PROJECT APPRAISAL AND INVESTMENT ANALYSIS

DEVELOPMENT FINANCING

Romaisa Khan

DEVELOPMENT FINANCE

Development finance can be broadly defined as the use of public sector resources to facilitate private sector investment in low- and middle-income countries where the commercial or political risks are too high to attract purely private capital, and where the investment is expected to have a positive developmental impact.

DEVELOPMENT FINANCE

It’s a loan granted for the development of residential, commercial or mixed use properties.

It is often used by builders and developers planning extensive projects and ground-up developments.

HOW DOES DEVELOPMENT FINANCE WORK?

Unlike a traditional mortgage lender that will consider the value of the property, a development finance lender will take the value of the completed property into account.

Here’s how the process works:

- You submit an application which includes how much you paid for the site/ property, your development costs, professional fees and build timescales

HOW DOES DEVELOPMENT FINANCE WORK?

- You will be offered some terms from a lender based on this information and supporting evidence
- Credit searches will be run on your existing finances, experiences and the development location
- Once the loan has been approved there will be ongoing monitoring of your project

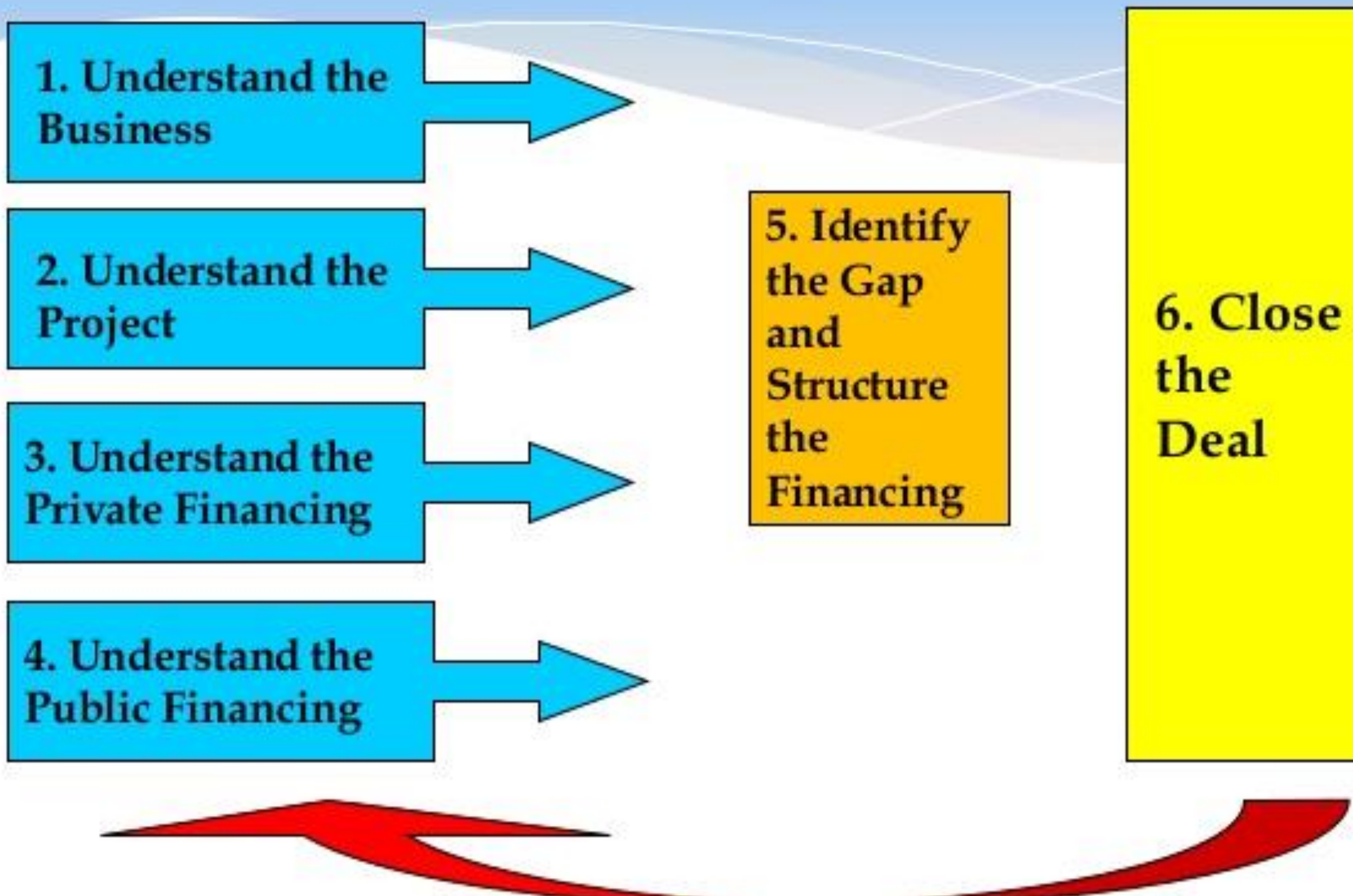
PROS OF DEVELOPMENT FINANCE

- Allows you to raise capital
- It is a short term loan that means you won’t be tied down with a loan over a long period of time
- Can be used to cover the cost of contractors and materials

CONS OF DEVELOPMENT FINANCE

- You have to provide comprehensive paperwork
- There will be fixed expenses to take into account such as arrangement and exit fees which are likely to be higher than on a commercial mortgage
- Your interest rate will be decided during negotiations between you and your lender

Steps in the Development Financing Process



UNDERSTAND THE BUSINESS

Assessing the Health of the Business

- Lifeline of a Business
- Money
- Market
- Management

ANALYZING A BUSINESS'S MANAGEMENT AND FINANCIAL CONDITION

Money

– Sufficient equity at beginning to avoid reliance on borrowed funds

– Management of financial performance to produce cash flow and a profit.

Market

– Identified market for the product or service and ability to respond to changes in the market

– Understanding of competition provided by larger businesses or niche competitors

Management

– Appropriate variety of skills in project development, production, financial management, inventory control, sales & marketing, technology

UNDERSTAND THE PROJECT

How the project will benefit the business

- Project Cost
- Project Timetable
- Project Documentation

HOW WILL THE PROJECT BENEFIT THE BUSINESS?

- Cost Efficiencies
- Expanded Capacity to Meet New & existing Sales
- Proximity to Markets, Suppliers or raw material
- New location in a new market
- Key skills or technical capacity

HOW WILL THE PROJECT BENEFIT THE COMMUNITY?

- Job creation/retention
- High wage/high tech jobs
- Key development area
- Industry cluster member
- Part of key community initiative

Detail All Components of the Project Cost

Fixed Assets	**Land** **Building** **Equipment**
Infrastructure	**Road and Rail** **Fiber, Telecom** **Sewer, Water, Gas, Electric**
Operating Capital	**Inventory** **Payroll** **Receivables and Payables**
Growth Capital	**Working Capital R&D** **Equipment** **Real Estate**

PROJECT DEVELOPMENT ISSUES

- **Cost:**

– Be sure that all costs are identified, including infrastructure, moving, installation and carrying costs

- **Timetable:**

– Pre-ordering of equipment, necessary environmental studies, site preparation

- **Documentation**

– Appraisals, environmental assessments, engineering reports

DETERMINE THE GAP AND STRUCTURE THE DEAL

- Cash Flow Gap: Insufficient cash generated to pay debt service on financing
- Collateral Gap: The collateral doesn’t support the amount of the private sector financing
- Credit Gap: Start up business with insufficient history to support private financing.

HOW PUBLIC SECTOR PROGRAMS HELP FILL THE FINANCING GAP

Guarantee risky credits or lower value collateral

- Long Term Financing
- Fixed Rate Financing
- Lower rate financing
- Reduced Debt Service Needs
- Increased Borrowing Capacity

CLOSE THE DEAL

Project Management:

- Making sure that each member of the team understands their roles
- Monitoring progress by team members
- Developing a timetable
- Most public / private projects fail at the deal closing stage