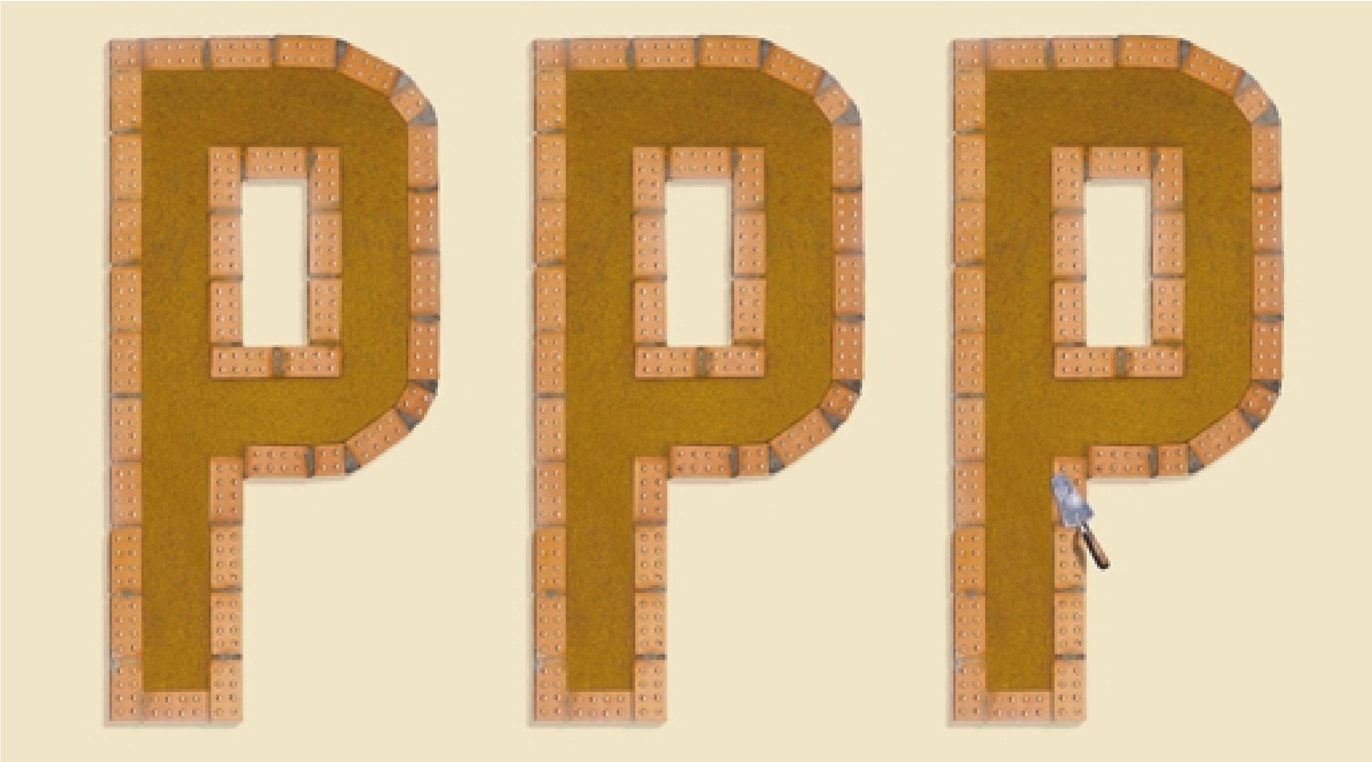

PROJECT FINANCE AND PUBLIC PRIVATE PARTNERSHIPS

This month the Spotlight falls on project finance. This is finance raised for a specific project where the lenders have little or no recourse to the project's shareholders if the economics of the project deteriorate. In the UK, project finance is vital to the government's drive to modernise public services. It is used to inject private sector expertise into the procurement and management of new roads, hospitals, schools and other assets used by the public, a process known formerly as the Private Finance Initiative or (PFI) and latterly as Public Private Partnerships (PPP).

Under PPP, the government contracts with a special purpose concession company that will not only design and construct the road, hospital etc, but also fund the construction costs and maintain the asset, usually for 25 years or more. The finance is a mixture of debt from the banking or bond markets together with equity from the project sponsors and specialist financial institutions. The concession company is highly geared, typically 80-90%.

Our keynote article this month is by the Chief Secretary to the Treasury, **Paul Boateng**, who is the minister responsible for PPP. In it he outlines the government's view of progress so far and the prospects for the future.

Our second article by **Danny Daniels** is a useful introduction to the basic project finance principles and techniques. Project finance is not restricted to PPP nor indeed the UK and our third article by **Julien Touzot** details the experience of the french motorway toll road operator Egis over the last 30 years in developing project financed toll roads all over the world.

Resourcing the finance function of project finance companies is often quite a thorny problem, for reasons that **Tony Hazell** explains. **Ian Colyer** then gives an overview of the main considerations when developing formal commercial and legal relationships, a process that is vital when the parties will have to work together for 30 years or more!

The subsequent two articles have a fluid feel. **John Telfer** of Scottish Water gives a useful insight into the PPP process from the public sector purchaser's point of view in the context of Scottish Water's 16 waste water projects. **Joanna Parker** then details the use of project finance techniques and the application of index linked financing to complement the indexed revenue profile of water companies, so as to facilitate whole business securitisation for smaller water companies.

Finally, Tim Wilson, formerly at HM Treasury, has been working with the Russian governmnet as it seeks to modernise its procurement process. A key exemplar here has been the success of the UK's project finance driven PPP in building and maintaining publicly used assets to time and cost, resulting in the provision of public services at the optimal whole life cost.

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