

Outline feasibility study for ORET application

In this section we outline the information needed for a proper assessment of your application for financing under the ORET program.

Whilst compiling the answers, please bear in mind the difference between the "transaction" and the "project". The transaction relates to the contract document between client/end user in a developing country and the supplier of goods and/or services. The contract sum is the basis for the calculation of the requested subsidy.

In most cases, the project will have a broader scope than the transaction. A project is defined as all the activities and investments needed to reach a certain objective.

A project is assessed through its (economic and technical) life cycle (or at least the first ten years), which requires information to cover the full period of operations, including all production costs (raw materials, labor, maintenance, consumables, overhead etc) and revenues, amortization, depreciation, re-investments etc.

Below you will find the principal outline of a feasibility study. The study should contain information on all the relevant aspects needed for a proper appraisal of a transaction/project. Please bear in mind that a feasibility study may also have to include specific topics relevant for other parties involved, such as banks and authorities.

Although some information on the macro economic country related and regional environment has to be supplied, the application should focus on the direct (micro economic) project related environment.

Besides providing the several hard copies of the application, please provide us with digital copies where possible (e.g. feasibility study).

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1. Introduction

In addition to general introductory remarks, specify:

- Name and location of the project;
- Names, addresses, telephone and fax numbers, e-mail addresses of institutions and persons that participated in the preparation of the report;
- Relation between the authors of the report and the implementing organization;
- List of available documents about the project.

This type of information enables follow-up contacts in case the appraising institution in the donor country would need additional information.

2. Description of the project (explanation of the new investment)

2.1 Background (description of the problem)

Provide a brief outline of the project history and a description of the project. Explain the problems and how they will be resolved through the project implementation.

2.2 Project definition

According to the Consensus Group of the OECD a project may be defined as: "The smallest complete productive entity, physically and technically integrated, that fully utilizes the proposed investment and captures all financial benefits that can be attributed to the investment."

Describe the project according to this definition (see also section 6.2). This definition should be used for the identification and allocation of costs and benefits. If various project definitions are judged possible, it should be argued why the proposed project definition was selected. Consequently, the costs and benefits for the various alternatives should be presented.

2.3 Project impact

Describe the **short-term objectives** of the project, as well as its direct effects. Where possible, the objectives and effects should be quantified.

Describe the **long-term objectives** of the project. Where possible, the impact of long-term objectives should be quantified.

2.4 Description of the sector

Give a brief description of the level of economic development of the country, surrounding region, significant economic sectors, GDP, employment statistics etc. Please also provide information on the position of the project in the sector. (To be considered in combination with section 5).

3. Description of the investment/transaction

3.1 The supplier/contractor (party, size, experience, owners)

For all (potential) suppliers involved in the transaction, specify:

- Contact information, including contact person;
- State of affairs with regard to negotiations;
- Audited balance sheet / Profit & loss accounts for the past 3 years;
- In case of parent – daughter relation, parent guarantee: financially and continuation of the project.

3.2 Goods and services to be supplied

Technical specifications of the export transaction:

- Bill of Quantities including specifications for each type of equipment: type, capacity, price etc. If construction is part of the project, the same applies.

Construction:

- Will construction take place within or outside the scope of this investment? Which part of the financing is used for infrastructure works? Is application/subcontractor lump sum, turn-key responsible for the construction?
- Provide more information about the responsible parties, the execution and the costs of site preparation and infrastructure works to be executed. What construction works will be necessary to house the equipment and how will the cost of this work be funded?
- Has land been purchased and/or expropriated?

Equipment:

- Please indicate the nature of the equipment investments e.g. expansion, replacement or new equipment. Indicate for all "new" and "expansion" equipment the additional services by number of patients;
- What is the average anticipated life expectancy of the new equipment?
- Has a good balance been achieved between "state of the art" technology and basic needs/level of goods and services to be delivered?

3.3 Technical assistance

- Indicate what type of training is required for achieving proper operation, maintenance and repair.
- Scope and duration (in man-months) of technical assistance for training/education, as well as a detailed training plan (number of persons to be trained, duration and place of training, level of trainees, number of trainers).
- Training budget, including number of working days for each training course, daily fees, cost of travel etc.
- Please describe for both training/education and capacity development the inputs, process management and outputs.
- Describe the amount of spare parts that is included in the transaction, availability of future spare parts & spare part management.
- Describe the amount of consumables that is included in the transaction, availability of future consumables & consumable management.
- Detailed plan for capacity development including scope and duration, detailed training plan (number of persons to be trained, duration and place of training, level of trainees, number of trainers).

- Indicate what type of technical assistance¹ is required and/or what type of measures might be needed in order to (i) improve institutional sustainability of the project (e.g. (financial) management support, management information systems) and (ii) create financial transparency.

3.4 Organization of the transaction

- The procurement modality adopted by the end user (limited international bidding, national competitive bidding or direct negotiation).
- What dates are planned for awarding the contract(s)?
- What dates is the first and last delivery planned for?
- How is proper installation, commissioning and inspection of the equipment arranged?
- What warranty policies apply?
- What kind of insurance policy will be adopted?

3.5 Contractual relation(s)

- Type of contract applied between applicant, supplier and possibly other entities involved.
- Application to include draft version of the contract, a Letter of Priority from the government and a signed Memorandum of Understanding (MoU).

3.6 Project management

- Detailed description of activities.
- Provide a time schedule for implementation of the activities.
- Who will be responsible for the project management (both in the country of origin and the receiving country)? How are the responsibilities divided? Who are the participants?
- What is the budget (specify man-months and salaries)?
- Describe the experience / credentials of the project management, in terms of setting up the project, start-up and commissioning.

3.7 Investment plan (with details)

- Describe the project activities, distinguishing between activities for project implementation and activities for project operation.
- With regard to the project implementation distinguish between activities planned as part of the export transaction and complementary project activities.

3.8 Technical aspects (experience and know-how)

- Is the technology appropriate?
- Is the technology in line with legal standards?

3.9 Financing of the investment

- Specify how the total investment will be financed, indicating the sources (equity, domestic financing, proposed tied aid credit and other financing), repayment schedules, interest rates and other financing costs.
- If (part of the) financing package is not yet certain, specify the status of the negotiations with the financing institutions.

¹ To be eligible for a 75 % grant for TA, the following criteria have to be met: (i) TA lasts at least 6 but less than 60 months, (ii) TA should go beyond training but contributes to institutional development and transferring knowledge (e.g. strengthening management, assistance in amending legislation, support for the introduction of environmental and safety standards, setting up a system for obtaining spare parts etc) and (iii) a Terms of Reference to be submitted with activities, results and costs.

- In case of exploitation deficit provide estimates of the size and duration of these deficit as well as written approval of financial guarantee of the local government, mostly through the Ministry of Finance.
- Provide a breakdown of the investment budget, distinguishing between different investment categories: export transaction, categories of (local) complementary investments, working capital, taxes and duties etc (note: interest payments during construction works are not to be included in the investment budget).

4. End user (investing party, technical and financial aspects)

4.1 Institutional aspects

- Describe the legal structure of the company involved, what is the legal status?
- Who are the shareholders and what is their share?
- Who are the members of the management team, their individual responsibilities and please provide background information on these persons.
- If in place, please describe the member of the Board of Directors, their individual responsibilities and please provide background information on these persons.
- Please include overview of the organizational structure.
- Describe the operating agency's experience and capacity to execute the project (investment, production, purchase, marketing, personnel etc).
- Describe the financial management capability of the operating agency.

4.2 Financial assessment of the end user

- Please provide (audited) balance sheet for the previous 3 years.
- Please provide (audited) profit & loss accounts for the previous 3 years.
- Discuss the financial situation of the institution including a financial ratio analysis.
- How autonomous are the hospitals with respect to decision making, setting tariffs etc?
- If the above financial information is not available please provide the budgets for the past 3 years.

4.3 Other related issues

- Are patients nowadays referred to other hospitals if an unavailable (diagnostic) service is required? If yes, how often does this occur?
- What effect can/will improvement of equipment have on other (surrounding) entities providing similar goods or services? As well as on the sector in general?
- Will new staff be necessary? If new staff will be necessary, will applicants for the new posts be available?
- How will be dealt with the often occurring situation that staff leaves on a regular basis and that new staff does not know how to employ the new equipment? Is continuous training offered? Is staff retention an issue?

5. Market analysis and forecasts

- Define the market in terms of products, services, competition, size etc.
- Provide a thorough analysis of the market, including a description of past developments. Which consumers/market are/is focused at by the end user(s) at?
- Provide information of the main players at the market, i.e. other suppliers and the services they offer, their market shares and competitive environment in which the project / end user has to be active.
- Please provide more information on the environment. Is the end user located in rural or in urban areas and where do their consumers come from? What is the catchment area?

- Determine future developments through robust analysis and reasonably verifiable assumptions.

6. Key assumptions of costs and revenues

6.1 Output and input volumes

- Present the output volumes per annum and the capacity utilization rate, specifying the number of shifts and working hours per day, per year, per department if applicable.
- The output volumes before and after the investment.
- Specify which part of the volumes is the result of (i) replaced equipment and (ii) extended equipment (new services offered), see also section 3.2.
- Specify technical relationships between input and output volumes, the total quantity per year, the quality and the origin (local versus foreign) of the required inputs.
- Indicate the expected lifetime for each investment item including buildings, various types of equipment and installations as well as the project as a whole (if major overhauls or replacement investment are necessary to achieve this expected number of years, provide estimates for the amounts involved).
- Indicate the risks for the project, affecting project output / input and its lifetime. Indicate the probability of these risks and give the implications for project output / input and lifetime. Determine risk-mitigating measures.
- Give estimates of existing equipment and buildings, its current market values, remaining life times and replacement costs.

6.2 Outputs and inputs prices

- Give detailed information on the prices of the inputs and outputs of the project: prices of outputs, specifying cost of sales, sales tax / Value Added Tax, duties etc.
- If the output(s) is currently imported, please describe the normal import prices.
- Prices of inputs, specifying import duties if applicable.
- Describe the possibilities (probability and level) with respect to future prices increases (irrespective of inflation).
- Discuss the appropriateness of the input and output prices (see section 2.2): are the prices kept low or high by means of government intervention, subsidies etc? Are any price reforms planned by the hospital(s) / government?

6.3 Financial sustainability (with and without ORET)

A cash flow analysis will have to show if a transaction² is not commercially viable and at the same time financially sustainable. In view of this, a financial model will have to elaborate on:

- Various types of revenues (per department) to be generated by the entire project;
- Various types of cost types (per department), which are generated by the entire project; Financial cash flows and liquidity in each year over a period of at least 15 years (can be more depending on the type of project);
- A sensitivity analysis of the financial results;
- Specify depreciation practices and explain the method for calculating profit tax and other that are costs to the project.

These calculations have to be made for a situation without ORET financing (commercial viability) and a situation with ORET financing (financial sustainability).

² If a transaction is part of a larger project, then all costs and revenues related to the project have to be taken into account.

6.4 Economic viability

This section should present an analysis of the economic viability of the project:

- Discuss economic benefits from the project in a qualitative way. For example, does the project in any way increase the level of employment?

For example in the health care sector, an often used approximation is the willingness to pay, which is estimated by the sum of out-of-pocket payments and free treatment. If the corresponding economic rate of returns does not exceed the opportunity cost of capital, the required additional benefits per patient is calculated (often expressed as a % of GDP), which is called the *switching value*;

- Specify these economic benefits quantitatively (valuation of external benefits, shadow prices). The assumptions made for quantitative estimates should be made explicit!
- Discuss the economic costs;
- Identify conversion factors (present prices corrected from market distortions);
- Specify quantitative estimates of external economic costs (such as negative environmental impacts). Make assumptions explicit!
- Present economic Internal Rate of Return (eIRR);
- Compare with the opportunity cost of capital (OCC) in the country (rule of thumb: 10%).

7. Development aid aspects

7.1 Project selection (consistency with the recipient country's overall investment priorities)

This section should describe the consistency of the project with the country's overall investment priorities:

- How does the project fit into the economic and development plans?
- Has the project been approved by the government?
- Does any reform program exist for the sector in which the project will operate?
- What was the basis for the selection of the end user?
- How was the needs assessment conducted?

7.2 Social aspects (poverty, employment, gender)

This section focuses on the degree the project contributes to specific objectives of the Netherlands development co-operation:

- Describe the target groups affected by the project and their socio-economic status;
- How many jobs will be created within the project and what indirect employment effects are expected as a result of the project?
- How are poor population groups and women involved in project planning/preparation and implementation?
- How many women work within the project and how many of the new jobs will be for women?
- What other effects will the project have for the poor?
- What other effects / benefits will the project have with regard to women?

7.3 Environmental assessment

This section should present and discuss the environmental and social consequences of the project.

The proposed project must on balance not be harmful to the environment. Describe compliance with the environmental, health and safety standards set by the World Bank and IFC (as described in annex 4 of the ORET program brochure) or the developing country's own standards, whichever are stricter. An adequate environmental impact

assessment is required in the case of major infrastructure projects and other "category A" projects (see also annex 4 of the ORET program brochure). It should be clearly indicated what environmental policy the end user has (or is developing) for the project in question. Are environmental issues addressed systematically? What impact has the policy had?

Describe also compliance with established international standards for social impact, using ILO and World Bank frameworks (refer to annex 4 of the ORET program brochure for further information).

The following is a non-limitative list of types of information to be provided under this section, as applicable:

- Please elaborate on the environmental, health and safety aspects of this project. What kind of waste will be produced by using the equipment, how will it be treated (incl. removal) and for how long will support be provided?
- Will a waste management plan be developed and implemented? If so, how and for how long will the applicant be involved?
- Use of energy, land and non-renewable energy;
- Emission of gasses, waste, effluent, noise, rest products and the end of the project (cooling liquids, scratch);
- Effects on the project's surrounding (nature, risks of accidents/calamities, presence of ecologically sensitive area, possibility of occurrence of so-called irreversible processes);
- Possible mitigating measures (against risks, environmental effects, recycling of by-products);
- Effects that are considered acceptable according to local laws, rules and norms and those which are not acceptable and should be addressed;
- In case the project is claimed to be an environmentally beneficial project (e.g. water treatment):
 - Describe and quantify the benefits for the environment;
 - Indicate whether the project has innovative characteristics for the country;
 - Indicate if environmentally better solutions are available.