are used as collateral for the loans. Debt repayment would come from the project company only rather than from any other entity. A risk with project financing is that the capital assets may have a limited life. The potential limited life constraint often makes it difficult to get lenders to agree to long-term financial arrangements.

Another critical issue with project financing especially for high-technology projects is that the projects are generally long term. It may be nearly eight to ten years before service will begin, and in terms of technology, eight years can be an eternity. Project financing is often considered a "bet on the future." And if the project were to fail, the company could be worth nothing after liquidation.

There are several risks that must be considered to understand project financing. The risks commonly considered are

Financial Risks

- Use of project versus corporate financing
- Use of corporate bonds, stock, zero coupon bonds, and bank notes
- Use of secured versus unsecured debt
- The best sequence or timing for raising capital
- Bond rating changes
- Determination of the refinancing risk, if necessary

Development Risks

- Reality of the assumptions
- Reality of the technology
- Reality of development of the technology
- Risks of obsolescence

Political Risks

- Sovereignty risks
- Political instability
- Terrorism and war
- Labor availability
- Trade restrictions
- Macroeconomics such as inflation, currency conversion, and transferability of funding and technology

Organizational Risks

- Members of the board of directors
- Incentives for the officers
- Incentives for the board members
- Bonuses as a percentage of base compensation
- Process for the resolution of disputes

Execution Risks

- Timing when execution will begin
- Life expectancy of execution
- Ability to service debt during execution