develop appropriate financial structures that adequately reflect the risk appetite o various players is essential. These financial structures must address the concerns of the participants, for example, by providing financial flexibility for some participants, while at the same time providing comfort to those who are more interested in greater financial certainty. Consequently, financial structures employ a mix of the full range of financial instruments (several of which are under continuous development), and includ trade financing instruments, derivative products (such as "swaps", "futures", "puts" and "calls") and other project financing instruments.

In limited recourse projects, **all the risks identified in the previous paragraphs need t be assessed by potential investors at the front end of the project,** since investor participation is often required for the full cycle of a project. However, many of these risks cannot be easily assessed at this stage. Consequently, sophisticated and innovative financing instruments are required to satisfactorily manage the variety of numerous risks at this early stage. As a result, financial frontiers are ever expanding and the international capital project market represents one of the most active fronts of innovation.

To participate in this risk environment the continuing challenges for participants is to be innovative and to:

- *appear* willing to participate in the equity and/or debt components of a limited recourse project;
- share risks in a fashion that is related to future potential rewards; and,
- manage the changing nature of financial risk throughout the critical phase (pre-construction, construction and post-construction) of a project and, if desired, pass on a risk, or a number of risks, to those with the appropriate risk appetite.

All of these financial and risk management skills and capabilities are not within the grasp of all players. For those without the requisite skills or the networks to provide this innovative financing and risk management, the challenge is acute.

Main Sources of Financing

Sources of international project financing include IFI's, commercial and merchant banks, Export Credit Agencies, securities firms, project sponsors, contractors and equipment vendors, leasing firms, pension funds, and private investors.

Each of these sources of financing tends to have a special interest in a particular stage (pre-construction, construction, or post-construction) of the project financing cycle. Pre-construction finance is the most risky and is most often supplied by government aid agencies (feasibility studies), IFI's, (feasibility studies and detailed capital studies), or private sources of finance, contractors and other "sweat equity" sources (i.e., investment of labour costs, such as a consulting engineer feasibility study performed in-house without security of remuneration). Construction financing is frequently provided by