has a limited and independent life. It is responsible for the design, build and execution of the project. Ghersi and Sabal (2006) state that the SPV is the official borrower thereby protecting the sponsors in case of default. Evidently, the organizational structure of project finance separates project related assets and cash from the sponsor’s other activities, whereas in corporate finance these are commingled.

Suggestively, investment decisions in corporate finance are based on the balance sheet of the company, while in project finance they are based on the projected cash flows of the project. This lends to an increased debt capacity in project finance because the credit rating (based on the project) is better than corporate finance (rating based on sponsor’s balance sheet). This implies that lenders would be more willing to grant financing for the project. In general, therefore, higher risks are associated with corporate finance whereas lower risks are associated with project finance (Vaidya, 2017).

It should be noted however that transaction costs for project financing are indisputably greater, mainly due to the creation of the SPV (Finnerty, 2015; Meseko, n.d.). Consequently, the arrangement of financing can be done quicker through corporate finance.

CONCLUSION

To conclude, both corporate and project finance are forms of financing that can be used for various investments. They both can enhance shareholder value, make use of debt and equity financing and require efficient management control to ensure that objectives are met. However, their differences lie primarily in the amount of capital required, the organizational structure, the debt repayment structure of the investment/s and subsequently the amount of risk involved. Based on the above critical differences, a determination can be made as to whether a project would be viable for one form of financing or the other.