

Developing financial readiness throughout the Capacity-Building Programme

*Guidebook for mentors and mentees*

February 2022



The PROSPECT+ project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 101023271

[h2020prospect.eu](https://h2020prospect.eu)

## Foreword

Congratulations on being chosen to participate in the PROSPECT+ Capacity-Building Programme!

By now, as a mentee, you should already have a sound idea of how to implement the sustainable energy project that is planned for your municipality. This should already include the sector in which you would like to make improvements and the measures which you intend to implement to achieve energy savings. In addition, you should know what kinds of revenues are planned to be created from the project, which can come from energy savings (i.e. the less energy you use, the more money you save), energy production (i.e. producing and selling renewable energy at a unit price per kWh fed into the grid), or from reduced operating and maintenance fees. Mentors should have an idea of what obstacles and challenges they faced during the financing of their projects, and how they can help mentees navigate the financing process.

This guidebook will help you to further develop the mentee's project proposal for financial institutions and enhance the project's financial readiness. You will learn about the different components of a project proposal, what stakeholders need to be involved in, carrying out analyses required for approaching public or private financiers, and how to create a working plan.

By the end of this handbook, you should understand what financial readiness means and be able to develop a sound and finance ready project proposal.

## Acronyms

<b>CBP</b>	Capacity-Building Programme
<b>CO<sub>2</sub></b>	Carbon Dioxide
<b>CO<sub>2</sub>e</b>	Carbon Dioxide Equivalent
<b>CSR</b>	Corporate Social Responsibility
<b>EC</b>	European Commission
<b>EIA</b>	Environmental Impact Assessment
<b>EU</b>	European Union
<b>FI</b>	Financing Institution
<b>kWh</b>	kilowatt hour
<b>LC</b>	Learning Cycle
<b>MOA</b>	Memoranda of Agreement
<b>MOU</b>	Memoranda of Understanding
<b>QC</b>	Quality Control
<b>SEA</b>	Strategic Environmental Assessment
<b>SEAP</b>	Sustainable Energy Action Plan
<b>SECAP</b>	Sustainable Energy and Climate Action Plan

# Contents

- 1 The basics of developing your project proposal and building financial readiness through the PROSPECT+ Capacity-Building Programme ..... 1**
- 1.1 Why do I need to develop a detailed project proposal?..... 1
- 1.2 What is financial readiness?..... 2
- 1.3 General tips for preparing a project proposal ..... 2
- 1.4 Overview: Components of a project proposal ..... 3
- 2 Getting a project proposal finance ready ..... 5**
- 2.1 How to enhance the project description..... 5
- 2.2 Understanding the roles of stakeholders ..... 6
- 2.3 Analysing your project’s legal implications..... 6
- 2.4 Performing an economic and financial analysis..... 6
- 2.5 Creating a working plan ..... 7
- 3 The Financial Readiness Tool ..... 8**

# 1 The basics of developing your project proposal and building financial readiness through the PROSPECT+ Capacity-Building Programme

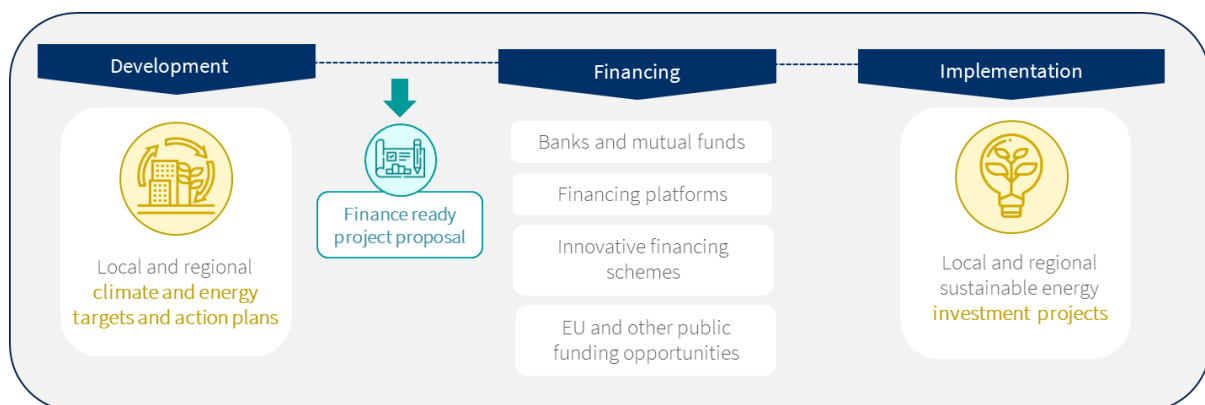
The PROSPECT+ Capacity-Building Program (CBP) has been set up with the objectives of building the capacities of different experts who work directly with public bodies, building partnerships for the energy transition, and ensuring that participants are developing a state of financial readiness aligned with the requirements of potential financiers. The CBP will also facilitate enhanced decision-making of public authorities to create a network of leaders in implementing energy efficiency projects, help public authorities to use the experiences of other municipalities as a resource, and to create synergies between local projects, policy-makers, associations, technical experts and financing bodies. Overall, the CPB will help to prepare a project for financing and implementation.

This handbook has been developed with the objective of ensuring that both mentors and mentees are prepared to understand the financial readiness of a project and how it relates to the development and preparation of a high-quality project proposal. It further examines the challenges and opportunities faced during the financing process and helps mentees prepare for the questions that might be asked by potential investors.

## 1.1 Why do I need to develop a detailed project proposal?

Developing a project proposal in detail will help you to attract resources from both public and private investors and ensure that your project is economically sound and financially viable<sup>1</sup>. Understanding and effectively communicating your project details will help to pinpoint the best financing options available for your project and ease the application process.

**Figure 1: Where assessing finance readiness for your project proposal fits in the project timeline**



<sup>1</sup> European Commission (EC). (2017). Assessment of the Financial Readiness. *CEF Blending Info Day – 27 February 2017*. [https://ec.europa.eu/inea/sites/default/files/8\\_gc\\_cefblending\\_27\\_02\\_17\\_last\\_version.pdf](https://ec.europa.eu/inea/sites/default/files/8_gc_cefblending_27_02_17_last_version.pdf)

## 1.2 What is financial readiness?

Financial readiness describes the ability of a project to secure financing from either public or private financing institutions within a certain timeframe, and is often part of a selection process. It is generally defined as the demonstration of all aspects expected to be reviewed by a financial institution in order to successfully receive funds. Financial readiness does not include the assessment of the profitability or market readiness of a project<sup>1</sup>.

Generally, if you have reliable returns and use proven technologies, the more attractive your project is to potential investors. Options for financing tend to increase as the technologies you use reach later stages of maturity, have a stable market and decreased risk, and when your returns on investments become more predictable. With fewer risks and a steadier returns or revenues, the more creditworthy your proposed project will be, and will be considered more finance ready. When you reach later stages of financial readiness, a greater number and more complex financing schemes will become available to you. In basic terms, your financial readiness will depend on a combination of how much information you have gathered for your proposal and how favorable the conditions are for your intended measures.

Assessing the financial readiness is part of the proposal process, mainly focusing on the components of the project proposal itself. The financial readiness assessment will be used to determine the maturity of a project and the project's ability to gain resources to close its funding gap. Assessing financing readiness can also help you to increase the transparency of a project, understand the financing challenges and potential pitfalls of the proposal, weakness or potential risks, which are the most appropriate combinations of financing for the project, and lastly, reduce risks.

## 1.3 General tips for preparing a project proposal

It can be easy to get caught up in the details of a project proposal, here are some things to keep in mind for its overall coherence and preparation:

- Start early
- Ensure all information you provide is consistent
- Use resources, especially the FAQs and Terminology found on the PROSPECT+ website under 'Resources'
- Project merit and qualitative information is just as important as showing financial and quantitative data
- Be specific
- Know your strengths and weaknesses
- Work as a team
- Always have someone else proofread and validate your work

PRO tip: A glossary on financial terms is available from the [PROSPECT+ website](#).

## 1.4 Overview: Components of a project proposal

Here, we provide you with the components of a project proposal before going into detail about what you need to prepare, in the next sections. In the annex, you will find a printable checklist version to use along the development of your project proposal.

### Project description

- General project background, context and rationale
- Location of the planned sustainable energy investment
- Target sector and involved entities
- Description of the sustainable energy project
  - Main goals and objectives
  - Intended measures
  - Beneficiaries and outcomes
- Supporting documents, e.g. Sustainable Energy Action Plan (SEAP)/ Sustainable Energy & Climate Action Plan (SECAP), (sample) energy audits, assessment of suitable technology options, etc.
- Investment size
- Estimated impacts
  - Energy savings or renewable energy produced
  - Avoided CO<sub>2</sub> emissions
  - Further impacts

PRO tip: Use the printable checklist provided in the Annex of this document to track which components you still need to prepare to be finance ready.

### General Background on the project's lead entity (local authority)

- Name and address of the institution and department incl. contact person
- Information about the municipality (location, size, district, etc.)
- Governance structure
  - Roles & responsibilities, authorities, functional areas
  - Organisational chart
- Monitoring and reporting processes
- Fiduciary information
  - Financial municipal budgets from the past three years
  - Credit rating or other forms of stating credit worthiness of your authority
  - Formal procurement and tendering standards
- Disclosure of conflicts of interest, including anti-money laundering or anti-terrorism financing policies
- Environmental policies

### **Promoter(s) and (local) stakeholders**

- Stakeholder analysis
- Ownership of assets and management structure
- Risk profile
- Supporting documents, e.g. letters of commitment/support, etc.

### **Legal feasibility**

- Summaries of the performed analyses on the legal feasibility
- Legal requirements regarding investment approach
- Legal requirements regarding the intended activities and measures
- Legal requirements on local and/or national level
- Regulatory framework conditions posing incentives and risks to the project
- Relevant environmental and engineering standards applicable to the project
- Additional studies, for example, Environmental Impact Assessment (EIA) or Strategic Environmental Assessment (SEA)
- Supporting documents, if applicable

### **Economic and financial analysis**

- Market analysis and supporting documents conducted for the project
- Summary of the expected (economic) impacts
- Details of the calculation, including relevant assumptions, baselines, conversion factors, etc.
- Estimated costs and revenues
  - Cash flow plan
  - Own funds contributed to the investment
  - Requested investment amount
- Economic viability
  - Calculations, clarifying/justifying the discount rate applied and explaining the project/technology specifics (e.g. lifetime, maintenance, etc.).

### **Working plan**

- Gantt Chart on the work plan

### **Additional documents**

- Depending on the financing scheme you wish to apply for, certain additional documents might be required

PRO tip: Discuss with your mentor/mentee the additional documents that are required for gaining funding from specific financing schemes.



## 2 Getting a project proposal finance ready

### 2.1 How to enhance the project description

The project description will provide a high-level overview of why it's planned to carry out a project, including its goals and objectives, as well as providing an overview of the project stakeholders and their roles. This part of the project proposal should start with general information and in this case, also cover some specifics about the potential energy and carbon emissions savings or the renewable energy produced.

The general project background, context and rationale should all be gathered in one document that is clear, concise and easy for potential investors to have an overview of what measures will be carried out and how. The investment project should be fully described, including main goals, intended measures, target sectors and its beneficiaries. Additionally, background information on the local authority responsible for the project should be provided, along with the size of the municipality, an overview of governance structure, contact person, monitoring and reporting processes and fiduciary information. At this point, it may state which analyses have already been carried out in relation to the project, what technical expertise is already available in-house and what experts might need to be involved. This section should also state the location of the planned investment, the municipalities or other entities involved in the project and a brief overview of the stakeholders. The description should provide a brief overview of the investment size, but more detailed information should be provided in your proposal's financial analysis. The expected impacts of your project should be provided, including estimated impacts, such as energy savings, energy produced and avoided CO<sub>2</sub> emissions. Any supporting documents, such as a SEAP/SECAP, (example) energy audit, or assessment of suitable technology options should be included as an annex to the project description.

#### While writing the project description, you should already think about the following things:

- Who will be responsible for authorising your proposed project;
- If the municipality has a track record of successful investment projects;
- If the municipality can borrow money directly, or if approval is required;
- If the municipality is creditworthy;
- What political factors might affect the project;
- How the project will be reviewed;
- What regulatory factors will impact the project; and
- If an EIA/SEA needs to be carried out.

## 2.2 Understanding the roles of stakeholders

This section of the project proposal highlights the stakeholders and their involvement in a project. First, you should provide a detailed overview of the project promoter(s). A stakeholder analysis should be carried out to determine the primary, secondary, and additional actors. For each of the key stakeholders who are involved in implementing and carrying out the project a risk profile should be provided so that investors can have an overview of the stakeholder's financial capabilities. The ownership of assets and management structure of the project should be described in relation to the affiliated stakeholders. Supporting documents, such as letters of commitment or support should be added to this section as annexes.

PRO tip: Check out the template for a stakeholder analysis in the Annex.

## 2.3 Analysing your project's legal implications

A legal analysis of the project will summarise its legal feasibility. This should consider what laws or legal and regulatory framework conditions exist that might impact your project, the measures you intend to implement and the financing model you intend to apply, how laws might affect public-private partnerships, or what environmental or engineering standards need to be met. For example, for energy efficiency improvement in buildings might be affected by an existing building code or by regulations regarding monument protection. In case an ESCO financing model is applied there might be legal and regulatory conditions for the formation of ESCOs that need to be considered.

It is also helpful to include the bidding and procurement procedures that need to be followed at a municipal, state, national and EU level for the project. Legal implications of the project will also relate to insolvency and protecting your investors from bankruptcy, and how such disputes can be resolved. Further, you can indicate here if an Environmental Impact Assessment (EIA) or Strategic Environmental Assessment (SEA) is required or already conducted. Understanding legal implications means that the limitations of contracts with your potential financiers and who has the right to override contracts are known. If applicable, supporting documents should be included as annexes for this section.

## 2.4 Performing an economic and financial analysis

The economic and financial analysis is one of the most important parts of a project proposal to show potential investors how ready the project is for financing. Firstly, it needs to include a market analysis (with supporting documents) conducted for the project, including a summary of the expected economic impacts, anticipated costs and revenue streams, and what factors can influence the revenue streams of the project. Details of the calculations, including relevant assumptions, baselines and conversion factors used for the financial analysis should be included. It is

PRO tip: A [template on financial indicators](#) is available from the PROSPECT+ website, it will help to calculate relevant components of a financial analysis for a project.

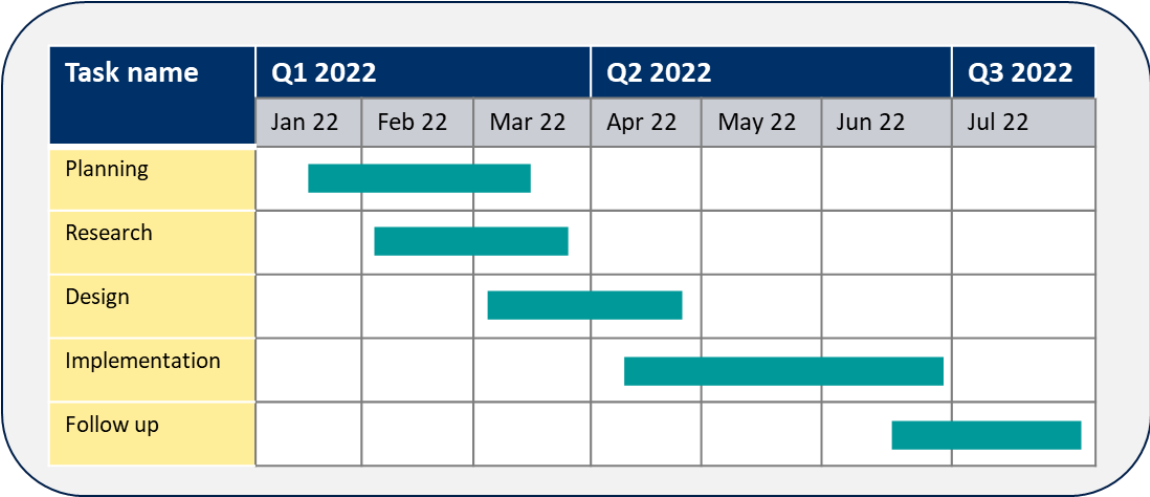
helpful to show that the municipality or entity has had steady financial revenues over the last three to five years and how past projects have been financed. Including a cash flow plan for the project is also very helpful. Lastly, the economic viability of the project should be made clear, also including all calculations, clarifying/justifying the discount rate applied and explaining the project/technology specifics (e.g. lifetime, maintenance etc.).

PRO tip: Understanding a project’s revenue streams, and being able to communicate them is key for a sound financial analysis.

### 2.5 Creating a working plan

Providing a detailed working plan for the project will help potential financiers to understand how the project will be carried out, and its timeline. A Gantt chart is typically used to graphically represent activities of a project through time. Project management activities and tasks are shown as a bar chart showing start and end dates, as well as scheduling, deadlines, who is responsible for the task, and which tasks depend on others to be finished.

Figure 2: Example Gantt Chart



PRO tip: Mentors should note down their experiences during project implementation related to these different components and be prepared to discuss them with your mentees.

### **3 The Financial Readiness Tool**

The PROSPECT+ team is developing a financial readiness tool (to be available by the end of the first learning cycle) in order to help mentees assess the financial readiness of their projects and determine areas for improvement and further steps that need to be taken in order to provide potential financiers with a high-quality proposal. The tool will include a number of questions and criteria that align with the concepts presented in this handbook, and consolidates them into one document – providing further guidance to mentees on how to present their project proposals to financiers.

## Finance Readiness Checklist

### General background of the project's lead entity

- Name and documentation of entity and municipality**
- Type of institution**
- Size of municipality (number of inhabitants)**
- Proof of mandate signed by head of municipal body/copies of governing instruments/agreements to establish the entity**
- General information**
  - Full address including website (if available)**
  - Responsible department**
  - Primary focal point & their contact information**
- Designation letter proving the authority of contact person**
  - Letter of support by head of municipality**
  - Memoranda of Understanding (MOA) / Memoranda of Agreement (MOU)**
  - Letters from collaborating partners**
- History**
  - Types of similar infrastructure projects/programmes previously developed with project appraisals**
  - Financial instruments used for previous projects/programmes**
  - Risks (environmental, social, political and regulatory) addressed in previous projects/programmes**
- Governance structure**
  - Roles & responsibilities, authorities, functional areas**
  - Organisational chart**
- Monitoring and reporting processes**
- Internal Quality Control (QC) checks**
- Fiduciary information**
  - Financial municipal budgets from past 3 years**

- Credit rating or other form of stating credit worthiness of your authority**
- Financial information systems used
- Internal/external audits
- Formal procurement and tendering standards**
- Code of ethics
- Disclosure of conflicts of interest, including anti-money laundering or anti-terrorist financing policies
- Potential regulations to protect your investors
- Environmental policies
- Corporate Social Responsibility (CSR)

#### Scope of proposed project or programme

- Detailed description of the sustainable energy investment project/programme**
  - Project background, context and rationale**
  - Location of the planned investment**
  - Public authority or other organisations involved**
  - Target sector**
  - Intended technical measures**
  - Main goals and objectives of the project and measures**
- Beneficiaries**
- Supporting documents, e.g. Sustainable Energy Action Plan (SEAP)/SECAP, (sample) energy audits, assessment of suitable technology options, etc.**
- Investment size**
- Estimated impacts**
  - Energy savings (with calculation table)**
  - Renewable energy produced (with calculation table)**
  - Avoided CO<sub>2</sub> emissions (with calculation table)**
  - Further impacts**
  - On (local) stakeholders and other affected groups**

- Grant awarding procedures (If applicable)
- On-lending procedures (If applicable)
- Indicators for measuring objectives achieved through the project/programme

#### Promoters and Stakeholders

- Overview of project promoter(s) and stakeholders**
- Overview of governance structure within the project**
- Ownership of assets and management structure**
- Risk profile for entities that will be financially viable**
- Stakeholder analysis**
- Stakeholder engagement strategy**
- Supporting documents, e.g. letters of commitment/support, etc.

#### Legal feasibility

- Summaries of the performed analyses on the legal feasibility**
  - Legal requirements regarding investment approach**
  - Legal requirements regarding the intended activities and measures**
  - Legal requirements on local and/or national level
  - Supporting documents, if applicable
- Regulatory framework conditions posing incentives and risks to the project**
- Relevant environmental and engineering standards applicable to the project
- Additional studies, for example Environmental Impact Assessment (EIA) or Strategic Environmental Assessment (SEA)

#### Economic and financial viability

- Requested funding**
- Estimated self- contribution at the time of application in EUR**
- Estimated need for further finances in EUR**
  - Sources and types of additional financing and other types of financing that will be applied to the project**
- Financing approach for the project/programme**

- Market analysis and supporting documents conducted for the project**
  - Assessment of relevant market conditions (incentives and barriers)**
- Identification of contractors and external experts required**
- Summary of the expected (economic) impacts**
- Budget specifying costs and revenues for all proposed activities and measures**
  - Capital costs**
  - Operating costs**
  - Profitability**
  - Revenue streams or cost savings**
- Cash flow plan**
- Details of the calculation, including relevant assumptions, baselines, conversion factors, etc.**
- Risk analysis**
- Additional studies**
- Calculations, clarifying/justifying the discount rate applied and explaining the project/technology specifics (e.g. lifetime, maintenance etc.).**

#### **Working plan**

- Timeline/Gantt Chart on the work plan**

#### **Additional documents**

- Depending on the financing scheme you wish to apply for, certain additional documents will be required**



## Stakeholder Analysis Template

	State	Private sector	Civil society	Role in the project	Potential risks
Key	I.e. Ministries and agencies	I.e. Associations of energy efficiency, railroads, etc.			
Primary	I.e. National organisations and research institutions	I.e. Banks (all private & development banks)	I.e. NGOs mainly environmental (e.g. WWF, Greenpeace etc.)		
Secondary	I.e. State Universities	I.e. Private Universities, Colleges and other research institutes			

## Finance Readiness Questions

Ask yourself the following questions during project proposal writing:

### Political:

1. Who is responsible for authorising the proposed project? If more than one, has your project been approved by all parties?
2. Can your municipality borrow money directly without going through other government bodies? If approval is required, what is the process?
3. Is there a track record for success of public projects in your municipality? If yes, record some examples.
4. Is your municipality creditworthy?
5. Are there other political factors that might affect your project?

### Regulatory:

6. What regulations and policies exist that can help to develop your project?
7. Are there departments within your municipality that typically issue approval for public or private projects or programmes?
8. Are there regulations in place to protect your project/programme's investors?
9. How will my project/programme be reviewed?
10. What other regulatory factors might influence your project/programme?

### Legal:

11. What laws might affect your project?
12. Are there any laws regarding public-private partnerships in your region?
13. What legal frameworks can impact your project or programme?
14. What are the relevant environmental or engineering standards that you need to note for your project?
15. Is there a legal structure that affects your project/programme investors or protects them from bankruptcy?
16. Are there insolvency laws in place?
17. What resolution systems can you use when there are disputes regarding your project/programme?
18. Are there limitations on freedom of your contract with your potential financing scheme?
19. Does your contracting authority have the right to override your contract?

### Financial:

20. Has your municipality had steady financial revenues over the last three to five years?
21. What revenue streams are anticipated for your project/programme?
22. Has your municipality conducted any financial modelling analyses for the proposed project? If so, what are the results?
23. How has your municipality financed projects and programmes in the past?
24. What factors could influence the revenue streams of your project/programme?

### Technical:

25. What analyses have already been carried out in relation to the project/programme?
26. What in-house technical expertise is available to you?
27. What outside technical experts might need to be involved in the implementation of your project/programme?

### Procurement:

28. What is the bidding and procurement procedure that needs to be followed in your authority?
29. Do local procurement processes conflict with state, national or EU level policies? If so, which will be followed for your project/programme?



# PROSPECT+



ENERGYCITIES



[h2020prospect.eu](http://h2020prospect.eu)



The PROSPECT+ project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 101023271