



## **Session 5 – Part 1: Why write a BP**

A good business plan:

- ❑ Shows that a proposed energy project is a serious initiative, undertaken by capable entrepreneurs who understand and have control of the essential elements that will assure success.
- ❑ Increases the chances that an entrepreneur will be able to attract investors, lenders, partners, strategic allies, suppliers and key staff.
- ❑ Forces the entrepreneur to collect, in one place, all of the thinking and research that has gone into the development of a proposed project.

### **Part 2 - Standard Structure**

A good business plan is built on solid information. That information can be organized in many different ways but the essential ingredients remain the same:

LOCATION AND TECHNOLOGY  
AGREEMENTS  
SPONSORS AND ADVISORS  
MARKET  
IMPLEMENTATION  
FINANCE  
IMPACTS  
RISKS

#### **IN MORE DETAIL:**

##### **Section 1 – Location and Technology**

*In this section of the business plan the site of the project is described, as is the proposed technology. This description includes the inputs (fuels, labor, etc.), the process (equipment configuration) and the outputs (steam, electricity, etc.) of the project.*

- ❑ Project location and Setting
- ❑ Inputs (Fuel or natural resources)
- ❑ Process
- ❑ Outputs

##### **Section 2 – Agreements**

*In this section of the business plan all of the legal agreements, including permits, required to construct and operate the proposed project.*

- ❑ Site Control



- Pre-construction
- Construction
- Operations and Maintenance
- Sale of Output
- Permits

### **Section 3 – Sponsors and Advisors**

*This section describes the project's sponsors, their commitment to the project, the form of the proposed Project Company and the advisors assisting in the project's planning and implementation.*

- Sponsors (the development team)
- Advisors

### **Section 4 – Market**

*In this section, the country, its legal and regulatory structure and the customers to whom the output of the project will be sold are described.*

- Country
- Local
- Legal and Regulatory
- Customers

### **Section 5 – Implementation**

*This section describes the specific steps and schedule to progress the project from its present status to completion and operation.*

- Plan (management, insurance, construction, operation, permitting, other)
- Schedule
- Resources Required

### **Section 6 – Finance**

*In this section all of the financial features of the project are presented. The most important financial assumptions of the project are shown, the proposed financial plan is described and an analysis is made of the impact of various changes to the basic financial assumptions.*

- Capital Cost
- Revenue
- Cost of Goods Sold
- Operating Costs
- Overhead (Sales, General and Administrative Costs)
- Indicative Financing Plan
- Interest on Debt
- Depreciation



- Taxes
- Principal Payments
- Basic Assumptions Summary
- Pro Forma Financial Projections - Summary
- Financial Indicators
- Sensitivity Analysis
- Pro Forma Financial Projections – Detailed
- Balance Sheet

### **Section 7 – Impacts**

*Social and environmental benefits of the project's implementation, and any other special features of the project, are described in this section.*

- Local employment
- Economic activity stimulated
- Improvements to physical assets
- Social benefits
- Protection of environmental quality
- Pollution avoidance or elimination
- Greenhouse gas (carbon) benefits

### **Section 8 – Risk Factors**

*This section describes the risks that the project faces and how the project plans to deal with these risks.*

- Country
- Project
- Change in Law
- Force Majeure

### **Closing**

*The Closing section of this business plan summarizes the projects' proposed capitalization plan and what is being requested from lenders and investors.*

### **Attachments**

- Complete financial statements
- Summary of technical and market studies
- Copies of authorization letters and permit approvals
- Detailed background and financial information about the sponsor

In addition to these elements, a business plan contains:

- COVER, which provides simple but crucial information to help readers understand the document and locate the entrepreneur;



- An executive SUMMARY, which tries to tell the project's "story" in one or two pages;

While certain projects may require additional content most, if not all, project information can fit within this structure.

### **Part 3 - Documentation, Analysis and Testing**

Convincing someone that an entrepreneur can create a rural energy project in a developing country is more difficult than convincing someone that Coca-Cola or dry cell batteries can be sold in the countryside. Coca-Cola and dry cell batteries have been sold for generations, worldwide. What an energy entrepreneur proposes tends to be very new.

As a result of this newness the entrepreneur needs to convince people that there are factors that support the idea and that it is likely that the project will succeed.

#### **Where to Begin**

In proposing a rural wind, water, biomass or solar project supplying electricity to a house, a business, a community or a national electric grid, a very good beginning would be to show that one or two similar projects have been approved, financed, built, are operating and collecting revenues. **Investors are not pioneers if they can avoid it.** And most choose to avoid it. Lenders are almost never pioneers. So a good place to begin your documentation process is to answer the question, "Have others done this before?"

This is easiest, of course, if one or two very similar rural projects *have* been built. The entrepreneur needs to do a little research and document what happened and when. While everyone wants to think their project is unique, uniqueness is definitely not an asset when trying to convince others to make loans or an investment.

If nothing like the proposed project has been built – and all too often this is the case – then the entrepreneur needs to build as many arguments as possible to reduce the perception of "pioneering risk".

For example, similar projects may have been constructed and operated, albeit by the government. This helps reduce any perception that there aren't qualified contractors or workers; that canals, tunnels or other infrastructure cannot be built; that equipment is unknown and so on. What the entrepreneur does by citing such examples is to confine the "newness" of the transaction to the fact that a business is going to build this project (instead of the government) or that new



contracts for the sale of electricity must be put in place or some other narrower issue than “it has never been done before”.

If, separately, another private power project (say diesel-fired in the capital city) has sold electricity to the utility and been paid, then the entrepreneur can use that project to reduce the perception that utility power sales and interconnections are new territory.

**There are cases however, where the entrepreneur will be the pioneer** (the authors have been involved in a few). In these it must be proved that even though no such project presently exists, the country has passed laws and implemented regulations promoting new projects of the size proposed. The entrepreneur must show that a power purchase arrangement has been put in place by the national utility to purchase the output of such projects even if no such contract has yet been signed. The entrepreneur must demonstrate that there is a market operating outside government programs. Is this easy to argue from this starting point? No. Can it be done? Yes, through thorough documentation, step-by-step market research and cross-checking of what you are told. Does the vice-minister say the same thing as the head of the utility? Are both of them citing published regulations and laws or telling the entrepreneur, “Don’t worry, I know the law is a problem but I will make it happen for you”?

Obviously, some situations give more comfort to certain kinds of investors than others. However, the important point here is for the entrepreneur to demonstrate that he or she **has the important facts clearly established and are poised to work through all the problems that will be encountered**. A business plan is not a statement of dreams that may be realized. It is a roadmap to a specific destination.

All of the information gathered throughout the fact-finding and feasibility analysis process needs to, first, be reduced to straightforward paragraphs that describe the situation. Second, all of the “back-up” documentation (the letters, records, calculations that support the brief paragraph or two) need to be organized in files that are available for inspection by investors or lenders. Third, the most important documents need to be summarized and attached to the business plan itself.

If the entrepreneur has examined the public records that pertain to already authorized projects he or she needs to copy the most important documents, summarize the content of the documents reviewed (contracts, laws, regulations, opinions of counsel) and the conversations had as an attachment to the business plan and prepare a brief paragraph for inclusion in the appropriate place in the business plan (under market or agreements or wherever it is most convincing.)



This is especially important with first of a kind projects that need to explain (with the support of experts, if possible) why the existing laws, regulations etc. are going to support bringing the project to success.

#### What About High Level Political Support?

The business plan should be clear and objective about the political support a project has and needs. If every project with “top-level” support could be implemented there would be no energy crisis in the developing world. Unfortunately, while having access to the minister, vice-minister and head of the national utility may be required to succeed, it is no guarantee that an entrepreneur will. **Solid regulations, uniform contracts and consistent policies work far better and more sustainably than political connections.** What needs to be documented is the political support the project enjoys *within* the context of a generally understandable “system” of rules and policies that will provide comfort to investors.

#### **Documentation: Start Writing!**

Much of your information has been developed in the fact-finding and feasibility analysis phase of planning and implementation. Now the entrepreneur needs to identify the key points and express those points **clearly and succinctly**. Giving a reader all the information you have gathered may demonstrate how thorough you are but you may also bore them to death, causing them to set aside your document in favor of one that is easier to understand. Over-analyzing a project creates a similar problem (“Paralysis through Analysis”).

#### **Project Documentation Example**

One dimension of a project that must be documented is the laws and regulations that govern its construction and operation. The entrepreneur needs to show a comprehensive grasp of **all** the issues that must be addressed, **all** the rules that apply and **all** the relationships needed to achieve approvals. If fifteen approvals are needed from local, regional and national government the project will succeed once all fifteen are obtained. **There is no second-place prize** for obtaining fourteen and “forgetting” one.

The business plan needs to demonstrate that these issues covered: For example, what laws and regulations govern the use of water? The generation, transmission and sale of electricity? The construction of the project? The registration of the project company? The use or crossing of public property for construction? Environmental permits and requirements? Public meetings?



Having done that, it is not enough to just have a well-organized project. Business Plan readers need to know the larger picture concerning the country, the energy sector and any other sector that might influence the probable success of the proposed business. Is the country stable? What is the state of the economy? What are the prospects for the future? Is it a good place to do business? According to whom? What is the state of its key industries? What is the state of the energy sector? How does it operate now? Are there changes expected? What are the forecasts concerning the demand for and supply of energy?