

USING PROJECT FINANCE TO FUND INFRASTRUCTURE INVESTMENTS

Richard A. Brealey, Ian A. Cooper, Michel A. Habib

First published: Fall 1996

<https://doi.org/10.1111/j.1745-6622.1996.tb00296.x>

We would like to thank Joseph Blum, Carlo Bongiani, Don Lessard, Gill Raine, Mary Wan and Adam Wilson for helpful discussions. The third author would like to acknowledge the financial support of the International Programme on the Management of Engineering and Construction.



Abstract

For much of the past century, there has been an increased tendency for large infrastructure projects to be funded and operated by governments. Since the early 1980s, however, private-sector financing and management of such projects have experienced a dramatic revival. In some cases, this revival has taken the form of the “privatization” of an entire industry. But another, increasingly common, form has been the use of project finance to fund infrastructure investments. Besides being widely used in infrastructure investments like telecommunications and power generation in developing countries, the use of project finance has recently been extended by the U.K.'s Private Finance Initiative to fund public enterprises as diverse as the construction and operation of prisons, hospitals, subway cars, and the National Insurance computer system.

In a project financing, the project is managed by a separate company that is owned by a project sponsor (or sponsors) who usually takes an active role in the management of the project. The project company enters into a complex series of contracts with multiple parties, including the host government, the project's customers and suppliers, and the banks that typically provide most of the debt financing.

This paper argues that the equity investment by the project's operators works together with high debt ratios and the web of contractual arrangements to reduce “agency” problems in the

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

[Sitemap](#)

OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

CONNECT WITH WILEY

[The Wiley Network](#)

[Wiley Press Room](#)

Copyright © 1999-2026 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



Manage Preferences

Accept All

Reject Non-Essential