Guidelines for Preparation of the Initial Project Proposal

General Guidelines

This document is provided as a guide for preparation and submission of an initial Project Proposal – high level overview of a project, business venture or technology development and the opportunities it presents and the risks it entails. The guideline should be used for project proposals and applications for CTI PFAN support including applications to a Clean Energy Financing Forum (CEFF).

The guidelines have been designed to be as inclusive as possible. Accordingly, dependent on the type of project and its development status, not all aspects of this guideline will be relevant. Developers should attempt to provide available information to relevant areas in as much detail as possible / appropriate and available at the time of submission.

The emphasis of the Project Proposal should be on the presentation of a concise and credible plan that can quickly and easily be understood and evaluated by reviewers. Based on appraisal of the Project Proposal, CTI PFAN may offer to provide support and advice to Developers (Project Promoters) to further develop their project and structure their financing proposal for introduction to investors / financiers. Part of this work will consist of the preparation of a bankable business plan and the development of a high-quality Investment Pitch Presentation. The Projects can be supported individually as Special purpose vehicles (SPV) or support can be for the Company itself if it seeks investment for multiple projects or its core business ventures.

Format, Structure & Contents of the Proposal

Project Developers can choose their own format and structure of the Project Proposal to best suit the requirements of their project. Whatever format and structure is chosen, Developers should include as much of the requested information contained in this guideline as possible. Developers may choose to provide any additional information that they consider useful and not covered in this guideline. These guidelines may be used in conjunction with the aide memoire [*http://www.cti-pfan.org/upload/resources/file/PFAN_FinancingCheckList.pdf*] which provides an exhaustive check list of the sort of information required.

Developers are advised to be factual and realistic. Avoid unrealistic claims, jargon and hype. Document your claims and proposals where possible and provide quantifications and supporting data, using diagrams, charts and graphics where appropriate.

Project Proposal Length / Data Volumes & Organisation of Information

Section lengths are provided as indications only. The total Project Proposal should not exceed **20 pages** including the cover page, contents, charts, and tables. Page setup, spacing, font size and type face are at your discretion but the document should be reader friendly. A **maximum of 3 annexes** may be used to provide additional information (e.g. the cash flow model) provided that these do not exceed a further 20 pages of written information or the combined data volume limit.

The total data volume of the files submitted to CTI PFAN (Project Proposal + Annexes) should not exceed **20 MB**. Reviewers will only consult annexes if they are referenced in the main proposal text and clearly labelled / identified. The Project Proposal should contain all relevant information on the project. Do not provide links to websites and online information. Project reviewers can only consider information provided in the Proposal.

Project Proposals which exceed the guidelines on length and data volumes or are organised or formatted such that they are difficult to read may be marked down or simply disregarded.

Acceptable File Formats

- The Proposal Document and any other text based documents should be provided in WORD or PDF format;
- Cash flow & financial models should be provided in EXCEL format. **Do not** convert excel files to PDF or copy large excel sheet extracts to Word;
- The Project Data Sheet, as identified in the Guidelines, should be provided as an EXCEL file. A template for the Project Data Sheet can be downloaded at http://cti-pfan.net/events_detail.php?eventsid=72

Files submitted in other formats than identified above may be disregarded.

Confidentiality

CTI PFAN respects the confidentiality of all developers' project proposals and other information supplied. Proposals will not be copied for any purposes other than for analysis and evaluation of the project in respect of potential induction into the CTI PFAN development pipeline and / or participation in a CEFF. As a matter of convention and practicality, confidentiality agreements are not signed in respect of the receipt and analysis of Project Proposals. Developers may choose to include the following optional disclaimer on the cover sheet of their submissions, recognising that it is not a legally binding agreement:

"This project proposal is confidential and is presented to CTI PFAN solely for the purpose of evaluation of the project for potential induction to the CTI PFAN development pipeline. This proposal may not be reproduced or redistributed in whole or in part. By accepting a copy of this plan, the recipient agrees not to reproduce or disclose the contents of this plan to third parties without the prior written consent of its authors. "

Upon acceptance of the project for the Development Pipeline or for participation in a CEFF, developers may request confidentiality and non-circumvention agreements to be negotiated and signed between the Developer and the respective assigned PFAN Consultant.

1. Executive Summary (1/2 – 1 Page)

Introduce the project with regards to the scope of the project (energy generation, distribution, energy efficiency etc.), where it is located, who is involved and the commercial rationale for implementing the project. Highlight the market opportunity and the benefits of the proposed technological / business idea.

Provide a brief history of the project, including a timeline of activities undertaken or completed to-date.

Outline the amount and type of investment / financing being requested, how the investment will be used, what the possible exit strategies will be for external investors, and what the critical next steps are to realise your project.

Briefly summarise the principal outcomes of the project:

- Commercial & Financial Returns (IRR / RoC / EBITDA / Payback Period etc.)
- Other Economic Benefits (GHG Reductions / CER values etc.)
- Social & Developmental Benefits

2. Value Proposition and Business Model (2-3 Pages)

This section should include the detailed description of business model, project structure if available, and commercial rationale for the project. Key elements for consideration include:

- Commercial rationale: market opportunity being exploited by the project
- Key contractual relationships, counterparties and stakeholders: who does what and why
- Inputs & inbound logistics: how does the project source its inputs (fuel sources / feedstock supply / suppliers / transport to the project)
- Outbound logistics: how does the project make delivery of its goods or services to clients
- Key Contracts: supply agreements, off-take agreements, power purchase agreements together with their underlying parameters and assumptions (eg feed-in tariffs) and their negotiation status (agreement in place, negotiations ongoing, yet to be started, etc.)
- Marketing: how does the project market / sell its business offering (sales / customers)

This section should include preliminary information on how the management wishes to develop the business and should include all relevant phases of project development & implementation:

- **Development Phase:** this covers the time up until financial closing and should outline what needs to be done and detail the plans for achieving the same

- **Construction / Implementation Phase**

- **Start of Business / Operations Planning:** the operational plan should include details with regards to day to day business operations, scheduling, manpower distributions and supply chain planning

- **Expansion / Growth Strategy:** to the extent that rapid business growth and expansion is anticipated, information on growth strategy and expansion plans should be provided, and financial analysis provided later in this Proposal should reflect these details

- **Exit Strategy** (if and where applicable)

Existing agreements, ongoing discussions, contracts or MOUs with any of the key parties should be identified in the Project Proposal. Necessary contractual arrangements, both existing and outstanding, should be clearly indicated together with a prognosis for when such arrangements are expected to be concluded. These factors allow an assessment of the overall business implementation readiness.

3. Management & Manpower Structure (1/2-1 Page)

Introduce the proposed management / project team, their backgrounds and what they bring to the project. The structure of the management team should also reflect the scale and complexity of the project or business. Important issues to consider:

- **Organisational Structure:** the proposed company / project management and organisation structure should be clearly presented, including, where possible, the names of personnel selected and the allocation of roles and positions.

- **Management Roles and Responsibilities:** highlight what each of the senior management members will contribute to the project development, implementation and operations. Don’t just provide their title / function but describe what their roles and responsibilities are.

- **Management Expertise and Credentials:** Provide profiles of key management and personnel involved in the project development and implementation. Information on relevant work experience, contributions and skill sets critical to the success of the business / project should be provided. Brief CVs may be provided as an annex.

- **Manpower Distribution:** businesses with complex operations or large manpower requirements should be well thought through and presented in a concise manner. It is important to ensure that assumptions for this section are realistic and achievable. It is also important to demonstrate that appropriate skills are available in the local market and that management has a plausible strategy for identifying and securing key personnel.

- **Partnerships:** Introduce and describe the roles of key partners, and other companies and institutions involved in the development and implementation of the project. Partners could include joint venture firms, consortium members, equipment and / or raw material suppliers, off-takers of finished goods, development partners, technology suppliers, contractors or others critical to business operations. Partners' relationships to the project and the developing entity should be clearly presented and explained. Do not repeat / duplicate information already provided in the Business Model section.

4. Technology (1-2 Pages)

Briefly introduce / describe the technology solution used in your business model. Standard commonplace technologies, which are already commercialised or in deployment phases (e.g., anaerobic bio-digestion, gasification, biomass pelletisation, hydro, wind, etc.) do not require detailed introduction / description. More important are the following aspects:

- **Technology choice:** available choices of technologies and their suppliers to achieve the business / project objectives should be discussed and compared; give the reason for your technology choice;

- **Technology supplier:** the decision on the choice of technology and technology supplier/s should reflect the technology comparisons made in the previous section. Provide the reason for your choice of technology supplier and explain how you arrived at the choice (e.g. tender process). Explain the nature of the relationship between the supplier and the business / project if appropriate;

- **Commercial Impact of Technology Choice:** explain whether the technology will be purchased, leased, licensed or rented. Outline the commercial implications of the technology for the business model and the value chain; detail the impact of the technology on the cost structure and the revenue streams of the business.

These aspects should be discussed and explained in appropriate detail.

If the project constitutes in itself the development and commercialisation of a new technology then the technology, its benefits, drawbacks and differences in comparison with existing technologies should be presented and clearly explained. In the case of any proprietary technology please elaborate the efforts undertaken to protect and secure the accruing intellectual property and the opportunities for commercially exploiting it.

Technologies should be described in plain simple terms that are readily understandable to a layman.

Do not provide beginners' guides on technologies. CTI PFAN project reviewers are experienced financing practitioners in the clean energy space and have practical *experience with most common clean technologies. Only completely new technologies or enhancement of existing technologies will require more detailed technical presentation.*

5. Market Analysis (1-2 Pages)

This section should include analysis of the economic potential of the business as well as the competitive and regulatory threats and opportunities, supported with accurate and appropriate market information, available data, quantitative forecasts and plausible / reliable projections.

In most cases the following areas should be explained in the Project Proposal:

- **Policy & Regulation:** the Proposal should summarise the regulatory environment in which the project is situated and analyse relevant policy for threats and opportunities which might affect the business negatively or positively.

- **Market Sizing:** the Proposal should provide a clear explanation of the addressable market for the project, including details on the approach taken and assumptions made.

- **Competition Analysis:** this section should provide an analysis of companies / projects / businesses with similar or competitive offerings as the proposed business. Conversely, other companies or initiatives that complement the business can be elaborated upon. Possible disruptive strategies / technologies should be identified and described as appropriate.

- **Competitive Advantage Analysis:** developers should highlight the competitive advantage of their business. This could also include competitive strategies the company might adopt to create or protect barriers to entry.

A suggested framework to address the above is Porter's Five Forces or the SWOT Analysis.

CTI PFAN's work with investors has demonstrated that Competition Analysis and Competitive Advantage Analysis are of high interest to investors and financiers particularly where the project involves young technologies and in business segments where the development pace is very fast.

6. Proposed Investment / Financing Structure (1-2 Pages)

The Investment proposal should be for a commercial investment which provides a return on capital to the investor and / or which pays a rate of interest to a lender on a debt which is repayable on agreed terms. The proposal may include grant or subsidised components, but the investment opportunity should be structured as a commercial proposition. *CTI PFAN will not consider proposals which are structured primarily as grant requests,* This is a key section of the Proposal which should detail and elaborate the nature and amount of investment that the Developer is looking for. It is important that this section is clear and explicit.

As an absolute minimum this section should provide details on:

- Total investment cost of the whole project;
- The investment amount being sought from the investor / bank; this is the so called *ask amount*
- Whether the investment is targeted as equity or debt (or other instrument e.g. mezzanine finance / convertible debt); Project Proposals may include investment targets for both equity and debt components; whether you are seeking local currency or foreign currency investments;
- What amount the Developer will invest from his own funds (including amounts already invested and amounts to be invested); this is the Developers' *skin in the game* and can include amounts for sweat equity and non-cash contribution. Most investors and banks will require that Developers have significant exposure in their projects through cash and non-cash contributions; CTI PFAN will consider proposals for 100% financing but they will likely be ranked lower than projects where the developers make own financing contributions;
- Other sources of financing that will be made available and their terms and conditions: e.g. debt finance / banks / development finance/ mezzanine finance / equity providers / grants / equipment finance / leasing / hire purchase); state whether the amounts have already been invested / are committed / requested / identified as possible;
- Projected returns for equity holders (as appropriate);
- Projected rates of interest and anticipated repayment schedules for debt holders;
- Anticipated period of investment and payback periods;

- Estimated project execution timelines and estimated costs during construction period including rolled-up interest costs.
- The Investment / Borrowing Vehicle: what is the legal entity (private limited company / public company etc.)?

Below is a further elaboration of key aspects and considerations of this section from the perspective of an Equity Ask and a Debt Ask

a. Equity Ask

- **Investment Vehicle:** what corporate structure or entity is the investor investing into? This should be apparent from the Business Model / Project structure;

- **Investment (Ask) Amount:** what is the investment amount? How does this compare to the Developers' contribution to the business? What is the Developer's contribution amount?

- **Valuation:** what share in the business is the investor receiving as consideration for his investment? On what basis has this been calculated? Justify and explain any discounts or premiums assumed.

- **Financing Leverage:** what is the ratio of total equity to total debt? How will the debt be raised? Is it already committed? From which institutions? At what rate of interest and on what repayment terms?

- **Use of Funds:** what items will the investment funds and specifically the investors' funds primarily be used for? Schedules of capital expenditure and operational expenditure, and assumed timings of financing requirements should be provided. Provision of a Source and Application of Funds table / schedule is recommended.

- **Returns:** what returns can the investor expect and over what periods? It will probably be useful to express these returns as Equity IRRs, RoI, RoC or other similar indicators. Equity cash flows should also be provided in the financial model to reflect the investment flows from the investor's perspective.

- **Investment Conditions & Expectations:** The Project Developer's expectations / requirements of potential investors' obligations, rights and benefits, in terms of board and management representation, burden of time, other commitments, dividend rights, payout options, preferential treatment etc. should be outlined.

- **Exit Strategy:** the proposed timeline of the business investment is an important piece of information for investors. Accordingly, as far as possible the exit strategy for the investor should be clearly constructed around this timeline. To increase the flexibility of the proposal, possible multiple exit points can be suggested and can for instance include, industry sale, buy back by developer, IPO etc. Some investments may also be structured as annuity type deals based on long term cash stable flows.

- **Investor:** what type of investor(s) is being targeted and why? Philanthropic investor, impact investor, development fund, institutional investor, private equity, venture capital, strategic investor, industrial investor, carbon investor etc. CTI PFAN covers a wide range of investment interest and appetite including all of the above.

b. Debt Ask

- **Borrower:** who or which corporate structure or entity is the borrower? Who is the bank / debt provider lending to? This should also be apparent from the business model / project structure;

- **Borrowing (Ask) Amount:** what is the amount of debt requested?

- **Financing Leverage:** what is the ratio of total debt to total equity? How will the equity be raised? From which investors? Are the equity providers already committed? If yes, what are the terms of their investment?

- **Use of Funds:** what items will the lenders' funds primarily be used for? Schedules of capital expenditure and operational expenditure, and assumed timings of financing requirements should be provided. Provision of a Source and Application of Funds table / schedule is recommended.

- **Terms & Conditions:** what is the requested / proposed rate of interest and period of borrowing? What are the proposed repayment terms? What security / collateral is being offered? Debt cash flows should also be provided in the financial model to reflect the investment flows from the investor's perspective. These may calculate and show appropriate indicators such as EBITDA, interest cover ratios, loan life cover ratios etc.

- **Financing Institution:** what sort of lending institution is being targeted and why? DFI, development bank, commercial bank, other. CTI PFAN covers a wide range of debt providing institutions including all of the above.

7. Financial Analysis (1 – 2 Pages + Annexes)

The purpose of this section is to analyse and highlight the economic viability and attractiveness of the business / project. It should include:

- A brief description / introduction of the financial model developed to represent your business model / business and investment requirements. This is important especially for more complicated models such that reviewers can easily understand and navigate the model.

- A summary of key assumptions used to create the financial model and explanation why these assumptions were made (unless this has already been explained in another section of the Proposal). As a guide, assumptions should include, but are not limited to, the following categories:
    - CAPEX Assumptions;
    - Operating Expense Assumptions;
    - Revenue Assumptions;
    - Operating Volume Assumptions;
    - Financing Assumptions (cost of capital, interest rate etc.)

- A summary of the key outputs of the financial model – these can be expressed as key indicators or summarised as headline line items (see also the sections on Cash Flows below). This should include indicators for both equity and debt:

    - **For Equity investments** appropriate indicators include: Equity IRR, Return on capital Employed, Return on Investment, Dividends Payable, Net Profit, Net Tangible Assets, Payback Period.

    - **For Debt investments** appropriate indicators include: Gross Profit, EBIT, EBITDA, Interest Cover, Debt Service Cover Ratio, Loan Life Cover Ratios.

- The financial model / cash flow model itself included as an EXCEL spreadsheet in an annex. **Do not** copy large excerpts of the financial model spreadsheet into the proposal document or convert to PDF format.

Sensitivity analysis should be provided to understand the impact of changes of key assumptions on key outputs of the financial model.

The evaluation should be credible and based on conservative projections that are easily supported.

The Financial Model should present and analyse the project or business from a number of perspectives, depending on the nature of your investment proposal:

- **Project / Business Cash Flows & Returns:** The cash flows from the project will be built on the assumptions defined in the Proposal and should show the cost and revenue projections over the life of your project in appropriate periods. The projected cash flows will form the basis for calculating the financial results. The project cash flows can be augmented by other statements such as the income statement, the balance sheet and other relevant financial statements.

  This part of the model should include the possible economic returns and the relevant ratios that will be important in evaluating the overall economic feasibility of the business / project: Project IRR, Gross Profit, Net Profit, Break Even, Payback Period.

- **Debt Cash Flows (If appropriate):** if your Proposal includes a debt requirement then your financial model should also include the debt cash flows, enabling a potential lender to evaluate the likelihood of repayment. For debt appropriate indicators include: Gross Profit, EBIT, EBITDA, Interest Cover, Debt Service Cover Ratio, Loan Life Cover Ratios.

- **Equity Cash Flows (If appropriate):** if your proposal includes an equity investment then your financial model should also include cash flows from the investors' perspective, enabling a prospective investor to understand and evaluate his investment. For equity investment, appropriate indicators include: Equity IRR, Return on capital Employed, Return on Investment, Dividends Payable, Net Profit, Net Tangible Assets, Payback Period.

The indicators from the above sections of the Financial Model should be summarised in the Financial Analysis section of the Proposal. Consider using graphs and tables where appropriate.

All financial projections should be in US$ at prevailing market rates. Provide local currency figures in brackets and / or as shadow accounts in the financial model where appropriate and useful.

8. Risk Analysis (1/2 - 1 Page)

The Proposal should include a risk catalogue identifying the key risks involved in developing, implementing and operating the project / business. This catalogue should identify the nature of the risk, the likelihood of it occurring, the potential impact and possible mitigation measures.

Typically these risks include but are not limited to:

- **Business Specific Risks:** execution & completion risk, counterparty risks, performance risks. These will seriously affect the project and if they occur may threaten the whole project;

- **Financial & Economic Risks:** cost & revenue risks; interest rate risks; currency rate fluctuation these will affect the economics of the project but may be mitigated against

- **Technology Risks:** depending on the project this will impact on project economics and may as well be project threatening

- **Country Specific – Political & Regulatory Risk**

It is important to identify and focus on the key risks connected with your particular business model or industry (particularly if the project is in a closed or captive supplier – off-taker structure) which really imperil the project and threaten to put it out of business rather than more general or less threatening risks.

To the extent possible, this section should additionally provide a scenario analysis which models the impact of key risks indicated here.

Consider using graphs or diagrams to show the sensitivities of the financial model.

9. Non-financial Impacts (environmental, social, other) (1/2 - 1 Page)

Summarise and quantify, if possible, the non-financial impacts and benefits of your project:

- **GHG Mitigation:** quantify the annual GHG reduction potential of your project in terms of tonnes of CO2 e avoided or annual energy savings in terms of GWhrs and briefly explain the methodology / assumptions of your calculation;

- **Other Environmental Impacts:** evaluate your project's impacts on the environment – both negative and positive. Identify and describe impacts on waste collection and treatment, water supply and sewage treatment, pollution, emissions reductions, neighbouring eco-systems etc. Summarise results of EIAs if available.

- **Development and Social Impacts:** evaluate your project's impact in terms of the sustainable development goals (or millenium development goals – MDGs). Identify and describe impacts on technology & skills transfer, employment, health, female empowerment, education, poverty reduction, rural electrification, energy access, water and sanitation. Please quantify your claims as far as possible (e.g. in terms of jobs created, people / households reached).

10. Conclusion (1/2 Page)

Highlight the chief strengths and benefits of the project / business and summarise why an investor should consider investing.