

Success Factors in Project Finance

Industrial companies, project developers and engineering and construction companies hire business development staff to continuously identify potential projects for pursuit and execution. Often these companies maintain long lists of projects in their development “pipelines”, yet some of these projects simply never come to fruition.

The simple truth is that the only projects that actually get built and become a reality are those that are “financeable”; those with serious owner equity and debt with recourse to the owners, or, those that are economically, operationally and technically viable and can qualify for non-recourse project financing.

The early-stage evaluation of the “finance-ability” of projects can lead to much more efficient prioritization and pursuit of projects in a new business “pipeline”. The identification of “key success factors” and/or “fatal flaws” is necessary for the prioritization of new project opportunities. These include:

- Owners’ reputations and sources of owners’ equity: [do a quick check of nationality, experience and background, financial statements, track records, sanctions, SDN lists.](#)
- Stability of the regulatory environment, and, degree of political and economic risk: [can the risk profile of the country or region support a significant, long-term capital investment?](#)
- Proprietary and proven technology and/or ease of entry of competition: [what ensures that a particular project will remain viable in the medium term?](#)
- Availability of key infrastructure including raw materials, electricity, water, fuel, land, skilled and unskilled labor, transportation: [lack of any one of these can stop an otherwise viable project.](#)
- Viable project economics, including profit margins, degree of price and demand elasticity, cash flow break-even point, debt service capacity and internal rate of return: [do an in-depth financial forecast and analysis, to understand the macro financial merits of the project, the ability to service debt, and to yield a satisfactory return to investors.](#)
- Firm contractual arrangements and strong supply demand conditions for fuel, supplies, and for production/output: [are the counterparties serious, established and credit worthy? What if one or more of the contractual underpinnings or key suppliers evaporates?](#)
- Capability of the engineering and construction contractors: [do they have documented track records of performing on budget and schedule? Get references from similar projects. Are the contractors owned/guaranteed by leveraged companies that are not financially sound?](#)
- Capability of operating management: [Does the project company have key staff members that have the required experience in the project’s line of business and technology?](#)
- Adaptability to changing market conditions: [Can production mix be changed to meet changes in demand? Can the project be ramped up or down and still service its debt and provide a return to owners?](#)
- Availability of commodity, interest rate and foreign currency hedging: [Do such forward markets exist in the commodities and currencies that the project is dealing with?](#)

If an evaluation of the factors outlined above is favorable, the project is likely to merit more detailed technical and financial evaluation, and is significantly more likely to be a financeable project.