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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
FIRST YEAR, FIRST SEMESTER EXAMINATION
FOR THE DIPLOMA IN COMMUNITY DEVELOPMENT AND SOCIAL WORK
DDS 107- PROJECT FINANCING

Date: 13TH DECEMBER, 2022
Time: 8:30AM- 10:30AM

INSTRUCTIONS TO CANDIDATES
ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

A new project has been conceptualized by a youth group in a remote village of Sigor Sub-County, West Pokot County, Kenya. The main aim is to construct an irrigation system based on drilled water from a borehole. The officials of the youth group have tried their level best to engage all current and potential stakeholders for support. They are however not so knowledgeable on matters of project financing. They have been referred to you because of being a graduate of Development and Social Work from Kiriri Women`s University of Science and Technology

Required:

a) Explain to the group your understanding of `` Project Finance`` **(3 Marks)**
b) Briefly update the group about the role of a Financial Advisor in a project **(4 Marks)**
c) State five project financing organizations available to the youth group **(5 Marks)**
d) Explain implications of `` Transaction Risks `` associated with projects **(5 Marks)**
e) Discuss the importance of Net Present Value(NPV) technique in evaluating the irrigigation project as pursued by the youth in Sigor **(5 Marks)**
f) The youth group has estimated Ksh 1,000,000/= in year 1, Kshs 2 000 000 in year 2, Kshs 4,000,000 in year 3, Kshs 6,000,000 in year 4 and Ksh 9,000,000 in year 5 as present value benefits in shillings from the irrigation project. Assuming the initial investment to be spend on the project by the youth group is Ksh 11,000,000/=, determine the Profitability Index of the project **(4 Marks)**
Explain the importance of project financial analysis to the youth group **(4 Marks)**

QUESTION TWO (20 MARKS)

a) Capital expenditure plans require various methods of evaluation. A project is being planned to be set-up in Kimilili Constituency, Bungoma County and shall initially require an outlay of Kshs 250,000,000/=. The project is expected to contribute the following cash amounts to the county treasury from the first year of operation to the fifth:

Year	Cash Inflows (shs)
1	90,000,000
2	80,000,000
3	70,000,000
4	60,000,000
5	50,000,000

The required rate of return is assumed to be 10%. Using Net Present Value (NPV) method, advise the Governor whether to accept or reject the planned project. **(9 Marks)**

b) Illustratively describe the financial risks associated with projects **(5 Marks)**

c) J and D invested Ksh 1,000,000 in a project. The project is expected to earn interest at a rate of 20% compounded annually. Determine the future value of the investment after 3 years. **(6 Marks)**

QUESTION THREE (20 MARKS)

a) Outline the various types of insurance relevant in project finance **(8 Marks)**

b) Explain the various advantages of project financing **(7 Marks)**

c) Outline five parties to project financing **(5 Marks)**

QUESTION FOUR (20 MARKS)

a) Explain the importance of a cash budget for a project **(5 Marks)**

b) A county government has provided you with the following information relating to their projected operations in the first three months of the year for a certain community project

i. Projected turnover for the three months is Ksh 6,500,000 , 7,250,000 and 6,900,000 respectively

ii. According to the company credit policy 50% of sales is collected in the month of sale with the remainder being collected in two equal installments in the following months

iii. Turnover for the two preceding months was 5,800,000 and 6,200,000 respectively

iv. Opening cash balance in the first month was Ksh 450,000

v. Cost of purchases forms 60% of the turnover in any month and is paid for in the month following month of purchase

vi. Overheads form 10% of the turnover and are paid for in the same month

vii. The organization has planned capital expenditure amounting to ksh 550,000 in the second month

viii. From the third month the organization expects to start repaying a loan at Ksh 360,000 per month

Required: Prepare a project cash budget for the three months of the year **(15 Marks)**

QUESTION FIVE(20 MARKS)

a) Outline common project financing covenants **(9 Marks)**

b) Explain the term `` Project Entity risks`` **(5 Marks)**

c) Discuss contemporary challenges in project financing **(6 Marks)**