"In today’s financial climate there has been a shift in where and how investors may encounter political risk in Project Finance discuss"

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Project Finance is a long term project which needs political will of the governments. It is a long term investment which needs political motivation as well as the continuation of the economic policies of the government. The governments adopt project finance for the provision of public infrastructure through PPPS. The success or failure of project finance has severe political consequences.

It is difficult to made or run any project finance without any political support. For example, a project finance agreement for the state’s owned power company and a project company for the construction of power station can not be possible, unless the top management of the official company decides that the project is in their interest. The break through is only possible when there is a strong direction of the government.

Political support is needed from initiating the project till the completion of the project. Financers need to take steps for the alleviation of political risks before providing any finance to the project. There are three classes of political risks which include investment risks and investment risks, currency convertibility and transfer, expropriation of the project by the state and political violence.
Political risk in project finance also includes the change of law which means legislative, judiciary or executive can take a decision in which laws are changed which includes new import export restrictions, changes in environmental law, and

new tax regulations. Quasi-Political Risks includes breach of contract and court decisions.[1]

Project financers and sponsors can reduce political risk by signing an investor friendly agreement between the sponsor and the government. Political risk can be reduced through the risk insurance through the insurance companies present in the private sector. Companies should also take legislative protection by signing an agreement with the government that any change of law will not affect the terms and conditions of the government.[2]

Government should give permission to the company that there is no restriction on the company if it will take loan from the private sector.

After the 9/11 incident in America there were claims of billions of dollars which insurance companies had to pay to the claimants of world trade center. So now it is difficult to buy any risk insurance policy because now insurance company is selling terrorism insurance policy. The problem is that terrorist activities in the world are increasing and now no company is ready to take the risk.[3]

In the third world countries financing of large projects were managed by the governments. In third world countries most projects were given on Built, Operate and Transfer basis. Governments gave such type of projects to the companies in which they don't want to involve due to some reasons which include pressure from international organizations, local pressures and environmental issues.

The economic benefits of project finance consist of a secure loan to the financer who secured the project. The lender will give resource to the investor in addition to the project assets.

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[1] The Foreign Investment Decision Process.

[2]When does privatization work? The impact of private ownership on corporate performance in the transition economies, Quarterly Journal of Economics

[3] Discussion of 'Political Risks in International Construction', Journal of Construction Engineering and Management,

At the same time, it will depend on the prevalent insolvency laws. A successful lenders claim over the project assets will be helpful in subordinating the claims of other creditors of the investors. [4]

Project finance is usually used for projects in infrastructure development and the extractive industries like mines and sewage systems, major power plants, energy transmission systems, the pipelines, roads and highways, the railways and the airports, ports etc.

Project finance has a strong social, economic and political impact on the society on the country in which the investor invests. Big projects in the world gave boost to the economic prosperity by providing employment generate revenue which will increase profits. There will be large investments in technology transfer in world through project finance. It will also be helpful in providing value added services and products to the consumers of the country.

There was a diverse affect of these projects on the life styles of the people of the countries in which there was project financing. It will create monopoly, which will affect the local industry. As result of Project Financing there will be environmental pollution and displacement of residents. Project Financing will also affect the electricity, water and the transportation prices in the country.

Projects that are helpful in generating revenue from abroad has a diverse effect on the economic and political scenario of the investing country.

Project Finance gave boosts to the exports as well as the value of the currency also appreciates. It will also give boost to real estate. Governments should take practical steps to reduce the effects of project financing. [5]

The political implications include the access a state has, to cash flows from export-oriented projects, and the level of its dependence it is on tax and cess or

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[4] AHARONI, Yair (1966). The Foreign Investment Decision Process.
[5] (2008). Why doesn’t capital flow from rich to poor countries?

the foreign financiers. As a matter of fact, this makes governments less answerable to external constituencies and can govern soundly.[6]

Strong states, however respond to these concerns by formulating laws that govern how these revenues acquired from the projects are to be spent. It is a common feature particularly among the oil-producing countries. Usually, the revenues from the projects are accumulated into special funds that serve special purposes, such as investing in education sector or simply be kept as a reserve for future when the revenues are needed. [7]

The international community realizes these concerns and in serious in promoting transparency in financial transactions among the states that indulge in lucrative export oriented projects. For example, the Publish What You Pay coalition of over 300 NGOs worldwide urges the nations for the compulsory disclosure of the payments made by oil, fuel and the gas and also the mining companies to all governments of the world for the extraction and the efficient utilization of the natural resources. The coalition also invites the wealthy developing governments to publish full details on revenues and the finances. Advocates of the movement argue that the transparency pressurize the world governments to utilize the revenues from projects on effectively promoting economic development. The World Bank has endorsed this concept by acting upon its Extractive Industries Transparency Initiative.

In project finance, there is a vital and major role of project agreement. Here, the project documents are preferred to allocate risks and dangers amongst the parties that are involved in the transaction. Hence from the commercial perspectives, the most significant factors are the following: the completion risk, the resource risk, the availability of the inputs, operating risk, the market risk, the currency risk, and the political risks.

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[6] The Definition and Assessment of Political Risk in International Business: A Review of the Literature,
[7] Discussion of ‘Political Risks in International Construction

The financial, societal, or economic, and the political implications of the projects are affected by a number of bodies of law. The project finance investors need to act upon the state's regulations and the rules of the foreign investment. All the countries have laws that put restrictions upon the foreign investments in various sectors and only permit at the consent of government and its officials. Many states of the world are subjected to the international obligations which lessen their ability to handle foreign investments. The obligations are due to general Agreement on Trade in Services, agreement on Trade-Related Investment Measures, bilateral Investment Treaties and regional agreements e.g the North American Free Trade Agreement, and other multilateral organizations which overtly discourage the countries from adopting restrictions on the direct foreign investment.[8]

Countless vendors require the projects: that is why they demand to meet social and the environmental standards which are independent of any hard and fast legal obligations. A major number of project finance lenders endorse the Equator Principles, which stresses the need to ensure the projects they support, fulfill the social and the environmental standards already set by the International Finance Corporation to direct its own operations.

There are numerous methods of enforcing these regulations. For example, some of the unilateral financial institutions have focused on the ombudsmen or quasi-judicial bodies which are created to have compliance with their operational policies and rules.

While making a contract law in public policy, there are few important factors which include enforcement of the stipulated damages clauses, expression of choice of law, choice of a vivid forum and the arbitration clauses, implementation of obligations in the hands of stakeholders, the clear recognition of foreign judgments.

[8] World Bank, World Development Report 1994, New York : Oxford University Press 1994

Moreover, there are concerns like domestic laws that affect the importance of the projects for its investors and the sponsors. Projects, typically implicate that there is a broad range of domestic laws for a general application like the immigration laws. Many projects will require such professionals who have specific technical skills. Usually, such experts cannot be gathered domestically and must be arranged in from elsewhere. Changes in such laws and the outright physical expropriation can seriously damage the value of the project for its sponsors.

Often, the projects are designed to maximize the host states' concerns to take such action. Investing, withholding critical technology and the actors involved such as the official creditors, or significantly many political risk insurers, who may threaten to cut off the future ventures with the state are all ways of putting off the investors.

The sponsors and the financers of critical projects often attain agreements that require the host government to exempt them from certain specified local laws and to provide them compensation for radical changes in the law. Provisions are designed to insulate the foreign stakeholders from the impacts of certain changes in the law like stabilization clauses.[9]

International legal restrictions like the conventional international rules/laws and the provisions of Bilateral Investment Treaties, limit host states capacity to expropriate the assets of foreign financers or otherwise treat them in a way which is not fair, including the agreements designed to insulate, from the implications of domestic law. Many commentators are of the opinion that these international obligations place unfair obligations on the host states power to adopt socially beneficial rules and laws.

Project Finance is usually explained as the financing over long-term infrastructure, the industrial projects and some public services based upon a limited dependence on financial structure, where project debts and the project

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[9] Returns to acquirers of privatizing Financial Services Firms : An International Examination, Journal of Banking and Finance,

equity are used to finance the project. They are paid back from the cash flow gathered by the project. In context, it refers to a financing technique, which allows the company to raise funds and capital to initiate a project based on the effective feasibility of such a project. The capacity to generate revenues adequate to cover construction and operational costs along with the debt service and a handsome return for the investor is kept in mind.

Power plants projects, roads and airports have a number of characteristics in common that make their financing extremely challenging. Large-scale projects might be too risky and crucial for any company to finance. On the other hand, fragmented equity and the debt financing in the capital markets will help to diversify risks among investors, but it becomes difficult to control the managerial discretion in the distribution of free cash flows and in case of avoiding wasteful expenditures. The Project Finance is then employed to achieve a balance between the need to share the risk of sizeable investment among investors, and at the same time, to highlight the importance of effectively monitoring vital managerial actions and realizing a coordinated effort by all the project related parties.[10]

The Project Finance ventures need joint efforts from the lenders, investors, suppliers and the sponsors of a project. So, to make the implementation of a project and dealing with the challenges such colossal indivisible investment in a single purpose asset, feasible concerted efforts are needed. [11]The Project Finance dealers have contemplated over the assumption of a specific purpose vehicle with bankruptcy remoteness factors like the ring fencing technique which results in the credit increase for financiers and substantial cost reductions pertaining to sponsors. Though creation, of a project company is not hard and fast rule inherent to the project finance. Such projects usually undergo two stages the construction phase and the operation phase characterized by risks and a specific cash flow pattern. Now, the Construction primarily involves many

[10] Evolutions and Managerial implications Journal of Applied Corporate Finance
[11] Determinants and Impacts of Sovereign credit ratings

technological and some environmental risks, as compared to operation stage that is exposed to market risk e.g the fluctuations in the price of inputs and outputs. And there are political dangers among other factors. Most of the capital expenditures are visible in the construction phases with revenues only start to appearing after the project has begun in the operation stage.[12]

The profit in large projects is dependent on the joint efforts of parties involved. The coordination failure or the conflict of interests and the free riding of project participant have significant costs. From the construction concerns to the input suppliers, from the government to the financer, all parties have substantial stakes in allocating the larger cash flows which are generated by the project operation and which can lead to opportunistic behaviors and to the inefficient investment.

In the developing economies of Asia, the Project Finance becomes and will continue to be like so, an important tool of raising the funds for the necessary infrastructure in order to support the developing economies of the region. In addition to this, it has the other benefit of minimizing the particular country's exposure to the national and international capital markets.

Nevertheless, usually the significant practical aspects rather than the conceptual factors are the backbone of any successful project. Success depends upon the capability of the project participants/investors to identify, allocate and also manage the risks they have encountered. It also on the potential of the participants to engender structures they have utilized in the past to face the challenges appearing in this region. Participants must keep a critical eye over the structures they adopt and must resist the impulse to insist on the compulsory inclusion of the relevant structures on the basis that it has worked well in the past or earlier times. This is important in the newly emerging markets of Asiatic region

[12] Political risk : A review and reconsideration, Journal of International Business Studies,

where the regional, and the financing aspects of the projects, are considerably more complex than in Europe, UK and even the USA.[13]

The developing economies in Asiatic region experience an unprecedented growth rate. This explosive development places the unprecedented demands on the insufficient existing infrastructures in majority of countries as noticeable in the field of energy. Many commentators claim that the underdevelopment of the infrastructure therein in numerous countries in this region is one of the prime contributors to a lesser economic performance than otherwise could have been expected. Given this performance of these economies in the previous five years, it is not surprising that countless people take the development of infrastructure as a unique chance. It is clear that the demand to develop these projects will outstrip the availability of limited sources of finance from the public sector.[14]

Resultantly, a larger amount of capacity is expected to come from the privately financed projects which use project financing techniques specifically suited to the particular markets, where the projects would be built and also operated. This point is significant for the vast numbers of developers, the construction companies, veteran financial experts, and also the equipment producers and their professional advisors, who are based in this region.

However, with the fast pace of the recent development and major activity in this region there appears to be a lack of understanding of certain financial structures and the appropriateness of some particular projects.

Build Operate Transfer structure is often considered to be a specific kind of structure, which is particularly adapted to large scale infrastructure projects. It is a structure which currently receives requests for not only advice but also explanation. Those, who are quite familiar with such concepts involved, this paper will highlight some important considerations which need to be carefully borne in mind when enforcing a BOT in this region.

[13] Foreign enterprise and forced divestment in the LDCs, International Organization,
[14] Principles of Corporate Finance

Concisely, under a BOT structure, the government usually grants some concessions to the project company. Under such concessions, the project company has the right to work and use a facility, for example, an oil refinery, or a power station, or some water treatment plant, construction of new roads and bridges. An area is used that had previously experienced the direct funding. A project company in such cases borrows from the financing institutions in order to fund the construction of any facility. The loans are repaid from the funds paid by the government according to the agreement during the duration of the concessions. At the end of these concession periods, the facility is transferred back to the state's government typically the project company has obtained a profit for its equity investors by then. This type of structure is very common with the governments in this region, as it makes them able to develop an infrastructure project without exhausting their limited resources over particular projects. [15]

Nevertheless, a BOT is a structure that engulfs the non-recourse financing. This is financing, where the creditors are repaid from the cash flow made by the project and whose only safety is in the revenue and the assets associated with the project. But, pure non-recourse financing is quite uncommon and rare as lenders are rarely willing to commit the very large amounts needed for the international projects. In reality, even limited recourse financing is at times rarely found in the region since the project company may not comply to the obligations towards the lenders for the developments and the operations of the project. [16]

Accordingly the international project financing, in the emerging markets of the region of Asia, inclines to be financed on a basis which rely mainly on the company's cash flows towards the debts and the securities available for the assets of the project company, also reduces the lenders' risk by incorporating

[15] Does political instability in developing countries affect foreign investment flow?, Management International Review

[16] The economic foundations for using project finance.

means of credit support provided by the states' governments, the sponsors, or any other interested parties.

A BOT is a complicated structure with a variety of elements that need to be combined. It requires an intricate network of interrelated, coordinated and inter conditional contracts. A BOT includes the followings agreements:

A concession agreement, a license or mineral lease between the state authority and the project company also poses risks in financial climate. This is crucial to the structure as it effectively provides the project company the legal rights to pursue the project. There are concession agreements which vary enormously according to the situation. The right to pursue the project is formulated in special legislation by the relevant government. As Hong Kong passed such a legislation, called the Tate's Cairns Tunnel Ordinance, on 1 July, of1988. another example is the Eastern Harbour Crossing Ordinance, on 1 August, 1986.

The position of sponsors or lenders in such situations vary. However, even where the sponsors and the financers are of the opinion that the concession agreements require some amendments, they must keep in mind that there are several political issues which are considered while making a request for changes. Therefore, it is usual for lenders and the sponsors to find themselves in a condition, where they have to determine the deficiencies in the concession agreements. For example, here the deficiency should be considered as one of the manifestations of any political risks involved in the project.

An off-take agreement and a pay sale agreement is between the government authority and the second project company. For example, the project may relate to electricity generation project. Sales are not possible on a spot or retail market and usually long term contracts are normally entered into. Although, the clauses of these agreements do not cause a problem as under English law system, this is not a routine case in countries of the regions, which do not have an English law scenario. In jurisdiction of region, the sufficiency of the considerations in these contracts is of great value. While an English court will not be interested when a utility ends up paying ten or twenty times of the actual market price for gas because of the take or pay obligation, this may be of importance elsewhere in the world. So, the proper advice must be asked for, regarding the proposed off-take agreement or contract, in relation to the enforceability and in relation to their structures. A consideration may arise in the regulated economies/states of the region: whether an adequate agreement can be negotiated or not. As in China, the electricity prices are usually subjected to center's control, it is not possible to pass through costs to the off-taker/investor.[17]

The construction contract involving the project company and the construction company is of high value. This is in the shape of a comprehensive and explanatory turnkey contract which provides for the project to be delivered over and also be ready for any quick operation. The participants in such projects should be ready to consider variables to a contractual structure or clause with which they have to be familiar. It, as a matter of fact, happens in Thailand and also in Indonesia for a project company to make use of certain tax savings when the construction contracts are well structured. Hence, there is a vivid division between the task that is carried out onshore and the one which is carried out offshore. Licensing restrictions and prohibitions in Vietnam also necessitate splitting the turnkey contract. So accordingly, the participants in the project need to revise the preconceptions they have as to how and why the construction documentation must be structured.

Similarly, there can be a fuel supply agreement between project company and/ or the fuel supplier/ suppliers. This is not necessary that the project company must provide its own raw material when the project relates to the extraction of natural resources. Likewise, an equipment supply agreement/ project with a supplier or a number of suppliers have several key factors or risks involved.

[17] .Courts.Quarterly Journal Of Economics

In project finance, one may encounter risk when it comes to credit agreement between various banks and the project company in which usually the banks advance funds to the project company as well as any associated security document or files. Some of the issues parties have to consider can be the currency of the loans denominated in the principal currency/ expenditure/ and the currency of the project revenues. The drawdown requirements may or may not be manageable from the project company's stand and there must be some control that reflects local legal requirements. As any instance can be analyzed e.g a rigid onshore account or any offshore account structure or structures would not be appropriate when the exchange control discretion is required for every or any transfer of foreign money offshore. The agreement of the shareholder and the sponsors need to establish the rights and duties of the sponsors not only with respect to each other but also to the project company. Hence, it is of primary importance that such agreements are well structured and the equilibrium of risk is accurately and most appropriately allocated within the limits of contractual framework.

BOTs are typically structured on a well grounded basis and reasons that require the parties involved to share the risks of the project or projects. Project risk sharing is significant since the project company will have a limited value due to the substantially less than the aggregate net value of the equity parties and share holders. Each project has its own unique set and patterns of risks. In identifying the risks, parties analyze the projects in three stages or levels which are development or financing, the construction and the operation as mentioned and explained earlier. Within each of these phases, there are innumerable risks that co- exist. It is perceived in some cases that higher degrees of risk exist in the construction phase of a project, due to the availability and non-availability of funds that are advanced and the revenue flow on which the investors are dependent upon for repayment.

Once the project risks are assessed, the possibility of their occurrence and their effects on the project are determined. Then the risks are located and allocated to the appropriate parties. The major consideration in initial stage lies in analyzing the risk sharing. The risk must be given with a party who is willing to accept that risk or danger.[18]

The parties usually include the government and the government authorities as the major players and then the investors. Infrastructure projects will normally pertain to the local government or authorities either acting through the ministries or appropriate local bodies. They initiate the project or the agreement, conduct the tendering processes, then conduct evaluations of tenders/parties and then grant and confer the project company the concessions thereof. They may also grant a long term lease for the project benefiting the project company and may acquire most of the services provided by the facility being used.

Now, the issue to ponder over here is whether the government is the appropriate statutory power to enter into such projects, which acts as a party and may perform the obligations therein. If the government authority may not have the requisite power all its actions will be declared as ultra-vires. Therefore, they are considered as void. Whether the government's actions are intra vires or ultra vires, one has to examine the legislation and the laws under which the authority is governing. If the law does not give the power to enter into the project, the legislation has to be altered by the government in order to carry out the project under discussion. Furthermore, the projects proposed in this region, in China especially, include government committing assets like land to the project company contrasted to actual subscription for the shares. A lot of care should be taken in controlled economies. This is done because the authority involved has title to the lands or assets that are transferred to the project company.

The project company can be a company/ full partnership or a limited partnership/ can be a joint venture or a combination of all of them. This is influenced by the lawful and regulatory system of the host government. Foreign participation in large projects of China is through a joint venture along with the government or

[18] .Courts.Quarterly Journal Of Economics

any enterprise responsible to develop the any particular industry. The tax regime and the foreign exchange laws also leave a great and deeper impact upon the ownership structure.

As mentioned previously, the BOT project/projects are structured well intentionally to insulate the project company from the upcoming risks. In cases, the project company tends to be a financing vehicle and avoid risks.

The project sponsors are the companies and agencies who are instrumental in promoting the project and are effective tools to bring various parties and the investors together in any partnership in order to involve them in some aspect of the work, be it the construction or the operation. It may be the purchase of the services, goods or the possession of the land. Also, they are investors in the equity of the project company. They may act as debt providers or the debt guarantors of for the project company.

The support is given by the project sponsors, and that depends from project to project. It may include the provision of comfort letters often found in the projects in this region, the cash injection related undertakings, the completion stage aid, and also the provision of completion support through the manifold letters of credit.

The financing for the BOT involves the sheer size of the project, a management of banks and within that syndicate is involved, an arranging bank/ banks which take the prominent role in the negotiation of the project and the finance documents. The syndicate mostly involves banks from the host state, In particular, there are restrictions on the foreign bank/ banks taking security over the project asset/ assets.

The syndicate necessarily takes a revision of the core project documents and data to assess the intensity of risks and determine the impact of the allocation the credit approval. In ordinary terms, these are evaluated in accordance to a veteran engineering firm/firms, which ascertain the designs of project and its technical aspects of such contracts. It is also incumbent that the promoter of the project comprehends this review of the documents and considers it a significant portion of the credit process, for all the lending institutions. And, that the requirements of these lending institutions/ persons shall not be dealt with by highlighting the documentation that reflects the agreement adopted by the various non lending stakeholders. Therefore, it cannot be changed/ modified. In fact, the wisest approach seems to be: the documentation must be reached at in conjunction with the lending institutions. And if it is possible, in particular, the issues like the assignment and the right of termination shall be of significance to the lenders. [19]

One of the major concerns the lenders have, are apart from satisfying themselves by the apportionment of risk factors, it is necessary to ensure the effective security they have, over all the main assets of the projects. [20]

There are several projects in the upcoming markets of Asia and the world over that are co financed by World Bank and the private sector. The International Finance Corporation, the regional development agencies (the Asian Development Bank). Export Credit Agencies exhibit a pivotal role in the financing of infrastructure projects.

The participation of Export Credit Agencies also affects the transaction/ventures as they might have their own rules and the requirements. However, the most recent experiences have been, are a number of such agencies are becoming more lenient in their approach towards the way projects. Particularly, many of the agencies have started to begin recognizing, that there is a need of some kind of inter-creditor agreements among themselves and the other commercial lenders.

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[19] Asset-Based Financial Engineering
[20] Commitment: The dynamics of Strategy.

The agency may participate in financing as one of a member of groups of lenders. This participation of agencies may eliminate some concerns about the inherent political risk prevalent therein the host country.

The conceptual designs of the infrastructure, is typically dictated by the experienced utility/utilities. However, the construction companies will often assume role to design the facility, and will take it through the stages of the construction till the design is mechanically completed. Moreover, it depends upon the type of infrastructure and the commissioning risk that is allocated to the construction companies.

The project company's goal is to enter into a fixed price and fixed time. This is rarely fully attained. There are normally cost and timing risks that are not accepted by the construction company leading thus, to variations in prices or timings.

There is not a shortage of the private operators for the routine infrastructure projects. This has a lot to do with operators who tend to take little risks in the form of upfront capital/expenditure. The private operators anticipate a profit from operating the infrastructures more effectively than a government operator.

The other party involved in infrastructure projects includes equity provider, or equipment suppliers or fuel suppliers and the various consultants. Mostly, these parties involve their lawyers and the advisors. The presence of numerous parties and differing interests leads to the complexity of project.

The most basic allocation of risk in BOT is apportioned as follows: the market risk is undertaken by sponsors, whereas, the detailed design, the construction and commissioning risk shall be taken by the construction company. Then there are operating risks taken by operator and the residual risks by the participants of the project company.

Nevertheless, the government and lenders also bear a major proportion of the risks indirectly. If the project company is held responsible for providing fuel and that happens to be below the quality, the power station may not be capable to perform to the required limit. To eliminate the problem, the project company must fulfill its obligations towards the construction company according to the construction contract/agreement with the government. The risk shall end up in the hands of the state or government or the lenders.

Each particular country has inherent list of risks. Those who have a special relevance to energy field, in the newly emerging markets, include mostly the developing countries in Asia, where there is a lack of clearly defined rules related to private infrastructure projects. However, there is evidence of a general trend in these countries, towards the establishment of structures for investment in infrastructure projects. An example is the semi privatization of Tenaga National and the four licenses for independent power projects of Malaysia.

It is difficult to set up the system for private investment without constituting a whole system which provides indirect support. The essential requirements which needed for convincing a party includes a relationships with banks so that there should be no difficulty in transactions and a legal regulatory frame work which will be helpful in solving the issues like tax, helping in making documents for import and export and conversion of money. If all these requirements will not be fulfilled then the project will be financed with direct government guarantees.

Without a clear regulatory regime it is difficult to finance privately infrastructure projects. It is also very surprising that it is very difficult in infrastructure financing to complete all the documents
and reach a position when you will be in a position that you are able to negotiate with the banks.
For example in Asian Countries like China which is the biggest economy of Asia has extremely procedure and after completing these procedures investors will be

able to negotiate with the provincial authorities.

In China investors may face problems like using foreign currency. Investors need assurances from the government to convert local currency into international currency. Changes in law due to nationalization policy in some countries are a big risk to public finance. However besides that other major changes in law also had a great impact on the project. For example if the investing country enforces strict additional tariffs on imports of infrastructure material such as additional taxes on imports of plants and machinery from abroad. Besides the changes in health and safety

requirements which lead to changes in design of the project also affect the viability of the project.

Countries like China and Vietnam the development of legal frame work regarding Western project financing is still developing but there are bright chances of investing in project financing in these countries. If we compared these countries with Malaysia and Thailand legal structure of these countries regarding project finance are more developed but in these countries there are some difficulties regarding security. In Malaysia there are limitations in holding foreign currency or if we can say that there are restrictions on foreign currency holdings. In Thailand the laws regarding holding of foreign currency are not so strict and they have a liberal foreign policy.

Western investors are aware of the facts that they should maintain certain environmental standards in infrastructure projects. It would be wrong to think that Asian countries don’t focus on environmental policies or if we say that there environmental policies are not properly developed. For example in Malaysia and Thailand which are the biggest economies of Asia environmental study of the project is necessary and after that the authorities will give approval. In some case the relevant authorities are unaware of the environmental impact of the technology used on the project so sometimes investors have to spend more time in satisfying the authorities.

In project finance environmental approval is very difficult if the projects are funded by World Bank and Asian Development Bank because they don’t compromise on environmental impact due to their strict environmental standards.

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