

Project Finance: *large scale investments with
mixed private & public funding*

Instructor:

Clinical Professor of Finance Joseph A. Swanson

Business: President, Jos. Swanson & Co.

E-mail: joes@kellogg.northwestern.edu

Telephone: (262) 639-6601

Mobile: (262) 909-5399

Facsimile: (262) 639-9750

Precise

Project finance refers to very large scale investment projects where, at the instance of government certification [called a *concession*], a group of equity investors form a *special purpose venture* [an *SPV*] to construct a facility or build a type of equipment. The *SPV* finances the capital with extensive use of non-recourse debt, which is not marked to the members' balance sheets. For facility investments, the construction is managed by an engineering consulting firm that works on of fixed-fee basis, and often takes an equity position in the *SPV*. Once the project is completed its revenues are ear-marked for debt service, with the residual claims allocated proportionately to the equity holdings of individual *SPV* equity investors.

The agreement between the *SPV* and the *concession*-granting government agency has a fixed term. At the end of the term, the facility is typically handed-back to the agency. It follows that during the time that the facility is operated both the granting agency and the non-recourse lenders will attach strict covenants to matters of maintenance standards and inspection.

Project finance is a growing element of both private and public capital spending, driven by private firm's risk management and government's lack of taxing authority [or enthusiasm]. The course brings the standard set of financial theorems and empirical results to bear on the following issues: agency costs, risk management, information asymmetries, optimal capital structure, joint venture cost of capital, and regulatory perspicacity.

Reading Materials

E .R. Yescombe. *Principles of Project Finance*. (Academic Press, 2002; ISBN-13: 978-0-770851-5). {Hence forth noted as *ERY*.}

B.C. Estey. *Modern Project Finance* (John Wiley & Sons, 2004; ISBN 0-471-43426-6). {Hence forth noted as *BCE*.}

FINC 918A Case Packet

Course Outline & Assigned Readings and Cases

Session number	Topic:	Reading & case assignments
1	<i>Project Finance</i>	
	1.1. Project Finance: the elements	<i>ERY</i> : chaps. 1&2
	1.2. Project Finance: capital markets	<i>ERY</i> : chap. 3
2	<i>Development & Management</i>	
	2.1. Project Development	<i>ERY</i> : chaps. 4.1-4.4
	2.2. Project Management	<i>ERY</i> : chaps. 4.5-4.6
3	<i>Structuring Projects</i>	<i>Cases in BCE</i>
	3.1. Perceiving the elements	Australia-Japan Cable
	3.2. Defining the practice	BP Amoco: Caspian Oil
4	<i>Valuing Projects</i>	<i>Cases in BCE</i>
	4.1. New technology concerns	Airbus A3XX
	4.2. Old technology, new partners	Texas High-speed Rail
5	<i>Managing Risky Projects</i>	<i>Cases in BCE</i>
	5.1. Cross border linking	Eurotunnel: managing
	5.2. Infrastructure project of scale	<i>Chicago Skyway</i>

Grading & Examination

Grades will be based on written case reports, and article reviews. All of this work will be done in groups. These groups will be assigned by a random process, with group leaders to be elected by group members on the date of the first class. A one-hour examination will be given during the final examination week.