AFRIQUE CAPITAL & EQUITY FUNDS LTD

# EIGHT REASONS WHY YOUR PROJECT MAY NOT GET FUNDED

Pre-emptively Address them to Increase your Probabilities for Success!

It is extremely disheartening but true: without properly preparing your project for funding, your odds of funding success in our current economic climate are close to zero. The euphoria you felt while creating a great concept, utilizing a game-changing new technology or simply building a high profile real estate development will fade just as quickly as interest from investors, if not done properly. The old adage “you never get a second chance to make a first impression” is apt here as well. Investors will only look at pre-vetted, interesting deals that fit their risk profile and satisfies their return requirements. An unprepared deal will never get to the intended audience. A well documented project surely will attract attention and that attention will translate into funding working in collaboration with a formidable specialist Firm like my company. It is incumbent on the project promoter to allow the cognate specialist or experts develop that comprehensive project dossier or what you referred Feasibility and viability package simply because they know and understand precisely the underwriting and funding decisions criteria and requirements.

It's all about "trigger effect". One the investor or the funding agency capture the "trigger effect" in a project that attract them, there is high likelihood that the project will get funded. Save for any unconnected reasons that be identify in the aspects of underwriting or decision making process to invest in the project, the funders and investors constantly look for viable and adequately protective project to invest their funds. Such unconnected reasons may be political, health or security hazard in the host country, international sanctions and embargo, and environmental or other social reasons.

The following list represent some of the most common and fatal flaws inherent in project development and preparation. It is by no means meant to be an exhaustive list or in any particular order but shows the most common errors we as project and corporate finance advisors see on a regular basis and in most cases, limit that capacity to generate the necessary funding:

1. **The Core Idea/Project Concept:**

   Your idea is precious to you. It's your intellectual property, your blood, sweat and tears; your baby. The fact that it is such a central aspect of you biases you against objective outside opinion. Many, many project sponsors are personally insulted when we attempt to rationally de-construct reasons that they give for wanting to build the 4th hotel in a 2 hotel town, or trying to build the world's first carbon-devouring net-zero electrical power plant that runs on bull oxodone (my fantasy word!), which needs to be refined from an alternative fuel derived from a rare amazonian plant. Oh, yeah, and you don't have any capital. You should always insulate yourself from naysayers but please trust those who evaluate concepts every day. The competitive piece is very important too: projects in vogue today are inundating funders with requests, that puts your good idea at a competitive disadvantage with somebody else's great idea in a less competitive market. This is why, on balance I would rate this as priority one: if you don't have a great idea, in a great location with great prospects and little competition, why bother?

2. **Sloppy/Incomplete Documentation:**

   The first tip-off that the project sponsors are ill-prepared at best or incompetent at worst. We have seen Executive Summaries that have glossy graphics and artistic renderings to draw you in but are very light on detail and don't reference additional documentation required by investors. “Lotsa sizzle, no steak”, is how we classify these submittals and they go nowhere, immediately.

   At a minimum the following items need to be included:

➢ a market feasibility study with competition analysis

➢ a financial feasibility study modeled on cash flow with detailed costs

➢ profit projections, a ten year forecast, profit and loss projections
➢ a risk analysis, hard and soft costs and detailed exit year calculations;
➢ a business plan with professional management structure and non-compete agreements;
➢ a development budget with a detailed statement of all expenditure to be incurred prior to the project opening including contingency provisions;
➢ an initial outline architectural master plan; a final architectural master plan and a private placement memorandum with an executive summary of the feasibility studies
➢ due diligence search findings
➢ architectural concepts and profit and loss calculations
➢ an environmental impact assessment and and possibly a social impact assessment may be required.
➢ appropriate local and government authority permits to allow the construction of the project.

Bear in mind that this documentation needs to meet high levels of international level scrutiny and the deliverables should come from an experienced third-party whose objectivity is unquestioned.

3. **Timing Errors:**

Even the best prepared projects face timing issues when seeking funding. Several years ago it seems every investor was looking at scores of ethanol plant projects on the drawing board, increasing concern, then revulsion as many of the financial models came up failures due to commodity supply pricing and other issues. Sponsors must realize that there are an infinite number of projects chasing a finite amount of investment capital. Competition in hot spaces will require ever increased levels of scrutiny by investors as they are flooded with good prospects. Those project types deeply in favor at this moment may fall out of favor quickly and if you're lucky, your project may die a very merciful death prior to commitment of funds. For example, Hotel construction and re-finance is starting a comeback only now, over four years into this financial crisis. If you had a project ready to go in 2008, it quickly went nowhere. And you had to be very patient to prepare for a project starting five years from conception. If you are introducing a relatively new concept or technology, you may have to be patient enough to educate investors; even then the untested nature of something so new may bring shivers down the spine of an investor group.

4. **Market Uncertainty:**

A first cousin to timing is market uncertainty. Projects in energy for example need to be aware of the uncertainty of commodities pricing for supply, as well as price uncertainty for the energy produced. If prices for either or both are extremely volatile, you can expect that investors will require you to provide fixed long term contracts to mitigate that risk and the return on their funds will reflect the level of that risk. Additional uncertainty exists in policy that regulates tax credits, imposes additional burdensome regulations and generally changes the economic dynamics of the project. Generally, the level of risk associated with any of these uncertainties is precisely the uncontrollable nature of them. It is extremely rare, if not impossible for a project management team to have any ability to have any influence in this realm. It is best to acknowledge the risk and provide the investor evidence of your “best efforts” to deal with it.

5. **Questionable Financial Assumptions:**

Financial assumptions of a project are the most targeted area of consequence in an investor's review of your project. Why? Because everybody knows that project developers are by their very nature extreme Optimists. Optimism will skew objectivity every time. Experience developers know this and attempt to back up every bit of income and expense possible with detailed historical analyses. Anything left to chance (not provided documented support) will be subject to rounding up or down, sometimes significantly, and NOT in the favor of the developer. It is extremely important that the pro forma stand up to intense scrutiny. If it doesn't it will be cast aside as having suspect numbers; other aspects of the project will likely be then called into question.
For those reasons, not having bullet-proof financials can be the “kiss of death”.

6. **Weak Developer's Track Record and Management Team:**

Many times we have seen excellent, well-conceived and prepared projects go unfunded for the very reason that investors cannot tolerate a weak or ill-prepared management team. As with all other aspects of the project, understanding this and preparing properly can make all the difference. At the end of the day, the investors will be relying on the human resource factors, the executive management of the project, to execute according to plan. This doesn't necessarily mean that you can build a team with experienced, successful entrepreneurs with varied applicable skill sets and expect it to pass muster. Investors will be looking for experienced human execution capability in the project vertical at hand, especially when interpreting risk metrics, they will be looking for experienced, deep development teams to handle any and all considered risk factors. Especially in the case of projects in emerging technologies, developers need to be aware that their previous successes and valuable foresight alone will likely not carry them.

7. **Insufficient Sponsor's Equity Injection:**

Creating the project out of whole cloth is an expensive endeavor. Project documents created by professionals, legal counsel, engineering, architecture, in some cases real estate purchase options. And the list goes on. When added up, the value of those expenses count towards owner's equity but still may be woefully inadequate when considering the total financing package. Investors in today's economic climate, without adequate levels of outside collateral, will require significant “skin in the game” from the developer. These levels vary by type of project, strength of the deal and the particular risk-averse appetites of the investors. Suffice it to say that developers need to be prepared to “give up” significant equity in their project if they cannot either self-finance a portion, purchase proper levels of collateral or find an investor program that is actively looking for joint venture participation (very common today). There are a wide range of debt and equity programs available, some with very high leverage.100% funding is still possible with the proper structured finance involving bonding and/or collateralization but you will need to know the appropriate target program before you

bring it to the table. If you find out that you need to somehow “find” millions of dollars prior to closing, your project will be needlessly and potentially fatally delayed.

8. **Project Submission:**

So, you've worked really hard over an extended period of time, have your heart, soul and cash wrapped up this project and you're excited to get it to the investors. You probably know a good advisor or a financial broker that claims to have “great sources”. If so, you enter into the project submission phase. If not, you go on a search and destroy mission to find funding. The one common theme will be that whoever you approach, they will promise to look over your little baby and get back to you. You say thanks and wait. And wait....... If you have any real hope of funding, you will need to find an advisor with access to capital that specializes in your type of project. I have witnessed developers waiting for months while their bio-mass project languished in a bank in Georgia, never to be funded. Most investors and advisors with access to them will never say no, leaving you with multiple submissions and always waiting.... waiting........ It is extremely important to match the type of investment with the proper investor. Too often, project developers just don't get this right and the funding doesn't happen. With the proper objective advice from a qualified advisor, a project can be matched to the proper investor groups and financing programs. Ideally, this research has been done prior to all the preparation work so that the proper equity injections and financial modeling has been prepared by the developer.

**Conclusion:**

It is clear to me, after many years of project review, that many unsuccessful project sponsors and their development teams do not adequately prepare for success. It is critical that the illustrious seven noted here could be adequately considered and properly addressed early in the planning process, without a substantial amount of additional time, effort and capital. It is very difficult and sometimes impossible to “fix” a project that has one or more of these deficiencies.

There are project planning strategies that make good sense from the early stages to closing. Project sponsors should find experienced project finance advisors to help guide them to the finish line. Most excellent boutique advisory firms are very responsive, have access to multiple varieties of investor capital and can help fashion a winning deal. An advisor's credibility rests on the ability to source the best projects in the marketplace for that particular investor group. A developer should ask questions and listen carefully to the guidance offered by an advisor. A good working relationship based on credibility and trust will foster the spirit required to finish strong and get the funding required.

**Next Steps:**

There is only one certain method to properly prepare and position the project prior to submission: Request a review from a qualified professional. Oftentimes, the review will indicate one or more areas that need enhancement or change. There are some qualified professionals, like my firm, that will selectively accept such projects, if it is felt that it is a well-conceived project and has high probabilities of being funded. This work is not done for free so be prepared to invest in expert consulting to complete the project document deliverables, feasibility plan, and work process that directly provide attractions to the funders, investors or private firm firms, any additional due diligence costs and/or collateralization. Once everything is finished, be prepared to sign an exclusive engagement for the advisor to submit the project to funding sources. Selecting a qualified Financial Intermediary will, in the long run, be the key to unlocking the vault containing your project's capital.

**For Further Information:**


Christopher C. Jankowski
President

AFRIQUE CAPITAL & EQUITY FUNDS LTD

**48 Wall Street, Suite #703**
**New York NY 10005**
**United States**
**Tel: +1-973-707-8182**
**Fax: +1-360-272-8160**
**Email: acefunds@aol.com**
**Skype: acefunds**