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MAIN EXAMINATION

MAY - JULY 2016 TRIMESTER

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF DEVELOPMENT STUDIES

EVENING PROGRAMME

MPM 510: PROJECT FINANCE

Date: JULY 2016	**Duration: 3 Hours**
INSTRUCTIONS: Answer any FOUR Questions	

Q1. Tavuti University is considering the establishment of a Tavuti University Teaching Hospital in a private finance initiative. The hospital will be build at a cost of Kes. 1.1 billion. The private sector will provide the design, construction and maintenance of the new facilities. The private sector will also provide high tech equipment, facilities management and central sterile services department services.

The project wil be financed by the issue of project finance bonds underwritten by Morgan Stanley Capital International.

Required:

Prepare a risk management plan for the Tavuti University Teaching Hospital project indicating;

i The risks to be managed

ii The parties to be allocated the responsibilities to manage the risks

iii Proposed interventions to reduce and / or manage the risks

Present your risk management plan in tabular form. **(15 marks)**

Q2. To ease urban transport services in Mombasa County, the Mombasa County Government is considering the introduction of an urban train service under a public-private partnership arrangement. Two options exist for the development of the project.

a) Development and operation of a light rail train system and a bus service to feed the trains.
b) Development and operation of a light rail train system only.

The Mombasa County will invest in the option that will optimize its return on investment. It will cost Kes 1, 200,000 to prepare a feasibility study for the project. The following are the present values of capital costs to be incurred over the 20 year project cycle.

	KES
Development and operation of a light train system and a feeder bus system	1,146,000,000
Development and operation of a light train system only	1,029,600,000

If the private sector operator implements the first option to develop and operate a light train system and a feeder bus system by the same operator the following are the present values of project net benefits.

	Probability	KES
Optimistic	0.2	1,818,000,000
Most likely	0.5	1,236,000,000
Pessimistic	0.3	1,053,600,000

On the other hand if the private operator is conveyed the rights to develop and operate a light train system only, the following present values are expected

	Probability	USD
Optimistic	0.3	1,216,800,000
Most likely	0.6	1,098,000,000
Pessimistic	0.1	850,800,000

The Mombasa County may chooses to abandon the project at no additional cost after the feasibility study is complete. The decision tree for the proposed Mombasa County light rail train system project is presented in Appendix I.

Required:
Advise the Mombasa County on which option to implement. **(15 marks)**

Q3. The Rwanda National Airport Agency, a public organization that manages airports in Rwanda is considering the development and operation of a bulk aviation gas storage facility at the Kigali Airport. The facility will be developed and operated under a public-private partnership. A private operator will design, develop and operate the bulk aviation gas storage facility as well as supply aviation gas required by airlines operating out of the Kigali Airport. The Rwanda National Airport Agency will provide the land, licenses and permits and approve aviation gas prices on a cost plus basis. The following project finance options are under consideration.

i Build operate own

ii Design-build-operate

iii Operate maintenance and management

Required

Prepare a report explaining the application of the above mentioned alternatives in development and operation of the Kigali Airport bulk aviation gas storage facility. **(15 marks)**

Q4. a) Ms. Acanit Enjau, the Chief Executive Officer of the Uganda Agricultural Enterprise Development Authority is considering the development of a 900,000 acre banana plantation in the Gulu area. The produce of the farm will be exported markets in the Middle East and Europe in refrigerated containers. Because of budgeting constraints the project will be financed in a private finance initiative. Management will be provided by Dole Foods Corporation, the world's largest producer and marketer of bananas. Ms. Ejau has requested your advise with regard to the project's financing.

Required:

Prepare a report to Ms. Ejau examining the characteristics of the project finance model. **(7 marks)**

b) Ms. Ejau's performance contract requires that she implements one project that will contribute an addition 2% of Uganda gross domestic product. The Gulu banana plantation project fits this requirement. However Ms. Ejau is not convinced that the project finance model is the best way to developing projects that add to the nation's gross domestic product.

Required:

Explain the growth enhancing properties of project finance arrangements.

(8 marks)

Q5. The South Sudan Ministry of Energy is considering private financing proposals for the Juba Electricity Distribution Project. 10 proposals from various financing consortia have been received. Mr. Bol Wek Alek, the permanent secretary in the Ministry of Energy seeks clarification of the following terms in the financing proposals received.

i Conditions precedent
ii Undertakings
iii Events of default
iv Representations and warranties

Required
Examine the implication of the above mentioned terms in the context of the Juba Electricity Distribution Project. **(15 marks)**

Q6. The Machakos County Government plans to eliminate all informal settlements in the county by providing public housing by the year 2030. In the first phase of the project, the county government will develop 10,000 low income houses in the Machakos City Housing Project. The project will be developed as a public-private partnership. Design, capital, construction and management will be provided by the private sector firms in a build operate transfer contract. The first phase of this project will cost KES 30 billion. A cost-benefit analysis indicates the project will generate a positive economic net present value. The economic analysis of the project is presented in Appendix 2.

Required:
a) Explain the adjustments presented in the economic net present value. **(9 marks)**
b) Review the cost-benefit analysis presented in Appendix 2 and recommend on the economic viability of the project. **(6 marks)**

END