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Running through the six articles in this issue are some of the most prevalent themes in project finance today, including massive worldwide infrastructure needs and increasing private-sector participation. Nowhere are infrastructure needs greater than in the Muslim world, which today comprises 25% of the world's population but only 10% of its GNP. One of the ways to increase the pace of development in this underserved area is through co-financing, in which project sponsors combine Islamic and conventional western financing methods. The first article, by Benjamin Esty of the Harvard Business School, provides not only a primer on Islamic finance and its most important technical terms, but also a case study on the integration of Islamic funds and conventional funds in a single project financing for a petrochemical plant in Kuwait. Next is an article on predicting power rates, arguably the most significant credit risk factor for merchant power producers, by Andrew Jacobyansky of Moody's. This is part of a continuing series on merchant power, following an article in the Fall 1999 issue by Robert Johnson of Moody's on the credit risks of merchant power plants. The third article, by Lincoln Bleveans of Illinova Generating Company in Decatur, Illinois, describes impediments to the financing of independent power projects in China as the country begins a gradual move toward to a competitive electricity market. Bleveans suggests tolling agreements, in which a generator simply acts as a contract manufacturer of electricity, as a solution to the legal and regulatory uncertainty during the transition period. Following are three articles with different approaches to build-operate-transfer (BOT) projects. Curtis Spillers of Duff & Phelps notes the growing trend toward airport privatization, often done through a BOT structure, and related project financing outside the U.S. He explains his agency's credit rating criteria for airport project debt. Michel Jichlinski of Louis Berger International describes measures taken, based on lessons learned in legal documentation, cost and schedule overruns, revenue shortfalls, and public opposition, to maximize the likelihood of success for a proposed project to build a bridge between Buenos Aires, Argentina and Colonia, Uruguay. Finally, Yang-Cheng Lu of Ming Chuan University, Soushan Wu of National Chiao Tung University, Dar- Hsin Chen of Tamkang University, and Yun-Yung Lin of Tamkang University in Taipei address the

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insufficiency of risk analysis and the consequent difficulty in getting some $40 billion infrastructure projects financed in Taiwan. They suggest a variant of value at risk (VaR) that they call project at risk (PaR) to estimate the potential risk exposure of a BOT project. Just as Benjamin Esty did in an article on discount rates used for project valuation in the Spring 1999 issue of the Journal of Project Finance, the authors are helping build a bridge between project finance and other types of corporate finance. VaR, a measure of the maximum expected loss that could occur in normal markets, over a defined period, within a defined level of probability, has become an important common denominator for corporations in measuring and disclosing their foreign exchange, commodity, and interest rate risks. We hope you find the material in this issue useful and always look forward to your comments and suggestions for future articles.

Henry A. Davis
Managing Editor