



## **IMAGINE THE SURPRISE!**

**Imagine being an investor or a banker and receiving an Information Package on a complex project that answers most of your questions before you ask them.**

Imagine! You are an Investor and you receive an Executive Summary that answers most of your important questions, including how you exit! You are a Banker and you receive an Information Memorandum that answers your Risk Management issues, concerns about Cash Management and provides conservative debt repayment schedules! Or you are a potential Technical Partner, one of the main future Suppliers or Customers of the proposed Business and you get comfort that the Project Owners are for real and they take your own business needs and concerns into account and are prepared with the answers to most of your questions before you ask them. Imagine the surprise!

During the last 2 decades, my colleagues and I, lived through many regional crises. We were there! The Savings and Loan debacle in the US, Banking Crises in Mexico, Asia, the Baltics, Russia, Turkey, etc. We learned that human nature always prevails the same way everywhere. Business activity slows down and sometimes comes to a complete halt for a period of time. Some months later, in spite of continued limited liquidity and volatile financial and political environment, investors start looking again and the healthier banks go back to lending cautiously, since otherwise they will go out of business.

Based on our years of experience, it is clear that no matter how volatile the market, it is always possible to attract equity and debt for companies and their projects, when their owners are well prepared. Doing the due diligence from the perspective of the main stakeholders is the key to success, especially during times like these. The project package stands out “on the shelf”, and, with its *raison d’être* obvious, it becomes a magnet.

The “global meltdown” of 2008 finally exposed the failure of regulatory authorities to address risk management issues and is redefining our concept of the potential impact of financial crises. The silver lining, this time, is that the upheaval is likely to produce a more level project financing playing field and shift Investor attention to where the opportunities and margins are.

**“Across Africa, great opportunities exist in many sectors. The main challenge is the severe shortage of impeccably-prepared projects”**

Across Africa, great opportunities exist in many sectors, including food-processing, energy, media and tourism. The main challenge is still the severe shortage of impeccably prepared Projects. Many project sponsors still think that everyone should simply share their enthusiasm and that it is enough to have a feasibility study prepared by their consultant in order for financing to flow. During the days of relationship banking there was probably some truth to their view. Those days are over.

The changes in the Nigerian Banking Sector will have a significant impact in the way projects are reviewed and how long it takes to close on project financing. The Banks will have to gear up and staff up to be able to practice “Safe Lending” and that will take some time. International Investors will be increasingly interested in projects that address real market needs but their requirements for quality information and transparency will be stringent.

There is a bit of the “chicken or egg” scenario here. The Banks will want to see that there is real Equity available before they discuss providing Debt. Obviously, they will not be lending the Equity part of the financing. The Investors will want to see that there is a good chance to obtain “reasonably” priced debt since otherwise they are wasting their time. The only way to achieve reasonably priced debt is to structure the package so it includes several sources, so that the blended rate is acceptable.

Speaking from the position of a principal who has initiated many projects, we must acknowledge that we are all competing for Project Financing with everyone else on the globe and have the same chance to succeed regardless of geography. Converting an idea to a project and then to a sustainable business is a long process. The top priority, before we buy equipment or start construction, should always be to build a team that has solid experience in the various aspects of the development and financing of the business. The Project Team will be there through execution. That is what Seed Capital is for. It is the most important investment we make early in the process.

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There is nothing wrong with testing the market to see if we are going down the right path. But it is a big mistake to present ideas to sources of financing before documentation is ready and addresses all the key issues: Market, Competition, Management, Technology and available Equity.

The process that starts with Vision and Strategy continues with Preparation of Documentation, Marketing to Investors, Negotiating Terms and Conditions, and ends when funds are deposited in the Project account, is long, expensive and full of hurdles and surprises. The lawyers of the Investor and the Bank are not party to the initial meetings and it is difficult to anticipate which major issues they will raise.

Imagine the benefit of being able to identify and anticipate the obstacles that will crop up just before reaching financial closing, months before they occur. Getting ready for the eventuality is one of the most valuable and strategic components of impeccable project preparation.

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## **The Contact**

*Key decision makers in financial institutions are geographically far away from the projects that they are asked to review and approve. They are usually not familiar with the Project Sponsor and the proposed opportunity. They need to be educated in their “language” and without having to read much more than a couple of pages. The initial short summary must contain the most relevant and strategic information that “speaks loudly and clearly” to the very first reader. If the initial information about an investment opportunity is not obviously interesting, it will not reach the right people. The review process has many roadblocks.*

*The very first executive (the Contact) to see the Project Information has a “Job to Do” as well as “Job to Protect”. The Job to Do involves putting money to work safely and profitably, for his employer. However, he cannot afford to be criticized for recommending an Investment that seems like a good idea but does not clearly meet the criteria of his institution. Each time he does that, he puts his job at risk.*

*We must empower the Contact to defend his decision to bring the opportunity to the attention of his colleagues and the decision makers. This person is key to the success of the effort to obtain “blended” financing. We must remember that we will not meet most of the members of the Credit Committee. The Contact must be able to answer all their questions, which requires excellent written material.*

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