The need for performance bonds is especially important. Lenders generally will not advance any loans without them. It is their guarantee that the project will be completed on time and on budget. Liquidated damages are usually not part of the performance guarantee but are the responsibility of the contracting party.

The construction performance bond is provided by the construction contractor (who may be part of the project development group) and is issued by a surety company for a percentage of the construction contract value. The percentage can vary but is rarely in excess of 50 percent of the contract value. The insurance market, where these bonds are reinsured, sometimes sets limits on the amount of the bond.

Market Risk

Market risk will be assessed by the lender when it is relevant to the project. This category includes projected local demand and prices for the product. Related risks are continued market access, transportation issues, and the number and economic viability of the potential buyers.

Risk of Feedstock Supply

Regular supply of feedstocks at a consistent price is critical for project viability in an energy-related project. Lenders will require historic and projected demand/supply and price information, along with a plan for obtaining required supplies of feedstocks. They will generally want to avoid single source situations. Ideally project developers should have long-term feedstock supply contracts. If the feedstock source is from a single supplier of good credit standing, a supply or pay contract, in which the supplier must pay if the feedstock is not available, should be considered to offset this risk.

Production Risk

Production risks are similar to those involving completion, but such risks include the possibility that production will be interrupted. The following risk factors are usually considered:

- competence of the project manager;
- technology;
- labour skills; and
- plant maintenance.

Lenders will seek to reduce production risk by insisting on insurance coverage for all relevant risks including business interruption, machinery failure, third-party liability and workers compensation.