



Project finance is the long-term financing of infrastructure and industrial projects based upon the projected cash flows of the project rather than the balance sheets of its sponsors. Usually, a project financing structure involves a number of equity investors, known as 'sponsors', as well as a 'syndicate' of banks or other lending institutions that provide loans to the operation. They are most commonly non-recourse loans, which are secured by the project assets and paid entirely from project cash flow, rather than from the general assets or creditworthiness of the project sponsors, a decision in part supported by financial modeling.

The financing is typically secured by all of the project assets, including the revenue-producing contracts. Project lenders are given a lien on all of these assets and are able to assume control of a project if the project company has difficulties complying with the loan terms. Generally, a special purpose entity is created for each project, thereby shielding other assets owned by a project sponsor from the detrimental effects of a project failure. As a special purpose entity, the project company has no assets other than the project. Capital contribution commitments by the owners of the project company are sometimes necessary to ensure that the project is financially sound or to assure the lenders of the sponsors' commitment. Project finance is often more complicated than alternative financing methods. Traditionally, project financing has been most commonly used in the extractive (mining), transportation, telecommunications industries as well as sports and entertainment venues.

Risk identification and allocation is a key component of project finance. A project may be subject to a number of technical, environmental, economic and political risks, particularly in developing countries and emerging markets. Financial institutions and project sponsors may conclude that the risks inherent in project development and operation are unacceptable (unfinanceable). "Several long-term contracts such as construction, supply, off-take and concession agreements, along with a variety of joint-ownership structures are used to align incentives and deter opportunistic behaviour by any party involved in the project."

The patterns of implementation are sometimes referred to as "project delivery methods." The financing of these projects must be distributed among multiple parties, so as to distribute the risk associated with the project while simultaneously ensuring profits for each party involved. A

riskier or more expensive project may require limited recourse financing secured by a surety from sponsors. A complex project finance structure may incorporate corporate finance, securitization, options (derivatives), insurance provisions or other types of collateral enhancement to mitigate unallocated risk.

<http://www.youtube.com/watch?v=7JjcsbOLOEk>