experience and work together to achieve common goals
The Association's aims are :

- to generate support for Canadian exports and international business by emphasizing their role in economic growth and employment;
- to provide information and assistance to its members and to analyse and interpret developments affecting international business and exports;
- to encourage governments in Canada to create and maintain an environment conducive in sustaining international business and export growth;
- to promote and provide international business education,. development and training.

Alliance of Canadian Manufacturers and Exporters
99 Bank St., Suite 250
Ottawa, Ontario
K1P 6B9

Tel : (613) 238-8888
Fax : (613) 563-9218

Association of Consulting Engineers of Canada (ACEC)

ACEC Export Division

The Export Division promotes the global competitiveness of the industry. In recent years, the ACEC has successfully established cooperation agreements with several counterpart organizations internationally to facilitate the creation of joint ventures and technology transfers between Canadian and foreign consulting firms, including investments in BOT and

BOOT projects, and continues to work towards such collaborations for the benefit of exporting consulting engineers.

Association of Consulting Engineers of Canada (ACEC)
Suite 616, 130 Albert St.
Ottawa, Ontario
K1P 5G4

Tel : (613) 236-0569
Fax : (613) 236-6193
Home Page http://www.acec.ca

US sources of Information

Export Guide - I-Trade
http://www.i-trade.com/dir01/exprtgui/

Basic Guide to Exporting - US Department of Commerce
http://www.i-trade.com/dir01/basicgui/

International Centre for Project Management G.P. (Centre International G.P.)

The Centre International G.P. focuses to promote, coordinate and support the training and exchange of information in the project management area Its ultimate goal is to foster the business development efforts of its Canadian and foreign members.

Sessions on International Trade; conferences, symposiums, seminars; Business, Government and University Co-op Programs and social events are the main tools used by Centre International G.P. to attain it's goal.

Centre International G.P.
321, de la Commune street West, Suite 200
Montreal (Quebec)
H2Y 2F1

Tel. : (514) 848-6100
Fax : (514) 848-9992

E-mail : centregp@aei.ca

Online Project Database / Newspapers and Journals / Networking / Local Agent or Office / National & Intl. Agencies / Trade Missions / Publicity / Unsolicited Project / Export Assistance / Financial Institutions / Return to Sitemap

IB - Financial Institutions

International Financial Institutions (IFIs)

Infrastructure development has largely been concentrated in the developing world. In order to finance these projects, developing countries look to International Financial Institutions, bilateral and international aid agencies.

The most important being the IFIs.

Canada provides funds and has voting rights in six IFIs :

the World Bank;

the InterAmerican Development Bank;

the Asian Development Bank;

the African Development Bank;

the Caribbean Development Bank;

the European Bank for Reconstruction and Development.

IFIs are financing an enormous portion of the developing world's infrastructure requirements and firms from member countries are eligible to participate in the bidding process. Usually projects are open to international bidding and therefore requires careful planning.

IFI sponsored projects are usually carried out by the host country's executing agency with IFI supervision. The executing agency for the most part selects the firm that will implement the project. IFI sponsored projects require a great deal of patience as it is important to get involved in the development of the project as early as possible. A number of years can pass before a project is approved.

Once a project has been identified as an IFI-sponsored project, it is necessary to find out at what stage of development the project is in. If it is still in its early stages it is useful to visit the IFI headquarters and the executing agency. It is also advisable to visit the appropriate Canadian liaison officer that will channel you to the proper person(s) in the IFI .

Making contacts and developing a rapport with the IFI and the executing agency is necessary. Certain requirements (i.e. registrations, pre-qualification documents) may be required before the bid package can be bought and so it is vital to be informed.

The importance of the financial package is pivotal, especially for BOT projects and variants. A good knowledge of the selection criteria will give the bidder a good feel for what is required within the bid. An example would be a two-step bidding process like that used for the Buenos Aires water concession. Three offers were considered technically feasible, a separate envelope contained the pricing of water based on the British K factor. The consortium that charged the least won the contract.

Offices of Liaison with IFIs (OLIFIs)

Offices of Liaison with IFIs (OLIFIs) are located in the Canadian diplomatic missions in the four IFI headquarter cities -- namely, Washington for both the World and Inter-American Banks; Abidjan for the African Development Bank; Manila for the Asian Development Bank and Barbados for the Caribbean Development Bank. For the European Bank for Reconstruction and Development (EBRD), there is no OLIFI at the Canadian High Commission in London, but one of the advisors to the Canadian Executive Director provides comparable services.

OLIFI's services to Canadian firms include :

- providing information on the IFIs' organization, structure, project cycle and procurement processes;
- counselling on appropriate marketing approaches;
- facilitating the organization and delivery by Canadian companies of technical briefings to IFI officials;
- identifying contacts, opening doors and making appointments;
- and researching, tracking and disseminating project information.

Generally, the OLIFIs are best placed to provide project information during the stages of loan development, while Canadian missions in the borrowing countries themselves are best placed to report on the projects' implementation status after board approval.

The following are the locations of the Canadian government liaison departments for IFIs.

Asian Development Bank Liaison Officer

P.O. Box 2168
Makati Central Post Office, Makati, Metro
Manila Philippines 1299

Tel : (011-632) 810-8861
Fax : (011-632) 810-1699

African Development Bank Liaison Officer

Canadian Embassy
23, rue Nogues, Le Plateau 01 B.P. 4104
Abidjan, Ivory Coast

Tel : (011-225) 21-20-09
Fax : (011-225) 22-05-30

Liaison Officer : Caribbean Development Bank

Commercial Division
Canadian High Commission
Bishop Courts Hill, St. Michaels, Barbados

Tel : (809) 429-3550
Fax : (809) 437-8474

Office for Liaison : International Financial Institutions (OLIFI) IDB, World Bank

Canadian Embassy
501 Pennsylvania Ave. N.W.
Washington, D.C. 20001

Tel : (202) 682-7788
Fax : (202) 682-7789

European Bank for Reconstruction and Development

Office of the Executive
Director for Canada
One Exchange Square

London, EC2A 2EM
United Kingdom

Tel : 44-71-338-6507
Fax : 44-71-338-6062

Additional information on all IFIs is available from :

Export Financing (TBF)
Department of Foreign Affairs and International Trade
125 Sussex Dr.
Ottawa, Ontario K1A 0G2

IFINET
http://www.dfait-maeci.gc.ca/ifinet/menu-e.htm

United Nations Development Program

The United Nations Development Program (UNDP) provides technical assistance to developing countries in kind, rather than in cash like the IFIs. It directly contracts and pays for the services of experts, buys equipment and finances training. If your firm possesses specialized technology in such fields as power production, agriculture, communications and housing, you may wish to investigate contract possibilities.

Your best bet is to contact the United Nations Association in Canada.

United Nations Association in Canada

130 Slater Street, Suite 900
Ottawa, ON K1P 6E2

Fax: 613-563-2455
www.unac.org

United Nations Development Program (UNDP)
Permanent Mission of Canada to the United Nations
1 Dag Hammarskjold Plaza 888 2nd Avenue, 14th Floor
New York, N.Y. 10017

Tel : (212) 751-5600
Fax : (212) 486-1295

The Canadian International Development Agency (CIDA)

The Canadian International Development Agency has three major programs : The Bilateral Program, the Multilateral Program and the Partnership Program to which the Industrial Corporation Program (INC) belongs. This last program is the most relevant for private sector assistance.

CIDA administers most of Canada's aid programs in 140 developing countries through bilateral assistance. CIDA can provide assistance in any number of ways and in a number of different sectors. The theme of any project must be that it will enhance the quality of life in the target country (i.e. building a school, curbing pollution, etc.) An important part of these programs is implemented by the private sector through consultants, contractors and suppliers. The Canadian International Development Agency

(CIDA) has developed a new contracting process which improves access to CIDA service contracts for Canadian suppliers. Eligibility criteria for doing business with CIDA does not change.

Companies must be Canadian-owned (at least 51 percent beneficially owned by Canadians) and based in Canada. Individuals must be Canadian citizens or have permanent resident status. The standard approach will be to invite suppliers, through the Open Bidding Service (OBS), to pre-qualify for contracts.

The OBS is an online service that can be found at "http://www.merx.cebra.com/" .

CIDA Home page http://www.acdi-cida.gc.ca/

Author - Industry Canada

Publication Date - 1998-04-16

In identifying a project an evaluation should be done simultaneously, the general considerations determine if a further more complex evaluation of the project is necessary. In order to avoid unnecessary expenditures and heartache the Evaluation stage should have a developed set of criteria or considerations.

The distinction must be made between projects that are tendered and those which can be identified and negotiated on a sole-source basis. The distinction is important in terms of effort and cost expended at different stages in the project.

E1 - General Considerations

Choosing your role

Various roles are possible for firms interested in privatized infrastructure projects (BOT and variants). The choice of role is the single most important decision that is made; the wrong decision is likely to result in abandonment and losses.

Vendor : The firm which at heart has no interest in being an owner, but wants only to sell goods and/or services to the project company should, in most cases, not even get on the train. The challenge is to identify, approach and persuade the ultimate owner of the project to buy their goods or services, whether they be tendered or are purchased on a sole-source basis. It is a question of adapting marketing skills, formerly focused on the public sector buyer, to a new TYPE of client in the private sector probably in an OECD country (even if the project is in a non-OECD country).

In some cases, more rare than sometimes imagined, the project owner may require, for reasons having to do with a demonstration of commitment or a need for equity, that a vendor have a token equity position. In such a case the vendor may want to stay on the train possibly through the development stage.

Developer : Some firms decide that they can best earn money from BOT opportunities by identifying and developing projects to a point, usually after pre-feasibility and before financial close, at which time they can be sold for a combination of cash, retained interest and contracts for the sale of goods and/or services.

If this is your role then you will be in effect the "owner" of the project possibilities for a period of time and therefore be responsible for the costs and risks incurred in bringing it to that point where it can be offered for sale.

You should stay on the train, perhaps as late as the financial deal is closed.

Natural Investor / Owner-Operator : Utilities and some large industrial concerns are in the business of owning and operating infrastructure for a profit.

In some cases, firms from other related fields (e.g.: contractors, consulting engineers, consultants, manufacturers) may be interested in expanding into such a role as a consortium or alone on a project-by-project basis.

In these cases, the entity is normally the project sponsor from an early stage and may continue as owner for a considerable time after commissioning.

Some of these firms may want to stay on the train throughout the whole journey.

Various combinations of these roles are possible (i.e. : developer or vendor who wants to negotiate a further interest in the project company). However, this does not obviate the fact that each role comes with specific objectives and its own discipline.

The project that you may want to undertake may be too large or have too many components for your firm to handle. Do not get clouded by your enthusiasm

Ask the question, "Can your firm complete this project successfully and make money?".

Projects have various stages of development, you can be involved in every stage or you can enter at a particular stage. It is obviously advantageous to identify a project at an early stage. The IFI's use a simple system to show what stage of development they are at. Often it is too late to enter into a project at the procurement stage as the competition has been interacting with the decision-makers much earlier.

Check to see if you will be able to attract investment and be able to insure your project. Contact the EDC and DFAIT and they will have the information you require. The EDC maintains an investment profile for every country and this can have a profound effect on whether investment and insurance will either be available or costly.

It is important to know the competition. This information may not be readily available, so research will be necessary. Find out about the local firms and who they may be affiliated with. Check to see who won similar projects in the region or country.

Are there any significant language barriers? Putting together a proposal and communicating with officials in China can be difficult if your firm does not have the personnel with the appropriate language skills. Of course the personnel can be hired, but this may be expensive.

In many cases there are registrations required with the government, chamber of Commerce and other organizations in order to bid on a project.

A network of key decision makers in both the public and private sector is beneficial. Even though the bidding process may be clearly defined, this network will be particularly useful in negotiations and discussions.

An extended time frame because of delays, complications, and negotiations can create strains on the budget. "Staying power" is important and so the budget should be structured to be able to cope with delays and other factors. The associated costs of project development can be astronomical and is one of the most problematic issues in infrastructure development today.

Most companies do not have the capability to chase projects throughout the world. In order to focus, one has to ask various questions regarding the country and the of project involved : Are they in my strategic plan? The identified project may look viable, but is it within my original strategy? If it is not then one of two things may happen, proceed and adjust the focus of the plan or keep the focus of the original plan and find another project.

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E2 - Technical Considerations

Do you understand the scope of the project?

Have you had a site visit and met the key decision-makers?

Do you have the appropriate technologies?

What are the environmental risks?

Does a feasibility study exist?

Is the project technically viable?

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E3 - Financial Considerations

Infrastructure projects were once the domain of the public sector. As privatization becomes more apparent, the levels of private sector participation have become better defined. There are eight main options for the private sector. These can be sub-divided into two groups : Public ownership and private ownership. All BOT options are based on some form of concession agreement.

Public ownership includes :
Service contracts
Management contracts
Lease arrangements
Engineer Procure Construct (EPC)
Design-build
Turn-key

Private Ownership includes :

Build-Operate-Transfer (BOT) , or the numerous variations of this like
Build-Own-Operate-Transfer (BOOT)
Build-Own-Operate (BOO)
Joint ownership or mixed companies
Outright sale

What is the cost of the bid package?

The cost of the bid package may be so high that it is simply not worth purchasing. One of the methods used by governments to get serious bidders is to price bid packages very high. An example of this would be the Buenos Aires water concession, the bid package cost $30,000 (USD).

Do a basic assessment of financing feasibility?

An assessment of financing feasibility would be using basic research and knowledge to see if financing can be attained for the project. Gauging the economic need, the political/security factors, the regulatory background, and your experience in similar projects. These factors should give you a basic idea of the difficulties in obtaining adequate financing. A distinction must be made on whether the project may be viable and whether the project can be financed.

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E4 - Political and Social Considerations

Do you have contacts?
Are you known in the region?

Do you have a temporary exclusivity accord? This accord usually stipulates that for a given duration of time (the shortest possible for the client - the longer possible for you) that the client accepts to work with you on an exclusive base.

Is the project a government priority and when are the next elections?

Do you have the network to gain Canadian government support?

Does it reflect on Canadian foreign policy?

Development costs for the Evaluation Station ($)

There are many ways of paying for the development costs of the Evaluation Station.

1. Own Resources or through a Consortium

2. PEMD - MDS (for information go to IA)

3. CIDA INC (for information go to IA)

4. Provincial programs (for information go to IA)

Nota Bene :

For more specific information, go below to :

Export Assistance
Financial Institutions

General Considerations / Technical Considerations / Financial Considerations / Political & Social Considerations / Export Assistance / Financial Institutions / Return to Sitemap

Export Assistance

Go To Identification - Export Assistance

It may be useful to contact the Canadian Commercial Corporation

Go to Development - Export Assistance.

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Financial Institutions

Export Development Corporation (EDC)

The Export Development Corporation (EDC) is a financial services corporation dedicated to helping Canadian business compete and succeed in foreign markets. EDC provides a wide range of flexible and innovative financial solutions to exporters across Canada and their customers around the world. For more than 50 years, the corporation's risk management services including insurance, financing and guarantees have become an integral part of the export strategies of many large and small Canadian companies.

Contact the EDC to find out if the project is financially viable from their point of view. Each country has an Economic and Credit Summary that shows EDC's experiences, attitudes, risk indicators and other issues. These are also available online at their site, but it is best to contact an EDC representative in your area. (see FB for program information)

Contact EDC

151 O'Connor Street
Ottawa, Ontario
Canada K1A 1K3
Tel. : (613) 598-2500
Fax : (613) 237-2690
http://www.edc.ca/

Other Institutions

It may be useful to visit some commercial banks (Canadian and foreign) and other relevant organizations to ensure that financing will be available -Financial - Financial Institutions.

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Canada
http://strategis.ic.gc.ca

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D1 - Assemble Team

Proceeding to develop a project can be both costly and time consuming. Up until the evaluation station not much in the way of resources has been allocated. The development stage will require much more effort and more importantly, money. A careful and calculated approach must be undertaken as to avoid unnecessary expenditures.

Assembling a team, a winning team is no easy task. It should be a process of careful selection but in many cases there is little thought put into the whole process. The way it is usually done is by direct invitation to personal friends or
acquaintances working with known companies in the same country or in the same kind of business.

This is not necessarily the wrong way of assembling a team. In many ways, it makes sense because of many different reasons :

- You usually know the people quite well;
- You know their companies or products because either you are familiar with them or they have given you information on their company;
- You are aware of their level of involvement in the host country;
- They keep you informed on their involvement within the host country and their connections within the government.

But one must not forget one fundamental thing : you are going to be associated with these people or companies throughout all of the future steps of the project which may be longer and more expensive than originally anticipated. It is important that more thought be put into the development of a team.

As discussed in the evaluation station, the importance of choosing your role is critical in the development of the project and perhaps you should make sure that you are prepared to make the commitment based on this role.

You can choose to proceed on your own (an internal team) or join forces with other companies or individuals that will complement weaknesses or give you a better chance of winning the project (It is more and more common that the operator is the key member in infrastructure projects. Having a high-profile and capable operator can give your team added credibility and will enhance your chances to win).

If it is decided to join forces, certain considerations must be taken into account.

How much financial resources will be necessary in the development phase?

How much financial resources can be allocated in the development phase?

Do you excel in this TYPE of project and what areas need assistance or expertise?

Is an operator necessary?

Is a financial arranger necessary? (In most cases a financier is not needed as an associate, but a member of the team should have good contacts with financial specialists and should keep them informed on the development of the project so that the project does not come as a surprise to them when it comes time to do the financial structuring.)

What companies have complementary technologies on the market? What experience does the company have in international markets? If experience is lacking can it be compensated for by technology or price?

Can they allocate the necessary resources, particularly capital, to be able to pay their way through the long and costly process of developing a project and if yes will they share the goals or roles ... ned at the beginning of the process? (Will we be able to share ... mon interest even though we might not have the same corporat ... sion?)

Can we work with their representative? (a personal ... important question)

Of course other factors can be considered to put together a good team. The importance of creating a good team makes it critical that every consideration be kept in mind.

As soon as a team is established, it is important that a Memorandum of Understanding (MOU), Letter of Intent (LOI) or a contractual agreement, be signed between all partners in which the following will be mentioned :

- the project;
- the accepted joint purpose of the team;
- the tasks, responsibilities and risks assumed by each member;
- the percentage of the consortium or company held by each member;
- the forecasted budget for the development of the project and how and when will the necessary funds be forwarded;
- the length of the agreement;
- a confidentiality agreement.

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D2 - Tender Package Which Includes a Feasibility Study

In the case of a government or private project that is going to tender, a feasibility study should be existing. It is standard procedure that it be included in the tender documents as it is a must to attract investment. The feasibility study should thus be in the tender package. So you will have to buy the tender package. Read the feasibility study carefully. Is it well done? Are there any flaws? A feasibility study should give you the feeling that your investment can be recouped. It is important that you resolve any issues that may be unclear in the feasibility study.

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D3 - Tender Package Which Does Not Include a Feasibility Study

A project that you have developed on a sole-source basis may not have a feasibility study; this may also be the case for a project for tender. In this case, a feasibility study will have to be conducted. If the project is being developed on a sole-source basis then an MOU or LOI should be obtained from the sponsor before funds are committed to an extensive and expensive feasibility study. The first step in doing this is to develop a preliminary proposal for both the study and the project. The preliminary proposal should include pre-investment studies, preliminary plans, a basic environmental assessment and the preliminary financial structure.

The preliminary proposal should be revised through negotiation and upon agreement the detailed feasibility study and an environmental assessment should begin.

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D4- Prepare Bid / Prepare for Negotiations

The follow are some points that should be considered in your bid package .

- History and business of sponsors, including financial information.
- Proposed management arrangements and names

and curricula vitae of managers.

- Description of technical arrangements and other external assistance (management, production, marketing, finance, etc.).
- Check and confirm engineering design. Look for alternatives.
- Suppliers of equipment and sub-contractors. Get exclusivity agreement for sorne of the suppliers to avoid competitive bids.
- Availability of manpower and of infrastructure facilities (transport and communications, power, water, etc.).
- Breakdown of projected operating costs by major categories of expenditures.
  Source, cost, and quality of raw material supply and relations with the suppliers.
- Import restrictions on required raw materials.
- Proposed plant location in relation to suppliers, markets, infrastructure and manpower.
- Proposed plant size in comparison with other known plants.
- Potential environmental issues and how these issues are addressed.
- A detailed market study.
- Establish bottom line (the lowest price you can accept and make a profit).
- Develop investment program.
- Develop pricing strategy.
- Obtain performance bonds.
- Obtain a bid bond.
- In-depth verification of operation costs.
- Identify your construction methods.
- Timetable envisaged for project preparation and completion.

Financial points

Estimate of total project cost, broken down into land, construction, installed equipment, and working capital, indicating foreign exchange component.

Proposed financial structure of venture, indicating expected sources and terms of equity and debt financing.

Projected financial statement, cash flow forecast, information on profitability and return on investment. Verified critical factors determining profitability, financial provisions or reserves for cost overruns.

Legal points

Are there alternative dispute mechanisms (arbitration-mediation).

Check regulations regarding the setting of appropriate pricing strategies.

What is the policy on competing infrastructure providers.

Outline of government regulations on exchange controls and conditions of capital entry and repatriation.

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D5 - Prepare for Negotiations

Intra-Consortium Negotiations

If the project is won, the participants roles and responsibilities will have to be defined within the organization to form the "project company".

Concession Agreement

It is crucial that the main terms of the concession agreement are available and understood before the bid. A concession agreement varies on a project-by-project basis and will be negotiated upon winning the bid. The concession agreement will outline aspects such as extension of the operating period, termination provisions and dispute mechanisms.

Development costs for the Development Station

There are many ways of paying for the development costs of the Development Station

1. Own resources or through a Consortium
2. CIDA INC (for information go to DA)
3. PEMD - Capital Projects Bidding (for information go to DA)
4. Provincial programs (for information go to IA)
5. Financial Institutions (banks) for a loan or line of credit.

Nota Bene :

For more specific information go to :

Export Assistance
Financial Institutions

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DA - Development - Export Assistance

Canadian Government - Program For Export Market Development (PEMD)

Capital Projects Bidding

This program is designed to assist Canadian engineering, construction, architecture and management consulting firms in preparing a proposal, against international competition, for major capital projects outside Canada. The bid value to the applicant must be greater than $1 million and the PEMD contribution is a minimum of $5,000 and a maximum of $50,000. Preferences will be given to companies with annual sales greater than $250,000 and less than $10,000,000 and/or with less than one hundred employees for a firm in the manufacturing sector and fifty in the service industry.

PEMD Handbook online at
http://www.infoexport.gc.ca/section2/export_menu-e.asp

Contact your Local International Trade Centre. -- See (Identification - Export Assistance)

Canadian International Development Agency (CIDA) Industrial Cooperation Program (INC)

CIDA can help secure a capital project by co-financing the preliminary study or a more detailed viability study. To qualify for the program, a project proposal must include social, economic, and industrial benefits for both the developing country and Canada. Eligible organizations must demonstrate that they have the human, technical, and financial resources as well as the skills and experience needed to carry out the project.

Capital Project Preliminary Study

This supports the preliminary analysis of capital projects in a developing country where it has been determined that reasonable opportunities exist to finance such a project. CIDA INC offers up to $350,000 to implement this type of study.

Capital Project Detailed Study

This program supports the detailed analysis of a capital project where the recipient country or organization has confirmed its interest in implementing the project, and where specific sources of financing have been confirmed. CIDA INC offers up to $500,000 to implement such a study. In addition, CIDA INC is able to provide Capital Project Support to increase the positive impact of a capital project on development by absorbing certain costs relating to technology transfer, once the participation of the Canadian company is formalized.

Contact CIDA

The Industrial Cooperation Division
Canadian International Development Agency
200, Promenade du Portage
Hull, Quebec K1A 0G4
Tel : (819) 997-5006
Fax : (819) 953-6088
http://www.acdi-cida.gc.ca/

Canadian Commercial Corporation (CCC)

Since 1946, the Canadian Commercial Corporation (CCC), a Crown Corporation, has helped thousands of Canadian suppliers make export sales. CCC acts as a prime contractor, guaranteeing performance to the foreign customer and matching that obligation through a domestic contract with the Canadian supplier. The mechanism recognizes that, where Canadian suppliers are less well-known, a foreign government purchaser may need some reassurance or endorsement from the Government of Canada. CCC is a trade facilitator and can help at virtually any stage of an export sale. CCC can be of assistance to the Canadian supplier in some of the following ways :

- assisting in bid preparation;
- assisting in contract negotiations;
- CCC's participation in a deal can eliminate or reduce bonding requirements;
- offering advantageous payment terms to small businesses;
- collecting foreign accounts receivable and paying suppliers:
- assisting exporters in accessing pre-shipment financing through commercial banks.
- CCC will review transactions in virtually any sector to determine whether it can participate in that transaction.

Contact CCC

50 O'Connor Street, 11th Floor
Ottawa, Ontario K1A 0S6
Tel : (613) 996-0034
Fax : (613) 995-2121
http://www.ccc.ca/

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DB - Development - Financial Institutions

Since all the information related to DB - Development is the same as the one fund in FB, we refer to FB so as not to be repetitive.

– See Financial - Financial Institution

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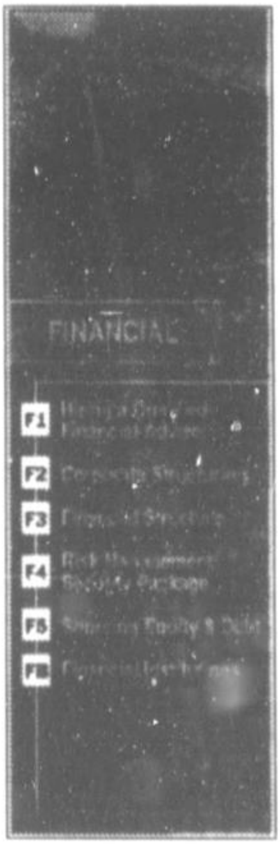

Introduction

The financing phase of the project cycle is often quite complex. The inherent risks, the size, and long-term nature of infrastructure projects can make it very difficult to create and implement an effective financial structure. Canadian companies face some obvious challenges : (1) The relative lack of Canadian domestic experience in privatized infrastructure means that there are few natural investors in the Canadian private sector. (2) The small to medium of most interested companies (consulting engineers, manufacturers, contractors) means that equity will probably have to be sourced from many sources therefore resulting in the difficult task of constructing multi-disciplinary consortium. (3) Canadian BOT sponsors do not have the advantage of being able to turn to an array of aggressive Canadian financial institutions for the debt portion of the project, with the result that developers must often resort to foreign financial sources for the most difficult parts of the financial package.

The following steps outline the most important aspects in structuring a good financial package. Each project has a different dynamic and requires considerable analysis to get things right. The section is based on the limited-recourse model of project finance, the characteristic form for privatized infrastructure projects. In a typical limited-resource financing, evidence of adequate equity is necessary before lenders will commit to financing the construction phase. Lenders will require certain important guarantees, principally from the sponsors, until project commissioning. Many of these guarantee requirements may fall away when project revenues meet certain predetermined tests, leaving the lenders with real exposure to commercial risk. A refinancing of bank debt for lower rates and/or longer terms may be attempted when revenue stability is well demonstrated.

F1- Hiring A Qualified Financial Adviser / Arranger

It is crucial that you receive competent and timely advice and assistance when it comes to analysing the financial feasibility of a BOT project, to structuring the financial package and to sourcing the required funds (debt & equity). Firms with an in-house project financing department may have to go outside for some parts of the expertise needed. However, firms without such a department, or whose financing experience is limited to offshore projects financed on the basis of sovereign guarantees or robust corporate balance sheets, should not hesitate to seek expert outside assistance. A financial adviser can be useful at various stages : at the evaluation stage, to help determine whether the project is financeable; at the development stage, both to ensure that the financial analysis is prepared in such a way as to be useful in a subsequent financing solicitation and also to assist in the initial stages of structuring ; during the financial structuring and sourcing stages, leading to financial close.Various forms of remuneration can be negotiated with financial specialists, including time fees, success fees or a mixture, the first and last being the most common. Your contract with your adviser should include a fees cap and a means of regularly reviewing progress towards targets.

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F2 - Corporate Structuring

A privatized infrastructure project is normally owned by a special purpose company, sometimes established off-shore, formed for the sole purpose of that particular project (and possibly for others like it, in the same jurisdiction). This is commonly referred to as the "project company" or the "BOT company". The preference for this approach has developed out of a desire to limit the financial exposure of investors to the significant commercial, political and legal risks that often attend such projects carried out in foreign jurisdictions.

The project company can help insulate the investors' own balance sheets from project risk and, in some cases, make negotiations with the host government a more manageable affair. On the other hand, the "cold start" non-recourse nature of a project company usually means that the raising of debt is likely to be a difficult and relatively expensive matter.

There are two critical areas in putting together the "special purpose" company:

Organization and Capital Structure
Management and Control

Organization and Capital Structure

The legal form for the company needs to be defined. Different factors may apply in the development of the organization. This can be dependent on what the local law, investors and lenders are likely to accept as well as some important liability issues. One of the strongest influences on the nature of the incorporation is likely to turn on the question of project sponsorship. In cases where a single entity (say a utility or other natural investor) controls the project company, the corporate form will reflect the preferences and judgments of that entity. In cases where there is no majority shareholder, where control is shared through the stitching together of the interests of a variety of equity investors, the corporate structure, particularly as it is represented in the shareholders' agreement, will reflect a balancing of a wide variety of interests.

In light of differing fiscal regimes, registration of the project company may be in another jurisdiction.

Project finance deals dr[illegible] capital from equity (permanent capital), debt (temporary capital) or qua[illegible] equity. The mix and terms of these forms of financing will determine the cost of capital to the project. The capital structure is commonly expressed in terms of the relative amounts of debt and equity (debt / equity ratio) as well as of the particular characteristics demonstrated by each of these sources.

Investors will normally prefer a high debt / equity ratio, thereby maximizing returns. The most important factors in determining the amount of debt that a project can reasonably carry are (i) the ability of the projected cash flow to handle debt service and (ii) the attitude of the lenders.

By nature, lenders seek to be relatively risk averse. Given the political, legal, commercial and other risks often perceived by to-be-lenders in non-OECD markets, high levels of equity are often stipulated as a sine qua non of lending. Also, host governments, which sign the concession agreements, may set minimum equity requirements in order to weed out weak contenders. A power project that may be feasible at 15 % of equity in the USA may require 40-50 % equity in certain non-OECD countries.

The following list, based on an article by Vives and Beato, 1996, may be helpful in helping to determine the debt / equity ratio :

Cash Flow Level and Variability : Because the debt must be serviced first to avoid default, the more variable the cash flow of a project the less debt can be carried. For example, a power project that has a guaranteed price and output contract with a public utility can carry more debt than a project selling to a spot market where both price and demand fluctuate. As well, the correlation among inflows or outflows will influence the amount of debt a project can support.

Debt Maturity and Cost : Although total interest payments are greater for long-term debt, yearly amortization payments are lower than for a similar amount of short-term debt. As projects, tend to build up cash flow slowly, it is crucial for debt to be long term and have a grace period, especially during the construction phase.

Availability of Risk Hedges : If a project can hedge some of the risks (reduce the variability or the harmful correlations), it may increase the level of debt it can carry. For instance, guaranteed input prices, forward sales of output, or currency swaps (to make all flows denominated in the same currency), or interest rate swaps (to convert floating into fixed), will increase the debt capacity of a project by lowering risk.

At a recent IDB Round Table for Innovative Financing, the experts gave some necessary preconditions before they were to invest in a project. Some of these are :

A viable organization and capital structure for the "special-purpose" company that will be solely responsible for the project's debt repayment, and an operating climate of predictability, transparency, and enforcement of host country legal and regulatory structures governing its performance.

The ability of private investors to provide independent management and control of the project, and to work out acceptable agreements with host country governments that can affect project profitability, such as locally sourced procurement contracts and taxation.

Provision of adequate exit mechanisms for sponsor equity via future public offerings on local capital markets, sale to third parties, or other means. (Wright, Directory of Innovative Financing summary : Financier 1996)

Sources of equity can be found at F5.

Management and Control

Private and public sector relationship

Projects of privatized infrastructure are realized through private sector types of corporate vehicles, but in the end must, by definition, serve important public sector requirements (e.g. : quality and quantity of water supply, extent of distribution, limits to tariffs, etc.). Hence the importance of describing very clearly the basis of the relationship in the Concession Agreement. A number of different issues should be anticipated in that agreement, such as the effects of eventual changes in law during the concession period (corporate tax, ownership rules, withholding tax, etc.). An agreement might be made, for instance, that laws at the commencement of the project must be kept in place until project completion. Another important aspect may be a requirement that the public sector buy-out the private sector participants if the public sector does not respect its obligations. Such a buy-out would be defined under some type of agreed formula.

Private partnership issues

The "special-purpose" company needs to outline the management and control mechanisms in the development of the project. The participants in the venture should outline the issues that are deemed important enough to require agreement by all the participants. These issues, normally dealt within the Shareholders' Agreement, might be the hiring of a new CEO or the inclusion of a new partner. It should also develop a method to deal with the control of the company like quorum at meetings, shareholder rights, voting and so on.

Dispute Resolution

It is extremely important that adequate dispute resolution mechanisms are in place. An "exit strategy" is a very important feature in any joint-venture organization. There are different types of strategies that could be used like the "buy-sell" or the "put-call" agreements.

The buy-sell agreement is often a "shot-gun" system whereby a partner can offer to buy another partners share for a certain price; the partner may agree and sell the shares or refuse and have to buy the offeror's shares.

The put-call agreement is used when a partner is in default. The other partners then have the right to purchase the defaulting partner shares or have the defaulting party buy their shares.

In the case of a default on obligations set out in a contract with either the public sector or within the joint-venture, an agreement should be set out to use a neutral arbitrator.

Operations Phase

Given the importance of the operations phase for the lenders (their repayments depend on successful operation) it will be important to foresee how the plant will be operated and by whom.

Controlling investors (e.g. : utilities or major corporations) will take this decision themselves and may even be the operator. In the case of joint venture projects without a majority or controlling shareholder, the decision may be a complex one.

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F3 - Financial Structure

Reference has already been made ("Organization & Capital Structure") to the debt / equity ratio and some of the issues that arise in capitalizing the project.

A project company starts out as a small entity, virtually without assets. It is a company "waiting to happen". Within a short period, and long before it is in a position to earn revenues, it will acquire significant assets and liabilities.

The financial structure, comprising equity & debt in a workable combination, is built in stages. It is to be expected that the equity providers should demonstrate their commitment and financial capability by being the first to put funds into the project company. This equity step will first be taken by the sponsors putting up "new money". Third party or arm's length investors will come a little later.

Assuming a "good" project in a "good" country, the difficulty of raising equity will depend very much on the financial and technical credibility of the sponsors in relation to the size and inherent riskiness of the project at hand. Generally speaking, one finds that equity is relatively easy to come by in cases where the sponsor is a natural investor (utility or large corporation) willing to put up enough equity to control the project. It is very much more difficult to raise in cases where a number of smaller companies has been stitched together such that no one firm is able to assure control through equity. In both cases, long term project debt tends to be the most difficult type of financing to raise.

Lenders will not commit until it becomes clear either that sufficient equity is spoken for or that the committed equity of the sponsors will certainly be completed by outside sources. It is the equity which, amongst other things, which gives the necessary comfort to the solicited lenders.

In constructing such a financial structure, the attraction of early equity or debt commitments from IFI's or ECA's can accelerate and sometimes even create conditions of confidence under which commercial lenders can be attracted.

Given the expectations of investors, the demands of lenders and the considerable political and commercial (and sometimes market) risks involved in privatized infrastructure projects, the anticipated Internal Rate of Return (pre-finance, after tax) must be sufficiently attractive to permit the project to move on to financing. Whereas in the USA such a project may require an anticipated project internal rate of return (IRR) of, say, 15 %, the necessary figure for a project in a non-OECD country is likely to be over 20 % and perhaps as high as 25 or 30 % or more..

It is useful to view the financing in two distinct stages.

Construction Phase

The financing of the project is partly based on estimates of construction cost. Estimates can go wrong. Both equity and borrowing requirements should take this into account through what amount to "stand by" arrangements.

Lenders and project sponsors will have to agree on the rhythm at which their respective funds are put into the project. Normally, a significant amount of equity will be advanced, after which debt and remaining equity will go in at roughly similar rates.

The sources of debt and equity are considered in Station F. Suffice it to say here that construction period debt is more likely to come from official and commercial lenders rather than from the market. Commercial lenders (i.e. : banks) are more likely to proceed if official lenders have declared their interest. Sometimes the combination permits the enhancement of the commercial debt; sometimes it merely provides the necessary "comfort" to the commercial lenders.

Lending to the construction period will usually comprise a grace period approximately equal to the period up to commissioning and a term that goes beyond predicted pay-back (although there are limits to how far a commercial bank will go, often about 8-10 years all-in).

Operational Phase

It may be possible to refinance some or all of the commercial bank debt with a longer term bond issue (either local or offshore or both). This has the advantage of spreading out the amortization period and increasing returns to shareholders. There are a number of examples that can be drawn upon like the $172 million Centragas bond issue in Colombia with a 15 year maturity or the $60 million Ocensa pipeline project also in Colombia. The difficulty with bond issues is that they require an investment rating for the country and the project and typically, numerous risk mitigation instruments are necessary. Without an investment grade rating from a reputable rating agency such as Standard & Poor's or Moody's, pension funds, insurance companies and other institutional investors are reluctant to put their money at risk.

Exit Strategy

One important step in the financial structuring process is to foresee means by which investors, according to their inclinations, may be able to sell their holdings in the project company.

The approach may differ according to whether or not project ownership is to be remitted to the host government at the end of a concession period. In such cases, it is unlikely that investors can envisage capital gains : all satisfaction will have to be found in annual returns on the investment.

This issue, broadly defined as the project's liquidity, may be viewed quite differently by different players. Owner-operators may have the intention of staying in the project company, their original purpose being profits from operation. Other sponsor-investors, with a minority position, may wish to sell their shares some time after the project company is up and running. Third party investors will undoubtedly insist from the beginning that they be able to sell at any point after "x". If there are any plans to "take the project public" at any point after commissioning, the capital structure will have to anticipate the means of doing so.

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F4 - Risk Management / Security Package

Project risks are numerous and will be experienced and addressed in different ways by different players. In the context of this exercise, it will be useful to recognize three categories of risk takers

- **The project owners** (where the risks will be different for sponsors on the one hand and third party investors on the other). The period of risk lasts as long as the investor is still in the project company;
- **Suppliers to the project company** (i.e.: vendors of goods and services whose risk period is tied to their payment terms);
- **Lenders to the project company** , whose period at risk is defined by the loan terms. The nature of the risks is contained in the loan agreement. The collection of means taken by the project company to meet the security requirement is usually called the "security package".

From another perspective, risks are commercial, financial, technical (including construction and operation), political and force majeure.

From yet another vantage point, risks can be classified according to the project period during which they may occur (development phase, construction phase, commissioning phase, operation phase).

The identification of the various risks and the steps available to avoid or control them are the bject of financial risk management.

In many cases it will be advisable to retain financial-cum-risk management advisors to assist you in this aspect of a project's conception, development and realization. Under-protection against risks can break the project; over-zealous protection may erode the potential for profit.

In terms of this chapter's focus on financial engineering, it may be useful to list a few financial risks, by way of example :

- foreign exchange risk (convertibility, rate of conversion, devaluation, transferability);
- interest rate risk (on loan repayment);
- liquidity risk (the risk that there may be no market into which investors or lenders may sell their project position).
- completion risk, which gives rise to the need for standby finance and potential extra costs

Project sponsors, whether they be owner-operators or equity investors with an intent in selling to the project, will have to mitigate against a wide variety of risks (construction risks, cost overruns, various political and commercial risks, etc.) in order to better secure the lenders whose conditions they are seeking to meet.

Of all such risks, completion risk is potentially the most devastating to the greatest number of players. Lenders, particularly, and to a lesser extent the host government will require significant undertakings on the part of the sponsors to reduce this risk. It will be necessary to raise stand-by financing, in excess of predicted project cost, in the form of both equity and debt; a series of insurance coverages will be required; performance bonds and completion guarantees will have to be obtained from the turnkey contractors; the concession agreement will have to provide either for take-or-pay arrangements or demonstrate how market risk is to be mitigated; reserve and/or escrow accounts which capture certain amounts of project revenues will be required from the moment revenues begin to arrive, even if this occurs before full commissioning.

Insurance

Although insurance cannot create the blanket protection from risk that many project developers seem to feel it should, it is an essential part of any BOT project.

Insurance products are available to various players :

Investors	May be able to cover certain political risks that might threaten their equity.
Exporters	Can seek coverage against a wide range of risks, from bid bonds, through pre- shipment insurance, to confiscation risk, performance bonds, the risk of non-payment and certain foreign exchange risks.
Lenders	Can apply in some cases for third party coverage (insurance or guarantees against political risks affecting loan repayment prospects).

In the past, medium and long term risks could be covered only by ECA's and certain IFI's. Shorter term coverage (under 18 or 12 months) has long been available from both ECA's and private markets. Increasingly the private market is developing capacity for certain longer term risks.

Your financial adviser or broker will be able to help you decide to which market you should go for your project or, indeed, whether you should have them compete against each other. Premia are not the only important factor : extent of coverage and waiting period for payment of claims are examples of other important factors to be taken into account.

Potential sources of transaction insurance and guarantees :

IFI's	Particularly MIGA, IBRD, IFC and EBRD. Short, medium and long term
ECA's	Bonds (bid, performance, etc.); equity investment; confiscation; payment, etc
Private sector insurers	London and New York are the most important markets, though the partial privatization of certain ECA insurance services is creating opportunities elsewhere.
Specialized brokers	They do not insure but they can help you test the market and negotiate your deal. Some brokers are more independent than others.
Risk	A fairly recent development - There are independent advisers (not brokers) who charge fees for advice on risk

Managers identification and coverage. To some extent these services can be provided by your financial adviser.

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F5 - Sourcing Equity And Debt

A project needs a leader, either alone or through joint-venture. Leadership in a private sector vehicle equates to outright ownership or the control of a majority of the equity. Project sponsors, will have to resort to their own resources for the equity injections required by their position of authority. Depending on the project, there may also be investors who come in either for the anticipated returns or for a combination of purposes, including the possibility of being suppliers to the project. Such investors may provide either pure equity or quasi-equity financing such as subordinated loans (with an equity kicker).

Assuming the leadership group contributes 51 % of the equity, this would leave up to 49 % of the equity and 100 % of the debt to be found outside the sponsorship group. In a $100 million project where the debt / equity ratio is 65 / 35, this means that equity in the amount of $17 million (approx.) and $65 million of debt will have to be raised externally.

Where can these be found?

Assuming a "good project" in a "good country" and sponsored by technically and financially credible promoters, a variety of sources can be approached. In every case, the quality of the project and its sponsors will have to come through in the presentations which, preferably, should be couched in conservative terms.

Potential Sources of Equity

Suppliers - as long as their conditions do not displease other investors or the lenders;

IFI's - (e.g. : IFC) Note : there are limits to amounts and percentage of equity available from such sources;

ECA's - (e.g. : EDC) Note : this is a relatively new source and should probably not be approached until much of the equity is spoken for;

Institutional Investors (e.g.: infrastructures funds, merchant banks, insurance companies, pension funds, corporations). Note: With few exceptions, smaller projects (less than $45 million CAN) are not of interest to these sources;

Capital Markets (big projects and even then, still a long shot);

Sources in the host country - (e.g. : local markets, private placements, certain government-owned corporations financial institutions).

In any case, equity is not easy to find. Laborious work is required in the development station of the project to attract and convince possible equity partners. In Canada, where sponsors are not always large size companies, innovative ways have to be invented to help provide equity.

Potential Sources of Debt

IFI's - Note :verify what bidding, procurement and other conditions may accompany their interests;

ECA's - Note : project debt is most likely in cases of very strong sponsorship;

Commercial banks - Note : Banks will, in many cases, seek to tie themselves in with an ECA, usually through counter guarantees. This is theoretically possible but in practice difficult to achieve with the EDC which prefers to act as a direct lender;

Local banks and local regional financial/development institutions - For local currency. Note : In many non-OECD countries, what is known as project lending may in fact amount to lending to a "name and reputation" - in such cases you will need a credible local partner with clout.

Institutional Investors (domestic and foreign) - For example, in Chili and Peru, pension funds are prepared to participate in project lending. In the USA and Canada, certain insurance companies, pension funds or infrastructure funds may be approached.

DEVELOPMENT COSTS FOR THE FINANCIAL STATION ($)

Not too many sources of money exist for paying through this station. In fact except for one's own resources we know of only three:

- The principal source of funds to bring a project to financial close is the sponsorship group's own resources. Being part of the development stage, financial structuring and sourcing are risky affairs and therefore create the potential for high returns (as compared to those that can be reasonably be sought by later investors).
- Although the large part of the necessary funds must invariably come from the sponsor's own resources, there are nevertheless some sources of financial support that are potentially available as part of the development stage. See financing of development station - DB.
- In Quebec two programs exist :

  The first one is "Soutien Au Financement des Projets d'Immobilisation l'Itranger (SAFPIE)", the goal is to support exporting companies for capital projects abroad. The use of financing techniques under a limited recourse model has modified the responsibilities of the project developers. Quebec companies who now have little experience in this field and who face resource problems, particularly in the Financial Structuring and Sourcing and Negotiation Stations with financial institutions, can get financial support through SAFPIE in order to solve these crucial stations for the development of a project.

To have more information on the SAFPIE program contact the "Ministre de l'Industrie, Commerce, Science et Technologie" whose address in listed in IA "Provincial Government".

The second one, Infradev International Inc. is hardly off the shelf. It is not really a program but a fund of 20 M$ with a 10 year life. Limited partners such as Capital International CDPQ Inc., Royal Bank of Canada, Manufacturers Life Insurance Company and Hydro-Quebec work under a general partner named Infradev International Inc.

Involved in all infrastructure sectors, putting emphasis in energy, transportation, telecommunications and environment, in Asia, Latin America and Central Europe, Infradev's general objective is to "Fulfill the needs for expertise in financial engineering and for equity support during the development stage of infrastructure projects in the domestic and international markets".

For more information on Infradev International Inc., please contact :

Mr. Michel Branchaud, President and CEO
2190, rue Crescent, First floor
Montreal (Quebec) H3G 2B8
Tel. : (514) 286-4477
Fax : (514) 286-4083

E-mail : info@infradev.ca

Nota Bene :

For more specific information go to :

Financial Institutions

Hiring A Qualified Financial Adviser / Corporate Structuring / Financial StructureRisk Management / Security Package / Sourcing Equity & Debt / Financial Institutions / Back to Sitemap

FB - Financial Institutions

This sub roadmap has been divided into seven groups of Financial Institutions, namely :

International Financial Institutions (IFI)
Export Credit Agencies (ECA)
Commercial Banks
Merchant and Investment Banks
Institutional Investors
National and Intra-regional Development Banks

Domestic and International Capital Markets

INTERNATIONAL FINANCIAL INSTITUTIONS

This group includes the World Bank (IBRD, IFC, MIGA) and regional institutions based on the World Bank model (IDB, ADB, EBRD, etc.). These institutions have a development purpose and have traditionally dealt with sovereign governments and government-owned corporations. Increasingly, they are finding ways to play a part in or support limited recourse lending to privatized infrastructure projects. In some cases (e.g. IFC, EBRD) in addition to lending , they can take a minority equity position which can help give comfort to other financial institutions being solicited for the deal.

The World Bank Group

The World Bank is the largest and most influential International Financial Institution. It is composed of a number of organizations the most important being the International Bank for Reconstruction and Development (IBRD), the International Financial Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Development Association (IDA).

The World Bank Group provides a wide range of products and services to support private participation in infrastructure. While historically the IBRD and IDA have mainly financed public sector projects, and the IFC and MIGA have financed private sector companies in competitive sectors, the recent trends toward liberalization and privatization of infrastructure and the emergence of a global private infrastructure industry has led all the Bank Group institutions to increase their support for private infrastructure projects.

International Bank for Reconstruction and Development (IBRD) - World Bank

The IBRD, founded in 1944, is the World Bank Group's main lending organization. It lends to developing countries with relatively high per capita incomes. The money the IBRD lends is used to pay for development projects, such as building highways, schools, and hospitals, and for programs to help governments change the way they manage their economies.

The IBRD lends money directly to governments to finance programs and projects. Funds under some programs may then be on-lent to local implementing agencies. Funds directed through other implementing agencies are generally for program implementation, institutional strengthening, and policy development, and may be a source of government tendered contracts.

The increased participation of the private sector in infrastructure development has been accepted as the way forward and the World Bank has adjusted its programs accordingly. The IBRD which in the past only dealt on a government scale has developed new programs to encourage private sector development.

IBRD Programs for the Private Sector

IBRD Loans

- IBRD can provide loans under two structures :
- IBRD can lend directly to a private company, but, as required by IBRD's Articles of Agreement, the loan must be guaranteed by the host country.
- Alternatively, IBRD can provide a loan to the host country, which can then on-lend the funds to a private company. This structure involves a loan agreement between IBRD and the host country and a subsidiary loan agreement between the host country and the private company. It also typically involves a project agreement establishing a direct contractual relationship between IBRD and the company implementing the project.

IBRD Guarantees

- The IBRD offers two types of guarantees : the Partial risk guarantee and the Partial credit guarantee.
- The partial risk guarantee protects lenders against payment defaults arising from breaches of sovereign contractual obligations, transfer risks, and certain force events. Partial risk guarantees have been used to support privately sponsored infrastructure projects.
- The partial credit guarantee protects lenders against payment defaults, regardless of the cause, but only for specified debts service obligations in order to extend maturities.

Contact the IBRD

THE WORLD BANK GROUP

Business Partnership Center
1818 H Street, N.W.
Washington, D.C. 20433
USA

Tel. : (202) 522-4272
Fax. : (202) 522-1727

Home Page ==> http://www.worldbank.org/

International Finance Corporation (IFC) - World Bank

The IFC was established in 1956 to help strengthen the private sector in developing countries. The IFC continues to be the main financing arm for private sector development and has seen the need for the private sector in infrastructure development.

The IFC has assisted private infrastructure in forty-one countries in power, telecommunications, transportation, water and sanitation. Much of this finance has taken the form of IFC participation in individual transactions (for power, telecommunications, transport, and utilities).

The total estimated financing of new projects in developing countries has doubled between 1993 and 1995, from about US$17 billion to over US$35 billion. Cumulative IFC support through June 1996 amounted to US$3.1 billion of financing to 148 projects worth US$29 billion in 40 developing countries. Almost half of IFC's financing. commitments were made in the last two years.

In response to a growing demand for services, IFC created an Infrastructure Department in July
1992, composed of three divisions.

The Transport and Utilities Division considers investments in highways, bridges, ports, shipping, airports, airlines, railways, pipelines, water supply, sanitation, and waste management.

The Power Division handles electric power generation projects including hydro, thermal, geothermal, and new technologies, as well as transmission and distribution projects, including regional, national, and international grids, and metropolitan and local utilities.

The Telecommunications Division handles projects such as the modernization and expansion of basic telephone networks, the establishment of cellular and satellite communications systems, the provision of value-added services, and the production of telecommunications equipment.

IFC Programs

Debt and Equity Financing

IFC provides loan and equity finance for private companies operating in emerging economies. IFC works in partnership with other lenders and investors and typically finances no more than 25 percent of a project's total cost. In turn it will not take up more than 25 % of a project's equity. Financing is tailored to meet the needs of each enterprise. Loans are offered with fixed or variable market rates and appropriate maturities. Equity investments are made based on project needs and anticipated returns. IFC also offers a full range of quasi-equity finance, including convertible debentures, subordinated loans, and loans with warrants.

Loan Syndications

IFC's syndicated loan program, amounting to $5 billion a year, enables commercial banks and institutional investors to provide long-term funds to a wide range of clients. Under the program, the borrowers' contractual obligation is to IFC as the lender of record. The participating financial institutions provide their own funds and fully share the commercial credit risks of the projects with IFC. Participating financial institutions are generally exempt from country-risk provisioning requirements and are able to share in IFC's preferred status as a multilateral development institution.

A good example of an IFC sponsored project is the following :

Philippines : Hopewell Energy Corporation (HEPC)

IFC played a critical role in helping to devise the Philippines' first BOT scheme to provide essential power without direct government funding or financial guarantees. The government needed to aggressively pursue private sector involvement to sustain the country's economic growth while relieving a potential up-front financial burden. IFC invested US$ 1.0 million in equity and lent US$ 10 million to the project sponsors in 1989.

Hopewell Holdings Ltd., the main sponsor and a Hong Kong based holding company, and the National Power Corporation (NPC), the state-owned utility, agreed that Hopewell Energy would build and operate a 200 MW gas turbine power plant and maintain it for 12 years. NPC would pay a capacity fee and energy fees and purchase all the power generated, depending on the project's ability to deliver on schedule and at a guaranteed level of availability. Ownership of the plant transferred to NPC at no cost at the end of the period. This was a logical solution to the country's pending power shortages.

Contact IFC

International Finance Corporation
1850 I (Eye) Street, NW
Washington , DC 20433, USA

Tel. : (202) 477-1234
Fax : (202) 676-0365

Home Page ==> http://www.ifc.org/

Multilateral Investment Guarantee Agency (MIGA)

MIGA was established in 1988 to help developing countries attract foreign investment. MIGA provides investors with investment guarantees against "non-commercial risk," such as expropriation and war. It also provides governments with advice on improving the climate for foreign investment.

Since it began operations in 1989, MIGA has issued over 220 guarantees in support of approximately $14 billion of foreign investment. In recent years there has been a growing demand for MIGA guarantees from private investors in infrastructure.

MIGA has issued 37 guarantees for a total of 18 projects in the power, telecommunications, and transportation sectors with a total coverage of $322 million. The total cost of the projects insured exceeds $5 billion.

MIGA Programs

Guarantee Program

MIGA offers long-term political risk insurance to eligible investors for eligible investments in developing member countries. Beyond insurance protection, MIGA's participation in a project enhances confidence that the investor's rights will be respected, an advantage inherent in the Agency's organization as a voluntary association of developing and developed countries.

The coverages described below may be purchased individually or in combination, but selection of the desired coverages must be made by an investor before MIGA issues its guarantee. The maximum amount of coverage that MIGA can issue for a single project is currently $50 million.

Transfer Restriction. Protects against losses arising from an investor's inability to convert local currency (profits, principal, interest, royalties, capital and other remittances), into foreign exchange for transfer outside the host country. Transfer Restriction coverage insures against excessive delays in acquiring foreign exchange caused by host government action or failure to act, by adverse changes in exchange control laws or regulations, and by deterioration in conditions governing the conversion and transfer of local currency. Currency devaluation is not covered.

Expropriation. Protects against partial or total loss of insured investment as a result of acts by the host government that may reduce or eliminate ownership of, control over, or rights to the insured investment. In addition to outright nationalization and confiscation, "creeping" expropriation-a series of acts that, over time, have an expropriatory effect-is also covered.

War and Civil Disturbance. Protects against loss from damage to, or the destruction or disappearance of, tangible assets caused by politically motivated acts of war or civil disturbance in the host country, including revolution, insurrection, coups d'itat, sabotage and terrorism.

Contact MIGA

THE WORLD BANK GROUP
Business Partnership Center
1818 H Street, N.W
Washington, D.C. 20433
USA

Tel. : (202) 522-4272
Fax. : (202) 522-1727

Home Page ==> http://www.miga.org/

Inter-American Development Bank Group

The goals of the Inter-American Development Bank Group are to accelerate the economic and social development of its member countries in Latin America and the Caribbean. It has three institutional methods of funding projects :

- The Inter-American Development Bank lends funds to sovereign governments.
- The International Investment Corporation is a separately capitalized institution that lends and invests in private businesses.
- Guarantees

Inter-American Development Bank

As of June 30, 1994, the IDB had a subscribed capital base of $40 billion with an annual lending program of $6 to $7 billion. It lends money directly to governments to finance programs and projects. Under some programs, funds are on-lent through local implementing agencies. Funds directed through implementing agencies, institutional strengthening and policy development may also be a source of monies for government tendered contracts.

Private Sector Department

In September 1994, the IDB created the Private Sector Department and gave it the mandate to establish policy and implement private sector operations. It executes the bank's mandate to allocate up to 5 percent of its lending portfolio to private infrastructure projects without government guarantees. The IDB seeks to play a catalytic role by attracting additional financing from private sources. In addition to carrying out its own lending programs, the Private Sector Department will study ways to channel external resources to private sector projects, emphasizing direct investments rather than the sale of bonds or other debt instruments.

IDB Programs

Guarantee programs

It is anticipated that much of the demand for IDB guarantees will initially be concentrated in private infrastructure project financing because of the long payback periods and political variables involved. Recent trends point to a large and growing volume of private sector investment in Latin America and the Caribbean. Total infrastructure investment needs in Latin America and the Caribbean are currently estimated at about $50 billion to $60 billion annually.

Partial Risk Guarantees

Partial risk guarantees will be provided to cover performance of certain sovereign contractual obligations which are critical to the sustained viability of projects. Risks typically covered by the program include transfer risks, non-delivery of inputs, nonperformance of off-take agreements or other public-backed contracts, changes in the regulatory environment (including tariff formulas), etc.

Partial Credit Guarantees

Partial credit guarantees will cover a portion of the financing provided by private financiers. IDB guarantees can be structured to help transform available medium-term funding into longer terms. There are a number of ways in which this may be achieved : (i) guarantees for longer- dated maturities; (ii) liquidity guarantees in the form of put options and take-out financing (for example, post-construction); and (iii)rolling guarantees that cover a fixed number of scheduled payments. Cover for partial credit guarantees without government counter-guarantee will follow a case-by-case approach.

Loan Programs

Direct Loans

Selection of operations will be sponsor-driven from the outset, and a high priority will be attached to projects involving experienced, well-established firms with the financial resources and management capability to complete construction and successfully operate a facility. The IDB will select operations that (a) are financially, legally, technically, economically and environmentally sound; (b) have the institutional managerial and structural capacity to carry out the project; and (c) meet the standards of the international financial community in terms of viability, security and legal structure.

Private Sector Co-financing

The IDB may participate in co-financing structures with commercial banks and other institutional investors when appropriate. Under this scheme, loans will be funded by the IDB's own resources (Portion A) and by funds from other financial institutions (Portion B), the former appearing as the lender-of-record for the total amount of the loan (both A and B). This lender-of-record structure does not provide any payment or other guarantees by the IDB or the borrowing member government to the participating banks and institutions. However, private lenders will benefit from the IDB's knowledge of the region, its AAA credit rating, a ready access to the results of IDB project appraisals, and the special status and relations the IDB enjoys with members countries. The terms of both portions may differ, with the IDB offering the more favorable terms to the project.

Contact IDB

Inter-American Development Bank
1300 New York Avenue, N.W.
Washington D.C. 20577
U.S.A.

Tel. : (202) 623-1000
Fax : (202) 623-3096

Home Page ==> http://www.iadb.org/

Inter-American Investment Corporation

The IIC is a multilateral investment corporation (Canada is not yet a member). It began operations in 1989 to promote the economic development of its Latin American and Caribbean member countries through financing of small and medium private enterprise.

Through direct loans and equity investments for companies and lines of credit to local financial intermediaries, the IIC helps businesses to start up, expand, and modernize their operations. As a complement to these main activities, the IIC offers fee-based advisory services.

Small and medium-size companies are the Corporation's main customers, especially those that have difficulty raising financing from other sources on reasonable terms.

In a sense, IIC financing is seed money. The Corporation serves as a catalyst for attracting other resources : additional financing, technology, and know-how. These resources are mobilized through co-financing and syndication, support for security underwriting, identifying joint venture partners, and facilitating transfers of technology and know-how.

Lending and investment in any setting entail evaluation of each project's soundness and chances of success. In this preliminary evaluation process, the IIC advises clients on project design and financial organization and helps them to structure their financial plan.

As a natural outgrowth of its project financing, the IIC offers fee-based advisory services. These services include counseling private companies on financial engineering and corporate reorganizations, and helping member governments modernize their foreign investment policies and develop capital markets. The Corporation also advises member governments on the privatization of state-owned companies.

Contact IIC

1300 New York Ave.
NW, Washington DC, USA.

tel. : (202) 623-3900
fax : (202) 623-2360

Asian Development Bank

The ADB (the Bank), established in 1966, is a multilateral development finance institution owned by its 56 member countries. Its role is to accelerate economic and social development in the Asia Pacific Region by providing financial and technical assistance for projects helpful to economic development.

ADB Programs

Traditional programs are available to member countries. The role of the private sector is an important focus area for the ADB especially BOT/BOO projects. Financial support can be structured in many ways (equity, quasi-equity, loans) and is evaluated on a project-by-project basis.

Contact ADB

Central Operations Services Office
Manila, Philippines
Fax : (63-2) 741-7961
Home Page ==> http://www.asiandevbank.org/

Asian Finance and Investment Corporation Ltd. (AFIC)

While the Bank is expanding and strengthening its own private sector operations, it was determined that the effectiveness and efficiency of these operations would be enhanced if an autonomous institution was established under the auspices of the Bank. The Bank, therefore, took the lead in conceptualizing and establishing the Asian Finance and Investment Corporation Ltd. (AFIC) in 1989. AFIC concentrates largely on mid-sized projects and transactions that the Bank would find too small, especially in sectors such as industry or manufacturing. Moreover, AFIC provides underwriting, syndication, and other merchant banking services in which the Bank does not otherwise get involved, especially in market sectors, such as industry or manufacturing. Sponsors of such projects should contact AFIC directly at :

Contact AFIC

31/F, Citibank Tower
Citibank Plaza
8741 Paseo de Roxas
1226 Makati City Metro Manila, Philippines

Tel. : (632) 817-3806
Fax : (632) 816-3209

European Bank for Reconstruction and Development (EBRD)

The stated goal of the European Bank for Reconstruction and Development (EBRD) is to "foster the transition towards market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the fundamental principles of multiparty democracy, pluralism and market economic". The EBRD is a new organization and therefore has developed a flexible approach in developing its financing instruments.

EBRD Programs

The EBRD aims to be flexible by using a broad range of financing instruments, tailored to specific projects. The kinds of finance it offers include loans, equity investments and guarantees.

The EBRD provides project-specific direct financing for private sector activities, restructuring and privatization, or financing of infrastructure that supports these activities. Joint ventures have been major beneficiaries of Bank lending, particularly those with foreign sponsors.

Contact EBRD

One Exchange Square
London EC2A 2EH
United Kingdom

Tel. : +44 171 338 6000
Fax : +44 171 338 6100

Home Page ==> http://www.ebrd.com/

African Development Bank

The African Development Bank (AfDB) was established in 1964 to support the development efforts of its regional member countries. Its aims now include poverty alleviation; reconstruction and rehabilitation; private-sector development; and enhanced trade and economic integration.

AfDB Programs

The AfDB provides regular loans to countries that have the capability to pay back and has concessionary loans for countries that have the greatest economic difficulty. The AfDB has a variety of flexible financial instruments that may be of assistance to the private sector. Projects with a direct impact on human welfare have the greatest chance of getting funding.

Contact the AfDB

African Development Bank
01 P.O. Box 1387
Abidjan 01, Ivory Coast

Tel. : 225-20-44-44

Caribbean Development Bank

The Caribbean Development Bank (CDB) was established in 1969 to assist in regional development through capital and technical assistance projects. Although it is one of the smallest IFI's it does provide significant funding for its member countries.

CDB Programs

Traditional programs exist in the form of loans and concessional loans.

Contact CDB

Caribbean Development Bank
P.O. Box 408
Wildey, St. Michael
Barbados, West Indies

Tel : 809-431-1600
Fax : 809-426-7269

EXPORT CREDIT AGENCIES (ECA'S)

These are national institutions concerned with and operated to favor national exports through devices such as long term lending (often at favorable rates) and credit and payment insurance. They include such institutions as ECGD (UK), COFACE (France) and La Banque de Commerce Exterieur (France), US-EXIM, JEXIM (Japan), etc. A growing number of non OECD countries have their own agencies. ECA's lending rates and terms and extent of coverage are ultimately limited by the terms of the OECD Consensus. Traditionally, ECA's have lent to governments, to government-owned corporations and to large commercial borrowers. Increasingly, they are able to take project risk and in some cases (e.g. EDC) are willing to consider small equity injections where such an investment may be expected to break a financing log jam.

Export Development Corporation of Canada (EDC)

The EDC provides both direct financing and financial guarantees to other lenders and also provides insurance to Canadian companies to over 120 countries. The EDC has programs that can help both the large exporter and the smaller exporter and can provide assistance in project structuring.

EDC Programs

The EDC has a wide array of financial services and support that can be useful. The most relevant of these programs are the following :

Project financing. The EDC can help arrange the complex arrangements required in limited-recourse projects. Loans and equity financing are available on terms that are developed based on the individual project.

Insurance. The EDC also has a number of insurance products that can protect project sponsors against a number of different risks.

Guarantees. The EDC can also guarantee performance though a letter of Guarantee.

Contact EDC

151 O'Connor Street
Ottawa, Ontario
Canada
K1A 1K3

Tel. : (613) 598-2500
Fax : (613) 237-2690

Home Page ==> http://www.edc.ca/

Eximbank (United States)

Eximbank provide financing assistance for US exports for capital equipment and services. The programs include insurance, guarantees, equity and loans. Eximbank has developed an aggressive strategy for capital projects and opened a project finance division in 1994.

Even though Eximbank is not normally available to support exports from Canada, a number of Canadian firms have American partners and eventually have access to it.

Eximbank Programs :

Project Finance Program
Loans and Guarantees

Any combination of either direct loans or guarantees for commercial bank loans with political risk only or comprehensive coverage are available for a given project. During the construction period, Eximbank will provide guarantees to cover only the political risks of political violence, expropriation, and transfer risk related to the project.

Equity Participation

There are no predetermined equity requirements. Eximbank will review and determine the appropriate equity structure on a case-by-case basis. A sponsor's equity position cannot be transferred without Eximbank's consent. Equity must be cash equivalent.

Contact EximBank

811 Vermont Avenue, NW
Washington, DC 20571
USA

Tel. : (202) 566-8187
Fax : (202) 566-7524

Home Page ==> http://www.exim.gov

Overseas Private Investment Corporation (OPIC) United States

Although OPIC is not a ECA, it has some similar characteristics. The mission of the Overseas Private Investment Corporation (OPIC) is to mobilize and facilitate the participation of U.S. private capital and skills in the economic and social development of less developed friendly countries. This is accomplished through financial assistance, political risk insurance, and a variety of investor services. OPIC programs bring benefits to the developing world, and to the U.S. as well. Currently, OPIC programs are available in over 140 countries and areas worldwide.

Although designed to support US firms, OPIC, through it's investments in infrastructure funds, can indirectly be a source of support for BOT projects on which Canadian firms may be investors.

OPIC Programs

Finance Program

OPIC financing is available for small and large projects through both direct loans and loan guarantees. For projects sponsored by U.S. small businesses or cooperatives, financing may be provided through direct loans. These loans generally range in amount from $2 million to $10 million. Loan guarantees, which are typically used for larger projects, range in size from $10 million to $75 million. Under both financing techniques, the borrower approaches OPIC to analyze structure financing for an overseas project.

Insurance Program

The Insurance program provides political risk insurance tailored to protect investment against losses due to inconvertibility of currency, expropriation, and political violence. The terms are up to 20 years and the rates are determined on a per project basis. Political risk insurance can be crucial to a small U.S. company or to a cooperative embarking on an investment project in the developing world, as it is much less able than large multinational corporations to accept the risk of loss caused by unforeseen political events.

Funds Program

OPIC can support infrastructure investment funds by guaranteeing bank debt advanced to the fund for the purpose of increasing the capital base.

Contact OPIC

1615 M Street, N.W.
Washington, DC 20527
USA

Tel. : (202) 457-7180
Fax : (202) 223-3824

Home Page ==> http://www.ita.doc.gov/mena/opic.htmlopic.html

COMMERCIAL BANKS

Commercial lending banks, Canadian (Schedule A & B) or foreign (e.g. : Barclays Bank, ABN Ambro, CS First Boston, Citibank, Credit Lyonnais, etc.). These are, by nature, not great risk takers. Nevertheless, they can and do play an important part in the financing of traditional export projects (to sovereign buyers) and, in certain cases now, on a project risk basis. In the more risky situations, commercial banks will try to work alongside an IFI or an ECA to gain additional security (real and/or perceived). Commercial bank lending terms are not as long or as those of the IFI's and ECA's but can often be long enough to carry some period beyond the construction stage. Commercial banks are key players in the provision of performance guarantee instruments (i.e. : standby letters of credit).

The future of infrastructure development will be influenced by the capability of banks to adjust to or share project risk. Industry Canada has initiated studies in respect to identifying a network of banks in major financial centres like Miami, New York and London that would be interested in financing Canadian teams pursuing capital projects. This listing will be available on the Strategis web site.

MERCHANT / INVESTMENT BANKS

These institutions (e.g.: Deutsche Morgan Grenfell in the UK, Goldman Sachs in the USA, etc.) are deal-oriented. They arrange or underwrite the financing for specific projects, or can be retained principally as advisers. Their interests go to equity, debt and mezzanine financing. Apart from the long-standing advisory role played by some UK Merchant banks, these institutions are relative newcomers to non- OECD markets but they are now developing quickly in the area. Before returning to such institutions, exporters/promoters should carefully calculate the fees which will be required.

INSTITUTIONAL INVESTORS

This a broad category which includes insurance companies, pension funds, infrastructure funds, corporations, etc.

Such investors have been investing for some time in infrastructure projects in OECD countries. Although there are some examples of institutional investment in non-OECD countries, it is still not that common. Weary of risk, institutional investors don't usually invest in the construction period; the project must be "rock-solid" and investment-graded. Private placement is becoming more frequent as a means of attracting institutional investors.

These players can be of different types according to the nature of their participation (debt, equity or both), preferred vehicle (portfolio, projects), sector (industrial, infrastructure, etc.) or source of funds (pensions, insurance, corporate).

Generally speaking, project oriented investment funds willing to consider non-OECD investment are fairly recent and tend to source their funds from insurance companies, mutual funds and corporates (e.g. Energy Investors Fund, Global Environment Fund, GEC, etc.).

Such funds can invest either at closing or at a later stage, to take out bank debt. However, it should be noted that the risk of investment in non-OECD projects requires that these funds look for a high return on investment (usually well over 20 %).

NATIONAL AND INTRA-REGIONAL DEVELOPMENT BANKS

Most non-OECD countries have their own Industrial Development Banks which can lend (or on-lend) to locally based industrial plants. Increasingly, some of them are venturing into equity positions as well, including certain infrastructure projects (e.g. in India, the Industrial Development Bank or the Industrial Credit and Investment Corporation of India Limited (ICICI)).

In addition, certain funds have been set up to serve project needs in certain areas or groupings of countries. There are several of these in the Middle East and some in Latin America. Some examples are :

Findeter (Colombia)
CAF (Andean Development Corporation)
DNDS (Brazil)
Nafin (Mexico)

DOMESTIC AND INTERNATIONAL CAPITAL MARKETS

These markets are potential sources of equity and/or debt, although there is still considerable reluctance when it comes to project-risk in non-OECD markets except, possibly, for the post-completion phase.

However, the fact that Standard and Poor's, Moody's etc. are now asked to rate many such projects is surely a sign of things to come.

OECD capital markets are a possibility for debt where the project is large, the political risk acceptable and the sponsors technically and financially superior. In the USA, rule 144a (reduced disclosure requirements for institutional investors) is creating some opportunity.

In those cases where the host government has well organized financial markets, the local market can be a useful source of debt and/or equity and can thereby help avoid certain exchange risks.

Author - Industry Canada

Publication Date - 1998-04-06

N1- Hire A Qualified Legal Adviser

Hiring a legal adviser is as important as the financial specialist and so the same principles apply. Experience and a successful track-record is paramount. It is likely that the legal specialist may come from the host country because of the knowledge that may be specific to that country. Cost may be a factor in choosing the legal adviser, but again, it is necessary to have the right people.

You should consider the possibility of hiring your adviser on a staged basis, so that different terms may be applied to different phases of their involvement. This is often one of the most expensive parts of a BOT.

N2- Concession Contract

The concession contract is the single most important document with a BOT structured project. It is signed between the project company and the host government (federal, provincial or municipal) and determines the condition under which the project may be implemented. A concession agreement codifies the credit/financial structure in the legal documents to create what should be a watertight set of provisions acceptable to all parties to the transaction (Aarons,1996).It is very important that every detail is understood and negotiated so that the project has reasonable goals and clauses. In the case of a power purchase agreement (PPA) it is the most important document to be negotiated and should be addressed at the very beginning of a project. Many companies will not get involved in a project if it already does not have a PPA.

Several key provisions should be included in the concession agreement as outlined below.

- The operation period must be long enough to pay off the project debt and provide a reasonable return on investment. Provisions may include an extension of the operating period should the Government default on it's obligations. Adequate termination conditions should also be present along with proper compensation (Aarons, 1996).
- Safeguards are necessary to protect the project

sponsors from default. Standard techniques include offshore escrow accounts and/or the assignment of the benefits of various contracts to the lenders, and the lenders' right to step in and assume control of the project company (Aarons,1996).

- Regulatory issues must be addressed in the concession agreement. These might be (1) whether the public is willing to pay for services; (2) whether regulations will allow the operator to have the freedom to set an appropriate pricing strategy; (3) whether and when the concession will revert back to the public sector; (4) the policy of competing infrastructure providers; and (5) whether the legal framework for awarding concessions, permits and land acquisition is well defined (Aarons, 1996).
- The operator may not be able to fulfill its obligation because of a host of technical factors (i.e. equipment performance, poor design, etc.). The concession agreement must address these factors and provide some way to mitigate these risks without abandoning the project. The implementation of an operation/maintenance manual and the use of performance bonds can ensure proper operation (Aarons, 1996).
- In order to resolve eventual disputes on a neutral stage, it is important that the concession agreement includes alternative dispute mechanisms (arbitration-mediation) by a neutral body outside of the host governments legal system (Aarons,1996).

Hired a Qualified Legal Adviser / Concession Contract / Engineering Negotiations / Export Assistance / Return to Sitemap

N3- Engineering Negotiations

Negotiating the technical aspects of the project is usually done with the construction firms to find the best METHODS of construction. It may also be done with the public sector engineers if they have suggestions or requirements. Although initial negotiations were made earlier with suppliers and contractors, re-negotiations should take place so that construction prices, transportation costs, performance bonds, etc. are secured at the best possible price. After having developed a fair and reasonable price for materials and labour, it is necessary to review the implementation schedules and the commissioning of the project. This review is usually done by a bilateral committee to ensure that the client's requirements are met.

DEVELOPMENT COSTS FOR THE NEGOTIATION STATION ($)

The negotiation Station is part of the development phase of a project and therefore depends on the sponsors own funds, supplemented when possible by various government programs and private sector investment vehicles.

There are few sources to pay for the costs of the Negotiation Station.

See the Financial Structuring Station, Development costs.

Hired a Qualified Legal Adviser / Concession Contract / Engineering Negotiations / Export Assistance / Return to Sitemap

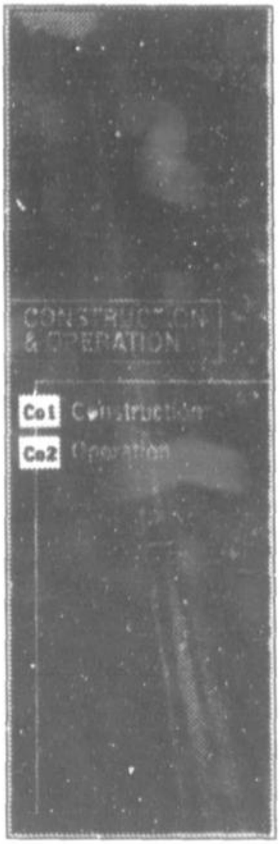
NA- Export Assistance

Regularly a client, particularly a government who does not necessarily know your company very well, will prefer to sign the contract with the Canadian Government which acts as a go-between between the client and your company. It is then very useful to involve the CCC which, depending on the circumstances, may be willing to front your contract with the client, subcontracting back to you all the responsibilities and most of the risks.

See the Canadian Commercial Corporation at DA .

Author - Industry Canada

Publication Date - 1998-04-17



CO1- Construction

After a long and arduous journey through all the stages and difficulties, the contract has been signed with the client. The financing is in place and will be conditional on the maintenance of certain ratios (See Financial Structuring Station). This is the critical period. Any miscalculations can result in delays and cost overruns.

Forget the euphoria of having won. Millions of dollars are at stake, not to mention your reputation. Completion bonds, guarantees, contractual obligations and schedules are of the utmost importance. A constant vigil is necessary to be able to adapt to any possible changes that can have an adverse effect on the construction period. The ability to react quickly and effectively will help in solving any problems from becoming major catastrophes.

Suggestions :

Put your best construction people on the job. The engineers or analysts that have designed the structure are usually not the best people to manage the construction teams. You need tough, intelligent, no-nonsense construction specialists. If you do not have these people on hand, hire them. Do not make the mistake of using your inexperienced people because they are available. Involve your operator(s) in the planning of the construction from the very beginning. They will suggest details that will save you a bundle when you start operations.

Negotiate and re-negotiate your subcontracts until they meet with your performance, costing objectives and timetable schedules.

Plan ahead. You certainly will be buying some equipment in the country itself and shipping some other equipment from home. Both have their advantages and disadvantages : in the first case the quality may not always be what you were expecting and delivery schedules may run late even though you were promised quick delivery, but the logistics of getting this equipment delivered is relatively simple; on the other hand, you would probably have better quality equipment if you buy from recognized Canadian suppliers but you will have to consider transportation problems, insurances, port taxes and port delays which can be extremely long in certain cases, duties to be paid, local transportation costs to the site, are the roads and bridges sufficiently wide to carry your equipment. In this case, use a transit specialist; do not do it yourself.

Study alternatives that you might not have thought of during the earlier stations and be sure to involve your engineers in all discussions.

Maintain good relations with the lending institution's personnel. Advise them continuously on what is happening, changes that you are making, unexpected problems that you have and your proposed solutions to the problems. Do not forget that these people can decide on the life or death of your project and possibly of your enterprise as well.

Continuously monitor your financial ratios, debt service, line(s) of credit, liquidity and equity participation. If, at one point, you think that more equity may be necessary, advise your partners well in advance as to not surprise them.

In cases where the project owner is a utility or large corporation, the operation of the plant will invariably lie in the owners hands. In the event that project ownership is spread amongst several investors, with no controlling shareholder, it will be necessary to have an experienced operator.

In most cases, the lenders and arms' length investors will have required proof of operation costs before disbursing funds.

Construction / Operation / Return to Sitemap

CO2- Operation

The operation phase brings various opportunities and problems :

It may be advantageous to refinance the relatively costly construction debt with longer term and possibly fixed rate debt as soon as the project has proven it can meet its' revenue targets.

Because of the risk, lenders normally require a relatively high amount of equity during the construction and early operation period. Subsequently, it may be possible to buy out some of the shorter term investors (suppliers, etc.) with new debt, therefore providing more leverage and improved returns for the remaining equity holders.

In a BOT project, the assets will have to be handed over to the concessionaire at the end of the concession period. The plant will, at that time, have to meet certain standards of reliability and performance, etc. An operation and maintenance manual will have to be prepared and proof of personal training required. This may require further capital investment during the operation period.

It may be possible to negotiate an extension to the concession period.

Other comments :

Have the operator re-negotiate the main expenses in the operation of the plant so that they feel involved. An efficiency bonus might motivate the operator to perform.

Maintain a good working relationship with government and keep abreast of regulatory changes that could have an impact on the project.

The continued importance of planning will ensure that operations are profitable and problems can be effectively mitigated. Debt service, dividends, lines of credit, liquidity and exit terms, and eventually project transfer are all factors in the project's success.

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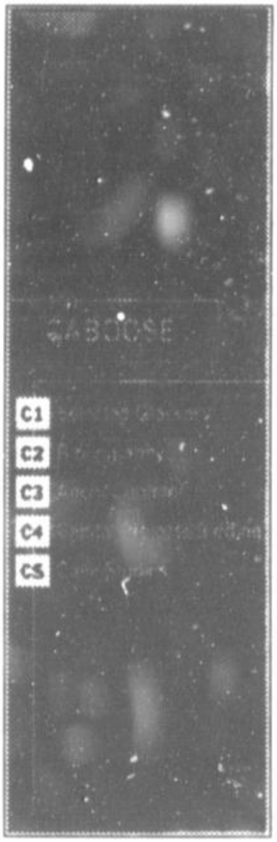
Canada
http://strategis.ic.gc.ca

Author - Industry Canada Publication Date - 1998-04-14



THE CABOOSE

The Caboose contains additional information which may be useful to the reader. Here you will find a selected glossary, a bibliography and case studies which show examples of various government trade incentive programs.

Selected Glossary / Bibliography / Agent Contract / Capital Projects Biuding / Theoretical Case Studies / Return to Sitemap

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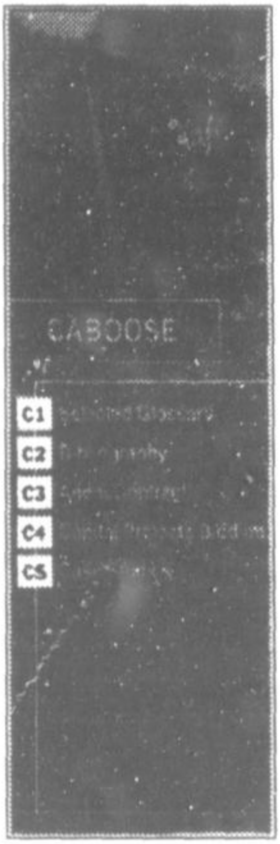
⇨ Construction, Engineering and Related Services

Search Strategis

Author - Industry Canada

Publication Date - 1997-12-30



SELECTED GLOSSARY

Alternative Dispute Resolution: An alternative dispute resolution technique, broadly speaking, is any way of settling a dispute other than standard court litigation. Arbitration and mediation are the most common in international transactions.

BOT and Variants: The Build-Operate-Transfer (BOT) model and variants like Build-Own-Operate (BOO), Build-Own-Operate-Transfer (BOOT) are private participation models. All of these models refer to either partial or full ownership for a defined period of time (either permanent like BOO or temporarily like BOT or BOOT) so that the investment by the private sector can be re-cooped with some degree of profitability.

Commercial Risk: Those risks that losses may occur from commercial causes
(i.e. : the owner will not be paid for its services at all times, the demand for services will be lower than anticipated.)

Completion Guarantee: A guarantee, usually given by a parent company or sponsor, that the project company will complete the project so that operations may begin. A performance bond is one of the instruments used to establish a completion guarantee.

Concession Agreement: An agreement negotiated between the project company of the giver of the concession (normally a government or a government-owned corporations organization) which determines the terms and conditions which govern the rights and obligations of the two parties.

Equity: Capital that entitles an investor to an ownership interest in the company, but without any guaranteed return or protection (in contrast to debt).

Force Majeure: A generic term for risks arising from circumstances, generally outside the control of the parties, which entitle one or other party to refrain from performing its contractual obligations, such as strikes, earthquakes, hurricanes or floods, acts of war, revolution or riots.

Limited Recourse Project: A project whereby the lenders have limited recourse to the project sponsors. Project debt is kept off the balan ..eet of the project sponsors and relies on the project's cash flows to raise debt and equit funds. A distinction is to be made in regard with the degree of the sponsors guarantees during the construction period (sometimes significant) and during the operation period which usually is less.

Memorandum of Understanding: A document that ensures some security to the project promoter. If the necessary steps are taken to develop a project (i.e : feasibility study) the project will be awarded to that promoter.

Mezzanine lender / Quasi-equity: A lender often used in buy-outs to give banks an additional layer of protection (between equity and bank debt) in the event of a business failure. In exchange for taking more risk, mezzanine lenders earn higher interest and, often, options to buy equity. Some examples include subordinated loans with equity kickers.

Over-Leveraged Project: A project in which there is a disproportionate amount of debt versus equity.

Project Finance: Project Finance refers directly to the limited recourse project. Funds required are raised on the project's potential income stream and paid back through project revenues.

Power Purchase Agreement (PPA): The PPA is a contract that defines the selling prices for power and energy, the amount of power and energy sold, and incentives to improve performance and disincentives to ensure that performance does not fall below a basic standard.

Rule 144a: Rule 144a of the American Securities and Exchange Commission Code has made it easier for foreign projects to gain access to US markets. It has done this by reducing the disclosure requirements so that securities can be sold to eligible institutional investors.

Subordinated debt: Refers to nonbank debt, which is by definition less secure than bank (or senior) debt. To attract lenders, borrowers often give subordinated lenders rights to convert their debt to equity.

Take-or-pay contract: Take-or-pay arrangements require the offtaker (client) to pay for the good or service regardless of whether it is needed. Payments under take-or-pay contracts may be set to cover all fixed costs of the project (fixed operation and maintenance costs, debt service, after-tax equity return) or may cover only part of the project's available capacity or outputs.

Take-and-Pay Contract: This arrangement is contingent on the delivery of the product/service.

Selected Glossary / Bibliography / Agent Contract / Capital Projects Bidding / Theoretical Case Studies / Return to Sitemap

Author - Industry Canada

Publication Date - 1997-12-30

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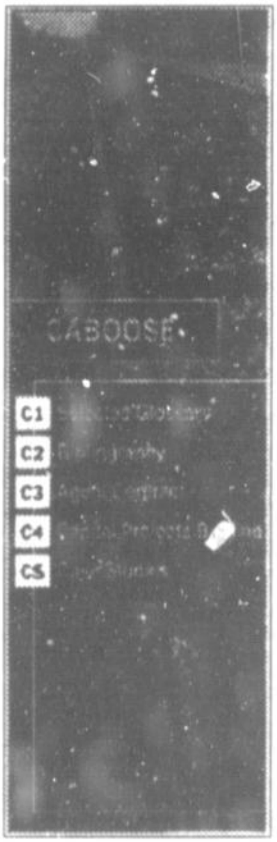

Agent Contract

REPRESENTATION AGREEMENT

Between:

CONTINEX
REPRESENTACIONES S.A.
(Agent)

And:

EXPERCO LTD.
(Consultant)

The following representation agreement between Continex Representaciones S.A. (Agent) and Experco Ltd. (Consultant) for the country of Costa Rica will be regulated by the following clauses:

- The Agent will act as Representative of the Consultant in a mutually exclusive agreement for all intended projects.
- The Agent will provide his services to the Consultant in such aspects as commercial, procedures related to the obtention of the contract or contracts and local contacts. Also the Agent will promote the expertise of the consultant as well as to keep him informed about opportunities in Costa Rica.
- The duration of this "Agreement" will be for one year after the date of signing, and its renewal will be automatic unless there is sufficient reason for one party to cancel this "Agreement" and the reasons will be explained via certified mail prior to the expiration date.
- In case of an early termination of this "Agreement" the Consultant will compensate the Agent for the project that has been initiated during the validity of it.
- The Agent will obtain a 5% commission based on the net* (fees minus expenses) value of the contract. This amount could be negotiated according to the requirements of the specific project.
- The commission will be paid after the Consultant receives payment from the client.

- The Consultant will reimburse the Agent, at costs, all expenses related to communications such as telephone, fax, courier as well as other local expenses that are deemed necessary for the Consultant presentation and/or negotiations.

  - *Net value = Total value - expenses
    *Expenses = Plane tickets, hotels, meals, sub-contracts
  - Signed in two originals, on March the 31, 1993.

EXPERCO LTD	CONTINEX REPRESENTATIVES S.A
Michel Bourbeau, ing.	Enrique Soler Jose, ing.

Info Export On the road to exporting

How PEMD can help you crack tough export markets

Program for Export Market Development

Team Canada • Équipe Canada

PEMD Handbook

Program for Export Market Development

PEMD Handbook

Team Canada • Équipe Canada

Program

Contents

Program administered jointly by

Department of Foreign Affairs and International Trade

Industry Canada

Info Export *On the road to exporting*

GOAL AND OBJECTIVE

The overall goal of the federal government's Program for Export Market Development (PEMD) is to increase Canadian prosperity and competitiveness in the international marketplace.

PEMD is the Canadian government's cornerstone international business development program. Since its inception in 1971, PEMD has assisted over 25 000 Canadian businesses in marketing their products and services abroad. Sales stemming from PEMD supported activities have exceeded $11.5 billion, creating an estimated 250 000 person years of employment.

Specifically, the PEMD objective is to increase export sales of Canadian goods and services by sharing the costs of activities that companies normally could not or would not undertake alone, thereby reducing risks involved in entering a foreign market.

Through a partnership-like relationship between government and business, the program encourages a long-term focus on target markets with built-in flexibility to respond to changing market conditions.

STRUCTURE

The PEMD program is comprised of four major elements: Market Development Strategies (MDS), New-to-Exporting Companies, Capital Projects Bidding and Trade Association Activities.

The key MDS element focusses on assisting companies with the implementation of a simple marketing plan designed to penetrate an international market. Intended for smaller businesses, both experienced and new to exporting, it shares the risk of the international marketing initiatives with the Canadian private sector.

PEMD also provides assistance to companies that are new to exporting to introduce them to export markets without undue financial strain.

The Capital Projects Bidding element of PEMD supports Canadian companies in bidding for major capital projects outside Canada by contributing to the costs of bid preparation or proposal preparation at the pre-contractual stage.

Team Canada • Équipe Canada

Trade Association Activities supports export market development strategies of national trade and industry associations meeting PEMD eligibility requirements.

REPAYABLE CONTRIBUTION

The PEMD partnership with Canadian business is an investment in a company's commitment to develop international export markets. It is not a grant, loan or entitlement, but rather a repayable contribution. Repayment of the contribution is based on incremental sales made by the recipient company or contracts obtained.

PROGRAM RESPONSIBILITY

PEMD is managed by the Export Programs Division (TCE) of the Department of Foreign Affairs and International Trade (DFAIT), and jointly administered with Industry Canada (IC), through the regional International Trade Centres.

In Quebec, the regional offices of the Federal Office of Regional Development (Quebec) assist with the delivery of the program.

HANDBOOK

This handbook is intended to serve only as a general guide to PEMD and is subject to change.

Final decisions regarding eligibility and interpretation of criteria rest with officials responsible for delivery of the program.

Back to PEMD's Main Page

MARKET DEVELOPMENT STRATEGIES

POINT OF CONTACT

Your nearest International Trade Centre, listed in the annex of this handbook.

The key element of PEMD, Market Development Strategies (MDS), recognizes the need for longer market planning horizons in an increasingly competitive international marketplace.

Instead of individual approval of a series of projects, MDS will approve a package of support for visits, trade fairs and marketing support initiatives, based on the company's one- to two-year international marketing plan.

This process reduces the administrative burden on companies, making it more streamlined and effective. MDS brings the regional International Trade Centres and trade officers in missions abroad in closer touch with their clients and enables more focussed and comprehensive applications while funding a greater range of activities.

MDS recognizes the differing and unique needs of the manufacturing, services and advanced technologies sectors and is designed to support those sectors in the realization of their export goals.

CONTRIBUTION LIMITS

- The PEMD annual contribution per application is a minimum of $5 000 and a maximum of $50 000.
- Companies are limited to one approved application in an April 1 to March 31 fiscal year, and one per target market. In the case of the United States up to three applications, each for a separate and distinct region, may be approved.

COMPANY ELIGIBILITY

Preference will be given to companies with annual sales greater than $250 000 and less than $10 million, and/or with less than 100 employees for a firm in the manufacturing sector and 50 in the service industry.

Eligible companies must:

- be incorporated (federally or provincially), or an unincorporated firm of professionals, such as architects or engineers;
- be currently established and operating in Canada;
- be registered in the Department's World Information Network (WIN Exports), or Industry Canada's Business Opportunities Sourcing System (BOSS) (registration information for these data bases is available at the International Trade Centres);
- have fulfilled reporting and repayment requirements on any and all previous Canadian government assistance.

The companies also must have:

- a demonstrated capacity to undertake the plan, with consideration being given to the requirements for ongoing domestic work as well as the incremental resources required for the proposed activities;
- the management structure and competence to undertake and bring the proposed activities to a successful conclusion;

- the financial capacity to underwrite the plan. This would include, inter alia, sufficient working capital, net worth and profit margins, to finance the market development activities;
- sufficient free production or service capacity to supply the additional demand of the market being sought;
- the marketing capacity to undertake the proposal - a sound marketing plan, proper management personnel and adequate sales personnel (or be in a position to obtain such personnel);
- a proven product or service with a history of sales, in Canada or abroad, and a Canadian content of 50 per cent (trading houses/agents must take title to the product).

INELIGIBLE APPLICANTS

Ineligible applicants include non-profit organizations, publicly funded and owned institutions, crown corporations, crown-owned companies, their subsidiaries and affiliates. For the purposes of this criterion. crown or public ownership or control is defined as "more than 50 per cent."

PROJECT ELIGIBILITY

A target market is understood to be a country or a group of countries in the same region or sectoral market or in the case of the United States only, a specific region of the country.

To be eligible for MDS assistance:

- the goals must be based on an international marketing plan, incorporating a variety of activities over the period of the application;
- the strategy/marketing plan should encompass new or incremental export marketing activities that extend beyond normal business activities of the company and should be realistic and likely to succeed;
- the marketing plan should include more than just one type of activity, e.g. visits;
- the anticipated results in terms of dollar sales at the end of the project must be indicated;
- the application must be signed by the Chief Operating Officer, or equivalent, of the company.

INTERNATIONAL MARKETING PLAN

MDS utilizes a specific application form and each application must be accompanied by a one- to two-year international marketing plan for the target market developed and provided by the company.

Since the plan will be sent for comment to the commercial section of the Canadian embassies or consulates in the target market, it should be as brief as possible, ideally not exceeding three pages.

The basic framework of the marketing plan is at the discretion of the applicant but at a minimum should include brief statements:

- outlining the company's mission statement (what the company does);
- describing the products (including Canadian content) and/or services which the company proposes to market and that level or segment of the market which is being targeted;
- estimating the target market potential for the products and/or services and the related marketing objectives of the company;
- explaining how the target market objectives will be achieved including any related overall strategy and tactics and a brief description of each of the proposed market development activities (including those for which PEMD assistance is not being sought); and

- describing possible constraints to the achievements of the objectives such as domestic and foreign competition, tariff and non-tariff barriers, consumer preferences, and economic and financial market factors.

INELIGIBLE ACTIVITIES

Activities involving only repeated visits to a target market for market identification purposes. Travel should be directly related to the implementation of the marketing plan, such as searching for representatives and distributors, training of sales personnel, identification of capital projects bidding opportunities, etc. and should not account for all of the requested assistance.

Activities receiving direct or indirect financial support from municipal, provincial or any federal government source including the Department of Foreign Affairs and International Trade.

ASSESSMENT

The staff of the International Trade Centres have been provided with skills training in order to effectively work with their clients when assessing the company marketing plans.

In assessing each application, the officers will take into consideration the following factors:

- company and project eligibility criteria;
- incrementality and market focus of the activities and commitment of the applicant;
- reality and logic of the company's marketing plan;
- degree of risk and cost sharing embodied in the marketing plan activities;
- indication of chance of success and ability to repay the contribution, as estimated from various sources such as Canadian trade representatives at posts abroad and country/sector specialists in the Department of Foreign Affairs and International Trade and Industry Canada, both in Ottawa and in the region where the application is being assessed;
- an evaluation of the benefits for Canada as a whole, i.e., amount of direct exports of goods and services, potential for subcontracting, etc.;
- any other factor which, in the opinion of the officer, may have a significant impact on the plan.

ELIGIBLE COSTS

Reasonable arms-length costs incurred as a result of the implementation of the international marketing plan may be eligible for support providing they are consistent with acceptable marketing practices. Costs are to be itemized in the contribution agreement.

Shared eligible costs (50 per cent) will include such costs as:

- the cost of return economy international airfare or equivalent transportation costs to visit the target market;
- costs of participating at trade fairs in the target market;
- the cost of return economy international airfare or equivalent transportation costs for foreign buyers to visit the company's Canadian facilities;
- product testing by foreign standards agencies for market certification;
- legal fees for marketing agreements abroad;
- labelling/label compliance;

- return economy international airfare or equivalent transportation costs to Canada for offshore company trainees;
- product demonstration or solo show costs;
- production of a video, literature, brochure or promotional material specifically designed for a target market.

Applicants are responsible for all other costs.

INELIGIBLE COSTS

PEMD will not cover:

- the cost of goods (including samples);
- normal cost of transportation of goods to the target market except for trade fair participation or product demonstration;
- the cost of translation in either official language of Canada;
- salaries and commissions;
- preparation cost of the international marketing plan including market identification studies;
- entertainment and hospitality costs;
- accommodation and meals;
- VAT (as applied by foreign governments);
- GST.

PROJECT REVIEW

Approved projects must be reviewed with the International Trade Centre officer every six months in order to accommodate proposed adjustments or changes to the legal agreement and the marketing plan and to assess progress with respect to the implementation of the plan.

Modifications are acceptable providing they respect the original purpose of the agreement and are requested and approved in writing before being undertaken. This includes changes to the original marketing plan to respond to changing market conditions.

WHERE/WHEN TO APPLY

Applications must be submitted to your nearest International Trade Centre, at the address listed in the annex of this handbook, at least six weeks prior to the proposed date of the first of the planned activities to be supported. In Quebec, apply to your nearest regional office of the Federal Office of Regional Development (Quebec).

Current financial statements and the international marketing plan must accompany the application.

ACTIVITY PERIOD

The activity period established for each application is the allowable time frame within which to carry out the approved activities of the marketing plan and to claim reimbursement.

It begins on the effective date, which is the date of approval of the application, and ends on the agreed expiry date, 12 to 24 months later.

Eligible costs must be incurred during that activity period.

REVENUE/SALES REPORTING REQUIREMENTS

Revenue/Sales Reports (RSRs) are used to determine the success of assisted marketing activities and whether there is a requirement for repayment of the PEMD contribution. As well the RSRs are used to evaluate future requests for assistance and to assess the overall performance of the program.

RSRs must be submitted on the due dates specified in the PEMD legal agreement and must report all revenue received and sales made by the company in the target market.

Four reports are required. The first is due at the end of the activity period or on the expiry date and the remaining three reports at 12 month intervals.

Even if no revenue has been received or sales made, a "nil" RSR is required under the legal agreement.

REPAYMENT TERMS

The repayment clause of the PEMD legal agreement stipulates that repayment of the PEMD contribution is based on 4 per cent of incremental revenue/sales made in the specified target market. Incremental sales are total sales in the target market less any base of sales (i.e., existing sales level at the time of application) declared in the application form.

Repayment is due with each of the four Revenue/Sales Reports.

Companies are only required to repay up to the amount of the approved PEMD contribution.

In the case of the United States, up to three applications may be approved, provided the assistance is for different regions of the U.S. However, for the purposes of repayment of the PEMD contribution, all sales in the total U.S. market must be reported with respect to each application, and each legal agreement.

OTHER ADMINISTRATIVE REQUIREMENTS

- APPLICATION PROCEDURES
- HOW APPLICATIONS ARE PROCESSED
- LEGAL AGREEMENT
- CLAIMS
- PROJECT ACTIVITY/MARKET REPORT
- AUDIT PROVISIONS

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New-to-Exporting

POINT OF CONTACT

Your nearest International Trade Centre, listed in the annex of this handbook.

PEMD recognizes that a significant number of Canadian businesses do not have substantial active export experience and may even lack a consistent capability to export or to undertake the market research required to develop a focussed international marketing plan. This is generally a result of an insufficient corporate knowledge of exporting or a lack of in-house financial or human resources.

This element of the program will assist such companies, which in the judgement of the International Trade Centres nevertheless warranted assistance for one market visit or trade fair participation to decide if they should develop an export capability, or whether their product or service was exportable to a particular new market.

CONTRIBUTION LIMITS

- The PEMD contribution per application is a maximum of $7 500.
- Companies are limited to one approved application in an April 1 to March 31 fiscal year, and to an overall maximum per company of three approvals.
- Each of these three approved applications must be in a different market which is new to the company.

COMPANY ELIGIBILITY

Preference will be given to companies with annual sales greater than $250 000 and less than $10 million, and/or with less than 100 employees for a firm in the manufacturing sector and 50 in the service industry.

Eligible companies must:

- be incorporated (federally or provincially), or an unincorporated firm of professionals, such as arch''--ts or engineers;
- be ɘnuy established and operating in Canada;
- be registered in the Department's World Information Network (WIN Exports), or Industry Canada's Business Opportunities Sourcing System (BOSS) (registration information for these data bases is available at the International Trade Centres);
- demonstrate the capability to undertake the activity;
- be financially able to successfully complete the activity;
- have an exportable product or service that meets Canadian content criteria of 50 per cent (trading houses/agents must take title to the product);
- have fulfilled reporting and repayment requirements on any and all previous Canadian Government assistance.

INELIGIBLE APPLICANTS

Ineligible applicants include non-profit organizations, publicly funded and owned institutions, crown corporations, crown-owned companies, their subsidiaries and affiliates. For the purposes of this criterion, crown or public ownership or control is defined as "more than 50 per cent."

INELIGIBLE ACTIVITIES

Activities receiving direct or indirect financial support from municipal, provincial or any federal government source including the Department of Foreign Affairs and International Trade.

ELIGIBLE COSTS

PEMD will share up to 50 per cent of:

- return economy international airfare or equivalent transportation costs for an approved market identification visit; or
- the cost of participation in an international trade fair outside Canada.

INELIGIBLE COSTS

PEMD will not cover:

- the cost of goods (including samples);
- the cost of translation in either official language of Canada;
- staff salaries and commissions;
- entertainment or hospitality costs;
- accommodation and meals;
- VAT (as applied by foreign governments);
- GST.

WHERE/WHEN TO APPLY

Applications must be submitted to your nearest International Trade Centre, at the address listed in the annex of this handbook, at least six weeks prior to the date of the proposed visit or trade fair. In Quebec, apply to your nearest regional office of the Federal Office of Regional Development (Quebec).

Current financial statements must accompany the application.

ACTIVITY PERIOD

The activity period established for each application is the allowable time frame within which to carry out the planned activity and to claim reimbursement.

It begins on the effective date, which is the date of approval of the application, and ends on the expiry date, six months later.

Eligible costs must be incurred during that activity period.

REVENUE/SALES REPORTING REQUIREMENTS

Revenue/Sales Reports (RSRs) are used to determine the success of assisted marketing activities and whether there is a requirement for repayment of the PEMD contribution. As well the RSRs are used to evaluate future requests for assistance and to assess overall performance of the program.

RSRs must be submitted on the due dates specified in the PEMD legal agreement and must report all revenue received and sales made by the company in the target market.

Two reports are required. The first is due one year from the date of approval and the second report is due 12 months later.

Even if no revenue has been received or sales made, a "nil" RSR is required under the legal a' ent.

REPAYMENT TERMS

The repayment clause of the PEMD legal agreement stipulates that repayment of the PEMD contribution is based on 4 per cent of revenue/sales made in the specified target market.

Repayment is due with each of the two Revenue/Sales Reports.

Companies are only required to repay up to the amount of the approved PEMD contribution.

OTHER ADMINISTRATIVE REQUIREMENTS

- APPLICATION PROCEDURES
- HOW APPLICATIONS ARE PROCESSED
- LEGAL AGREEMENT
- CLAIMS
- PROJECT ACTIVITY/MARKET REPORT
- AUDIT PROVISIONS

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CAPITAL PROJECTS BIDDING

[illegible]

[illegible] International Trade Centre listed in the annex of this handbook.

[illegible] bidding [illegible] preparation at the pre-contractual stage is designed to [illegible] bidding for major capital projects outside Canada against foreign competition.

[illegible] countries with centrally planned economies [illegible] tendering procedure but there is still foreign competition for the project.

[illegible] the supply of Canadian goods and services such as engineering [illegible] and management consulting.

[illegible] is not designed for the establishment of foreign joint ventures, nor is it intended for [illegible] where there are no competing foreign companies either bidding on a [illegible] project.

[illegible]

- The [illegible] contribution per application is a minimum of $[illegible] and a maximum of $50 000.
- [illegible] applications in an April 1 to March 31 fiscal year, however, the [illegible] contribution [illegible] may not exceed $[illegible].
- [illegible] contribution per capital project is $[illegible]. The exception is $[illegible] where an [illegible] of Canadian companies is involved.

[illegible]

[illegible] companies with annual sales greater than $[illegible] and less than $[illegible] million [illegible] less than [illegible] employees for a firm in the manufacturing sector and [illegible] in the service industry.

[illegible]

- [illegible] an unincorporated firm of professionals such as [illegible]
- [illegible] currently established and operating in Canada
- [illegible] registered in the [illegible] Information Network (WIN Exports) or Industry Canada's [illegible]. Registration information for these data bases is available at the International Trade Centres.
- [illegible] the capability to undertake the project
- [illegible] able to successfully complete the project
- [illegible] product or service that meets Canadian content criteria of [illegible] per cent ([illegible] to the product)
- [illegible] reporting and repayment requirements of any and all previous Canadian government [illegible]

A subcontractor bidding to a Canadian or foreign prime contractor on a foreign project may be eligible for PEMD assistance. However, the subcontractor's potential involvement in the project must be more than just the delivery of products or services in Canada to the prime contractor.

INELIGIBLE APPLICANTS

Ineligible applicants include non-profit organizations, publicly funded and owned institutions, crown corporations, crown-owned companies, their subsidiaries and affiliates. For the purposes of this criterion, crown or public ownership or control is defined as "more than 50 per cent."

PROJECT ELIGIBILITY

The bid value to the applicant must be greater than $1 million.

As well, assistance cannot be provided when:

- more than one Canadian firm is competing for the same contract, or the same portion of the contract;
- the bid or proposal is for the supply of "off-the-shelf" products to traditional purchasers;
- funding is being requested or received by the applicant for costs related to the preparation of the bid or proposal from other government sources.

ASSESSMENT

Assessment of an application takes into consideration, inter alia:

- whether the bid is substantially larger and involves more risk than one that the firm would or could normally undertake;
- incrementality of the project and the capability of the applicant to successfully compete for and undertake the project;
- whether the bid has a reasonable probability of success;
- the evaluation of each member firm's individual application against program eligibility criteria for cases involving ad hoc consortia.

ELIGIBLE COSTS

The following costs are eligible if they are incurred during the activity period and directly related to the project bid:

- a per diem allowance, in lieu of expenses, of $150 while on travel status outside Canada ($250 in Japan and $200 in Taiwan, South Korea, Hong Kong and Singapore), for the applicant's professional-level employees working on the bid preparation and other aspects of the project. This excludes support and administrative personnel such as secretarial, clerical staff and junior draftspersons.
- PEMD will pay 50 per cent of the cost of:
    - return economy international airfare or equivalent transportation costs for company officials or incoming potential clients to Canada or to another approved location;
    - the following, if incurred at arms-length to the applicant:
        - printing, computer and word processing;
        - legal and translation services;
        - international courier, freight and shipping of project documents and supporting material;
        - costs of obtaining bid or performance bonds;
        - purchase of bid or tender documents;
        - consultants' fees and expenses (up to a maximum of 25 per cent of the total PEMD

contribution).

Applicants are responsible for all other costs.

INELIGIBLE COSTS

PEMD will not cover:

- costs not identified above;
- the cost of translation in either official language of Canada;
- costs related to the preparation of PEMD application documentation;
- VAT (as applied by foreign governments);
- GST.

WHERE/WHEN TO APPLY

Applications, or a notice of intent to apply, must be submitted to your nearest International Trade Centre, at the address listed in the annex of this handbook, prior to incurring eligible costs on the proposed activity.

Current financial statements must accompany the application.

NOTICE OF INTENT TO APPLY

Due to the short lead time common in the international capital projects bidding process, a written notice of intent to submit an application (via letter, telex or fax) is acceptable to establish an effective date for eligible expenses.

Full documentation is due within three weeks of that date.

ACTIVITY PERIOD

The activity period established for each application is the allowable time frame within which to carry out the bid/proposal and to claim reimbursement.

It begins on the effective date, which is the date of receipt of a fully completed application or a notice of intent to apply, and ends on the expiry date, 24 months later.

Eligible costs must be incurred during that activity period.

REVENUE/SALES REPORTING REQUIREMENTS

Revenue/Sales Reports (RSRs) are used to determine the success of assisted marketing activities and whether there is a requirement for repayment of the PEMD contribution. As well the RSRs are used to evaluate future requests for assistance and to assess the overall performance of the program.

RSRs must be submitted on the due dates specified in the PEMD legal agreement and must report all contracts obtained by the company in the specified target market.

Four reports are required. The first is due at the end of the activity period or on the expiry date and the remaining three at 12 month intervals.

Even if no contract was obtained, a RSR is required under the legal agreement.

REPAYMENT TERMS

The repayment clause of the PEMD legal agreement stipulates that repayment of the full amount of the PEMD contribution is required if the applicant company is successful in obtaining any contract in the specified target market deemed to be related to the supported activity.

However, in cases where the contract obtained is less than 20 per cent of that anticipated, the program administrator may agree to a reduced repayment where circumstances warrant.

Repayment is due within six months of the date of the contract signing.

Companies are only required to repay up to the amount of the approved PEMD contribution.

OTHER ADMINISTRATIVE REQUIREMENTS

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TRADE ASSOCIATION ACTIVITIES

Special Activities assistance for National Trade or Industry Associations

(This program is administered from Ottawa)

POINT OF CONTACT

Department of Foreign Affairs and International Trade (DFAIT) Market Intelligence Division (TBS)
Tel (613) 995 2221
Fax (613) 943 8820

ELIGIBILITY

A Trade Association Activities brochure describing application procedures, etc is available from your nearest International Trade Centre, or the DFAIT InfoCentre in Ottawa, at 1 800 267-8376 Before actually applying for assistance, the proposal should be reviewed with a project officer Trade Association Activities is intended for national or major trade or industry associations of a non-sales and a sector-specific or horizontal nature Activities undertaken by the association must be part of a long-term international business plan and must be for the benefit of the association members and the industry The long-term strategy or plan may include activities relating to the generic promotion of the industry association's products or services, improved market access, or the generation of market intelligence/information for the benefit of the industry.

As with other PEMD elements, the focus must be on the development or increase of sales of Canadian goods or services in foreign markets.

AGRI-FOOD ASSOCIATIONS

The Trade Association Activities element contains a separate component, PEMD Agri-food, to deliver assistance to national or major agri-food associations as a joint initiative between Agriculture and Agri-food Canada and DFAIT Information on this component is available from the Agri-food Fisheries and Resource Group of the Market Intelligence Division (TBS) of DFAIT, Ottawa, Tel.. (613) 995-1712, Fax: (613) 943-1103.

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OTHER ADMINISTRATIVE REQUIREMENTS

APPLICATION PROCEDURES

Before submitting a PEMD application for consideration, companies are strongly advised to obtain adequate information on their target market. A Trade Commissioner or other specialist with the Canadian embassy or consulate in the target market can provide current information and advice on the merits of the proposal from the market viewpoint. A Directory of the Canadian Trade Commissioner Service is available from the International Trade Centres, or from DFAIT's InfoCentre. Companies should also contact or visit their nearest International Trade Centre to discuss their proposal before actually submitting an application.

HOW APPLICATIONS ARE PROCESSED

Completed applications are assigned to a project officer who evaluates the proposal/marketing plan against the eligibility criteria and the program principles such as incrementality and market focus. The project officer will also obtain comments on the activity, market or other relevant considerations from missions abroad and other federal and provincial departments, as applicable.

Applicants will be notified, as soon as possible, of the results or, in the case of an incomplete application, any additional information requirements.

Companies cannot presume support until written approval is obtained through the signed legal agreement.

No verbal assurances of approval can be provided at any time.

LEGAL AGREEMENT

Each approved PEMD application will have a legal agreement signed by the applicant company and the Government of Canada which will specify the assisted activities, the activity period with the effective and expiry dates, the eligible costs, the target market, the revenue/sales reporting requirements, the terms of repayment and other conditions.

If a company has separate legal agreements covering the same target market area, all revenue/sales in that area must be reported with respect to each legal agreement and repayment made accordingly.

CLAIMS

- Applicants are urged to submit their claim for payment (with a summary of the activity) as early as possible after the activity has taken place.
- Claims received later than 30 days after the activity period expiry date will not be accepted.
- Only the specific costs covered in the PEMD legal agreement, and incurred during the activity period, can be claimed.
- Original receipts must be provided for all travel and other costs, or if this is not possible, copies, with a letter certifying that they are copies of the originals, will be acceptable.
- With respect to Capital Projects Bidding, if the applicant cannot provide hotel bills or receipts to substantiate the per diem allowance claimed outside Canada, evidence acceptable to the program administrator must be provided for the number of eligible days.
- Interim or progress claims are to be submitted, for all activities, at a minimum of every six months during the activity period.

PROJECT ACTIVITY/MARKET REPORT

At the conclusion of the activity period, coincidentally with the submission of the final claim for payment, the recipient of assistance must also complete and submit a project activity/market report The report form will be provided by the International Trade Centre with the expense claim form The claim will not be processed until a completed project activity/market report is also submitted

AUDIT PROVISIONS

All company revenue/sales/contracts and all expenditures claimed under PEMD are subject to audit at the discretion of the program administrator

The right to audit is established in the contribution legal agreement, signed by the recipient and the Government of Canada

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ANNEX: Program Contacts

INTERNATIONAL TRADE CENTRES

ALBERTA
Canada Place, 9700 Jasper Ave., Suite 540
Edmonton, Alberta T5J 4C3
Tel.: (403) 495-2944 / Fax: (403) 495-4507

510-5th St. S.W., 11th Floor
Calgary, Alberta T2P 3S2
Tel.: (403) 292-6660 / Fax: (403) 292-4578

BRITISH COLUMBIA
300 West Georgia St., Suite 2000
Vancouver, British Columbia V6B 6E1
Tel.: (604) 666-0434 / Fax: (604) 666-8330

MANITOBA
330 Portage Ave., 8th Floor, P.O. Box 981
Winnipeg, Manitoba R3C 2V2
Tel.: (204) 983-4540 / Fax: (204) 983-2187

NEW BRUNSWICK
1045 Main St., Unit 103
Moncton, New Brunswick E1C 1H1
Tel.: (506) 851-6452 / Fax: (506) 851-6429

NEWFOUNDLAND
Atlantic Place, 215 Water St., Suite 504
P.O. Box 8950
St. John's, Newfoundland A1B 3R9
Tel.: (709) 772-5511 / Fax: (709) 772-2373

NOVA SCOTIA
1801 Hollis St., P.O. Box 940, Stn. M,
Halifax, Nova Scotia B3J 2V9
Tel.: (902) 426-7540 / Fax: (902) 426-5218

ONTARIO
Dominion Public Building, 1 Front St. West, 4th Floor
Toronto, Ontario M5J 1A4
Tel.: (416) 973-5053 / Fax: (416) 973-8161

PRINCE EDWARD ISLAND
Confederation Court Mall, 134 Kent St., Suite 400
P.O. Box 1115, Charlottetown, PEI C1A 7M8
Tel.: (902) 566-7443 / Fax: (902) 566-7450

QUEBEC
5, Place Ville-Marie, 7th Floor, Suite 700
Montreal, Quebec, H3B 2G2
Tel.: (514) 496-INFO / Fax: (514) 283-8794

or

FEDERAL OFFICE OF REGIONAL DEVELOPMENT (QUEBEC)

Abitibi-Témiscamingue Region
906-5th Avenue
Val d'Or, Quebec J9P 1B9
Tel.: (819) 825-5260 / Fax: (819) 825-3245

Bas-Saint-Laurent/Gaspésie/Îles-de-la Madeleine Region
212 Belzile St., 2nd Floor
Rimouski, Quebec G5L 3C3
Tel.: (418) 722-3282 / Fax: (418) 722-3285

North Shore Region
701 Laure Boulevard, P.O. Box 698, Suite 202B
Sept-Iles, Quebec G4R 4K9
Tel.: (418) 968-3426 / Fax: (418) 968-0806

Estrie Region
1335 King Street West, Suite 303
Sherbrooke, Quebec J1J 2B8
Tel.: (819) 564-5905 / Fax: (819) 564-5912

Laval/Laurentides/Lanaudière Region
2540 Daniel-Johnson Blvd., Suite 204
Laval, Quebec H7T 2F3
Tel.: (514) 973-6844 / Fax: (514) 973-6851

Mauricie/Bois-Francs Region
Place du Centre
150 Marchand St., Suite 502
Drummondville, Quebec J2C 4N1
Tel.: (819) 478-4664 / Fax: (819) 478-4666

Mauricie/Bois-Francs Region
Le Bourg du Fleuve
25 des Forges St., 4th Floor
Trois-Rivières, Quebec G9A 2G4
Tel.: (819) 371-5182 / Fax: (819) 371-5186

Montérégie Region
1111 St-Charles St. West, Suite 411
Longueuil, Quebec J4K 5G4
Tel.: (514) 928-4088 / Fax: (514) 928-4097

Montréal Region
800 Square Victoria, Suite 3800, P.O. Box 247
Montreal, Quebec H4Z 1E8
Tel.: (514) 283-2500 / Fax: (514) 283-3302

Outaouais Region
259 St-Joseph Blvd., 2nd Floor
Hull, Quebec J8Y 6T1
Tel.: (819) 994-7442 / Fax: (819) 994-7846

Québec/Chaudière-Appalaches Region
905 Dufferin St., 2nd Floor
Quebec, Quebec G1R 5M6
Tel.: (418) 648-4726 / Fax: (418) 648-7291

Saguenay/Lac-Saint-Jean Region
170 St-Joseph St. South, Suite 203
Alma, Quebec G8B 3E8
Tel.: (418) 668-3084 / Fax: (418) 668-7584

SASKATCHEWAN
119-4th Avenue South, Suite 401
Saskatoon, Saskatchewan S7K 5X2
Tel.: (306) 975-5315 / Fax: (306) 975-5334

6th Floor, 1919 Saskatchewan Drive
Regina, Saskatchewan S4P 3V7
Tel.: (306) 780-6325 / Fax: (306) 780-6679

INFOCENTRE

For program application forms, or for general trade inquiries,
call toll-free: 1-800-267-8376
Ottawa area: (613) 944-4000
Fax: (613) 996-9709
FaxLink: (613) 944-4500
E-mail: sxci.engserv@extott09.x400.gc.ca

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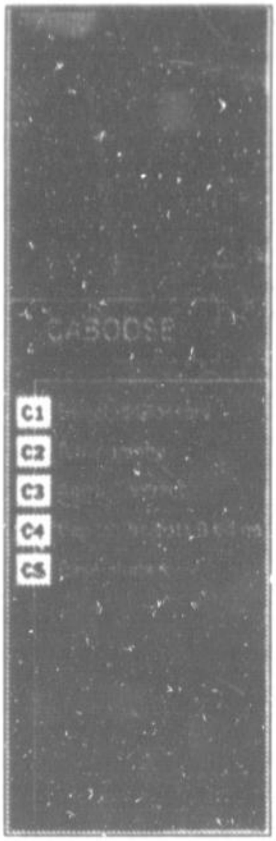
Author - Industry Canada

Publication Date - 1998-12-17



Agent Contract

REPRESENTATION AGREEMENT

Between:

CONTINEX REPRESENTACIONES S.A.
(Agent)

And:

EXPERCO LTD.
(Consultant)

The following representation agreement between Continex Representaciones S.A. (Agent) and Experco Ltd. (Consultant) for the country of Costa Rica will be regulated by the following clauses:

- The Agent will act as Representative of the Consultant in a mutually exclusive agreement for all intended projects.
- The Agent will provide his services to the Consultant in such aspects as commercial, procedures related to the obtention of the contract or contracts and local contacts. Also the Agent will promote the expertise of the consultant as well as to keep him informed about opportunities in Costa Rica.
- The duration of this "Agreement" will be for one year after the date of signing, and its renewal will be automatic unless there is sufficient reason for one party to cancel this "Agreement" and the reasons will be explained via certified mail prior to the expiration date.
- In case of an early termination of this "Agreement" the Consultant will compensate the Agent for the project that has been initiated during the validity of it.
- The Agent will obtain a 5% commission based on the net* (fees minus expenses) value of the contract. This amount could be negotiated according to the requirements of the specific project.
- The commission will be paid after the Consultant receives payment from the client.

- The Consultant will reimburse the Agent, at costs, all expenses related to communications such as telephone, fax, courier as well as other local expenses that are deemed necessary for the Consultant presentation and/or negotiations

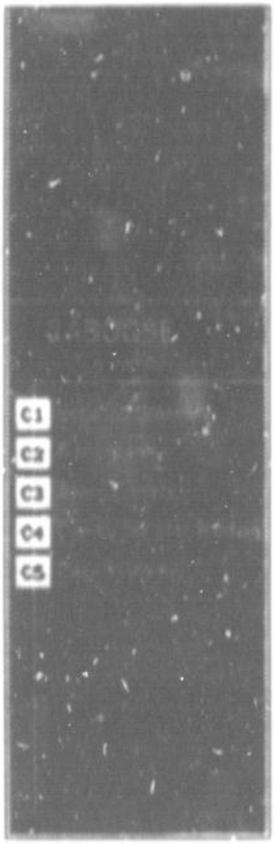
  - *Net value = Total value - expenses
    *Expenses = Plane tickets, hotels, meals, sub-contracts
  - Signed in two originals, on March the 31, 1993

EXPERCO LTD CONTINEX REPRESENTATIVES S A
Michel Bourbeau, ing. Enrique Soler Jose, ing

Canadä
http://strategis.ic.gc.ca

Author: Industry Canada

Publication Date: 1997 12 05



Case Studies

Hazwaste Inc. (Theoretical)

The Rio Hondo Case Study

The Vedipatnam Study

Selected Glossary / Bibliography / Agent Contract / Capital Projects Bidding / Theoretical Case Studies / Return to Sitemap

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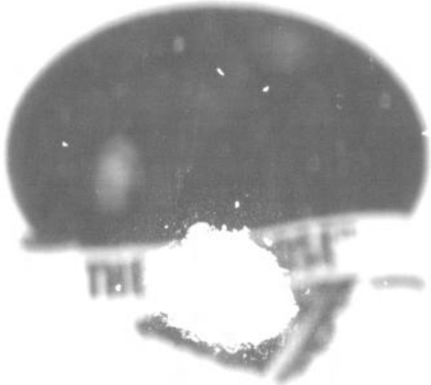
→ Construction, Engineering and Related Services

Search Strategis

Author: Industry Canada [illegible]

THEORETICAL CASE STUDY (HAZWASTE INC.)



In order to better illustrate some of the documents required (e.g. the Winexports registration form, a PEMD-MDS application, a CIDA Inc. contribution request and the following table of contents of the feasibility study financed by CIDA Inc.), we have prepared a theoretical case study.

The following are the steps taken by a fictional company (Hazwaste Inc.) [illegible] a Hazardous Waste [illegible] Facility in [illegible]

- C.5 Winexports Registration for the Government of Canada and [illegible] registration
- C.6 PEMD - MDS Application
- C.7 EDC Economic and credit summary
- C.8 Table of Contents for a CIDA INC. contribution for a detailed viability study
- C.9 The Table of Contents of the feasibility study

C.5 Winexports Registration

Company legal name / Nom légal de l'entreprise

HAZWASTE INC.

Address (street, city, province, postal code) / Adresse (rue, ville, province, code postal)

[illegible]
Toronto, Ontario
[illegible]

Telephone / Téléphone

[illegible]

Fax / Télécop

[illegible]

Electronic Addresses / Adresses électroniques

[illegible]

Company Established / Année de formation de l'entreprise

[illegible]

Number of Staff / Nombre d'employés

[illegible]

Indicate your language choice for correspondence / Cochez la langue de correspondance de votre choix

[illegible]

Name of Parent Company, if applicable / Nom de la maison mère (s'il y a lieu)

[illegible]

[illegible]

[illegible]

Indicate your company's type / Cochez le type de votre entreprise

[illegible]

Indicate your company's export experience / Indiquez l'expérience à l'exportation de votre entreprise

[illegible]

[illegible]

None

Products/Services You Would Like to Export / Produits/Services que vous souhaiteriez exporter

Hazardous Waste Management expertise

List your Countries of export / Énumerez les pays vers lesquels vous exportez :

Countries where You Actively Export / Pays ou vous exportez actuellement

None

Countries where You Would Like to Export / Pays ou vous souhaiteriez exporter

The Southern Cone Countries

Company Profile / Profil de votre entreprise ** :

Attach separate page / Joignez une feuille séparée

**IMPORTANT INFORMATION

Your company's profile is critical to commercial staff matching foreign sales leads to Canadian companies exporting products or services. Please note that promotional material such as brochures, will not be accepted as a substitute.

Provide a short narrative description of your company, its export capabilities, experience and interests. This should include :

Product/service company information:

a description of your company's products/services and their applications
brand names
ISO and other standards
major client types
appropriate sales methods that have been successful in other markets
experience/interest in capital projects, inc. those funded by International Financial Institutions

Marketing strategy:

information on your current geographic marketing activities outside Canada and some indication of your priority markets;

your interest in transferring your technology, establishing a joint venture and/or in forming other kinds of strategic alliances with foreign firms

Do not include confidential information.

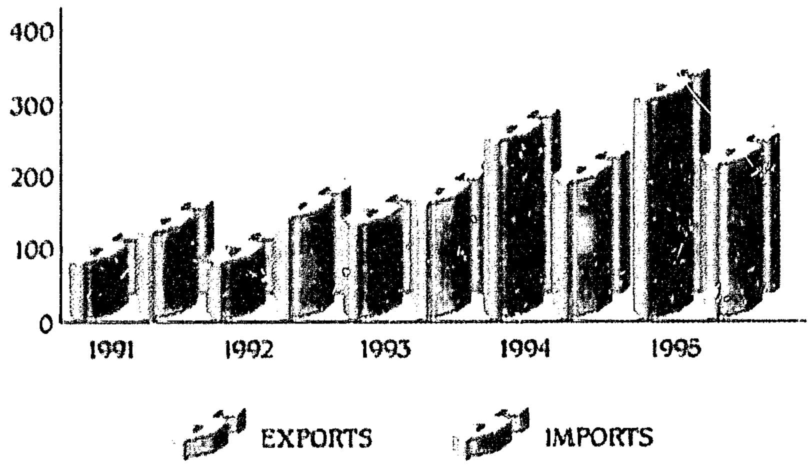
C-7 EDC Economic and credit summary

General Data - CHILE					
	1992	1993	1994	1995	1996(est.)
GDP (% growth)	11	6.3	4.2	8.5	7

Inflation rate (%)	15 4	12 7	8 9	8.1	6 6

The Market (1995)		Commercial Relations With Canada ('95)	
Population	14mn	Cdn exports to Chile	Cdn $368 1mn
GDP per capita	US$4 729	Cdn imports From	Cdn $278 9mn
Main imports	Intermediate goods	Chile	1 8%
Main exports	(48%)	Canada's Market	Machinery & Parts
	Mining (49%)	Share	(22%)
		Main Cdn exports	

Canadian Trade with Chile



Balance Of Payments (US$bn)					
	1992	1993	1994	1995	1996(est.)
Exports	11	6.3	4.2	8.5	7
Imports	15.4	12.7	8.9	8.1	6.6
Trade Balance	.8	-1	.7	1.4	-.6
Current Account Balance	-.7	-2.1	-.6	.2	-2.1
Reserves (months of imports)	7.9	7.8	9.7	8.3	7.7
External Debt (over 1 year)	15.5	16.2	17.9	18.3	18.5
Short-term debt (under 1 year)	3.5	3.5	3.9	3.5	3.3
Debt service ratio	21%	23%	19%	26%	22%

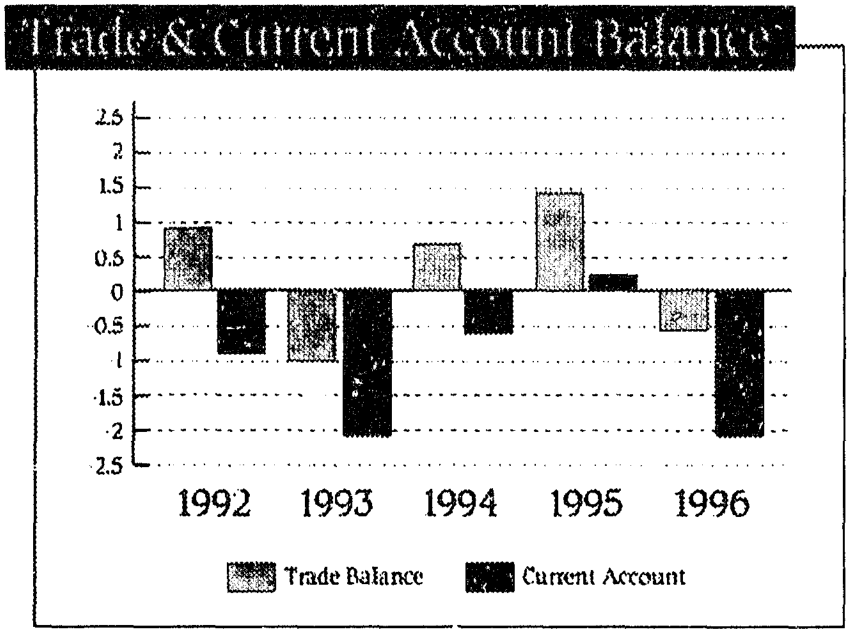
CHILE ISSUES

- President Frei has a mandate to govern until 2000. Pro-free-trade and market-oriented policies are expected to continue. Due to widening splits in the governing coalition, however, the implementation of new reforms may slow considerably.
- An early convert to economic reform, Chile began with the transformation to a more open, internationally competitive economy in the mid-1970s. Chile currently produces over 25 percent of the world's copper, nut was only able to partially offset this year's price decline with increased production. Despite attempts to diversify, exports are still concentrated on commodities, with copper, fish meal and cellulose accounting for more than 50 percent of total exports. Price declines will reduce the value of exports in 1996, and last year's

trade surplus will be transformed into a deficit.

- Chile is actively pursuing trade accords with its major trading partners. Free trade negotiations with Canada are ongoing, and could lead to eventual accession to NAFTA. Meanwhile, Asian links are being forged along with membership to APEC. In June, Chile signed a trade and investment agreement with the EU and became an associate member of Mercosur, the customs union between Argentina, Brazil, Paraguay and Uraguay. As an associate member, Chile will trade freely with Mercosur countries - after an eight year transition - but will retain its external tariff structure and its ability to act unilaterally in trade arrangements with third countries.
- With a domestic savings rate in excess of 25 percent and a well developed financial system, Chile has financed much of its recent investment from domestic sources. This limits Chile's external debt since it is not dependent on external capital to the same extent as Argentina and Mexico.
- Foreign investment in Chile has averaged about 6 percent of GDP over the past three years. In the first half of 1996, new foreign investment was 23 percent higher than the same period last year, at US$2.7bn. Of the total, US$1.9bn was direct investment, indicating the steadily increasing international awareness of, and confidence in, the strong Chilean economy.
- The economy is fundamentally solid. It has grown for 12 consecutive years, inflation and unemployment are trending downward and the government has generated a fiscal surplus for the last 9 years. The balance of payments is healthy and foreign exchange reserves are close to US$15 bn.
- The political and economic outlooks are positive in the short and medium term. Short-term interest rates could remain high as the government ensures economic growth remains at a manageable pace. Investment flows are expected to remain strong in the long-term.

COLLECTION EXPERIENCE	EDC-EXPERIENCE & ATTITUDE
Usual Trading Terms: Full range of terms common.	**Short-term:** Experience good. Open without restrictions.
Overall Experience: Good	**Medium/Long-term:** Good. Open **Line(s) of Credit:** Banco O'Higgins US$10mn, Banco Sudamericano US$10mn, Compania de Telefonos de Chile US$15mn.
Credit/Financial Issues: None	**Foreign Investment Insurance:** Case-by-case.



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PROPOSAL FOR ASSISTANCE
FEASIBILITY STUDY FOR A HAZARDOUS WASTE RECYCLING FACILITY IN SANTIAGO, CHILE

C-9 Table of Contents of the feasibility study

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Canada
http://strategis.ic.gc.ca

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THE RIO HONDO CASE STUDY

EXECUTIVE SUMMARY

The Rio Hondo case study outlines the identification, development, financing, construction and operation of a 15 megawatt mini hydro plant on the Rio Hondo river in a Central American country. The project is based on the BOO (Build-Own-Operate) model and does not have any participation from the national government.

IDENTIFICATION STATION

It all began with a Government of Canada mission to Central America, organized, at the time, by Industry Science and Technology Canada (now called Industry Canada) (I 6). Experco Limited had been invited to participate on this mission on the basis of its long term interest in international development and its new involvement in Latin America, particularly in Mexico (I7).A dozen Canadian companies were invited to join ISTC on a week long visit of which the Central American country was an important leg.

The Canadian embassy organized a number of meetings so that companies could identify potential partners and projects. A cocktail party was organized and held at the Trade Commissioner's office. A stress-free social setting is an excellent opportunity to meet with the embassy's personnel (I5), Canadian colleagues interested in developing a given country (I3), some IFI representatives, which, in our case, were the Inter-American Bank and World Bank representatives (I5), government authorities (I5), and local businessmen interested in acting as agents for Canadian companies (I4).

We had all learned, at a previous IDB meeting (I5), that a large water treatment project had been accepted by IDB and that an international bid would soon be opened for tender. The project was for the study and design of water treatment plants in the vicinity of the capital city. These type of projects are part and parcel of Experco's marketing strategy. It seemed viable and we felt that we could compete. The development of a project in an unknown country is a daunting task. Our lack of knowledge about Central American regulatory, technical and financial issues for a large project was apparent. It was clear that we were incapable of competing without help. The solution was that an agent would be required to provide information and guide us. (14)

We returned to the embassy and had a long discussion with the commercial officers, described our organization, gave them a few copies of our French, English and Spanish brochures, informed them of our strategies in international development and finally mentioned our interest in participating in the water treatment projects. Finally, we all came to the same conclusion that an agent was necessary in order to give us a chance to win the project. It was decided to invite some of the best-known personalities that may be interested in representing Experco to the cocktail party.

We were introduced to a well-known Central American personality by the second commercial secretary. The person spoke English, which was good for us, as we were only beginning to learn Spanish. That person was already representing other Canadian firms but in other sectors of activity which only proved to us that the person knew the Canadian culture and had a track record of doing business between Canada and the Central American country. The fact that he was recommended by the Canadian embassy gave us the feeling that he was our person.

On our return from the Central American country, we began negotiating and preparing a contract (Caboose) between the agent and Experco. Following discussions, which were in fact, relatively easy, we came to an agreement and formalized a two year contract based on commissions and not on retainer fees. It is important to understand that Experco is not a very large international consulting firm and does not have the capacity to pay large sums of money for agents in the field. We prefer not to pay any retainers but to pay higher commissions to an agent upon success, covering only expenses like phone calls, faxes, lunches, etc. Even though this approach may appear appealing to Canadian firms, its main problem is that it is not easy to find an agent that believes in you and in your company; an agent that is not waiting for a weekly pay to live on and an agent that is willing to spend some time promoting your company through their other activities. What usually happens is that you find an agent that will accept your conditions of being paid on commission, but often will eventually get tired of not receiving money for work considered very time consuming. This particular point must be addressed from the very beginning with a potential agent.

BY NOW, WE HAD AN AGENT AND A LEAD TO A PROJECT.

For many months, the agent and Experco worked on establishing a proper working relationship. We visited the Central American country regularly and the agent came to our office to learn about our operations in order to be in a better position to represent the capabilities of Experco. In short, we developed a trust relationship.

During these many months, we studied the Central American country's culture and it's idiosyncrasies as we prepared for the coming bid for the treatment plants. With "International Centre for Project Management G.P." (IA - Provincial programs), we invited two technicians from the executing agency of the project to Montreal, where we spent two weeks together. We returned to the Central American country and accompanied by one of the two technicians that had come to Montreal, visited many similar treatment plants so that we knew how they were designed in the Central American country.

When the bid was tendered, we prepared an excellent proposal. We had our agent review it to check all the legal details and finally, presented it. However, we were rejected for a minor technical fault and did not even make the short list.

We flew back to the Central American country, met with our agent and the executing agency's representative which had "executed" us. We were in a position where we could have proceeded with a lawsuit as it was an unfair decision. We made one last political call, but finally we had to accept that we had lost a year of work.

Before departing from the Central American country, our agent, who was as disappointed as we were, asked us if we would be interested in a Build-Own-Operate project (BOO) for a minihydro power plant (I8). He had a friend who owned a power purchase agreement (PPA) from "Instituto de Recursos Hidraulicos y de Electricidad" (IRHE) and was looking for possible investors Including an operator.

We knew very little about BOO's, but understood that the process would require that we finance parts or all of the project. Again, the size of our firm and lack of venture capital funds discouraged us from taking part in a BOO project, but as the energy sector is one of Experco's strong point, we decided to pursue the opportunity.

We met with the president of "Rio Hondo Corporacion", a large company in the Central American country involved mainly in producing fertilizers! The president, an elderly Central American, whom had graduated from McGill University in Montreal in the late 40's, had obtained a PPA for 15 years with IRHE and wanted to align his company with a Canadian firm with the right technology and capacity to finance and operate a minihydro plant.

We did not have the capability to pursue the project unless we identified a partner. We felt that we had a potential candidate in an individual whom we had gotten to know over the years in Latin America. This individual was originally a competitor but had just begun a new position as the Latin American director of a large Canadian Utility Company (CUI). His strategy was that he was prepared to look at any project where a PPA was available.

In our discussions with the owner of the Rio Hondo Corporacion, we expressed our interest and stated that we would analyse all the legal and technical documents available in order to make a go/no-go decision within two weeks.

A PROJECT HAD SUCCESSFULLY BEEN IDENTIFIED

Time Frame: It had taken us more than two years of work and visits to the Central American country to identify a serious project that did not require a risky bidding process.

Financing: To help finance these two years of project identification, we used three sources of financing :

- Principally, our own resources
- APEX (Quebec) program (IA - Provincial Programs) for our first visit to the Central American country which paid part of our plane tickets
- PEMD-Market Development Strategies (IA) to implement our marketing strategy
- PEMD-Capital Projects Bidding (DA) to introduce our bid for the water treatment project, which we lost

EVALUATION STATION

On our return from the Central American country, we immediately contacted our friend at CUI. We informed him of the general details of the project and of the existence of the PPA. Immediately CUI expressed interest mainly because we met with most of their pre-requisites.

A small committee of three people was formed with members of CUI and Experco to evaluate our chances.

The first general considerations were quickly reviewed : The Central American country interested all the partners because it was a country with sound policies, freedom, political stability, an urgent need for energy (CUI had a report showing the increasing energy requirements) and there were no doubts on the convertibility of the currency (the American dollar). We knew that EDC would not be interested in financing projects in that country, which meant that Canadian banks would almost certainly not venture there. We spoke Spanish and most people at Rio Hondo Corporacion spoke English so there were no language barriers (E1).

The project fit with the CUI's and Experco's global development strategies (E1) . Experco had experience in the engineering of dams for many years with Hydro-Quebec and had even built it's own minihydro plant in Quebec (5 Megawatts).

From the documents presented to us by Rio Hondo Corporacion, we learned that it was a 14 MW project, at an estimated cost of $ 20 million (US). The size of the project suited us all perfectly; CUI had the capacity to be involved in a much larger project but, as it had no BOO experience, it preferred a smaller project to start with. The project size was also a factor for Experco which did not have the financial capacity to develop larger projects and also did not have the liquidity to inject a large amount of equity (E1). A quick calculation was made : it was estimated that if the $ 20 million was the correct project cost, there would be a need for 25 % in equity ($ 4 million). Of this, the Central American participation would be 50 % and the Canadian participation, 50 %. The Canadian share would therefore be approximately $ 2 million (US). If Experco were to have 20% of the 50%, that would mean that we would have to invest $ 400 000 (US) as equity, which was acceptable to us (E1).

The Central Americans had given us a fair amount of legal and technical documentation which, after a quick review, indicated that the project was fairly advanced. In fact, to get the PPA, the Rio Hondo Corporacion had already done a feasibility study through a Central American consulting firm and preliminary drawings were included. We were satisfied that much effort had been made. This meant that we did not have to start from scratch, which would have been both time and money consuming. The Rio Hondo Corporacion had signed a 15 year PPA, of which, a year had already passed. We knew that it would take a minimum of one year to study, negotiate, finance and build the dam which meant that the PPA would have a useful life of a maximum of 13 years. We were satisfied that the project was sufficiently advanced for our purposes (E1).

A very positive aspect was that there would be no competition. We had decided to get involved in the project only if we could rapidly negotiate an exclusivity agreement with Rio Hondo Corporacion. A few phone calls to the Central American country told us that it would be possible (E1). It became evident that with CUI as an associate in the project, with its reputation as one of the best utility managers in the world, we had a definite advantage (E1) and Rio Hondo Corporacion was clearly impressed.

After having considered all of the above, WE DECIDED to put more resources in evaluating our chances.

We gave all technical documents to technicians of both CUI and Experco for a concise but serious analysis of the documents (E2). Being specialists in the field, they quickly came back to us with their comments which can be summarized as follows :

- the existing feasibility studies were quite good;
- the project is technically possible, which meant that it appeared possible to produce 14 or 15 megawatts with the available quantity of water given the height of the fall;
- the project, as presented by the Central Americans, was over-designed. A lot of money could be saved by simplifying the structure of the plant and getting rid of unnecessary "decorations";
- we could probably produce more energy with a better selection of turbines, although, this would mean a higher cost. Rio Hondo Corporacion had bought a second hand turbine on the scrap market and had done their study with data based on that turbine;
- the suggested construction methods appeared complicated and demonstrated the necessity of having a very experienced civil contractor;
- all-in-all, the project appeared technically viable.

After having received the confirmation that it appeared technically viable, from the technical people of both parties, it was decided that we had to make a field trip to verify on site if the feasibility studies truly represented the situation.

A team of engineers was sent on the site to check out the existing feasibility studies. We had the team accompanied by a team leader who would begin negotiating general clauses of the project, verifying at the same time some of the doubtful financial and legal considerations (E3) raised earlier in the study of the General Considerations.

After returning from the site, it was apparent that the project was technically feasible. Many technical improvements were possible but none compromised the project. The only serious point of contention were the rights-of-way which supposedly had been solved by Rio Hondo Corporacion (but which seemed to be a grey area).

The environmental runoff required by IRHE to guarantee a minimum flow downstream was also problematic but the engineers were of the opinion that, by changing the turbines (two smaller ones instead of one), we could meet the minimum runoff requirement.

Therefore, technically, the project appeared viable

The team leader began some preliminary financial analysis (E3) on site. Software exists whereby one can make a quick preliminary check on the financial viability of such projects (although, it is wise to proceed more carefully as the project planning advances). Taking into account the cost of the project, the quantity of energy produced, the value per kilowatt/hour of the energy sold in accordance with the PPA, the remaining length of the PPA, equity participation, remaining debt and probable interest rates, the yield of the project was rapidly verified. (NOTE : As a first step, it is probably best to calculate a project's IRR after tax but before financing so as to gauge the project's intrinsic profitability. Sensitivity runs based on various financing scenarios can be run later, at the appropriate time).

The preliminary economic and financial studies showed a very profitable and financeable project. The US dollar was the currency. An exit tax had to be considered on profits sent abroad (there usually is one). There did not seem to be insurmountable obstacles but it was evident that we would need a local legal firm (N1) to help us with the intricacies of the Central American country's legal system.

On the political and social aspects of the project (E4), being associated with a very well established local firm, we felt secure that we would have entries with IRHE. We even began negotiations to lengthen the PPA from 15 to 20 years (N2). Even though, we were given no guarantees, we were optimistic. We did not consider this possibility in our financial studies.

We had known from the very beginning that the Central American country needed much energy, therefore, intrinsic demand was not an issue. Rather, we never were preoccupied with the political instability of the country.

In addition, we even had negotiated a first Memorandum of Understanding (MOU) with the Central Americans in which the general terms had been agreed upon (D1).

After all considerations, WE DECIDED to go a step further and develop the project. There were still some unknowns, but we felt capable of managing these.

Time Frame: It took us no more than one month to complete this part of the project

Financing: We only used our own resources for that very short station

DEVELOPMENT STATION

Assembling a team (D1)

The very first question on the table was how were we going to assemble a team and how to work together. [illegible]

For the last fifty years or more, the Canadian way of doing infrastructure projects has followed more or less the following procedure:

- The client hires a consulting engineering firm to do the engineering.
- The consulting engineering firm, in doing the design, [illegible] what equipment is required, often by specifying [illegible] general minimal characteristics.
- Equipment manufacturers [illegible] consulting engineering firms to get them [illegible] equipment. [illegible]
- The client gets a general contractor through an open bidding process.
- The general contractor, in order to win the bid [illegible] negotiations with equipment manufacturers [illegible] price of the equipment [illegible] changes.
- The consulting engineering firm [illegible] certifying that the equipment [illegible] bid documents.
- The general contractor suggests [illegible] sometimes acceptable and [illegible] situation.
- The equipment [illegible] consulting engineering firm [illegible] acceptable [illegible] situation.
- The contractor, the equipment supplier and the consulting engineering firm should [illegible]. Unfortunately, many contractors and [illegible] the consulting engineering firm [illegible] client. The consulting firm [illegible] proposals brought forward are changes [illegible]

The result is that consulting engineers, contractors and equipment suppliers [illegible] the team.

This is not a good [illegible] because it is important that partners work together [illegible] that one of the toughest [illegible] project is to assemble a team of consulting engineers, contractors and equipment suppliers that are willing to [illegible] and work together [illegible] Canadian [illegible] structure and lengthy decision making [illegible] learning process is [illegible] tough one.

But this is the way of the future [illegible]

The procedure to [illegible] a team [illegible] has the following components:

- Another consulting engineering firm [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

suppliers feel left out even though they do participate in the design and equipment selection.

- The result of this imbalance in effort in the first months of work is that the engineers and managers have budgets that , by far, exceed the contractor's and the equipment supplier's.
- So, in the event that the project falls apart, the engineers and the managers feel that they are more at risk than their other partners. Thus, they require more shares in the project;
- At the same time, the contractors and equipment suppliers feel that they are paying engineers and managers while waiting at home for the result.

In theory, all the partners should put the same amount of effort at the same time, sharing the work load equally in all aspects. In practice, this is very difficult. But, the manager must do his best to distribute the work fairly so that no partner feels left out, even for a short while.

Feasibility study (D3)

As mentioned before, this project already had a feasibility study which had been judged (by the project sponsors and by lenders to whom we had talked) to have been sufficiently well done. However, we felt that we could find better alternatives in order to minimize construction costs and simplify construction methods, to maximize energy production by looking for a better location for the power plant and secure more revenues with two smaller turbines than with their second hand turbine which they wanted to sell to the project at a price we found ridiculous (the turbine had no performance guarantees, etc). We always had the feeling that the Central Americans had associated themselves with the Canadians because we had CUI, a utility with the experience that they lacked. So, at our own expense, we did an alternate feasibility study, which we then subjected to the scrutiny of an independent advisor. We were glad we decided to redo the feasibility study, as we lowered the costs of the project by more than $ 1 million (USD). However, we had lost a lot of time in the process and the effective length of the PPA had become dangerously short.

Prepare bid (D4)

During the feasibility stage, the group members had also prepared a formal bid. Most aspects had already been considered (technical, financial and legal).

Technically speaking, alternative construction methods had been studied, alternative overall technical solutions had been proposed, evaluated and compared with others so as to select the best one. The pricing structure had been accepted by all. We could guarantee every detail of our design.

Financially speaking, we had estimated the yield of the project and had agreed to settle for a rather low return-on-equity (ROE) of 18 %, reasoning that this project was a first and gambling that the PPA period could be extended. Although we felt confident with our numbers, we realized that long term lenders would find the ROE, in this non-OECD context, to be precariously low.

Legally speaking, we had been advised by local lawyers on how to best form a Central American company, how much it would cost and the fiscal considerations to take into account, etc.

We were ready.

Prepare for negotiations (D5)

A committee had been formed to prepare for negotiations with our Central American partners. We knew it would be difficult.

But first, we renegotiated between ourselves some smaller details and checked if we were still all ready to live with the consequences of our proposal. Equity sharing was a problem. So as to meet the financial criteria normally required by banks (adequate debt/equity ratio, stand by finance, reserves for repayment, debt service ratios, etc.) and to pay our Central American partners the up-front money would take a considerable amount of funds. The Central Americans felt that they deserved cash to defer the costs of obtaining the PPA. The total equity needed was more than double what we had expected. This created big problems for the consulting engineering firms involved, given that the nature of our business does not usually produce a hefty equity base. We left the case open and did not sign a final MOU, which we should have done.

Many points remained to be discussed with our partners, points which had been left open for the lack of a good compromise, and others that we thought had been resolved but were not, according to them.

We travelled back to the Central American country.

First, on the engineering side, we advised our local partners that we wanted to change the technical concept of the project and that we brought with us all the technical documents to confirm our choices, this saving $ 1 million dollars.

We were turned down flatly.

On the legal side, we advised them that we had assembled a team composed of CUI, two consulting engineering firms, one civil contractor and one equipment supplier, which would form a Canadian company acting as their Canadian associate in the Central American company to be formed.

We were again turned down flatly because for one thing, they could not see why we needed to have a civil contractor in the group, while there existed very good ones in the Central American country and secondly, they could not accept that the construction job was going to be given to our construction and supplier partners without an international call for bid, even after we had explained that, at best, we were left with only a 12.5 year time frame according to the PPA and for that reason, we could not lose six more months in the preparation of bidding documents and a call for bid, and thirdly they could not accept getting stuck with this second-hand turbine.

On the financial side, they advised us that they could find better financing locally in the Central American country than the financing we had found in Germany and in Canada. They were very critical of our financial structuring which they found costly.

We had worked extremely hard in developing trust among ourselves but had not done the same with our Central American partners. A culture shock ensued. The project froze. We could not come to a final MOU after more than one year of work. The team members were shocked and the relationships became strained.

WE DECIDED to stop the development of the project and cancel the consortium.

We had gone wrong mainly in the first MOU signed with the Central Americans. The terms were too evasive and had not correctly identified their weak points, such as the second-hand turbine, for example. We had under evaluated the stubbornness and negotiation strength of our associate. A tough lesson.

FINANCIAL ENGINEERING

During the first phase of the project's development, when it was being led by a consortium of Canadian firms, the plan had been to put together the debt through a combination of various Canadian and Central American banks. In order to convince the Canadian banks to take a project risk in Central America, it would be essential to bring in EDC either as a project lender (85 % of the Canadian export value) alongside the banks, or as a guarantor of the bank lending (limited by EDC policy to 75 % of the above 85 %).

The consortiums approach to the project failed before any commitments to finance had been secured. Indeed, our failure to obtain such commitments was one of the main reasons the Central American side reacted with such disappointment to our overall proposal.

When CUI later returned to the project, this time without Canadian equity partners, it returned to the official export credit agency with a view to a fresh start at building a financing package. It quickly became clear that for reasons of country debt arrears, the agency would not be willing to lend more funds into that market.

In order to build a financing package from scratch and within a time and cost frame acceptable to CUI, to the potential lenders and to the Central American authorities, it was decided that a thorough and professional project information package would be developed quickly.

From a financing point of view, the first step was to engage independent project finance advisers to supplement CUI's own in-house abilities (F1). The advisers would help with advice on cash flow and project profitability (the eventual lenders to the project will ask what independent advice has been sought), as well as with the design of the financing structure and the eventual sourcing of funds.

The first step taken was to review project costs and expected profitability. The results showed that the project cost (pre-financing) would be $20 million (US) and that, through various rearrangements of project characteristics, it would be possible to raise the project IRR to 22.5 %, with a project ROE of over 25 %.

The improved, albeit still marginal rate of return, persuaded CUI to improve the debt equity ratio from 75/25 to 65/35 and to declare a willingness to put up at least 51 % of the required equity and to go as high as 70 % of the equity requirement, if necessary.

This confident attitude displayed by a player of the considerable size and international reputation of CUI was well received by the potential long term lenders which also favourably noted CUI's announcement that it would require a completion guarantee from the Canadian contractors.

The persuasive nature of these commitments on CUI's part was such, that the Central American authorities convinced that CUI was capable of doing the job and anxious that power be brought on stream as soon as possible, finally agreed to provide a full 15 year concession from the date of commencement of construction, as long as financial close was attained within eight months. In addition, it agreed to sign a take-or-pay contract on the basis of a rate formula to be negotiated.

CUI was now in a position to show potential lenders a well prepared proposal. CUI's preferred strategy for raising the debt was to show to a strong banking institution a statement of interest from the manager of a leading public sector pension fund. This statement from the fund manager gave comfort to the target commercial bank that the project sponsor was indeed a dependable player. In addition, the potential lender noted the large market role of the pension fund and reasoned that a loan to the project company might put the bank in a position to act in certain markets for some of the fund's other activities.

Given the absence of the Canadian ECA, and that the ECA of a European country had expressed a willingness to lend to the project company in support of one of its nationals (which would be supplying some instrumentation equipment to the project), it was decided to approach a major medium term lender in that European country.

CUI already had in hand, by this time, two Central American banks willing to take project risk on local currency loans covering aspects of construction and local services.

The European bank was not easy to convince, but in the end, agreed to lend the small amount guaranteed by its ECA as well as to syndicate a much larger amount for the hard currency costs. The bank agreed to make a six year loan (all-in) after negotiating certain additional conditions with CUI and its Central American partners, including :

- Stand by finance of 20 % of project cost would be required, of which 40 % would come from the lenders and 60 % in the form of additional equity pledges from the sponsors.
- A reserve account worth six months' debt service would be set aside in escrow.
- No debt would be advanced until 30 % of the equity had been disbursed; thereafter, debt and equity would be paid in at equal rates.
- No dividends would be payable until 60 % of the debt capital had been repaid and then, at a rate which permitted all debt service and reserve obligations to be met.

Given that CUI and its Central American partners had managed to increase significantly the target ROE (over 25 %) and that they expected to be able to proceed together from this project to one or two others of similar nature, the project company was able to agree to the lender's stipulations.

Hence, the final structure and sourcing was :

Project cost, including financing:	$ 22 m

Equity (35 %):	$ 7.7 m
Debt (65 %):	$14.3 m
- European syndicate (6 years)	($ 6.8 m)
- Central American banks (6 years)	($ 4.0 m)
- Pension fund (8 years)	($ 3.5 m)
Stand by finance:	$4.4 m
- Lenders	($1.76 m)
- Sponsor's equity or quasi-equity	($2.64 m)

In agreeing to proceed with this package, the project sponsors had in mind the possibility of two important concurrent steps as soon as the profitability of the project had proved itself :

a) refinancing the bank debt with longer term debt, some of which would be sought in the local market;

b) refinancing some of the equity with debt, such that a debt/equity ratio of 75/25 could be attained, thereby improving returns.

NEGOTIATION STATION

After months of negotiations, CUI won most of their points. The Central Americans accepted the feasibility study with two turbines. They accepted a no bid situation with the condition that the Canadian civil contractor and the Canadian equipment supplier associate themselves with a Central American partner in which they had full confidence, on the condition that these contractors could not be associated with the Canadian company.

The result of these negotiations pleased some and displeased others and destroyed the little confidence that existed within the Canadian group :

- The contractors and suppliers had won a large construction project, even though they had to share a good part of it with a Central American company. This was in fact not a bad thing for they would have had to sub-contract a large part of it anyway, and they did not have to put any money in equity in the project, a prospect which they always had a problem accepting. So they were pleased.
- The consulting engineers were re-invited to form a group with CUI. They were left with a bigger part of the equity, which they were not capable of meeting, having been kept mostly out of the second round of negotiation because they were not implicated in the debate and subsequently lost touch with the details of the project. They could not participate. They were displeased.
- CUI had saved the day. They were pleased.

So, a formal Central American company was formed between Rio Hondo Corporacion and CUI. The building contract was signed between that company and the Canadian-Central American construction company after long negotiations on price and payment conditions.

OPERATION STATION

From the very beginning, it was clear that the operation side of the project had to be done by a specialist. That is why Rio Hondo Corporacion asked for CUI's presence in order to demonstrate to possible financiers that it had a very qualified operator on hand with the necessary experience.

In fact, operating a mini-hydro plant is very easy and companies smaller than CUI can very well do the job and probably at cheaper price. However, bankers do not necessarily recognize this and usually require a well-known operator. It is thus extremely important to have the right operator on one's team from the very beginning. In the case of the Rio Hondo project, having CUI as an associate and thus, as the operator, saved hundred of thousands of dollars to the project and probably one year saved because the banks did not require a due diligence study, which they would have required from others.

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THE VEDIPATNAM CASE STUDY

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EXECUTIVE SUMMARY

The Vedipatnam case study outlines the identification, evaluation, development and financing of a 12,500 cubic metre per day potable water plant in Vedipatnam (60 000), a suburb of Bangapore (5 m.), India. The project is based on a Build-Own-Operate-Transfer (BOOT) model. The willingness of the municipality of Vedipatnam to be an equity partner was made clear from the very inception of the project.

IDENTIFICATION STATION

Having dealt with the President of a potable water equipment manufacturer (PWE) for many years, certain synergies developed, especially since Experco Limited is a consulting engineering firm and is in a position to recommend the firm's technologies and equipment to our clients. We had developed a good relationship and we had both been working with the Quebec government through various committees in the development of a financing program that would assist Quebec's project developers in the "Financial Structuring" aspect of a project. It was clear to both of us that we had similar goals for expansion into foreign markets.

Experco and PWE had been involved in Asia for sometime and should the right project come along, we would develop it together.

Experco and PWE had a particular interest in the Indian market having formed local companies (I4) with Indian associates. Both had registered to be officially recognized as an Indian company, and both had completed a few contracts in India. We had won a project with the Asian Development Bank (ADB)(I1) and PWE had won some private contracts through competitive bids. These gave us a certain amount of local experience and exposure.

An Indian citizen, living in Montreal, who seemed to have good contacts in India approached us regarding a possible project in India. He invited both my friend from PWE and I to a meeting to try to convince us to hire him as an agent for this project.

Being experienced people (this was not the first time that we had been offered a miracle project so we certainly did not get very excited), we listened intently to this person and following a question period and some independent investigation, we found that what he was saying made sense. Of course, we did not accept to pay him anything or pay supposed political contacts any amount of money. We agreed on an agent's commission in the event of success (I4), payable at the beginning of the construction period.

We had identified a project

Time: This project was identified very rapidly, considering the time we had already spent in India working on other projects. Within one week, we had an agreement with a new agent who had presented us the project.

Development costs: We did not require any development money to identify the project itself but we both had received a CIDA INC. contribution to establish our companies in India : The grant covered all the legal and technical costs of forming an Indian company. Without this grant, we would not have been as well established in India and probably not been recognized by our friend the agent.

EVALUATION STATION

The project on offer was a BOOT, which meant that we had to build, own, finance and operate the water treatment plant for 20 years, at which time we had to hand it over to the municipality. Neither of us was a contractor, so we decided to invite a third party to our small group (D1). We joined forces with a Quebec electromechanical contractor involved in the international market and interested in developing the project with us. (Usually, a team is formed only later in the Development Station of a project, but we thought that by having a contractor at this stage of the project, we could reduce the risk of making an evaluation error. We also needed a contractor to confirm the correct construction costs) .

We immediately organized an evaluation mission to site, but prior to leaving, we went through a checklist of general considerations (E2, E3, E4) :

- The size of the project, more or less $ 10 million according to our agent, was within our capabilities, plus the fact that the manufacturer in the group could easily produce equipment for that size of project.
- The project did not seem to be far advanced, so we could push our technology.
- Several sources seemed interested in financing infrastructure projects in India. There did not seem to be financing impediments for this size of project. EDC was open to the market on both a case-by-case and lines-of-credit basis.
- We understood that there was to be no competition, and that it would be a one-on-one contract with the municipality. Our personal contacts in India did not believe that this could be done, so we asked that they obtain an official answer from the Central and State governments (N1). We rapidly received confirmation that there were three legal ways of securing the project :

    1. A very quick bidding process (two

weeks) after we had finished the development of the project. Thus, we would then be the only group capable of offering a decent proposal. We knew that this process was regularly used in international projects. It had been tried against us before (but we had doubts of its success in this bureaucratic country);

2. The formation of an independent private/public company in which the municipality would be an investor. This company could then legally act as a private company according to Indian laws which meant that this formed company could contract out projects outside the normal municipal regulatory framework;

3. Owning the project 100 %, under a Concession Agreement signed with the Municipality.

- English is commonly used in business and government and we had capable personnel at the local office;
- Even though it seemed that it would be a sole-source project, bidding was still a possibility. We knew that we had a competitive advantage because we were offering top-notch equipment combined with competitive prices due to a low Canadian dollar;
- We could allocate the necessary resources (The Quebec provincial government had confirmed that they would contribute funds through their " Apex Special " program);
- Finally, the project was within our sector of activities.

When we decided that we were sufficiently interested, we travelled to Vedipatnam and met with the local authorities to continue to evaluate the project.

A day long meeting and site visit with municipal officials and technical advisers provided the opportunity to evaluate the technical aspects (E2) of the project. The project was the construction of a water intake, a raw water pumping station, a water treatment plant of a size to be determined, the completion of an already begun adduction system and the construction of the necessary reservoirs. Technically, the project appeared feasible without doing a lengthy study. In fact, a design had been done with older technology and construction had begun two years earlier. Lack of planning and lack of funds had paralysed the project which left us with some doubts on how the money was managed. We could see footings and columns and iron bars, etc. In a few hours, we knew that this was not a complicated project. The environmental studies had been done and the municipality already had the necessary permits. We had the expertise and technology to successfully complete this project.

One of the interesting and encouraging aspects of the project was that it was located in a "new" municipality, comprising a recent combination of several existing communities, two or three of which contained new high-tech computer firms and residential areas for their relatively well-off employees. It was also next door to a very large centre, Bangapore (pop. 5 m.).

The financial considerations (E3) followed. Because we did not want to participate in a bid, the municipality's legal counsellors proposed that we form a public/private enterprise in which the municipality would inject equity in the form of its infrastructure and we would inject the remaining cash required to finance the project. It made sense and the three Canadian companies which had previously co-signed an agreement document (D1) on how they would work together, established the preliminary financial structure of the project.

It is necessary to discuss and define the role/purpose of the Canadian consortium at this point of the evaluation period. Our consortium's objective was to design and build the plant and not necessarily be the owners. Experco Ltie wanted to do the design and supervision of the work, the equipment manufacturer wanted to sell his equipment, and the contractor to build the plant and the associated water network. We did not feel we could participate without being owners or at least co-owners. We had to get involved in the project as co-owners but at a minimum level which meant that we would develop the project and try to sell large parts of it to local and Canadian partners. We had to complete a feasibility study of the financial structure for the company that would own the plant and the project.

In addition, if we had to be co-owners of the plant and wanted to sell large parts of the project, we had to demonstrate how the "operation" of the plant could be made profitable.

We also did a preliminary financial assessment (E3) using our own experience and with data from the municipality. We had been informed of the potential growth curve of the municipality and of the financial capabilities of the residents. With this data, we made some calculations and found that the project made financial sense. Three factors were considered :

1. The cost of the project was not a hindrance, as the municipality already had studies on the subject. It was decided that the package was worth $ 10 million;

2. The municipality was very confident that a $ 3 a month charge for water was politically and financially acceptable for local residents, because in parts of the Bangapore, located just across the river from Vedipatnam, residents were already paying $ 5 a month for potable water;

3. Intense population growth was predicted in the coming years because Vedipatnam was slated for urban and hi-tech development and already dozens of would-be land developers were promoting important residential projects in there. We met with several of these promoters to gauge their interest and commitment in developing projects in Vedipatnam;

4. We knew that EDC already had various lines of credit in the country through local banks as well as willingness to lend directly on a case-by-case basis. The Canadian content of a water treatment plant is high because there are many mechanical parts, so we could probably attract financing from EDC, as long as we could persuade them to take project risk.

As for the political and social considerations (E4), the municipality had to push this project forward because clean water was not available. After speaking to a few local officials and businessmen, it was clear that the majority of the community was behind the project.

Our EVALUATION of the project was done, we felt positive and upon our return to Canada, we began to develop the project on an ambitious schedule.

Time: It took us no more that two weeks to evaluate the project. It was not a difficult task. We were specialists in these kind of projects and because the project size was not too large for us we were in a position to decide rapidly on its viability.

Development costs: The "Apex Special" had been accepted. The "Apex" would pay for our expenses in evaluating and developing the project. It would also pa\ for local consultants that would be required in the next stage of the pro, :.

DEVELOPMENT STATION

The team was already in place (D1) which saved us a lot of time in accelerating the development of this project. We felt confident that a fourth partner would not be required, but on the other hand, we felt weak on the financing side. We could build and operate the plant without much difficulty, relying on previous experience but we lacked a financial partner. We consulted a specialist on the subject but we were too involved in other aspects of the project to take heed of his warnings, or maybe it was that we were not accustomed to his terminology to understand the importance of his suggestions. We should have paid more attention and continued with the specialist instead of waiting until the end of the development station.

In order to obtain Canadian and Indian financing, the technical aspects of the project would have to be developed to a certain point so that investors could feel comfortable. To achieve this, we decided to proceed with a full technical study, including the construction and operation costs that we, acting as a construction and operation company, not as co-owners of the plant, could guarantee to possible investors. We were ready to be co-owners for a limited period and also the builders of the project.

Upon our return to India, we began to gather all existing data, took water sampling from the river and had them analysed, took appropriate measurements, asked for local construction prices to compare with our own estimates, etc. (see checklist in D4). We did a complete design including the water treatment plant, the water adduction network with its re-pumping stations and all required reservoirs. The design was essential to give us confidence in our cost evaluations and to give future investors, particularly Canadians that knew us, security in their investment.

We gave particular attention to the operation costs of a water treatment plant which are very high (energy and chemical products mainly). So we asked and were given unit prices for energy (we studied various alternatives) and for the chemical products that would be required (we could establish with a high degree of confidence the quantity of each product required).

We felt very secure with the design and the construction and operation aspects.

However, we had our doubts with the annual sales (volume and unit prices), so we hired an Indian consultant to do two separate studies

1. The community's response to a $ 3 a month water charge for high quality potable water;

2. A realistic estimate for population growth in the area (the first five years are the most critical).

Study 1 revealed that there was a high probability that people would accept a $ 3 a month cost for water for many reasons

- many of the newcomers would come from Bangapore, where some people were already paying $ 5 a month;
- the average income of workers in Vedipatnam would be sufficiently high to cover such expenses;
- many actual residents were already paying more than the $ 3 a month for store bought water.

Study 2 proved that population growth was our main point of contention and a significant risk. We did several financial studies and found that high population growth was needed to cover expenses and provide the project a decent rate of return (in the case of treatment plants which are not projects that easily interest investors, it is necessary to have a rate of return higher than 20%). The promoters did give us sufficient population growth, but the projects profitability depended too much on their projections. We needed a guarantee from them (F4). We invited them to put their money where their mouth was and asked them to form a trust fund and contribute $1 million (money which would cover possible delays in their construction program). After some negotiations, they accepted.

The alternative was that we limit the project to the sourcing, treatment and sale of water to the local water distribution board. (This might simplify the financing of the project).

Because the municipality, by law, has to accept the urbanization plans from promoters, we wanted to be sure that the next mayor of the municipality would not stymie the development of the municipality for political reasons. Therefore, we asked that the municipality guarantee a part of the annual revenues for the sale of water to the public/private enterprise (F4). With this guarantee, we were sure that there would be no fooling around about the growth potential of the municipality. The municipality accepted our proposal.

Legally, we had to check with the State government if we had the right to bill $ 3 a month for water. So we met with the Ministry and obtained their regulation books. As it turned out, we could not charge a fixed fee of $ 3, but had to charge a variable fee covering real operation costs including profit and a fixed fee for construction costs and financing based on real costs. This did not hinder our concept.

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natural investors abound (utilities and large corporates) and where there exists a ready supply of pre-designed financial instruments, the water sector is relatively unorganized in terms of privatized projects. (There are several natural investors in the UK and in France, but we had decided not to go this route, suspecting that we would not be able to negotiate with them a supply position for goods and services).

So we focused on large Canadian corporations with experience in some aspect of the utilities business. In the end, we were successful with the combination of a Western Canadian gas utility and a large Quebec construction firm, who decided to get together and take on the project. Ultimately, they were persuaded by the following points :

- They both had experience of India and believed that recent market improvements were real and here to stay;
- The project was small, so they could get their feet wet without taking undue risk, and at the same time put themselves in a position to take "cookie-cutter" benefit of other opportunities, if this project worked out;
- Much of the development work had been done by us and they felt comfortable with it. This meant that they could hope to close in a few months, rather than spending a long preparation time on a small project;
- The project IRR (post-tax, pre-financing) was attractive and would be increased by leverage;
- The two firms were willing to fund all of the missing equity (although they would look for an Indian partner investor if this appeared useful);
- They had some indication that a Fund directed at the development stage of projects would probably be willing to share remaining development costs on a 50/50 basis. (This opportunity was kept in reserve in the event that the presence of such a financial partner would help attract lenders at financial close. However, since the two partners were able to afford the development costs, they decided they wouldn't resort to the fund unless necessary, because the fund would require a development fee at financial close).

As a result, this partnership of the utility and the construction firm bought the project from us (they later sold 15 % to an Indian firm in addition to 30 % of the project being in the hands of the municipality) and gave us satisfactory terms for the sale of our goods and services.

The authorities in Bangapore to whom we introduced the new owners, were impressed by their size and reputation and agreed to re-open discussions on the project.

The following points made up the essence of the eventual financial arrangement :

- The project company would build and own the project for the concession period;
- It would sell the treated water to a distribution organization belonging to the municipality at a formula rate which would take into account operating costs, inflation, capital re-investment for improvements and profit;
- The project company would have the option for 10 years to buy the distribution system on pre-arranged terms;

- The municipality would maintain a reserve of six months worth of estimated payment claims by the project company, first access to which would be reserved to off-shore lenders;
- If the municipality ceased payments for six months, it would be obliged to repurchase the project company on pre-arranged terms (since municipalities are creature of higher levels of government, this proviso was more of a moral commitment than an effective one, although it did create a legal right for the project company to sue);
- All responsibility for operations would be contracted by the project company to the partnership of two Canadian firms.

Principally on this basis, the new project owners were able to put together the following financial package :

Equity (50 %)

- Canadian partners 51%
- Indian firm 15%
- Municipality 30%
- Original consortium members 4%

Debt (50 %)

- EDC - 85 % of Canadian export value
- ICICI (Indian project lender) - the balance

CONSTRUCTION AND OPERATION STATION

Construction and Operation is still pending.

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