THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

AUGUST – DECEMBER 2018 TRIMESTER

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF DEVELOPMENT STUDIES

REGULAR / EVENING PROGRAMME

# MPM 510: PROJECT FINANCE

| Date: DECEMBER 2018 | Duration: 3 Hours |
|---|---|
| INSTRUCTIONS: Answer ANY FOUR Questions | |

Q1. Sun City Cables PLC is considering two mutually exclusive projects requiring an initial investment of
USD 20, 000 each and with a useful life of 5 years. The company required rate of return is 12% and the appropriate corporate tax rate is 50%. Assume depreciation of the projects is on straight line basis.
The before tax and depreciation and taxes cash flows expected to be generated by the projects are as follows.

| YEAR | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| | (USD) | (USD) | (USD) | (USD) | (USD) |
| Project A | 9000 | 9000 | 9000 | 9000 | 9000 |
| Project B | 8000 | 6000 | 4000 | 5000 | 7000 |

**Required**
Calculate for each project

a) The Payback Period (PB) **(4 Marks)**

b) The Average rate of return (ARR**)** **(4 marks)**

c) The Net Present Value (NPV) **(4 marks)**

In reference to each of the above computations, advise which project should be accepted or rejected.

d) Discuss two advantages and two disadvantages of using discounted cash flows techniques in project appraisals. **(3 Marks)**

Q2. As part of Francistown University's ambitious strategy for growth, investment is being made in the development of a Student's Village.

The Finance Director of Francistown University has been appointed as the Project Manager and is in the early stages of setting up the project. This will be a complex project involving the construction of new buildings to provide for the growth in student numbers, including living accommodation for students, teaching rooms, a state of art business and conference facility aimed at attracting corporate clients to work with the University, sports and recreation facilities. The building will be a collaborative venture funded by the University and investments from two local businesses.

The regional authority currently owns the land that the University wants to acquire to build the village. The authority, the member of which are directly elected by local residents, make the decisions on whether to accept or reject planning proposals made. It was recently reported in the local paper that the local residents are unhappy about the proposal.

The development will mean that the staff from the University departments will be relocated to the new site which is two miles away from the main campus. In the first open meeting held by the finance director to communicate the proposals, he was met with hostile reaction from staff, with most of them being very unhappy about moving to the new site.

The finance Director knows that this will be a complex project to manage and that project management software will be essential in making his job objective achievable. He is also aware that the project has a number of different stakeholders that he must consider.

**Required**

a) Using examples, identify the major stakeholders to this project and explain why the Finance Director should consider their interests in the student's village project**.** **(7 Marks)**

b) Within the project risk framework, identify the major risks that this project is bound to face at the construction phase and how such risks can be mitigated. **(6 Marks)**

c) Explain how project management software might help the finance director team successfully carry out the project **( 2 Marks)**

Q3. a) Broadly discuss advantages and disadvantages of project financing **(10 Marks)**

b) In the context of project finance distinguish between Non-recourse project financing and Limited recourse project finance **(5 Marks)**

Q4. A company is negotiating a Ksh.30M Loan for eight years from a financial institution. The interest rate is 14% per annum on the outstanding balance of the loan. The principal and interest will be repaid in eight equal year end installments.

**Required**

a) Prepare a Loan Schedule **(8 Marks)**

b) Discuss different sources of project financing **(7 Marks)**

Q5. a) In the context of the Project Contractual Framework, Contractors bonds provide ways of incentivizing or securing the performance of contractors and suppliers. Discuss the different contractors bond **(10 Marks)**

b) Discuss the main provisions of project finance credit agreements **(5 Marks)**

Q6. a) Major projects globally face financial risks and if these risks are not prudently managed, they may lead to project failure. Discuss some of these major financial risks and how they can be mitigated**.** **(10 Marks)**

b) In project financing and management, briefly discuss the role of project manager and that of the project sponsors **(5 Marks)**

***END***