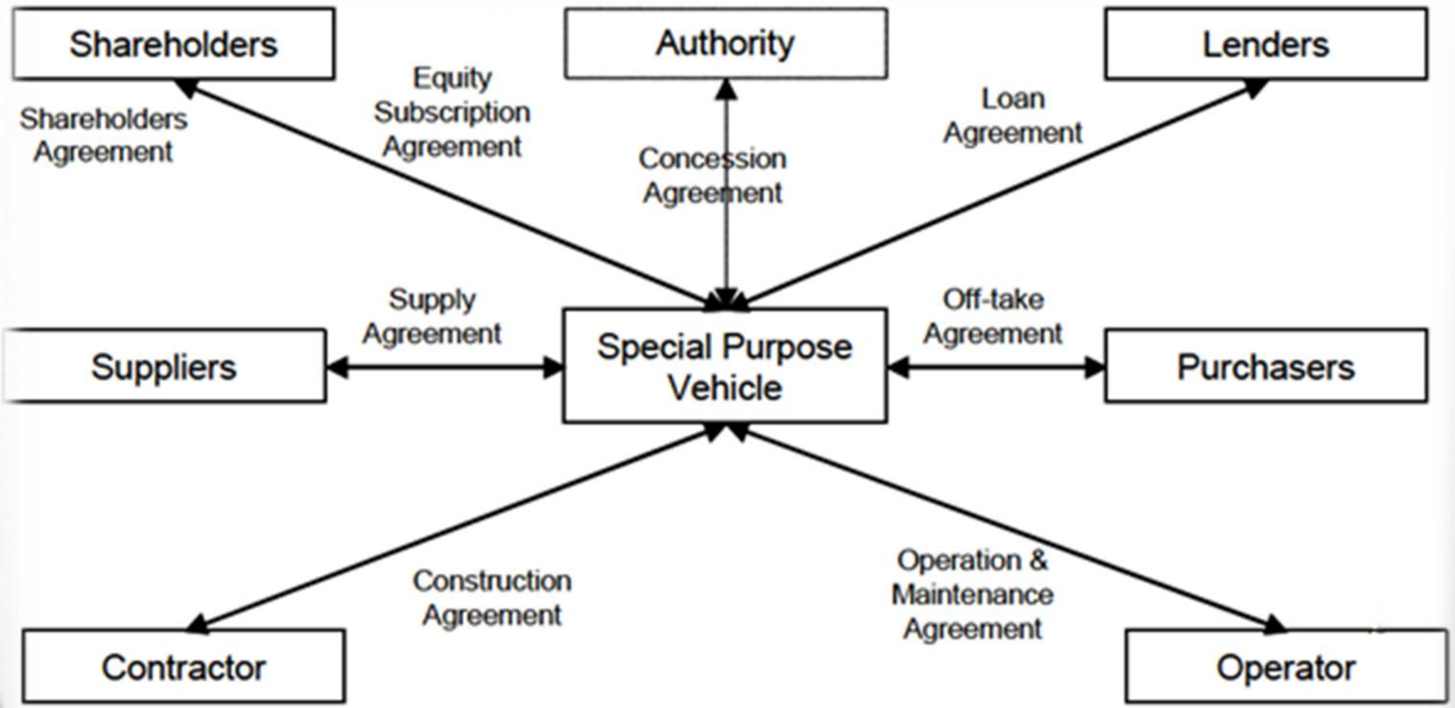
Warra Finance

Flexible Reliable & Easy Loans

What is **Project Financing**

The term project finance is often interpreted incorrectly as the generic financing of a project. However, project financing is a specialised funding structure that relies on the future cash flow of a project as primary source of repayment, and holds the project's assets, rights and interests as collateral security.



Parties in a Project Financing

Requirement

To finance off-balance sheet.

From a private sector perspective, a company that wants to implement a new project without encumbering its balance sheet could consider establishing a special purpose project company (SPV) that implements the project and raises the funding. In doing so the corporate balance sheet is protected against the risks associated with a large project. The project company is legally independent from its shareholders.

Attributes of project companies or special purpose vehicles (SPVs):

- Separate legal incorporation
- Costs more and takes longer to structure
- Equity is usually privately held and concentrated in a few shareholders
- High gearing, e.g. >50% debt
- Debt usually held by banks as opposed to institutions
- Contract extensive
- High transaction costs: 3-5% of amount invested but could be 10% for smaller or unique projects