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Feasibility Study – requirements

What is a "feasibility study"?
A feasibility study is a report by an independent third-party that analyzes a business venture's prospects for success. It impartially lays out the features of the business plan & critiques them, analyzing the strengths & weaknesses of the venture, & assessing its overall feasibility.

When is a feasibility study required?
USDA sometimes requires an independent feasibility study as part of a complete application. Some investors & commercial lenders also ask for a feasibility study.

- Business & Industry **(B&I)** Guaranteed Loans. USDA has the discretion to decide whether or not such a study is needed. Feasibility studies ***may be required*** if the B&I project involves:
    1. A new business – e.g., a start-up company.
    2. An existing business which lacks a profitable history – e.g., recent losses, weak financial ratios compared to industry averages, etc.
    3. An existing business which is proposing to develop an independent operation in a new location – e.g., a second retail sales outlet which will depend on a new market area for its success.

  Feasibility studies generally are ***not required*** if the B&I project involves:
    1. An existing business that has already documented a historic ability to generate sufficient funds to service the proposed loan.
    2. A commercial lease facility. In lieu of a feasibility study, the applicant must provide evidence of sufficient committed tenants to assure a break-even operation. The financial strength of the tenants and the length of their lease commitment will also be taken into account.
- Rural Energy for America Program **(REAP)** grants & guaranteed loans. Applicants seeking REAP assistance for renewable energy projects must obtain a feasibility study if the total project cost exceeds $200,000.
- Value-Added Producer Grants **(VAPG)**. Applicants seeking a VAPG-Working Capital grant must obtain a feasibility study before applying for the VAPG. VAPG-Planning grant funds can be used to obtain a feasibility study.

Who prepares the feasibility study?
The study must be prepared by an independent, qualified consultant with a recognized expertise in the type of operation being analyzed. The analyst cannot be "in-house", a firm with a proprietary interest in the project, a vendor, or any other party with a potential conflict of interest or vested interest in the outcome of the study. Examples of acceptable consultants include industry association consultants, industry experts, local Small Business Development Centers, specialized CPA's, and specialty appraisers. USDA does *not* maintain a restrictive list of approved feasibility analysts.

Contents of the feasibility study?
USDA does not mandate any specific form or format for the feasibility study. However, Appendix A to RD Instruction 4279-B (see reverse) provides a recommended outline of considerations to be included in the feasibility study. Particular emphasis should be given to market feasibility and management feasibility issues.

Appendix A to RD Instruction 4279-B

Guide for Completion of Feasibility Studies

A feasibility study by a recognized independent consultant may be required by the Agency for start-up businesses or existing businesses when the project will significantly affect the borrower's financial operations. An acceptable feasibility study should include, but not be limited to:

(a) Economic feasibility*. Information related to the project site; availability of trained or trainable labor; utilities; rail, air, and road service to the site; and the overall economic impact of the project.*

(b) Market feasibility*. Information on the sales organization and management, nature and extent of market and market area, marketing plans for sale of projected output, extent of competition, and commitments from customers or brokers.*

(c) Technical feasibility*. Technical feasibility reports shall be prepared by individuals who have previous experience in the design and analysis of similar facilities or processes proposed in the application. The technical feasibility reports shall address the suitability of the selected site for the intended use including an environmental impact analysis. The report shall be based upon verifiable data and contain sufficient information and analysis so that a determination may be made on the technical feasibility of achieving the levels of income or production that are projected in the financial statements. The report shall also identify any constraints or limitations in these financial projections and any other facility or design-related factors which might affect the success of the enterprise. The report shall also identify and estimate project operating and development costs and specify the level of accuracy of these estimates and the assumptions on which these estimates have been based. For the purpose of the technical feasibility reports, the project engineer or architect may be considered an independent party provided neither the principals of the firm nor any individual of the firm who participates in the technical feasibility report has a financial interest in the project, and provided further that no other individual or firm with the expertise necessary to make such a determination is reasonably available to perform the function.*

(d) Financial feasibility*. An opinion on the reliability of the financial projections and the ability of the business to achieve the projected income and cash flow. An assessment of the cost accounting system, the availability of short-term credit for seasonal business, and the adequacy of raw materials and supplies.*

(e) Management feasibility*. Evidence that continuity and adequacy of management has been evaluated and documented as being satisfactory.*