

While the aggressiveness of various international suppliers to seize privatisation opportunities appears to have accelerated the growth of projects in the pipeline, it is clear that for these projects to move forward, project sponsors need to be able to attract appropriate financing. Yet, because industrial sectors and the location of the new projects tend not always to match the risk appetite of many capital suppliers, there is an undersupply of capital in certain industries and geographic markets (e.g., Asia and Latin America). Moreover, on the demand side relatively more projects, particularly outside the OECD, are competing for the available pools of funding than in previous years.

Some of the implications associated with this demand and supply situation include: i) an increase in project financing appetite by traditional sources; ii) changes in risk assessment by traditional sources of capital; iii) further entry of non-traditional sources of capital (e.g., private capital and pension funds); iv) greater marketing efforts by project sponsors to attract capital, particularly in middle income developing countries; and, v) greater reliance on non-recourse and limited recourse projects (see glossary and material below for definition of these terms).

Associated Trends

There are a number of trends associated with these driving forces. These trends are highlighted below and relate to the fact that additional risk sharing participants are required in order to secure financing for projects.

The most significant trend can be seen in the increasing proportion of capital projects being completed in design-build, turn-key and limited recourse modes.

The terms design-build and turn-key generally relate to the scope of project management responsibilities, while limited recourse projects refer to how a project is financed. These issues are discussed below.

The design-build model is a construction delivery system where one entity signs a single contract accepting full responsibility for both the design and construction phases of a project. The industrial sectors where design-build has been more prevalent include petro-chemical facilities, power generation projects and steel mills. Relatively fewer projects with civil works components have followed the design-build model. The advantages to the buyer of design-build can include lower project costs ("team approach" savings), and often faster more efficient delivery of services and a shorter contracting period. Suppliers add value by providing construction management, cost management, approvals, some financing, some extended warranty, and some operation of the facility.

Turn-key projects have also experienced significant growth as an approach to international infrastructure project management. In rough terms turn-key projects can be viewed as design-build projects with the added responsibility of procurement of equipment and commissioning of the project. Consequently turn-key projects offer "total solutions" to the host government, and can reduce or eliminate the integration problems that can plague traditional projects. In this context buyers require that the contractor or project manager take responsibility for building a complete plant and