

PHASES OF A BOT PROJECT

by

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1- INTRODUCTION :

A typical BOT project evolves through a number of phases :
from initial identification and definition through bidding, selection, development
construction and operation until the final transfer.

In each phase, there will be a certain number of contractual documents, which in
the end, will form the contract package for the project.

A typical contract package is outlined in this paper with special reference to the
UNIDO-BOT Guide Lines (Pre-Print) and other relevant publications.[see
Literature] .

2- PROJECT IDENTIFICATION AND DEFINITION

The need for a particular project must be identified and the possibility and
advantage of having the project done on a BOT basis recognized. Usually, this
will be done by the host government through its planning process. The planning
authorities will estimate the demand for electricity, transportation, water and other
public services, and define priorities. The agency(ies) involved will then identify
the need for so many additional power plants over a particular period, or for a
road, a bridge, an urban transit system, a port facility or some other infra-structure
important to the country's economy.

The host government will then focus on the possibility of satisfying that need using
different forms of financing, one of them eventually being the BOT approach.
Occasionally, an entrepreneur or developer will be the first to identify a project and
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In either case, a preliminary feasibility study will normally have to be carried out. The study will carefully analyze the size, location, technical options, environmental screening and potential revenue stream of the project.

Unless the host government already has extensive experience with BOT projects in general, and projects of the specific kind at issue in particular, it is at this stage that the host government will most probably want to take advantage of experienced outside consultants to be sure that the project properly takes into account and protects its interests. Host governments should also be aware that technical assistance funds may be available from bilateral and multilateral aid agencies to help defray the cost of studies and consultancy needed in the identification phase.

The lack of consistency in administering or poor managing BOT projects is a familiar complaint of experienced project sponsors. Therefore, early in the outset of the process the host government should carefully examine the option of appointing or contracting a "**project manager**", who will provide the necessary leadership, co-ordination and institutional memory for the development of BOT projects. The project manager may be a government employee or outside expert.

The first step, then, is to identify and decide whether to pursue the project on a BOT basis. The process of project identification will continue through preparation of a request for proposals and then inviting bidders to submit specific design, construction and financing proposals.

3- GOVERNMENT PREPARATION FOR TENDERING

The next step for the government is to decide the procurement procedure. Alternatives include competitive bidding, sole source procurement or some limited tender system. Most governments will want to pre-qualify potential investors, whether they adopt a pure competitive bidding or some other process.

A large number of bidders may not be the government's first priority. Rather it is the need to attract serious quality investors that should drive the design of the procurement process. If, as will usually be the case, competitive bidding is used, three to five serious competitors may be enough to achieve the host government's objectives.

The request for proposals will provide a more detailed definition of the project. The request will normally set forth specific criteria that must be met, including size, timing, performance criteria, and the nature and range of project revenues.

It is also advisable to include the project agreement in the invitation to tender documents.

This phase is extremely important from the host government's point of view, If the initial project definition is impractical, or if the government's criteria for award are unrealistic or unclear, interested investors will have great difficulty in responding with realistic proposals.

A quality bid package and a transparent, well-defined bid and evaluation process are of critical importance for a successful BOT project. Experienced bidders consider the bid package and evaluation process as an important indicator of the project's feasibility and of the host government's commitment to make it a success.

The terms of competition must be clear and consistently applied, or serious competitors will be discouraged from pursuing the process.

The various issues of competitive bidding for BOT projects are discussed in a separate paper submitted also at this conference.

From the host government's viewpoint, it is the bid and evaluation process which define the “**terms of reference**” of the project and are largely responsible for the quality of competition and investors.

Experience suggests that choosing the most suitable project consortium is usually the single greatest determinant of the success or failure of BOT projects.

4- SPONSOR'S PREPARATION AND SUBMISSION OF A BID

In response to the request for proposals, a group of interested investors or sponsors will normally form a consortium to put together a responsive bid. The consortium members will generally reach a preliminary agreement at this stage on cost sharing, the role each expects to play in the project, and the potential project structure.

If confidential or proprietary information will have to be shared among project participants, which is often the case, the preliminary consortium agreement will include, or the participants will separately enter into appropriate confidentiality agreements.

The consortium will carry out its own, more detailed feasibility studies of the project. These studies will be a critical factor in its decision to proceed and in its ability to attract financing. The consortium will then seek tentative loan commitments and preliminary contract prices from potential tenders, equity investors, contractors and suppliers in order to structure its proposal or bid then prepare and submit it.

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The request for proposals should require that the bid contain a credible financing plan, although not necessarily definitive financing commitments. In some instances, the bid should be allowed to suggest amendments or alternative solutions to one or more aspects of the project in order to better achieve the project's overall goal.

For instance, the feasibility studies undertaken for the consortium or the consortium's expertise in project design and development may indicate a preferable alternative to some feature of the project as originally outlined in the request for proposals.

5- SELECTION OF THE BEST BID

In the next phase, the government will evaluate the various bids submitted in response to the request for proposals and select the winner.

It is critical that highly qualified technical, financial and legal advisors are available to the government entity evaluating the bids. Bids for any complicated project are never identical and are often very difficult to measure against one another, no matter how clear the evaluation criteria may be.

The choice among the bids for BOT projects will ordinarily not be based on price alone. Evaluation is based upon factors such as price, reliability, experience and the degree to which the project as conceived and proposed will lead to other benefits for the host country. Such benefits might include savings in foreign exchange, promoting technology transfer, and providing employment and training to local employees and contractors.

Having made the evaluation of the submitted bids, the government will invite the selected bidder to execute and sign definitive contractual documents.

6- PROJECT DEVELOPMENT

With the government's acceptance and the signing of the Project Agreement, the winning consortium is in a position to make definite commitments among themselves to form or structure the **project company** if it has not already been formed.

The necessary equity contributions required for project realization will have to be made. Similarly, the sponsors will now be in a position to approach or go back to potential lenders as well as to the contractors and suppliers to obtain more definite commitments on terms and prices.

When all of these agreements have been negotiated by the sponsors and signed, the project will proceed to financial closing. Financial closing is the date at which the lenders and equity investors advance, or begin to advance, the funds necessary for detailed design, construction, the purchase of equipment and the other steps necessary to successfully conclude the project.

These final steps after the award of the project and the signing of the Project Agreement are crucial in the development process of any BOT project. Although most of the onus is on the winning consortium, this final phase of the project development may require some support and flexibility from the host government.

7- PROJECT IMPLEMENTATION

Once the project reaches financial closing, the implementation phase will begin in earnest.

Any particular project, of course, may not fall neatly into these distinct phases. Some site assembly or development and even some preliminary construction may, in a particular instance, take place prior to financial closing. The major construction work and the delivery of major pieces of equipment for the project will, however, normally take place only after financial closing, when the project loan funds become available for disbursement.

The implementation phase will end when the project has passed the specified completion tests and is finally accepted by the project company and in principle by the host government.

8- PROJECT OPERATION

The project will next enter the **operation phase**, which will continue for the period of the concession. During this phase, the project company, either directly or through a contract with an operator will operate the project in conformity with the criteria set forth in the project agreement and as required by the terms of the various loan agreements and agreements with investors.

The project facilities must be maintained throughout this period in conformity with the requirements set forth in these agreements. In order to be sure that operation and maintenance are being carried out as required, the lenders, investors and the host government will have extensive rights to receive reports and carry out inspections of the facilities.

With the revenues or fees received during the operation of the facility, the project company will be able to recover the investments, serve the debt and make profits.

If the financing package for the project includes both a construction loan and permanent financing, the permanent financing will be drawn down at the commencement of the operation phase, and the construction financing will be repaid.

In both the implementation and operation phases, the host government should seek to derive the maximum benefits possible from local capability building and the transfer of technology from the project company and contractors into the local economy.

9- PROJECT TRANSFER

The final phase of a BOT project will be the **transfer** of the project to the host government at the end of the concession period. As a rule, the project will have been designed to enable the BOT sponsors to pay off their project debt and to earn the expected return during the concession period so that the transfer to the host government will be for no, or only a nominal, consideration.

The interest of the host government at the transfer date will be to make sure that the project has been properly maintained and that sufficient training and technology transfer has taken place so that the government will be able to continue to operate the project.

In some instances, depending on the type of the project and the degree to which the host government has decided to promote "**privatization**" of its infrastructure, the government may find it advantageous to have the project company or the operator continue to operate and maintain the project under a negotiated extension of the concession or a new operating contract.

This result might make sense, for instance, if the government believed operation of the project by a private sector entity provided better and more cost efficient service than if the government itself were to run the project.

A host government, therefore, may wish to preserve this option for itself in defining the terms of the Project Agreement.

Another alternative could be a new tendering process for a new concession period.