

## **Annexure C: IPP Framework Due Diligence and Risk Assessment**

### **1.19 Introduction**

It is important that the ESCOM and the ESCOM SB (SB) is not embarrassed or its credibility undermined by having advanced contractual discussions with an inappropriate party. The intention of the due diligence is to provide, and continue to provide, the SB with sufficient assurance that the developer and relevant stakeholders are of good character and financially and technically capable of completing the project in its proposed form.

Consequently the SB is establishing a due diligence process to assess proposals by independent power producers (IPPs) to develop new generation projects and sell power to the SB. ESCOM's roles in such project, if they proceed, are as:

- 1) SB/Power purchaser; and
- 2) Transmission services provider.

### **1.20 Purpose**

The due diligence process is designed to assist decision making by assessing the potential risk of conducting business with a particular party. The purpose of the due diligence and risk assessment process is to make an objective assessment of the likelihood of the developer and associated parties being a reasonable party for ESCOM to deal with from an ethical, legal, financial and technical perspective.

The due diligence process mainly focuses on the integrity and reputational aspects of contracting with an IPP developer. The result of the due diligence will be a view by ESCOM of the risk it faces in entering into further discussions with the developer. If, in ESCOM's view, the risk of involvement with the developer is high then ESCOM may decline to continue discussions. Alternatively, ESCOM may determine that the developer represents an acceptable risk but may require further assurance or checks before it ultimately considers contracting with the developer.

It is important to remember that the due diligence is only the first step in determining if ESCOM will contract with the developer. The due diligence process will continue in some form throughout the period that the SB is evaluating the IPP proposal and negotiating with the prospective developer. The SB will have an opportunity to protect itself against various contractual problems through the contracts and the due diligence process is not intended to provide a full evaluation of the project itself or against other projects. The detailed project evaluation will only proceed if the developer progresses past the due diligence assessment.

**The due diligence is not a full evaluation of the IPP proposal and a positive outcome from the due diligence process does not necessarily mean that ESCOM will contract with the developer.**

### **1.21 Due Diligence Process**

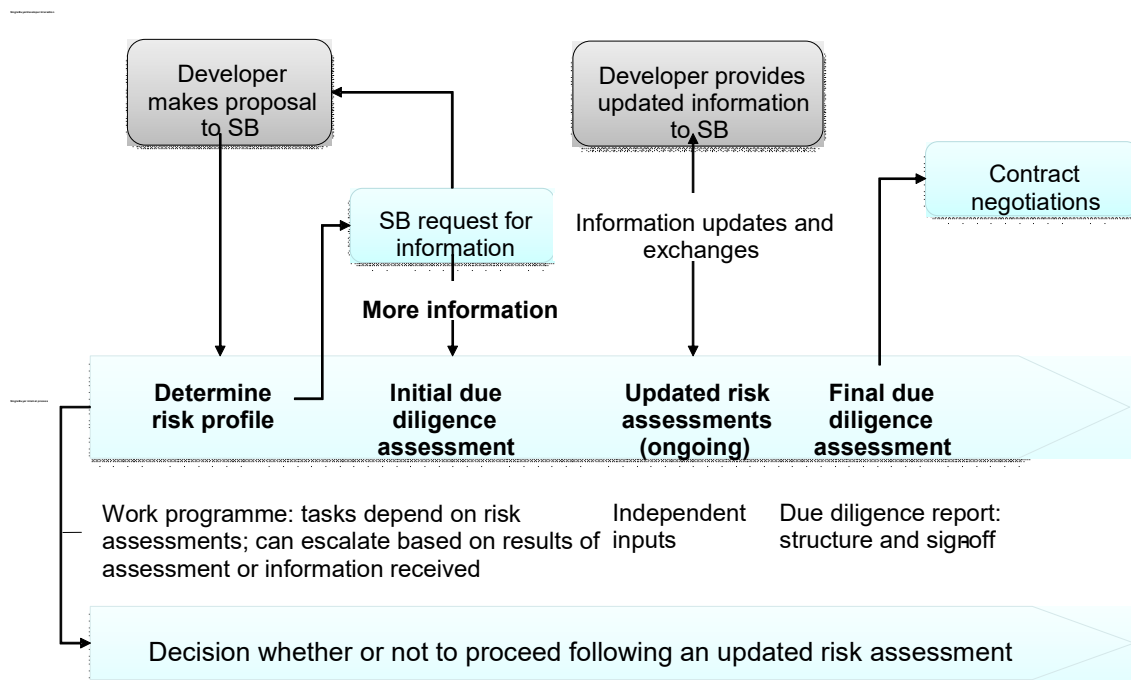
The due diligence process is ongoing but there are two key points in the process:

- 1) an initial due diligence, carried out when the proposal is in its feasibility stage; and
- 2) a final due diligence which, if the proposal meets all ESCOM's due diligence criteria, is carried out immediately prior to entering into PPA negotiations.

The process is illustrated below, where there are ongoing processes of:

- 1) Application by developer
- 2) Initial Risk profile determination by ESCOM
- 3) Information gathering by ESCOM and exchanges of updated information between ESCOM and the developer;
- 4) ESCOM regularly updates its risk assessment based on results of testing or information received;
- 5) Each risk assessment by ESCOM gives rise to a work programme that focuses on areas most at-risk and independent inputs are obtained as required;
- 6) Following each updated risk assessment, ESCOM may make a decision on whether or not to continue with the developer's project.

### Due Diligence and Risk Assessment Framework



If the project passes all risk assessments, ESCOM will produce a (final) due diligence report which will be signed off by management and the ESCOM Board of Directors before proceeding to contract negotiations with the developer.

The due diligence work program and reporting should be the responsibility of an evaluation team headed by a senior manager. The evaluation team should have sufficient expertise to assess the risk areas identified. Where the team does not have sufficient expertise, independent opinions should be sought and the evaluation team should have sufficient expertise to evaluate the independent advice.

## 1.22 Determine Risk Profile

The idea of the development of an initial risk profile by ESCOM is that it determines the level of due diligence that should be undertaken. If a developer and development is determined to be low risk then a lower level of due diligence will be required to form an opinion about the suitability of that party to contract or otherwise with ESCOM.

Once the result of the risk assessment is determined then the work due diligence programme must be equivalent or greater than that set down for that risk category. The risk assessment might ultimately result in an IPP proponent being deemed to be a lower risk than initially thought but the due diligence work programme cannot be less than that set down for the original risk classification.

In assessing the risk profile, we consider the risk to ESCOM of involvement with the developer, other stakeholders and the project. The key criteria we assess are:

- Stakeholder suitability
- Financial Risk
- Project Profile
- Technical Risk

ESCOM has developed a risk assessment approach based on the four categories above. In the table below draft categories for assessing the initial risk and the basis for allocating risk scoring to the IPP proponents are outlined. After this exercise is carried out the risk score is added up and a due diligence programme developed to match the perceived risk.

The outcome of the risk assessment is that the party is of low, medium, high or very high risk and the testing regime will be as set out in the table below.

Risk	
Low	We expect this party to be a reasonable counter party. Due diligence level is low PROVIDED no red flags emerge
Medium	We have some concerns about aspects of this party or project. A detailed due diligence is carried out to try to determine if there are any issues/red flags.
High	This is a risky party or project. We will carry out extensive due diligence and will need an extremely positive result to consider working with this counterparty
Very High	This party/project has a very high probability of causing problems for us. We will not get involved with this party at this stage.

If the result of a particular due diligence test is negative then this should be recorded and additional enquires/tests should be carried out to see if these results mitigate the findings of the test.

The following template is the risk profiling tool developed for ESCOM's due diligence of potential IPP developers. The output from the risk profiling results in a risk score.

The risk score will determine which due diligence procedures should be carried out according to the table below.

### **Total Risk Score**

Any 3 scores of 10 means developer is **rejected** for now

Any score of 10 in any test means we apply **high risk** due diligence procedures

Any total score of >20 means we apply **high risk** due diligence procedures

A total score from 15-20 means we can apply **medium risk** due diligence procedures

A total score < 15 means we can apply **low risk** due diligence procedures

## Risk Profiling Model Template

### Risk Assessment

Developer has applied to ESCOM/SB

Assessment	Risk			
	Low	Med	High	V High
Quantitative	1	2	4	10

### Stakeholder

Developer/corporate entity  
Standing



**Low**

Major company Main stream experienced generation (incl. the type proposed) developer, good profile

Minor company Main stream experienced generation (incl. the type proposed) developer or major company low generation (incl. the type proposed) experience, some significant regional project, good profile

**Med**

Some experience in generation (incl. the type proposed), no significant regional project

**High**

Never developed generation (incl. the type proposed) before

**V High**

Key Personnel



**Low**

Experienced, No problematic Political connections, No Relevant Personal Issues

**Med**

Some Experience, No problematic Political connections, No Relevant Personal Issues




**High**

No Experience, No problematic Political connections, No Relevant Personal Issues

**V High**

No Experience, problematic Political connections, Significant Relevant Personal Issues

Shareholding		<b>Low</b>	Listed /simple/transparent
		<b>Med</b>	Listed /complex/transparent
		<b>High</b>	Private /simple/opaque/potential conflict of interest
		<b>V High</b>	Private and or small/complex/Opaque/political investors/potential conflict of interest
<b>Financial</b>			
Size of Project \$m		<b>Low</b>	USD m
		<b>Med</b>	<10
		<b>High</b>	10-50
		<b>V High</b>	50-200
			> 200
Size of Project \$m cf. company size		<b>Low</b>	compared to size of counterparty
		<b>Med</b>	<5%
		<b>High</b>	5-50
		<b>V High</b>	50-100
			>100%
Counterparty \$		<b>Low</b>	Major Company, Investment grade+ rating
		<b>Med</b>	Significant Company or small company Investment grade+ rating or Major company no rating

		<u>High</u> <u>V High</u>	Small company or significant company with no rating Individual
Counterparty Public Measures of Certified Credibility		<u>Med</u> <u>High</u>	external certification on best practices without certification
<b>Project Public Profile</b>			
Environment/Public Perception/Location		<u>Low</u> <u>Med</u> <u>High</u> <u>V High</u>	Green project/low controversy/easy location Neutral project/some controversy/easy location Polluting project/some controversy/easy location /high controversy & low pollutant Polluting project/high controversy/city or environmental location
<b>Technical</b>			
Type of Generation Plant and site/plant mix		<u>Low</u> <u>Med</u> <u>High</u> <u>V High</u>	Proven technology/international & regional examples Proven technology/regional or international examples Unproven technology/successful pilot plants Unproven technology/1st time

Size of Generation Plant



	MW
<b>Low</b>	<10
<b>Med</b>	10-100
<b>High</b>	100-250
<b>V High</b>	> 250



### **1.23 ESCOM Request for Information**

The project developer shall provide ESCOM with the documents identified in the risk assessment and may include:

- Pre-feasibility and feasibility studies of the project carried out by or for the developer;
- All draft project contracts between the developer and its technical advisers, suppliers, contractors and any other relevant parties;
- Drafts of any documents relating to funding arrangements made by the developer for the project;
- Developer's (and any other participants') financial accounts and shareholder details;
- Techno-economic and bank/funding models prepared by or for the developer to evaluate the project; and
- Any other reports, technical and background studies prepared by or for the developer relating to the project.

Where the developer is required to provide to ESCOM a contract or document, if the contract or document has yet to be finalised ESCOM requires the most recent draft of the contract or document and the developer's expectation of the final form of that contract or document. The developer will be required to keep ESCOM informed as to the conduct of ongoing contract negotiations and updating of documents.

The information provided should cover the key areas outlined in Section 1.6 below.

At the close of this initial evaluation, ESCOM will select a preliminary short list made up of the most attractive proposals. These selected proposals will move on to the second phase of the evaluation process for portfolio evaluation and additional due diligence based on the same five primary criteria. The portfolio evaluation is designed to assess the interaction and risk levels of the most promising resources and

Those proposals which provide the greatest benefit to ESCOM's supply portfolio will be placed on the final short list for further discussion with the respondent(s). Such proposals may potentially move forward to negotiations of the terms and conditions of Definitive Agreements.

During this process ESCOM will update its economic and risk evaluation on an ongoing basis until ESCOM and the respondent might execute Definitive Agreements.

### **1.24 Due Diligence Assessment: Procedures and Red Flags**

For the first phase of the evaluation, ESCOM will evaluate the completeness of the information in order to determine whether the information received is of sufficient quality to allow a detailed evaluation to be carried out. ESCOM will examine the information provided to determine whether they are complete, and whether all information requested has been provided and all documents have been signed off.

Due diligence procedures will be carried out to determine if there are any reasons that ESCOM should not engage in potential contract discussions with an IPP

developer applicant. After the risk assessment described above the due diligence procedures should be selected. The procedures are then carried out with the officer carrying out the due diligence looking for red flags.

### **1.24.1 Procedures**

The following are recommended due diligence procedures to be carried out on prospective IPP developers. The procedures represent those due diligence procedures which should be carried out for every application to ESCOM plus additional procedures which should be employed if the risk profile determines the developer has a greater risk profile than the minimum (low).

The Due Diligences Procedures Table which follows the list of procedures provides a guide on which procedures should be carried out for different risk assessments.

### **1.24.2 Stakeholder Suitability**

In the due diligence of a particular proposal and its developer, the most important aspect is the suitability of the stakeholder (developer/project party/consortium) and their project as a counterparty with ESCOM. Consequently, the most effort should be spent on determining the suitability of that stakeholder/developer group.

Some or all of the following topics should be considered:

- Qualifications, corporate membership of professional bodies: Verify authenticity from issuing body and if necessary cases verify authenticity of the issuing body itself, e.g. is there a qualifying requirement or does the member simply pay a joining fee for membership? Does the organisation exist as a registered place of study?
- Business references: Obtain independent confirmation concerning the potential associate's effectiveness, reputation, government or political relationships and integrity. If the potential associate has provided written references, verification should be obtained directly from the referee.
- Management skills and integrity should be assessed: Is the developer experienced in the technology and business and are they regarded as trustworthy.
- Official registry of organisations: Check ownership of companies etc., directorships, accounts and other relevant official documentation.
- Electoral records, local government business records, etc.: Verify the associate is recorded at the address given.
- Criminal records: Check records for associate company and key management personnel or individual (if legally permissible in the country concerned).
- Court judgments: Check associate company and key management personnel or individual.
- Debarred or restricted parties lists: Check to see that the prospective associate or individual does not appear on any local, national or international listing of restricted parties or of organisations debarred from bidding (e.g. World Bank).
- Media search: The use of free and/or subscription databases to research the associate or an individual is recommended. If the associate or individual has a

website, this should be examined, as should useful government sites such as anti-cartel or anti-fraud, etc.

- Local legal advice: If in-house advice is not available, a reputable local legal firm should be engaged to provide advice regarding the laws governing the relationship between the principal and the associate in the particular country concerned. Local attorneys can often assist in verification of local corporate registrations, or criminal or civil court records. Since this may result in considerable expense to the company, careful instructions and limitations of the scope of the work should be agreed in advance.
- Field work: Some information regarding associates may only be discovered via discreet and sensitive research carried out by qualified professionals. Considerable caution needs to be exercised when using others to conduct this research since it must be carried out ethically and legally. This may also result in considerable expense to the company. Careful instructions and limitations of the scope of the work should be agreed in advance.
- Does the developer and associated parties have adequate anti-corruption policies in place (management and Board members signed up to anti-corruption policies, transparent public tendering procurement processes, etc.)?

#### **1.24.3 Financial Risk**

- Financial references: If audited financial records for the previous two years are not available, a third party financial referee may be requested to state the length of the relationship and provide an opinion of reliability, financial capabilities and probity.
- Credit rating: It is recommended that one of the reputable commercial sources be utilised (depending on the country involved) to check the credit rating for the associate or individual.
- Litigation search, to see if any action is being taken against the business or its key personnel
- Review of size and term of long term liabilities and extent of contingent liabilities
- How much have the key personnel personally invested (\$, % of total funds invested)?

#### **1.24.4 Project Profile**

- Media Search: The results of a press search (including internet) linking Company (and associates and key personnel) and environment (specifically) and public consultation processes, and specific projects.
- Reference Site reviews: Contact stakeholders in reference sites to assess how well potential party managed stakeholder affairs particularly environmental affairs and public relations
- Debarred or restricted parties lists: Check to see that the prospective associate or individual does not appear on any local, national or international listing of restricted parties because of:

- Activities involving harmful or exploitative forms of forced labour/harmful child labour, discriminatory practices, or practices which prevent employees from lawfully exercising their rights of association and collective bargaining.
- Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage
- Shipment of oil or other hazardous substances in tankers which do not comply with IMO requirements
- Media search for publicity concerning:
- Activities within, adjacent to, or upstream of land occupied by indigenous peoples and/or vulnerable groups including lands and watercourses used for subsistence activities such as livestock grazing, hunting, or fishing
- Activities within, adjacent to, or upstream of designated protected areas under national law or international conventions, sites of scientific interest, habitats of rare/endangered species, fisheries of economic importance, and primary/old growth forests of ecological significance
- Activities which may affect adversely sites of cultural or archaeological significance
- Activities involving involuntary resettlement
- Mitigation and Communication Plans: What stakeholder communication and issue mitigation plans do the developers have? If development has a high probability of causing concern amongst environmental or other public stakeholder groups this is critical.

#### **1.24.5 Technical Risk**

- If ESCOM is experienced with this technology then assign technical expert to review proposal and reference site information to determine whether technology and use of technology is “mainstream” or alternative. If ESCOM is not experienced with the technology then an independent view should be sought.
- Reference Site reviews: Contact stakeholders in reference sites to assess the technical aspects of the power station development addressing particularly: completion time, capacity, and availability/reliability.

The following table gives an example of the testing required for different initial risk assessments.

Due Diligence Procedures:				
	Low Risk	Med Risk	High Risk	V High Risk
<b>Stakeholder suitability</b>	Representation and warranty letter from Management and Board Minimum Internet search for information & news For a Malawian company check company articles of association			Reject Applicant for now
		Reference checking of credible parties including auditors etc. Review relevant project experience Review partner credibility Key personnel references	Formal comprehensive (independent?) report	
<b>Financial Risk</b>	Representation letter from Management and Board			
		Additional information about financing or financing partners	Due diligence on financial partners	

<p><b>Project Profile</b></p>	<p>Environmental/Public policy statement from Management and Board</p> <p>High level value chain assessment of environmental risks</p> <p>Mitigation plans</p>	
<p><b>Technical Risk</b></p>	<p>Representations and reference sites from management/board</p> <p>Review all references at specific Site</p> <p>If a small plant what is the R&amp;D/pilot project status</p>	

### 1.24.6 Red Flags

“Red flags” are results from due diligence procedures which raise questions. Red flags need to be documented and the recommended action recorded and followed up. A red flag may be a specific problem or simply a result or set of results which doesn’t seem right. The results of a red flag will either be further activity to clear the flag or ultimately an opinion on the effect of the red flag on the suitability of the IPP developer as a potential contracting party with ESCOM.

### 1.24.7 Red Flag Examples

The following are some examples of red flags which should raise concerns for the officer (s) carrying out the due diligence enquiries.

- A public official holds company shares or other interests in the company in ***his own right***.
- A foreign official has recommended the applicant, particularly if that official has discretionary authority over the business at issue.
- An officer, senior executive or key employee of the company has an interest in another company that might be considered a competitor.
- An officer, senior executive or key employee of the company is related to an officer, senior executive or key employee of a company that might be considered a competitor.
- There are uncertainties in the business or financial references.
- The normal terms of business quoted by the company or individual differ to a material extent to local business terms and conditions.
- Payment instructions quoted by the company or individual include split payments, payments to an apparently unrelated third party, or to a bank account in an off shore tax regime.
- The company auditors have qualified the accounts produced by the applicant for reasons that are relevant to the application.
- There has been a criminal conviction of a current employee of the company for bribery, corruption or a similar criminal offence, or a civil action regarding bribery or corruption has been unsuccessfully defended by the company.
- There is a current or outstanding criminal case regarding bribery, corruption or a similar criminal offence, or a current or outstanding civil action regarding bribery or corruption, against a current employee of the company.
- The company or individual discloses previous involvement in insolvency proceedings.
- There is a significant difference between the remuneration rate quoted by the company or individual and local market rates for similar goods or services.

- The applicant advises that he is unable to sign a commitment to abide by all local and international laws regarding bribery and corruption or he is unable to sign a commitment that he cannot abide by the principal's business ethics policy.
- The applicant requires that his identity, or if the applicant is a company, the identity of the directors, owners or employees, not be disclosed.
- Qualifications claimed by the company or individual are denied by the issuing body.
- The issuing body for the claimed qualifications is not a bona fide educational establishment or professional body, e.g. the company or individual can simply purchase the qualification without sitting examinations or proving standards of competency.
- The applicant is found to have had little or no experience in the industry concerned.
- There are significant variances between the written business references and the interview of the referees.
- Financial referees express reservations regarding the financial probity of the company or individual in question.
- Due diligence reveals, that the applicant is a shell company or has some other unorthodox corporate structure.
- The records from the official registry of companies do not agree with the information given by the applicant regarding ownership of the company, directorships or details in any of the other required official documentation filed regarding the organisation.
- The company or its immediate or ultimate holding company are registered in an off shore tax haven renowned for its lack of corporate or banking transparency.
- The owners and/or directors of the company are discovered to be nominees and the applicant refuses to disclose the real owners/directors.
- Electoral or local business records show a different location for the company or individual.
- An official body advises a criminal conviction and this conviction has not been disclosed by the individual. (Note: This information is not legally available in all jurisdictions).
- Official checks reveal a criminal conviction for bribery, corruption or a similar offence, or a civil action where the company or individual has unsuccessfully defended their actions and the applicant has not disclosed this case.



- Official checks reveal a current or outstanding criminal case involving bribery, corruption or a similar offence, or a current or outstanding civil action, which has not been disclosed by the applicant.
- A reputable credit agency has provided a poor credit rating on the company or individual or has advised previous liquidity problems not disclosed by the applicant.
- The individual or company appears on a list of those debarred from bidding on local, national or international contracts.
- Media searches reveal potentially damaging information regarding the applicant.
- Research work uncovers close associations with local or national politicians, potential competitors, criminal or political activists, etc.

## **1.25 Due diligence reports**

### **1.25.1 Due diligence opinion**

This is the opinion of the manager responsible for the due diligence work signing off their opinion on the suitability or otherwise of the IPP proponent as a business partner. The opinion should also be signed off by the [Managing Director or Board of Directors?] indicating agreement (or otherwise) with the opinion.

The due diligence opinion should state that:

- Based on the work performed;
- The opinion of the due diligence manager is either:
  - Satisfied that the IPP proponent and project meet ESCOM"s criteria for a potential PPA; or
  - Not satisfied that the IPP proponent and project meet ESCOM"s criteria for a potential PPA and the following additional evidence would be required to change that opinion:
- That the due diligence is ongoing;
- That the due diligence is not an evaluation of the project feasibility

### **1.25.2 IPP Description**

This section should describe the project under the following categories:

- The generation project: power station type, fuel type, location, MW, approximate cost
- The generation stakeholders: Ownership structure, EPC, OEM, Financier, other important stakeholders

### **1.25.3 A Summary of the work performed**

This summary should include all the information obtained and the findings of the review of that information. This section should include the following:

- Risk Assessment: level and rationale
- Primary Due Diligence Assessment: procedures, tests and results highlighting:
  - “Red flags”; and
  - Any omissions, rationale and alternative test carried out
- Any follow up due diligences work carried out: tests and results
  
- Any recommendations

### **1.26 Information Checklist for Diligence and Risk Assessment**

It indicates the type of information (project and company related) that should be provided by the developer to enable ESCOM to assess its involvement and role in the project.

No	Topic	Level of information required (project /developer specific)	Detail	Information available and provided for verification and analysis (√)
a)	<b>General information on the developer and other participants in the project</b>	<b>Developer</b>	<ul style="list-style-type: none"> <li>• Provide company profile including history and strategy</li> <li>• Ownership (major shareholding)</li> <li>• Confirm entities legal status,</li> <li>• Provide all relevant company information, memo and articles of association (including parent/holding company)</li> <li>• Provide details of corporate structure</li> <li>• Board of Directors profile</li> <li>• Contact details of key management</li> <li>• Professional history of key management</li> <li>• Other ownership or interest held by the counterparty, or key management or family</li> <li>• Describe the proposed or existing company in case of SPV, its capital structure, land ownership details, nature of major activities, audited financial statements for the past five years or certified management accounts, bank references, etc.;</li> <li>• Financial evaluation of strength of developer, sponsor</li> <li>• Confirm whether the sponsors has the financial and resource capacity to deliver the project</li> <li>• Provide prior and current projects background, role, nature of involvement and result</li> </ul>	

No	Topic	Level of information required (project /developer specific)	Detail	Information available and provided for verification and analysis (√)
	<b>Business / Financial References</b>	<b>Developer</b>	<ul style="list-style-type: none"> <li>• Provide at least two references from a reputable company who has done business with your company</li> <li>• Provide reference from a reputable financier who has provided finance to your company</li> <li>• Please indicate if you have any objection in ESCOM contacting referee</li> </ul>	
b)	<b>Commercial Aspects</b>	<b>Project</b>	<ul style="list-style-type: none"> <li>• Provide production forecasts;</li> <li>• Provide detailed price structure, subsidies, rebates, import regulations, governmental involvement, etc.</li> </ul>	
c)	<b>Technical Aspects</b>	<b>Project and Developer</b>	<ul style="list-style-type: none"> <li>• Provide information supporting the technical feasibility of the proposal including independent engineers/technical experts reports</li> <li>• Grid code compliance, site investigations, strategies and programs, resource assessment, O &amp; M policy, health &amp; safety and decommissioning</li> <li>• Provide details on technical, construction or other aspects of putting together the project, including the technical process, conceptual design and layout, the basis for its selection, suitability, relative costs, describe processes, rated capacity and anticipated output; and</li> <li>• The envisaged detailed and/or existing key contractual arrangements.</li> </ul>	

No	Topic	Level of information required (project /developer specific)	Detail	Information available and provided for verification and analysis (√)
			<ul style="list-style-type: none"> <li>• Technical history of the applicant's experience with this technology including three reference sites and referee reports</li> <li>• Please indicate if you have any objection in ESCOM contacting referee</li> </ul>	
d)	<b>Infrastructure</b>	<b>Project and Developer</b>	<ul style="list-style-type: none"> <li>• Provision of an overview of the adequacy and cost of power, communication, water and other utilities, as well as transportation facilities, including an estimation of possible installation delays</li> </ul>	
e)	<b>Environmental Aspects</b>	<b>Project</b>	<ul style="list-style-type: none"> <li>• A detailed description of the project's effect on the physical and social environment; including the possible requirements of resettlements of communities, as well as what project sponsors are doing to mitigate these effects; waste disposal systems. etc.</li> <li>• EIA's and records of decision</li> <li>• Environmental management plans</li> <li>• Application for carbon credits.</li> </ul>	
f)	<b>Organizational structure of project vehicle</b>	<b>Project</b>	<ul style="list-style-type: none"> <li>• Provide the project's description and rationale;</li> <li>• Structure of the project vehicle, management structures, equity participation, etc. Board, Management and key operational units;</li> <li>• Information regarding the organization of the project construction and supervision, the determination and negotiation of cost, and the construction schedule;</li> <li>• Details of technical assistance or management contracts or other agreements;</li> </ul>	

No	Topic	Level of information required (project /developer specific)	Detail	Information available and provided for verification and analysis (√)
			<ul style="list-style-type: none"> <li>Information regarding the availability of appropriately skilled workers who will be directly involved on the project etc.</li> </ul>	
g)	<b>Government's role, taxation, regulation, insurance, special incentives, etc.</b>	<b>Project</b>	<ul style="list-style-type: none"> <li>Description of Government's role in the project, whether direct or indirect, as well as what the licenses, servitudes, permits and certificates are required and their current status;</li> <li>Indicate whether there are any investment incentives or privileges accorded to the project and any support for the project;</li> </ul>	
h)	<b>Project Investment Cost and Financing Plan</b>	<b>Project</b>	<ul style="list-style-type: none"> <li>Capital cost estimates, including land, buildings, earthworks, machinery, equipment, licensing, permanent working capital, interest during construction, and contingencies, allocate cost according to local and foreign currency requirements;</li> <li>The financing plan, including details of current shareholding structure, envisaged source of loan funds and loan conditions; and</li> <li>Proposed financing from [ ] including the anticipated disbursement schedule and rationale.</li> </ul>	
i)	<b>Financial and Economic Evaluation</b>	<b>Project</b>	<ul style="list-style-type: none"> <li>Projection of output, revenues, cost and profits at least for the duration of the PPA (<i>cost items should include raw materials, labour, power and other utilities, repair and maintenance, administration expenses, sales expenses, depreciation, taxes, etc.</i>);</li> <li>Complete financial evaluation of the project including computation of financial internal rate of return, profit and loss, balance sheet</li> </ul>	

No	Topic	Level of information required (project /developer specific)	Detail	Information available and provided for verification and analysis (√)
			<p>and cash flow for duration of the project, along with detailed assumptions; and</p> <ul style="list-style-type: none"> <li>• Economic evaluation of the project, calculating the economic rate of return and stating the assumptions used ( substantiation of inputs and assumptions, sensitivities, key value drivers, areas of risk, CAPEX, OPEX and forecast revenue(s))</li> </ul>	
j)	<b>Risk and Safeguards</b>	<b>Project</b>	<ul style="list-style-type: none"> <li>• Assessment of the risks involved in carrying out the project, including environmental considerations, regulation, construction, cost overruns, technology, schedule delays, government, and other factors, and proposed mitigation measures.</li> </ul>	
k)	<b>Management Representation</b>	<b>Developer</b>	<ul style="list-style-type: none"> <li>• Please provide a letter indicating: <ul style="list-style-type: none"> <li>○ That the management understand what the due diligence is for and why ESCOM is doing it</li> <li>○ Details of any involvement by the business or member of management in any insolvency proceedings (whether current, past or future)</li> <li>○ Details of any involvement by the business or member of management in any criminal investigations or civil litigation</li> <li>○ Details of any criminal convictions by any member of management</li> <li>○ Confirmation that they have provided all information requested and that they are not aware of any other information that they should make known to ESCOM that may be relevant</li> </ul> </li> </ul>	

No	Topic	Level of information required (project /developer specific)	Detail	Information available and provided for verification and analysis (√)
l)	Provide copies of the following	Project and Developer	<ul style="list-style-type: none"> <li>a) Audited financial statements for the past five years;</li> <li>b) Copies of relevant legal documents e.g. Memorandum of Incorporation and Articles of Association;</li> <li>c) Maps;</li> <li>d) Rainfall/seasonal data</li> <li>e) List of affiliated companies;</li> <li>f) Information on individual shareholders and managers;</li> <li>g) Detailed process, equipment or product descriptions;</li> <li>h) Financial schedules etc.,</li> </ul>	



## 1.27 Detailed Evaluation

The detailed evaluation is not part of the due diligence process; but is part of the overall evaluation of a potential IPP.

The detailed evaluation will be done in two stages: a) qualitative evaluation and b) quantitative evaluation based on weighting designed to reasonably compare proposals with diverse attributes. This process might require the use of various models and ESCOM will have the right to obtain independent inputs from independent advisers in the evaluation of the technical, financial, environmental and commercial and legal risk assessment.

Qualitative analysis uses word form of descriptive scales – e.g. low, medium or high risk - to describe the magnitude of potential consequences and the likelihood that those consequences will occur.

Quantitative analysis uses numerical values for both consequences and likelihood using data from a variety of sources. The quality of the analysis depends upon the accuracy and completeness of the numerical inputs used. Consequences may be estimated by modelling the outcomes of an event or set of events, or by extrapolation from experimental studies or past data. Consequences may be expressed in terms of monetary, technical or human criteria.

Each proposal will be evaluated based on its compliance with the request for proposals/tenders (RFP or RFT) (including the term sheet and contractual provisions exhibited in the RFP/RFT) and according to the following set of primary criteria:

- Compatibility with Resource Need
- Cost
- Risk Management
- Public Benefits
- Strategic and Financial Considerations

Each of the primary criteria is further delineated with sub-criteria as detailed in the checklist. Initially, proposals will be evaluated based on an individual proposal cost and on the qualitative criteria.

An evaluation committee may form one or more of the following working groups to assist it in its deliberations:

- Quantitative Analysis (modelling)
- Structuring and Pricing (Incl.. 3rd party engineering consultant as required)
- Business & Commercial Issues
- Environmental & Permitting
- Transmission & Integration
- Fuel Supply
- Credit
- Legal

- Independent Evaluators (as required)
  - Financial
  - Technical
  - Environmental
  - Legal
  - Risk Management
- Benchmark Team
- Integrated Resource Planning (IRP) Team
  - provides a shared resource for the evaluation and benchmark teams

After the final due diligence assessment the evaluation committee will make a recommendation to the Project Steering Committee which will in turn make a recommendation to the Board of Directors before the contract negotiations commence in earnest.