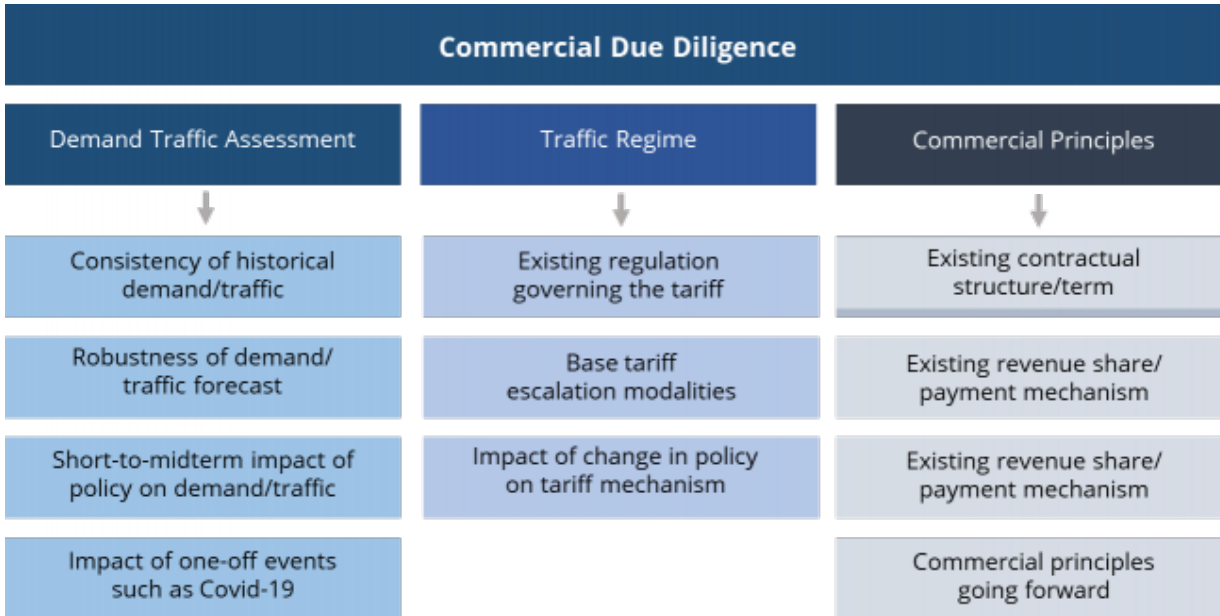


Commercial Due Diligence in Asset Recycling

Full Description

The coverage of the commercial due diligence process is represented in the diagram below:

Figure 2: Commercial Due Diligence Coverage



Demand/ Patronage/Traffic Assessment

An assessment should be undertaken to assess historical and projected demand and its growth. The following should be assessed:

- Trend: Review historical trend of demand to evaluate strength and stability of future demand and assess any observed volatility.
- Drivers of demand: Identify the potential factors impacting utilization of the asset; including macroeconomic, seasonal, fees and service standards.
- Policy changes: Assess previous and foreseeable policy changes that may impact future utilization of the asset.

Tariff structure

Review the current tariff structure and applicable fee adjustment mechanism. This should also include non-core revenue streams (if any) as well.

- Tariff mechanism - Assess prevailing tariff mechanism and assess historical revenue. Assess future cashflow taking into account forecast for demand and patronage as discussed above.
- Tariff adjustment mechanism –Assess the prevailing tariff and tariff escalation regime and assess the adequacy of the mechanism to cover operating costs inflation.
- If there is no prevailing tariff, the Relevant Authority should set an appropriate tariff regime taking into consideration an acceptable level of return to the private sector investor considering the extent of revenue risk (and other risks) to be allocated to the private sector and the performance and service standards required to be met.

Commercial principles

Assess commercial principles as set out by the governing contracts between the government and the asset owner. If there are no governing contracts, determine the set of commercial principles to govern the concession contract

Aspects of commercial principles that should be reviewed include:

- Project period – assess the optimal period of the project based on the three principles of (i) maximizing financial return for the Relevant Authority; (ii) guidelines stipulated under relevant legislation, if applicable, and the terms of the project period will follow the requirements under the applicable regulations in the relevant infrastructure sector and (iii) returns for the private sector.
- Risk allocation – Assess prevailing risk allocation to determine if risks are allocated to the party best able to manage or mitigate that risk.
- Employment contracts – Assess workforce that may need to be redeployed for the functioning of the asset or, where required, transferred to the private partner after the transaction closes.

Related Content

[Guidelines for Implementing Asset Recycling Transactions \(Download PDF version\) - Now Available!](#)

Additional Resources

[Assessing Commercial Viability](#)

[Due Diligence Checklist for Legal and Institutional Enabling Environment for PPP Issues](#)

Page Specific Disclaimer

The Guidelines have not been prepared with any specific transaction in mind and are meant to serve only as general guidance. It is therefore critical that the Guidelines be reviewed and adapted for specific transactions To find more, visit the Guidelines to Implementing Asset Recycling Transactions [Section Overview](#) and [Content Outline](#), or [Download the Full Report](#).

