



ZCAS University

BBF 6301 – Project Finance

Mid Semester Test

Tuesday 17th October 2023

16:30 to 19:30

TIME ALLOWED: THREE HOURS (plus 5 minutes to read through the paper)

INSTRUCTIONS:

1. Section A: Question One in Section A is compulsory.
2. Sections B: Answer Two (2) questions from this section.
3. This examination paper carries a total of 100 marks.
4. Candidates must not turn this page until the invigilator tells them to do so.

SECTION A: Question 1 is compulsory and must be attempted

Question 1

Listen, Luyando, they've just called me from African Investment Banking Co. saying that they have a very good project finance deal at hand. And one of the sponsors is Sinkala, one of our most important clients." Monde Phiri, Director of the Large Corporate Department at JCK Bank, is talking to his assistant, Luyando Mwansa, on the phone.

"Very interesting, Boss," replies Luyando. "Did they tell you where they are with it?"

"No, Luyando, they were very vague. They told me that they are still in the preliminary phase, studying the operation, but they are interested in starting to contact some Zambian banks to survey the market and evaluate their opinions regarding the viability of the initiative. They told me that in the next few days they'll send a very brief summary report on the main information. They've asked me to look it over carefully and give them feedback on our possible involvement during the debt syndication phase. I'll send you everything as soon as I get it."

"Ok, Boss, keep me informed."

Two weeks later, a package marked "African Investment Banking Co." arrives on Mwansa's desk. On the envelope is a clearly visible message from Phiri: "Attn: Luyando Mwansa. Prepare a review of the document highlighting the strong and weak points of the preliminary proposal. Crucial deal, Sinkala is a sponsor, and for us it's important to get into the syndicate. Have it all ready by next Friday. Regards, Monde Phiri."

Mwansa opens the envelope and takes out the contents; it is the summary report that Phiri had told him about during their phone call. He decides to read through it immediately, leaving himself time for reflection. He also wants to consult with other colleagues and some contacts in Luanshya.

One week later, Mwansa has analyzed the documentation that African Investment Banking Co. sent to JCK Bank. He has consulted with some of his colleagues who work in the structured finance departments of big international banks in Luanshya.

Some elements are very clear to him; others are ambiguous. Also, support documentation is missing and some risk profiles are not well defined.

He is about to call Phiri, his director, and tell him that he doesn't totally agree with the summary report. His director needs to ask for some clarifications from the advisor.

Required:

- i. Using the case above, explain to the African investment bankers, the meaning and importance of an information memorandum. (5 marks)
- ii. Identify *eleven* (11) contents that are generally found in an information memorandum.(22 marks)
- iii. The information memorandum should be accompanied by supplementary reports and information. List and explain *eight* (8) such information. (16 marks)
- iv. Discuss the role of the project sponsors and the project company (SPV) in the information memorandum. (7 marks)

(Total: 50 marks)

SECTION B: Attempt any TWO questions in this section

Question 2

In project finance, risks are allocated to the parties best able to manage them. However, the risk mitigation instruments incorporated in the project's contractual and financial arrangements need not be all-encompassing to provide the security investors require. Commitments may be limited in scope, amount and duration.

Required:

- i. Identify and explain *five* (5) major project risks that you would expect to encounter during the life of the project and how to mitigate each one of them. (Total: 25 marks)

Question 3

Project finance is a means of funding projects that are typically infrastructure heavy, capital-intensive or related to public utilities. During its lifetime, these projects are treated as distinct entities from its parent.

Required:

- i. Explain the key features of project finance that distinguish it from other forms of financing. (15 marks)
- ii. Why would businesses consider the use of project finance in a proposed project? (5 marks)
- iii. What are the alternatives to project finance? (5 marks)

(Total: 25 marks)

Question 4

In project finance, the preparation phase is when you develop the business case and pitch deck for the project. You will spend a lot of time ensuring that every detail of the plan makes sense, that the story flows, that you are familiar with every aspect of the plan, so that when you start talking to potential investors, you are ready to answer all of their questions.

The more effort you put into the preparation process, the easier the remaining phases will be.

Required:

- i. Discuss the processes/stages in project finance. (20 marks)
- ii. What are the important factors to consider when selecting an outside advisor. (5 marks)

(Total:25 marks)

End of mid-semester test!