

Stage 2: Due Diligence and Feasibility Studies

Stage 2 is the detailed extension of Stage 1 and defines the work necessary to prepare studies. It provides an elucidation of the necessary procedures required. Stage 2 should be undertaken by the relevant contracting authority, possibly in consultation with the line ministry if appropriate.

Stage 2 provides the basis for the Public Sector to;

- Understand fully the characteristics of each project
- Prepare the detailed Business Case for each project
- Prepare the tender documentation
- Procure the private partner
- Negotiate from a position of strength following tender submission
- Assist its inputs to operational project monitoring

Due diligence in the context of PPP in Stage 2 is the term used for the wider performance of an investigation with a proper standard of care. It covers the care with which the whole Stage 2 process, including the FS, is conducted. Of course, the whole PPP process should be conducted with 'due diligence' but is most often associated with Stage 2.

A 'full' feasibility study (FS) is the basis for understanding the project and assesses a number of important aspects in any proposed project. It assesses the technical feasibility of a proposed project; whether it satisfies a need, and provides sustainable social and economic benefits to the country, as well as its financial viability (Projects that are financially feasible with some, limited government support may also be considered if necessary).

The feasibility study provides the basis for the tender documents, understanding tenders, a basis for the contract, negotiations and subsequent contract monitoring.

Stage 2 has key components all of which are important and must be carried out rigorously.

These components comprise:

- A technical basis of the PPP project including preliminary/basic design and project cost. The design must be sufficient to cost the project to within $\pm 20\%$.
- Demand and traffic analysis including scenarios
- A Social Cost Benefit Analysis (SCBA) which measures the social and economic value of the project to the nation as a whole. This includes;
 - The economic rationale and benefits/costs of the project to the country.
 - An EIS or EIA depending on the project but must meet national environmental regulations and international best practice. This includes a full assessment of impacts and mitigations costs.

- Social impact studies including resettlement, indigenous people, gender and poverty analysis. This should also include all mitigation costs.
- A Financial Analysis. This is vital and presents the business case for the project and indicates to Government the financial characteristics of a project. It must show whether (or how) the project will be attractive to the private sector and whether any fiscal support is necessary and/or warranted. This will include an analysis of the funding options for the PPP project.
- A risk assessment including a preliminary allocation of risks .
- A study of PPP modalities which indicates the best option(s) for the structuring of the Public Private Partnership.
- Consolidation of all of the above technical components into an overall 'Business Case' for the project.

Increasingly, the cost benefit analysis (as well as the design) includes consideration of safety and the benefit of accident reduction through safer roads and better traffic management. Many safety impacts and improvements are now quantified as benefits. It should be noted that over 1.2 million people are killed and 50 million injured every year with 85% of road crashes happening in developing countries eating away 1% to 3% of their GDP. Road accident fatalities in both India and China were around the 100,000 level per year and the number killed in the USA each year is over 40,000.

The preparation of draft tender documents is also commonly included within the advisers/consultants remit when an FS is prepared, because it is very important that the draft contract exactly reflects the objectives and characteristics of the project.