

Session 11: Project Financing

Key Questions:

- The most important difference between project financing and traditional financing tools is that the financing of infrastructure projects under project finance is based upon the *projected cash flows of the project* rather than the balance sheets of the project sponsors. Can you list the advantages and disadvantages associated with this distinct feature? What kind of projects would be most suited to project financing?
- Project financing has a history in the developed world that dated back to the early 20th century. It is now more and more applied in infrastructure projects in developing countries and emerging markets. Why is that? What characteristics make it suitable in those contexts?
- Risk identification and allocation is the key component of project financing. Explain and discuss the implications of major risks associated with project financing by the following categories: 1) technical and operational risks, 2) market risks, 3) institutional and social risks.

What are some of the coping strategies to mitigate such risks?

Specific questions on each article:

Gershi and Sabal (2006): An Introduction to Project Finance in Emerging Markets

- What is a “Special Purpose Vehicle” (SPV)? Who are the typical actors that have contractual arrangements with a SPV?

Miller and Lessard (2008): Evolving Strategy: Risk Management and the Shaping of Mega-Projects

- Why do the authors think the “front end” of the project – project definition, concept selection, and planning- has a disproportionate impact on outcomes? What do they think is ideal project management?

Matsukawa and Habeck (2007) Review of Risk Mitigation Instruments for Infrastructure Financing and Recent Trends and Developments

- What is the difference between commercial risk and political risk? Are there project risks that fall outside the scope of these two risks?

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