ensure that the individual systems (the "islands") work together as designed. The advantages to the buyer of the turn-key approach include faster more efficient delivery of services and the transfer of implementation and operating risk to the supplier. Suppliers add value by providing construction management, cost management, approvals management, commissioning, operations and some financing options.

In reality the terms, design-build, turn-key and Engineer/Procure/Construct (EPC) are used loosely in the market, and oftentimes there is really no contractual difference between them. In both design-build and EPC, a single firm or consortium takes responsibilities for delivering a completed plant with performance guarantees. Turnkey is considered as the same although some people use the term where financing (interim or long term) is provided.

*Limited recourse capital projects* are those in which full sovereign financial guarantees for political and commercial risk are not available and must be assumed by some other entity. Thus, financing for limited recourse projects could be 95 percent guaranteed or 5 percent guaranteed by the host government. A key test is that **the financial guarantee** (if any) of the host government **does not cover 100 percent of the financing** and that the private sector must fill part of the financial void to move the project forward. Consequently some limited recourse projects blend public sector guarantees with private sector financing, and are, therefore, regarded as public-private partnerships. (Within a limited recourse project governments **can** also guarantee **non-financial** activities, such as a commitment not to block the export of foreign exchange, or any number of other non-financial commitments. The litmus test for non-financial commitments is that they **do not show up as direct liabilities** of the host government and have **no impact on the level of national debt**).

Over the past ten years, as a result of credit constraints worldwide, countries have been looking for innovative new ways to slow or reduce the growth of their national debt, that is, reduce the frequency and scope of guaranteeing the *foreign exchange costs* of the entire capital project. One set of such limited recourse techniques is the "Build, Own, Operate" (BOO), "Build, Own, Transfer" (BOT), and Build, Own, Operate, Transfer" (BOOT). These terms describe very similar transactions. The underlying approach involves a group of equity investors (including contractors and equipment suppliers) assuming a portion of the risk of design, construction, financing, completion, start-up and operation of a project. In addition, the cash flow generated by operating the project over a number of years is the source of cash for repayment of investment and loans necessary to construct the project, as well as for capitalised interest during construction and start-up, plus a margin for safety and profit.

Since under limited recourse financing, the project itself forms a sizable portion of the security offered to lenders, it follows that *the perceived viability of the project is critical*. The deal is more attractive to lenders if the host government guarantees non-financial risks (e.g., appropriate rate tariffs for power projects, or commitments not to block the accumulation of off-shore foreign exchange) and if the project is promoted by respectable credit worthy sponsors together with operators demonstrating good track records. Thus, the packaging and structuring of the deal is of particular importance and significant "concurrent front end" activity is required to gain credibility with lenders and others. For the most part, acceptable allocation of risk must be readily shown at the