

## SOURCES OF BUILD-OPERATE-TRANSFER PROJECT FUNDING

Senior debt	commercial banks, government banks, international financial institutions
Subordinated debt	commercial banks, equipment vendors, investors
Preferred equity	international financial institutions, export credit agencies
Equity	investors, equipment vendors, fuel suppliers (for power projects), constructors, users, financial subsidiaries of major corporations

It is helpful to identify a local proponent, such as an equipment supplier or a development institution, which is particularly anxious to see the project proceed, and can serve as a catalyst for the project.

For major infrastructure projects, procuring a combination of export credit agencies, bilateral financial institutions and international financial institutions is the norm. This is not necessarily the case, however, for projects such as toll-road projects that tend to be self sufficient. They are becoming more and more acceptable to commercial lenders. Wastewater treatment plants, where contractual arrangements are guaranteed by the state or federal authorities, can also be privately financed.

## PACKAGING A BUILD-OPERATE-TRANSFER PROJECT

### CONDITIONS FOR A VIABLE BUILD-OPERATE-TRANSFER PROJECT

- There must be a strong need for the project which has been perceived by government officials who have influence.
- There must be adequate government financial guarantees coupled with sufficient political will to produce the necessary concessions for the private sector to become involved.
- Substantial contractors or groups of contractors and suppliers must be available to enter into turnkey design/construct contracts.
- The project developer must possess all of the technical expertise to design, build and operate the project.
- The revenue stream must be adequate to support the project throughout its life.
- The project must be able to be financed on a limited-recourse basis on the strength of its own assets and revenues.

A build-operate-transfer (BOT) infrastructure project developer views the project as a bundle of rights, risks and obligations which must be priced and allocated among the project participants. Each of the parties must assure themselves that the potential benefits outweigh the risks. The parties try to reach consensus by allocating the risks in such a way that the project is viable. Otherwise, it will not proceed.

A number of fundamental requirements must be met before a project can proceed to the planning stages (see box). Assuming these basic pre-conditions are met, the parties can proceed to package a BOT infrastructure package.

Successful packaging means compiling all of the political, technical, commercial and financial elements of a project. It means ensuring that adequate funds have been both committed and advanced. Packaging brings together all of the elements of evaluation, promotion, development, financing and initial implementation of projects. Ultimately, proper packaging ensures that the project is viable by making sure that the interests of all the parties to the deal have been balanced. The principal conditions for viability are discussed in the following sections.