

## **THE ASSESSMENT OF FINANCIALLY DISTRESS PROJECTS: MAJOR SIGNS, SOURCES AND RESTRUCTURING**

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**ABSTRACT:** *The significance of project finance cannot be overemphasized as there is a paradigm shift in financing capital intensive projects by both private and public entities using project finance schemes as opposed to traditional corporate finance across the world. Unfortunately, a number of such projects are engulfed into financial distress at some point in their life cycles. In order to address this issue, this paper examined the elements of project financial distress, its major signs, sources, and as well as suggesting ways to eliminate these undesirable consequences. The methodology used is the critical analysis of empirical literature. Findings of this study provide basis for addressing financial distress conditions by restructuring financially distress projects. The findings also indicate that restructuring can be looked at in four broad dimensions notably; financial, asset, operational, and managerial.*

**KEYWORDS:** Financial Distress, Project Finance, Restructuring, Equity, Debts, Risk

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### **INTRODUCTION**

In recent times there has been a paradigm shift in financing capital intensive projects by both private and public entities through the activities of project finance schemes as opposed to the traditional corporate finance schemes around the world. This is especially so because of the characteristics of non-recourse and limited recourse to the project sponsors assets on the balance sheet. Indeed, project debts are paid exclusively from the anticipated cash flows from the project.

In order to demonstrate how important project finance has been to the development of basic infrastructure, the International Finance Corporation (IFC) indicated that in 1997 it facilitated the arrangement of USD\$26 million in syndicated loans to finance the plantation of Timber products in China (Thompson, 2010; Salifu, 2015). The IFC further indicated that countries such as China, Argentina, Nigeria, Mozambique, Hungary, and other countries have all used project financing to develop their respective infrastructural needs (Salifu, 2015).

Therefore, it is not surprising of the considerable surge in the application of project finance schemes to develop and execute large-scale projects (Pranowo et al., 2010; Pustylnick, 2012; Mawutor, 2014). Morrison (2012) reported that in the US alone, over USD\$500 million has been spent on capital intensive projects annually through project finance schemes. Thompson (2012) indicates that in 2010 over 200 project finance schemes worth USD\$130 billion across China, Russia, Brazil and other emerging economies in Africa, Asia, Europe, Latin America and the Gulf. Since the emergence of the project finance concept, there has been a consistent increase year on year until the recent global financial crisis in the mid-2000s when there was a decline in project finance transactions across the globe. To this end, Esty (2005) and Mawutor (2014) indicate that the only occasion project finance recorded a reduction was in

the mid 2000 due to the downturn in global economy activities. According to the authors it was estimated that, total project finance reduced by approximately 40% in the year 2002.

However, despite the above indicators of the contributions of project finance to the infrastructural development to the global economy, many projects finance transactions encounter financial distress leading to bankruptcy or restructuring. A financial distress condition therefore is where a company cannot meet or has difficulty paying off its financial obligations to its creditors. This means that the chance of financial distress within a firm increases when such a firm has high fixed costs, illiquid assets, or revenues that are very sensitive to economic downturns. As a consequence, Fight (2005) indicates that project finance is susceptible to a number of risks capable of frustrating the entire execution of the project. Additionally, any project regardless of its size can fall into a distress condition because of mismanagement, problems associated with contractors and suppliers to mention but a few. Pustylnick (2012) indicates that covenants in financial agreement can resolve a number of the concerns indicated above, he therefore anticipate many of such problems based on the experience of lenders and borrowers alike. Legal preparations and due diligence can rectify and mitigate the financial risks by using securities, bonds and insurance terms.

O'Neill et al. (2006) indicate that occurrence of stressor events, such as changes in financial variables, sometimes called negative financial events, can contribute significantly to financial distress in a project company. Tomas and Dimitric (2011) indicated that although there are various perceptions and definitions on the concept of failure exist, generally it is believed that there are two main reasons for the failure of a project or a company. First, the failure may occur due to their withdrawal from uneconomic operations even though they are actually capable of covering their liabilities. The second reason is insolvency which means failing to pay liabilities when they fall due.

In the views of Bhunia and Mukhuti (2011) and Azadinamin (2012) financial distress in companies can lead to problems that can reduce the efficiency of management. As maximizing firm value and maximizing shareholder value cease to be equivalent, managers who are responsible to shareholders might try to transfer value from creditors to shareholders. The result is a conflict of interest between bondholders (creditors) and shareholders. As a firm's liquidation value slips below its debt, it is the shareholder's interest for the company to invest in risky projects which increase the probability of the firm's value to rise over debt. Risky projects are not in the interest of creditors, since they also increase the probability of the firm's value to decrease further, leaving them with even less. Since these projects do not necessarily have a positive net present value, costs may arise from lost profits (Azadinamin, 2012).

### **Objectives of the Study**

This paper examined financially distressed project through the review of sufficient literature about financial distress and project finance arrangement schemes, thereby outlining signs and sources of financial distress associated with projects and suggested appropriate remedies to projects deeply rooted in financial distress condition. In order to achieve this principal objective, however, the paper explored existing and well known restructuring methodologies to turn around the fortunes of financial distress projects into successful ones. Additionally, the paper discussed the way desired financial health of a project finance scheme could be achieved particularly if it is in financial distress condition. Finally, the paper offered

appropriate conclusions and recommendations. The objective of the paper clearly indicates that the outcome of the study will be of benefit to all stakeholders.

### **Methodology of study**

This research was conducted using secondary data sources including journal papers from EBSCO database. The paper critically reviewed and analysed literature on project finance schemes

## **LITERATURE REVIEW AND FINDINGS**

This section discusses project finance, the state and signs of financially distressed projects and how to eliminate financial distress conditions. Finally, this section looks at how stakeholders to project finance can restructure a project in financial distress condition in order to turn around the fortunes of the company. These discussions are based on the hypothesis that the conceptualization and restructuring of a financially distressed project, providers of finance and sponsoring companies must have insight into the probability of a possible borrower default (Brown et al., 2004; Mawutor, 2014). As a consequence, both finance providers and sponsoring companies alike will have to make provision for possible losses mitigation. However, when a project is plunged into financial distress situations borrower default is high therefore both parties will have to decide either to restructure or exercise the foreclosure on the assets to manage the assets or dispose-off the assets to external investors (Pustynick, 2012).

### **Project Finance**

As indicated above, project finance is a financing arrangement among several stakeholders that are used in financing long-term capital intensive infrastructural projects around the world. Morrison (2010) indicates that project finance is normally used to fund capital intensive projects inter alia in the energy industry, mining and railway industry, telecommunication industry, and the transportation sector. However, project finance schemes have a wider applicability across several industries aside the ones mentioned. Project finance scheme unlike traditional corporate finance is a non-recourse loan facility and equity created by a legally independent project company to develop and execute capital intensive project (Mawutor, 2014; Esty, 2005).

In a typical project finance scheme, a Special Purpose Vehicle (SPV) also known as the sponsoring company is created to develop independent projects with a team of financial entities and individuals. The SPV is a consortium of investors, shareholders and contractors created to enter into negotiation with governments and syndicated financial institutions to develop a particular capital intensive project (Mawutor, 2014).

One of the difficulties in this sort of arrangement is the ability of project companies to manage the numerous parties to the project. Aside this, every project is characterized by risks such as financial, operational, political, managerial to mention but a few. Consequently, Siskos (2014) states that the success of a project finance scheme will depend on the ability to timely identify risks and transfer them appropriately. The major cause of project failure is therefore the inability to identify and allocate risks to project (Mawutor, 2013).

As a result, debt covenants are usually used by lenders in order to protect themselves from project failures since the principal and interest payments are exclusively from the cash flows of projects. Additionally, Fight (2006) emphasized this point arguing that the lenders use loan covenants as tools to place some restraint on the danger that a company may become financially distressed thus providing lenders with an early warning in case of project begins to have problems. Backhaus and Schulte (2006), mentions that the majority of factors influencing the cash inflows and outflows of a project are not deterministic but rather stochastic, making project financing an extremely risky business. Therefore, project risks if not managed properly, can disrupt or halt project operations and lead to legal complications and reputational impacts that contribute to project's failure (Siskos, 2015). A negative example of such risk is the Eurotunnel between France and the United Kingdom, while a positive example is the project-financed Athens airport (Pustylnick, 2012; Siskos, 2015).

Pustylnick (2012) noted that considering the sensitivity nature of financial distress to success of projects, the project financial schemes need to mitigate possible risks that may evolve into project problems, including mainly financial and political ones. In order to mitigate financial risks therefore, parties to a project financing such as the project company, the sponsor, borrower, financial advisers, lenders, technical advisers, lawyers, construction firms, regulatory agencies, export credit agencies and equity holders should establish some sort of backup funding that can be relied upon to settle debt that becomes due, effectively buying more time for the project to become self-sustaining. With respect to political risks, Rajwani (2011) suggests firms should be proactive and avoid situations with overt political risk, and therefore indicates that they should use insurance as a powerful tool as well as diversifying risks.

### **State and Signs of Financial Distress of Projects**

Although defined differently in the finance literature, in my opinion a project company is in a state of distress if and only if it begins to have liquidity concerns as a result of which it cannot pay its debt which potentially could lead to the project failure. Well, as to why financial distress has not had a unique or one acceptable definition in finance, Azadinamin (2012) indicates that financial distress is a subjective phenomenon in which every individual, company, or project, even with the same levels of income or cash flow, may have different levels of perceived financial distress, and this is the reason that various literatures offer various definitions on financial distress.

Beaver et al. (2011), states that generally financial distress refers to the inability of a company to pay its financial obligations as they become due. Similarly, financial distress is a situation where the outflow of cash outweighs the cash inflow as this will result into a situation where the company will be unable to meet its financial obligations (Kordestani et al., 2011). In connection with project finance arrangements obligations are usually the periodic interest payment and subsequently the payment of the principal by the project company. On the other hand, in the opinion of Pustylnick (2012) there are basically two types of financial distress and these are negative cash flows and negative present value (NPV), in which the cash deficit could potentially occur at any time in the project because of raising operational cost.

The most important thing is that signs of financial distress conditions are predictable using financial ratios as well as non-financial indicators. Predicting the early signs of distress could be a make-or-break point for corporations and their projects (Azadinamin, 2012). Borrowers

and lenders alike in project financing mostly focus on using liquidity ratios, leverage ratios and financial covering ratios in order to predict a potential project distress condition. To this end, accounting based indicators of financial distress are still very popular among researchers and widely used as selection criteria (Outecheva, 2007; Siskos, 2015). As a result, the liquidity ratios are used to judge a firm's ability to meet short term obligations (Fight, 2006); the debt ratios are strongly related to project evaluation as they point on a company's leverage position; and last, the coverage ratios measure the ability of a company to generate cash flow in excess of its financing commitments (Fight, 2006; Siskos, 2015).

In addition to the above, Usdin and Bloom (2012) as cited in Siskos (2015) indicate that non-financial indicators such as; the company does not timely pay creditors, the company is being sued in collection matters, the company has suffered a significant event that will not recur, the company's business model is no longer viable, the company's bank or secured lender has threatened to shut down business operations, a union has threatened some form of action against the company, a major supplier has threatened to terminate services to the company, the company cannot perform its contracts on time or cannot perform at all, the liabilities of the company are far greater than its assets.

Most project companies' face potential financial distress condition which is predictable and as such project companies must use tools at their disposal to do so as indicated. Once a distress condition is predicted or detected, management must act swiftly in order to communicate this to key stakeholders early so as to prevent the project from failing. Detecting the signs early on in the project could be of assistance to stakeholders in particular to smaller stakeholders. This could safeguard them from being takeover targets of bigger companies (Azadinamin 2012). Astebro and Winter (2012) explain the process as they distinguish the two concepts of financial distress and insolvency stating that financial distress is a broader concept than insolvency. The concept of financial distress covers insolvency as well as experiencing difficulty in meeting financial obligations, namely payments.

### **Potential sources of Financial Distress of a Project**

In a typical project finance arrangement scheme, there are potentially lots of causes of financial distress including political risk, operational risk, financial risk, systematic risk, credit risk, availability of labour, negative cash flows and net present values, managerial, organizational to mention but a few. These can further be looked at in terms of financial and non-financial as well as internal and external sources. As a result, no project is completely free from potential distress factors and this explains why lenders impose stringent covenants on project funds.

Azadinamin (2012) indicates that financial and non-financial sources could act as major sources of a financial distress, in which the non-financial sources could have a negative impact on financials of the company, and hence, leading to the state of distress. Additionally, Pustynick (2012) states that there are various reasons for a project to be in distress which include financial and non-financial factors such as managerial, organizational, and financial reasons. In the same vein, Pustynick (2012) indicates that negative net present value and negative cash flows are the two basic causes of project financial distress. Pustynick (2012) explains in vivid terms how the change in economic climate can lead to the change in NPV valuations and hence, provide a picture of a financial distress. The NPV calculations commonly rely on two major components, namely an initial investment and the cash returns from the construction and maintenance work. The NPV calculations use a discount rate to



bring the future values to their present equivalents. This rate represents the best possible estimation effort based on the knowledge and the experience of those, calculating NPV (Azadinamin, 2012).

Financial risks are another important source of project financial distress. Usually, these risks arise as a result of foreign exchange exposures, interest rates exposures, inflation exposures, liquidity exposures and project pricing exposures (Fight, 2005). Wadhvani (1986) as cited in Siskos (2015) found out that the increase in interest rates can inversely affect the company solvency thereby resulting in financial distress.

With respect to political risk associated with project finance, the consequences are far more serious as it can threaten project's success through changes in legislation and changes in governance stands. A classic example of a political risk of project finance is the Chinese contracted projects sponsored by the Libyan government. Since the Libyan crisis erupted and upgraded, Chinese constructors have experienced operation discontinuity, camp attacks and robberies, equipment loss and damage, employee injuries, and loss evaluation. Domestic unrest and international sanction led to further social and economic environment deterioration in Libya and forced Chinese contracted projects to take steps to deal with the emergency, such as contingency plan making, operation closure, overseas assets protection, expatriate evacuation, and insurance claims (Zhang and Wei, 2012; Siskos, 2015). Additionally, political risks remains a significant challenge to most projects. For instance, defunct Enron and General Electrical Corporation lost significant amount in the Dabhol Power Project estimated in the region of USD\$28 billion in India following the withdrawal of the government from the project (Esty & Sesia, 2010; Mawutor, 2014). Furthermore, countries, especially developing countries where governments are major partners to project finance arrangements; political instability can be a significant source of project financial distress.

Madrid-Guijarro et al. (2011, p. 159) indicate that financial distress can arise as a result of "economic turbulence, change in demand, high debt, restrictive monetary policy, high interest rates, inadequate capital structure and poor financial management". On the other hand, systematic risk of the market has a tremendous influence of the financial standing of the project. Systematic risk is referred to as the change of the financial standing of the company that is in direct relation with the financial standing of the economy and overall market changes. This change that is led by a change in market cannot be diversified away and will influence all companies and projects operating within that market (McAlister et al., 2007; Azadinamin, 2012).

Tomas and Dimitric (2011), reports that companies that are highly in debt start to feel financial pressure in times of recession and that in order to pay creditors they may have to sell their assets and deposits. Additionally, Tomas and Dimitric (2011) argue that the cyclic movement of economy and the changes in macroeconomic conditions that have resulted from a systematic risk of economy influence the volatility of cash flows and thus increase the risk of a failure of businesses. The macroeconomic conditions, or in other words, the variables that have an effect on the failure of a business should therefore be included in the explaining and predicting risks of business failure and insolvency.

### **Eliminating Financial Distress Conditions**

Every participant in a project finance scheme should consider strategies that are designed to mitigate project risk factors which may develop into financial distress (Siskos, 2015). A

significant step for project companies is first of all identifying the source of a distress condition. Once that is determined there exist a number of strategies that can be employed in minimizing its impacts or eliminating it completely. As a prudent measure lenders should evaluate at the preliminary stages the project's ability to avoid financial distress by performing a feasibility study to determine whether it is economically feasible or otherwise accordingly (Fight, 2006), as well as a due diligence to determine possible distress factors (Hoffman, 2008; Siskos, 2015).

With respect to financial risks, it can be eliminated or kept under control by project stakeholders setting aside some contingency funding at the onset of the project finance scheme. Most lenders may require some sinking fund to be set aside such that if there are cash flows difficulties then they will be covered sufficiently. This may take a form of debt covenant though. As a consequence, Siskos (2015) indicates that in order to keep financial risks under control, it is often helpful to establish some sort of backup funding that can be called upon to settle debt that becomes due, effectively buying more time for the project to become self-sustaining. Additionally, a purchase of insurance will protect all stakeholders albeit insurance premiums though.

On the elimination or control of political risks, Rajwani (2011) suggests that firms should consider the following to better manage this kind of risk;

- a) Be proactive and avoid situations with overt political risk
- b) Diversify political risks.
- c) Deal with risks on an ongoing basis.
- d) Understand macro and a micro political risk environment.
- e) Understand insurance as a powerful way to mitigate political risk

Participants to project finance scheme should be able to react even when a project is in the inception stage and seeks financing (Azadinamin, 2012). Pustylnick (2012) suggests that in such circumstances its managing body must be able to anticipate potential threats and put a sufficient number of legal covenants in the financial agreement so as to cover some of the anticipated outcomes. He indicated that by acting in such manner, the projects can reduce the number of the potential distress conditions and enjoy the financial and operational success.

As indicated above, one of the sources of financial distress according to Pustylnick (2012) is negative cash flows from the project. In order to address or eliminate this problem some form of cash injection is required from shareholders. However, this suggested solution has two implications. The very first one is that every equity holder must agree on this cash flow to happen. The additional loan usually carries an effect of decreasing of equity value. As a result, if the project is perceived as having troubles, then selling additional debt to raise cash may not be that easy (Pustylnick, 2012). The second one may be raising additional cash flow from resources within the project itself. In this regard, raising cash may be a tedious task that will materialize solely after various unnecessary or redundant costs are cut. Raising cash in here may also mean prevention of wasting cash (Azadinamin, 2012).

Additionally, in order to eliminate negative cash flow factor, Pustylnick (2012) further indicate that any project distress caused by negative cash flow is certainly fixable. The

project companies and lenders are inclined to negotiate the restructuring of debt rather than to change the project structure. With all things being equal, even though this is not always the case, the restructuring of debt lowers risk and decreases uncertainty better than the change of management. If all parties are honest with each other and attempt to perform to the best of their abilities, the restructuring of debt would be much less taxing on the project company and the lenders, than hanging the project management and the contractors. To this end management may also use a combination of factors to improve on the negative cash flows including cost reduction, dividend reduction, borrowing from banks or even issuing bonds to mention but a few.

### **Financial Distress and Project Restructuring**

Whilst the project finance schemes have been helpful in the infrastructure development of national economies around the world, in particular developing countries most projects have failed to achieve their stated objectives as a result of being financially distressed. A classic example is the Eurotunnel failure.

Therefore, when a project is experiencing financial distress condition, stakeholders have one of two options of restructuring or reorganizing the project and liquidation. It is however important to note that the position of stakeholders in each of these options that will inform the decision to reorganise or to liquidate. For instance, if the finance providers such as creditors and shareholders realize that they will not get anything if the company were to be liquidated then obviously they will push for restructuring the project by creating a viable plan that will otherwise turn a project in financial distress condition to a more viable and healthy one.

To this end, Brown et al. (2004) indicated that in considering the choice to restructure, it is very difficult for the lenders to recover their debt in the event of liquidation and hence, the final resort is to reorganize the operations of the project. In the study of Vilanova (2006), evidence from the Eurotunnel project indicates that the lenders' position was far worse off in liquidation than restructuring considering the volume of debts committed to the project at the time of distressed. On the other hand, liquidation in most financial distress conditions is almost always a last resort strategy. As a consequence, Siskos (2015) reported that liquidation is a more extreme solution where the project stops operating, its assets are sold, and the proceeds are used to pay creditors. In any of these instances, the decision to restructure or liquidate in the event of default will depend on the position of the stakeholders.

Additionally, reorganization of financially distressed projects could be done internally by involving only internal stakeholders or externally by bringing in some external stakeholders in order to help. However, external stakeholders are only needed when it becomes impossible or impracticable to achieve the objectives of the restructuring internally. According to Brigham & Houston (2007) as cited in Mawutor (2014), restructuring strategy may involve merger strategies, capital reconstruction strategies and internal capital reconstruction. As such, if a company decides on mergers, it will involve the combination of additional resources from another company to turnaround the fortunes of the distressed company (2014). On the other hand, capital construction entails the total reorganization of the company's capital structure thus total overhaul of the project's capital composition according to (Altman, 2002). However, in the case of internal reconstruction, restructuring involves the decision by the lenders and shareholders to transform the operations of the business without selling off the assets of the company.



In order for internal reorganization to be successful, Altman (2000) indicates that there ought to be a credible scheme of arrangement that is considered fair and equitable among the various stakeholders; adequate provision must also be made for additional working capital from the existing lenders and or the shareholders; lenders and shareholders are willing to waive losses to put the project on sound footing (Mawutor, 2014). Moreover, the company must further conduct feasibility studies to project cash flows to be generated after the restructuring as this will convince stakeholders to accept the idea of the reorganization. Again, why this is important is the fact that financially distressed firms post negative cash flows. Indeed, it is not surprising when Pustylnick (2012) identified negative NPV and negative cash flows as the two main forms of financial distress factors even though the same research revealed that negative cash flows and negative NPV's can be rectified by the additional influx of cash flows at the construction and operational phases of the restructuring. However, what is paramount in the view of Finnerty (2007) among the strategies above is the determination of optimal capital composition after reorganization. Generally, restructuring can take many forms, such as financial, asset, operational, and managerial (Siskos, 2015). As a result, it is eminent to note that project restructuring can be conducted at the construction stage and operational stage (Brown et al., 2004; Siskos, 2015).

### **Financial restructuring**

Financial restructuring relates to improvements in the capital structure of the firm. For instance, project's debt could be added to lower the corporation's overall cost of capital. Moreover, it involves restructuring of their debt-to-equity structures, in line with their cash-flow needs to promote efficiency, support growth, and maximize the value to shareholders, creditors and other stakeholders (Siskos, 2015).

### **Asset restructuring**

According to Sudarsanam & Lai (2001), asset restructuring usually leads to cost reduction and enhances a project's competitive advantage through increased economy of scale by expanding output. For instance, investing in a modern software solution reduces complexity, minimizes cost, and improves operational efficiency which is most importantly needed for projects in financially distressed conditions.

### **Operational restructuring**

Tebogo (2011) indicated that operational restructuring involves reducing costs, generating revenue, and reducing operating assets in order to improve efficiency and profit margins. Conversely, Holder et al. (2005) recent research that examined the reaction of analysts to restructuring announcements suggests that analysts do not expect operational restructurings to be effective in improving long-term operating performance. The research specifically found that such restructurings at best have no effect on firm operating performance in the years subsequent to the restructuring.

### **Managerial restructuring**

Managerial restructuring often provide opportunities to improve work flow and the content of jobs and for changes in roles and responsibilities which may significantly transform project's vision and focus and bring about positive change in performance (Siskos, 2015). This is achieved by injecting some fresh talents into the management team and offloading some existing management members. Also, Sudarsanam & Lai (2001) argue that restructuring may

also impact on the stability of staff-management relations and create concerns among employees affected by the change or restructuring but most importantly this change in management often bring confidence to investors, bankers, and creditors that poor performance will be dealt with decisively.

Another strategy to achieving reorganizational success is by replacing the existing capital structure with a more flexible new structure which will allow the company a briefing space with respect to the settlement of its debt obligations. Additionally, Tebogo (2011) argues that under this structure, capital composition of the project is varied where a number of existing short-term loans are replaced with long term debts to prolong cash outflows. Similarly, Vilanova (2006) indicates that this approach will offer the borrower to generate enough cash flows from the project as a result of the moratorium that this structure offers. This approach was successfully used in the Eurotunnel case where a number of junior debts were suspended and later replaced with long term debts (Vilanova, 2006).

### **Managerial implication**

In recent times, there has been a paradigm shift in financing capital intensive projects around the world of using project finance schemes as opposed to traditional corporate finance. However, such project finance schemes are characterized with a number of risks including mismanagement, problems with contractors, and suppliers to mention but a few. Project managers should therefore be encouraged to exercise due diligence in the preparation of legal documents governing project finance schemes. Project managers should also watch out for early signs and symptoms and be prepared to apply project restructuring strategies such as asset, financial, operational and managerial when projects are financially distressed.

### **CONCLUSION**

As a result of recent corporate failures such as Enron, WorldCom, Lehman Brothers and coupled with the failure of project finance transaction like the Eurotunnel in 2006, financial distress is now a very hot topic in the finance literature. Financial distress is therefore a condition where a company cannot meet or has difficulty paying off its financial obligations to its creditors. This situation as and when it happen calls for some form of investigation so as to prescribe appropriate remedy in eliminating it.

To this end, Pustylnick (2012) and Tebogo (2011) indicate that the substantial proportion of debts, mismanagement, problems with contractors and suppliers and so on, may lead projects into financial distress and therefore the project's capital structure should be reconsidered with the aim of enhancing the project to mitigate financial distress. Covenants in financial agreement can resolve a number of mentioned problems, as they anticipate many of such problems based on the experience of lenders and borrowers alike (Pustylnick, 2012; Siskos, 2015).

This paper examined the elements of project financial distress, its major signs, sources, and as well as suggesting ways to eliminate these undesirable consequences. The findings therefore provide a basis for addressing financial distress conditions by restructuring financially distress projects. Additionally, this option should be preferred as long as stakeholders believe it is a better alternative than liquidation. The findings also indicate that restructuring can be looked at in four broad dimensions notably; financial, asset, operational,

and managerial one. The paper further discussed each category and how they could be used in order to turn around the fortunes of financial distress projects which were candidates for failure.

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