PPP ONLINE REFERENCE: GLOSSARY

What is a PPP?

Find out the ABC's of PPPs in the comprehensive glossary found on this page or find it's definition by checking the link below.

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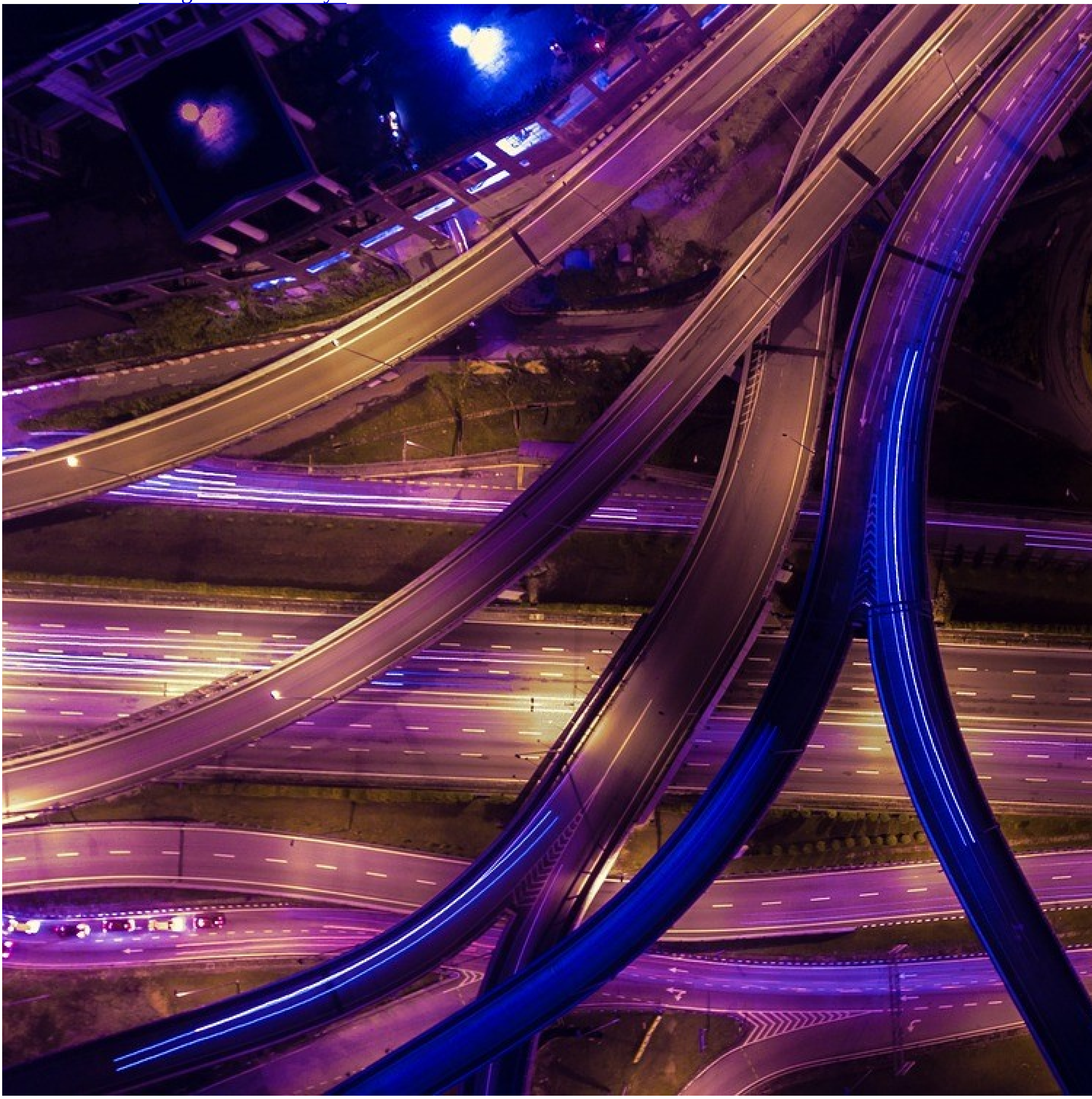


- PPP Basics

Find your way around PPPs and infrastructure projects with an exhaustive list of commonly used terms. Scroll through the page or click the quick links arranged alphabetically below. Check the PPP Online Reference Guide to learn more about PPP basics or visit the Public-Private Partnership Resource Center homepage for more resources.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

A

Acceleration

After a default, the right of the lenders to make the loan immediately and fully due and payable. Repayments are accelerated to the present.

Administration Order

A court order made in relation to an insolvent company, or one that is likely to become insolvent. The purpose of such an order is to preserve the company's business, allow reorganisation, or to ensure the most profitable realisation of the company's assets by placing it under the control of an administrator and protecting it from action by its creditors.

Administrative Receiver

A person appointed by the holder of a floating charge covering the whole (or substantially the whole) of an insolvent company's assets, in order to recover the money due to the secured creditor. An administrative receiver can carry on the company's business and sell the business and other assets secured by the charge (an administration order).

Advance Payment

A payment made by a project company to the construction contractor at or around commencement in order to offset preliminary costs, including purchase of equipment and organisational expenses.

AFD

Agence Française de Développement

AfDB

African Development Bank. A multilateral development bank with headquarters in Abidjan, Côte d'Ivoire.

Affermage

A PPP structure (originally created under French law), under which the private operator is responsible for operating and maintaining the utility/ business but not for financing investment. The project company does not receive a fixed fee for his services but retains part of the receipts collected from consumers, with a portion of the receipts going to the contracting agency as owner of the assets. The payment to the contracting agency will be a percentage of the receipts or a percentage of the total units of service provided.

All-in Cost

Total costs, explicit and other.

Amortisation

Reduction of capital or up-front expenses (capitalised) over time to reflect life-cycle depreciation and obsolescence, often an equal amount per annum. Sometimes describes repayments over time, in a series of instalments. See also depreciation.

Angel Capital

Investors usually high net worth individuals, that provide early stage capital to certain types of businesses (e.g. clean energy, socially focused health and education) filling the capital gap between initial funding (e.g. from the entrepreneur, their friends and family) and other sources of funding (e.g. venture capital).

Annuity

Repayment of debt where the sum of principal and interest is equal for each period; also a term used in India for availability payments.

Arrangement Fee

The fee paid to an arranger of financing for its work in relation to a transaction.

Arranger

The senior tier of a syndication. Implies the entity that agreed and negotiated the project finance structure. Also refers to the bank/underwriter responsible for originating and entitled to syndicate the loan/bond issue. The arranger may not necessarily also be the agent and may not even participate in the transaction.

Authentication

The physical signing of a security by the issuing and paying agent in order to give it legal effect.

Availability Payment

Where the contracting agency pays the project company for the services rendered (different from a user fee).

B

Base Rate

The rate of interest used as a basis by banks for the rates they charge their customers. In the United Kingdom, the base rate refers to the rate at which the Bank of England lends to discount houses, which largely governs the lending rate throughout the banking system.

Basis Point

One hundred basis points equal one percentage point.

BBO

Buy-Build-Operate (similar to BOO).

Bid Bond

A bond of a fixed amount, usually one per cent. to three per cent. of the tender contract price, deposited by bidders with the tendering authority at the time of submission of their tenders as a form of guarantee that the bidder will enter into a contract and achieve financial close in conformity with the tender. The bid bond is generally returned to the successful bidder on effectiveness of the relevant contract or on financial close. Also known as a tender bond.

Bid Price

The price offered.

Bilateral Agencies

An agency of one country, either public or private, which funds development in other countries. See also export credit agencies; multilateral lending agencies.

BLO

Build-Lease-Operate. The grantor builds the project, then leases it to the project company which operates it for the duration of the concession period.

BLOT

Build-Lease-Operate-Transfer. The grantor builds the project, then leases it to the project company which operates it for the duration of the concession period.

Bond

The paper evidence of a legal promise by the issuer to pay the investor on the declared terms. Bonds are usually negotiable and customarily long-term, e.g. five to 25 years. Short-term bonds are usually referred to as notes. See also bid bond; maintenance or retention bond; performance bond; straight debt.

BOO

Build-Own-Operate. The private entity will build, own and operate the project just as in a BOT project, but there is no transfer back to the Government. This method is often used where there will be no residual value in the project after the concession period or accounting standards do not permit the assets to revert to the contracting agency if the contracting agency wishes to benefit from off-balance sheet treatment.

BOOS

Build-Own-Operate-Sell. Same as a BOT except that the contracting agency pays the project company for the residual value of the project at transfer

BOOT

Build-Own-Operate-Transfer. In this, the project is transferred back to the party granting the concession. The transfer may be for value or at no cost. See also constituent documents.

BOR

Build-Operate-Renewal of concession (similar to BOO).

Break Clause

A clause giving a party the right to terminate the contract at a particular point, often called the "break point".

Bridge Financing

Interim financing, before a long-term financing is put in place.

BTO

Build-Transfer-Operate (similar to BOT). This often involves the contracting agency paying for construction of the facility, separate from operations, at or before transfer.

Bullet

A one-time repayment, often after no/little amortisation of the loan. A balloon.

Buy-back

A promise to repurchase unsold production. Alternatively, a promise to repay a financial obligation.

Buyer Credit

Financing provided to a buyer to pay for the supply of goods or services, usually by an exporting country or the supplier company.

C

Call Option

A contract sold for a price that gives the holder the right to buy from the writer of the option, over a specified period, a specified property or amount of securities at a specified price. Also known as a "call". For example, in a bond or loan, the call option may give the borrower a refinancing option if interest rates fall below the call option interest rate. The borrower will pay a higher coupon for this right.

Capital Appreciation

The increase in the value of an asset over time.

Capital Costs

Costs of financing construction and equipment. Capital costs are usually fixed, one-off expenses.

Capital Expenditure

Long-term expenditure on fixed assets such as land, buildings, plant and equipment

Capital Grant

Funded support from Government to off-set construction costs and thereby reduce the amount of private finance needed for a project. See also Government support and viability gap fund.

Capital Productivity Index

The present value of cash but excluding the initial capital cost divided by that initial capital cost.

Capitalised Interest

Accrued interest (and margin) which is not paid but added ("rolled up") to the principal amount lent at the end of an interest period. See grace period.

Carbon Credits

A credit or permit arising from a greenhouse gas emissions reduction scheme, such as emissions trading.

Carbon Emissions Trading Scheme

A scheme in which greenhouse emissions are controlled by setting a cap on total emissions and allowing the market sector(s) to reach an economically balanced response via trading of emissions allowances. Allowances are allocated initially, perhaps through a free distribution or through an auction, and the total allocation is adjusted (capped) periodically.

Carbon Storage

The long-term storage of CO_2 (as at carbon capture) in forests, soils, ocean or underground in depleted oil and gas reservoirs, coal seams and saline aquifers. Also referred to as engineered carbon sequestration.

Carbon Trading

A scheme in which greenhouse emissions are controlled by setting a cap on total emissions and allowing the market sector(s) to reach an economically balanced response via trading of emissions allowances. Allowances are allocated initially, perhaps through a free distribution or through an auction, and the total allocation is adjusted (capped) periodically.

Change Mechanism

(or variation mechanism) The contractual procedure set out for making a change, specifically how a change can be made and how to calculate the resulting change in contract price and time for completion.

Clawback

The ability (e.g. on the part of the grantor) to recover prior project cash flow that may have been distributed/paid away, e.g. as dividends to the sponsors.

Collar

A combination of a ceiling and a floor, for example to an interest or foreign exchange rate, structured through swaps, options, hedging or by agreement. Also known as a tunnel.

Collateral

Assets pledged as security under a loan, to assure repayment.

Commercial Close

In a financing, the point at which the commercial documentation has been executed but before conditions precedent have been satisfied or waived; before financial close.

Commercial Risk

Risk due to uncertainty about investment outlays, operating cash flows, supply, demand and asset values. Also known as business risk.

Commissioning

The testing and inspection of the completed works to verify that the works are ready for commercial operation.

Commitment Fee

A per annum fee applied to the portion of the unused financing (the amount not yet drawn down) until the end of the availability period.

Completion Risk

The risk that a project will not be able to pass its completion test within the time for completion.

Completion Tests

Tests of the project's ability to satisfy the contract requirements, perform to a specified minimum standard and generate the expected cash flows.

Compound Interest

Interest resulting from the periodic addition of simple interest to principal, the new base thus established being the principal for the computation of interest for the following period.

Concession

The right granted by the host government for a private company to undertake an otherwise public sector project and operate that project over a period of time.

Concession Agreement

The agreement with a government body that entitles a private entity to undertake an otherwise public service. See also constituent documents; project documents.

Concessional Finance

Debt provided on a subsidised basis, where the borrower (usually a sovereign entity) would not be able to access debt at such a low cost of money on the financial markets. The subsidised cost is generally provided to encourage specific activities or support certain borrowers. E.g. the World Bank through IDA provides concessional financing to the poorest countries.

Conditions Precedent

Conditions which must be satisfied before a right or obligation accrues. The matters which have to be dealt with before a borrower will be allowed to borrow under a facility agreement. These will be listed in the agreement.

Consortium

Two or more parties acting together as a partnership or joint venture.

Contingency

An additional amount/percentage set aside against a cash flow item, e.g. capital expenditure. For liabilities, those that do not appear on the balance sheet until they crystallise, e.g. guarantees, supports and dispute settlements.

Contingent Liability

A liability which is uncertain as to its crystallization, e.g. a guarantee or a contingent debt, either in amount and/or timing.

Convertible Currency

A currency which can be freely exchanged into foreign currency or gold without government central bank restrictions or authorisation.

Cost and Freight

(named destination port) An Incoterm (www.iccwbo.org) meaning seller must pay the costs and freight to bring the goods to the port of destination. Risk is transferred to the buyer once the goods have crossed the ship's rail.

Cost of Debt

Yield to maturity on debt; frequently after tax, in which event it is one minus the tax rate times the yield to maturity.

Counterparty

An adverse party usually in a swap or contract, and includes intermediaries.

Country Risk

Risk specific to a particular country, including political risk and economic risk. See also sovereign risk.

Coupon

The interest amount or rate payable on a bond. A coupon may be physically attached to the bond certificate.

Covenant

An agreed action to be undertaken (positive) or not done (negative). A breach of a covenant will generally constitute a default.

Cover

The extra amount, e.g. of net cash flow remaining after expected debt service.

Cover Ratio

The ratio of income to debt service requirements used as an indicator of the safety margin for servicing debt. Sometimes known as debt service cover ratio.

CPI

Consumer Price Index.

Credit Rating Agency

(or rating agency) A private agency that assesses credit risk of sovereign entities, companies or investments, such as Standard & Poors, Moody's and Fitch. The agency applies a letter grade to indicate credit risk. Lenders and investors use the rating as an indication of the relative riskiness of a loan or investment.

Credit Risk

The risk that a counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract (default), either because of bankruptcy or any other reason, thus causing the asset holder to suffer a financial loss. Sometimes known as default risk.

Creditworthy

An entity which is "creditworthy" is deemed to have a low risk of default on a debt obligation.

Cross-collateral

A pool of collateral of two or more project sponsors, from which the sponsors agree to allow recourse to each other’s collateral.

Cross-default

An event of default triggered by a default in the payment of, or the actual or potential acceleration of the repayment of, other indebtedness of the same borrower or group.

Cure

Make good a default. See also defects liability.

Currency Basket

The situation in which a selection of currencies (the basket) is combined to create a common unit. In such cases, the value of each currency is usually weighted according to various economic criteria, such as the foreign component of a country’s total trade, its gross national product and its importance in world trade.

Currency Option

A currency option entitles the holder to buy or sell an agreed amount of foreign currency at an agreed price until or on an agreed date.

Currency Risk

The risk associated with changes in the exchange rate for a currency. See also transfer risk.

Currency Swap

A swap in which the parties sell currencies to each other subject to an agreement to repurchase the same currency in the same amount, at the same exchange rate, and at a fixed date in the future. The exchange ensures that neither party is subject to currency risk because exchange rates are predetermined.

D

DBFO

Design-Build-Finance-Operate. The grantor retains title to the site and leases the project back to the project company for the period of the concession. Similar to BOO.

DCMF

Design-Construct-Manage-Finance, similar to BOO.

Debenture

A document evidencing actual indebtedness. Often also used to refer to a document creating a charge, mortgage or other security interest. (It should be noted that the exact legal meaning of the term "debenture" is uncertain and there are differing views on whether or not documents such as loan agreements constitute debentures.) A legal security over the issuer's general credit/balance sheet.

Debt Capacity

The total amount of debt a company can prudently support, given its earnings expectations and equity base.

Debt Leverage

The amplification in the return earned on equity funds when an investment is financed partly with borrowed money. See debt-equity ratio and gearing.

Debt Rescheduling

Adjusting the tenor, interest rate or other terms and conditions of a debt agreement.

Debt Service

Payments of principal and interest on a loan.

Debt Service Cover Ratio

The ratio of income to debt service requirements for a period. Also known as the cover ratio.

Debt Service Reserve

An amount set aside either before completion or during the early operation period for debt-servicing where insufficient revenue is achieved.

Debt to Equity Ratio

The proportion of debt to equity, often expressed as a percentage. The higher this ratio, the greater the financial leverage of the firm.

Decennial Liability

A type of liability for defects in completed construction work placed on the contractor by law, as exemplified by the decennial liability created by Article 1792 of the Code Civil in France. It takes its name after the ten years after completion during which a contractor in France remains liable for defects in civil works. For each type of work performed, the Code Civil creates different levels and durations of liabilities.

Default Interest

A higher interest rate payable after default.

Default Risk

The risk that a counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract (default), either because of bankruptcy or any other reason, thus causing the asset holder to suffer a financial loss.

Defects Liability

The construction contractor’s obligation to cure defects which may arise after completion.

Defects Liability Period

The period during which the construction contractor is liable for defects after completion.

Deficiency Agreement

The situation in which cash flow, working capital or revenues are below agreed levels or are insufficient to meet debt service; a deficiency or make-up agreement provides the shortfall to be met by the sponsor or another party, sometimes to a cumulative limit.

Demand Line of Credit

A bank line of credit that enables a customer to borrow on a daily or an on-demand basis.

Depreciation

Amortisation for accounting (book), tax calculations or income calculations. A regular reduction in asset value over time. See also straight-line depreciation.

Design and Build

Where one contractor is responsible for the design and construction of a project to completion, so that it is ready to produce cash flow.

Despatch Instructions

The instructions given to the operator by the bulk offtake purchaser as to how much output is required. These instructions will often include specific requirements for offtake and how the operator is to fulfil these requirements.

Devaluation

A formal government action which has the effect of decreasing the value of its own national currency by reducing the equivalent value in gold, special drawing rights, US dollars or other currencies. However, devaluation is only possible where fixed exchange rates exist.

Development Finance Institution

A multilateral or bilateral agency, either public or private, which funds development. See also bilateral lending agencies (BLA); international finance institution (IFI), multilateral lending agencies (MLA).

DFID

Department for International Development, the development aid agency of the United Kingdom, further to a recent restructuring also UKAid.

Direct Agreement

An agreement made in parallel with one of the main project documents, often with the lenders or the contracting agency. Step-in rights and other lender rights are often reinforced or established through direct agreements between the lenders and the project participants.

DOT

Develop-Operate-Transfer (similar to BOT).

Drawdown

The obtaining by the borrower of some of the funds available under a credit facility.

E

EBRD

European Bank for Reconstruction and Development, a multilateral lending agency that targets certain member countries in Eastern Europe and the former Soviet Union, and has now expanded into Asia and North Africa.

Economic Internal Rate of Return

The project's rate of return after taking into account economic costs and benefits, including monetary costs and benefits.

Economic Rate of Return

The project's rate of return after taking into account economic costs and benefits, including monetary costs and benefits.

Economies of Scale

Lower average total cost achieved as a result of higher output levels.

EIB

European Investment Bank.

Environmental Costs

Negative ecological consequences.

Environmental Impact Assessment

An assessment of the potential impact of a project on the environment that results in an environmental impact statement.

Environmental Impact Statement

A statement of the potential impact of a project on the environment. The result of an environmental impact assessment, which may have been subject to public comment.

Environmental Risk

The economic or administrative consequences of slow or catastrophic environmental pollution.

EPC Contract

Engineering, procurement and construction contract (i.e. turnkey construction contract) and design and build.

Equity Kicker

A share of ownership interest in a company, project or property, or a potential ownership interest in a company, project or property, in consideration for making a loan. The kicker may take the form of stock, stock warrants, purchase options, a percentage of profits or a percentage of ultimate ownership.

Escrow

A deed that has been signed and sealed but is delivered on the condition that it will not become operative until some stated event happens. It will become effective as soon as that event occurs and it cannot be revoked in the meantime. Banks often hold escrow accounts, in which funds accumulate to pay taxes, insurance on mortgaged property, etc.

Event of Default

One of a list of events which would entitle the lenders, under the terms of the relevant credit facility or debt instrument, to cancel the facility and/or declare all amounts owing by the debtor to be immediately due and payable. Events of default typically include non-payment of amounts owing to the lenders, breach of covenant, cross-default, insolvency and material adverse change. See also default.

Exchange Controls

Restrictions that are applied by a country's monetary authority, or central bank, to limit the convertibility of the local currency into other specific foreign currencies.

Export Credit Agencies

An agency established by a country to finance its national goods, investment and services. They often offer political risk insurance. Also known as a trade finance agency. See also bilateral agencies; multilateral lending agencies.

Export Credit Incentive Programmes

The governments of most of the world's industrial and trading nations sponsor trade support programmes that are designed to promote the host country's exports. The programmes usually include a variety of short-, mediumand long-term financing, guarantees, or insurance programmes in which governments share commercial and political risks ranging from currency inconvertibility and bankruptcy to war, riot and revolution. Also known as trade financing programmes.

Expropriation

The taking over by the state of a company or project, with compensation usually being paid. Creeping expropriation occurs when a government gradually takes over an asset by taxation, regulation, access or change in law.

F

Facility Fee

An annual percentage fee payable to a bank providing a credit facility on the full amount of the facility, whether or not utilised. See also front-end fee.

Feasibility Study

A detailed assessment of the parameters of a PPP project used to prepare a project for transaction development. See also full business case.

Financial Close

In a financing, the point at which the documentation has been executed and conditions precedent have been satisfied or waived. Drawdowns become permissible after this point.

Financial Internal Rate of Return

The discount rate that equates the present value of a future stream of payments to the initial investment.

Fiscal Risk

Risk borne by the Government (by the fiscal position of the country) due to liabilities associated with PPP transactions.

Fiscal Space

Capacity in a government's budget (including borrowing capacity) that allows it to provide or access resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy or otherwise breaching restrictions created by its own national laws or by supranational bodies or by lenders (in particular large lenders such as the IMF or World Bank).

Fixed Charge

A charge usually contained in a debenture over a company's assets which prevents the company from dealing in any way with the property covered by the fixed charge without the consent of the chargee. See also floating charge.

Fixed Cost

Any cost which does not vary over the observation period.

Fixed Currency

A currency where the official exchange value in terms of gold or other currencies is maintained by the central bank or monetary authority of the concerned country and which does not vary.

Fixed Rate

An interest rate that is fixed (calculated as a constant specified percentage) for a defined period.

Fixed Rate Loan

A loan for which the rate paid by the borrower is fixed for the life of the loan.

Floating Charge

A form of security taken by a creditor over the whole or substantially the whole of a company's assets. The company can continue to use the assets in its business until an event of default occurs and the charge crystallises. The holder of the floating charge can then generally appoint an administrative receiver. See also featherweight floating charge; fixed charge.

Floating Currency

A currency whose rate of exchange (exchange rate) is allowed to fluctuate according to the forces of supply and demand. All currencies are subject to some degree of central bank intervention to soften the effects of market forces.

Floating Interest Rate

An interest rate that fluctuates during the term of a loan in accordance with some external index or a set formula, usually as a margin or spread over a specified rate. See also interest rate.

Force Majeure

Events outside the control of the parties and which prevent one or both of the parties from performing their contractual obligations.

Foreign Exchange Risk

The effect on project cash flow or debt service of a movement in the FX rate for revenue, costs or debt service.

Forex

(FX) Foreign exchange.

Forward Contract

An agreement to exchange currency or interest obligations in the future. For tradable commodities or securities, an agreement to buy or sell at a future date. See also futures contract.

Forward Market

A market in which participants agree to trade some commodity, security or foreign exchange at a fixed price at some future date. Unlike futures and options, trading in forward markets does not occur on organised exchanges but through the forex traders of financial institutions. Forward currency contracts are not transferable instruments and settlement is usually expected to be through actual delivery of currencies. See also futures market.

Forward Rate

The rate at which forward transactions of some specific maturity are being made; e.g. the US dollar price at which Euros can be bought for delivery three months hence.

Franchising

Arrangements whereby the franchisor, a major utility or company with significant experience operating such projects, provides technical support, sets technical and operational standards, provides intellectual property and possibly use of its name, and possibly provides key large investments (e.g. bulk offtake delivery). The franchisee (a small scale provider or other less experienced company) receives bulk delivery and manages service delivery to consumers, connecting new customers, operating equipment, recovering costs (metering, billing…), etc.

Front-end Fee

A fee, calculated as a percentage of the principal value of an issue of securities, which is payable once at issue (frontend), as opposed to a percentage fee payable each year. See also facility fee.

Funding Risk

The impact that higher funding costs or lack of availability of funds can have on project revenue flow.

Future Value

The value of an initial investment after a specified period at a certain rate of interest (interest rate).

Futures

The sale and purchase at a price agreed upon in advance for delivery at a future date. Both buyer and seller are speculating on how prices will change in the future.

Futures Contract

A legal agreement between a buyer/seller and an established exchange or its clearing house in which the buyer/seller agrees to take/make delivery of something at a specified price at the end of a designated period. The price at which the parties agree to transact in the future is called the "futures price". The designated date at which the parties must transact is called the "settlement" or "delivery" date. Futures contracts are usually tradable on exchanges or computer trading screens. See also forward contract.

Futures Market

A market in which contracts for future delivery of a commodity or a security are bought and sold. Different exchanges specialise in particular kinds of contracts. The exchange generally acts as a middleman, guaranteeing payment in case either buyer or seller defaults. See also forward market.

Futures Option

The right of a buyer to buy from or sell to a writer a designated futures contract at a designated price at any time during the period stated. See also hedge and option.

G

Gearing

The level of debt to equity. Interest-bearing debt divided by shareholders' equity. See debt-equity ratio and debt leverage.

Global Competitiveness Index

The Global Competitiveness Index (GCI) is a comprehensive tool that measures the microeconomic and macroeconomic foundations of national competitiveness across 12 pillars, including infrastructure. It is derived from the Executive Opinion Survey, the longest-running and most extensive survey of its kind, which captures the opinions of business leaders around the world on a broad range of topics for which data sources are scarce or, frequently, nonexistent on a global scale. Indicators are on a scale of 1 to 7 with 7 being the most favorable ranking and 1 being the least favorable.

Grace Period

The borrower does not have to pay interest or possibly any debt service, during the grace period, that amount being capitalised. This allows for periods when revenues are insufficient, e.g. during construction. See also capitalised interest.

Grantor

The party which grants a concession, a licence or some other right. See contracting agency.

Greenfield

Often used to refer to a planned facility which must be built from scratch, without existing infrastructure.

Gross-up

Additional payments made by a borrower or issuer of debt instruments to compensate its creditors for withholding taxes or similar levies which reduce the amounts actually received by the creditors.

Guarantee

An undertaking to fulfil the obligations of a third party (whether or not related) in the event of a default. It may be limited in time and amount, and may be callable immediately on default or only after the beneficiary has exhausted all other remedies. See also subrogation.

Guarantor

A party which will guarantee repayment or performance of a covenant.

H

Hard Currency

A currency considered by the market to be likely to maintain its value against other currencies over a period and not likely to be eroded by inflation. Hard currencies are usually freely convertible. See also soft currency.

Hedge

A method whereby currency (the risk of possible loss due to currency fluctuations), interest rate, commodity, or other exposure is covered or offset for a fixed period of time. This is accomplished by taking a position in futures equal and opposite to an existing or anticipated position, or by shorting a security similar to one in which a long position has been established. For example, a manufacturer may contract to sell a large quantity of a product for delivery over the next six months. If the product depends on a raw material that fluctuates in price, and if the manufacturer does not have sufficient raw material in stock, an open position will result. This open position can be hedged by buying the raw material required on a futures contract; if it has to be paid for in a foreign currency the manufacturer's currency needs can be hedged by buying that foreign currency forward or on an option. See also swap.

Hedge Fund

A general term for private investment funds open to accredited or "sophisticated" investors, and are therefore not highly regulated or otherwise restricted to specific investments or leverage ratios. They invest generally in short term, high yield often highly structured investments.

Hurdle Rate

Minimum acceptable rate of return on investment.

I

IBRD

(International Bank for Reconstruction and Development) A multilateral agency focused on middle income countries based in Washington D.C, part of the World Bank group. Also known as the World Bank.

ICC

The International Chamber of Commerce, an organisation based in Paris that represents the interests of the global business community. For example, it provides a variety of international dispute resolution services through its International Court of Arbitration.

ICSID

International Centre for Settlement of Investment Disputes, a body created under the auspices of the World Bank but wholly independent. It provides dispute resolution services for investment disputes.

IDA

(International Development Agency) A multilateral agency focused on developing countries based in Washington D.C, part of the World Bank group. Also known as the World Bank.

IDC

(Interest During Construction) This interest accumulated during construction, before the project has a revenue stream to pay debt service, is usually rolled up and treated as capitalised interest. See also grace period and capitalised interest.

IEA

(International Energy Agency) Established in 1974 to monitor the world energy situation, promote good relations between producer and consumer countries and develop strategies for energy supplies during times of emergency.

IFC

(International Finance Corporation) The private sector arm of the World Bank group, based in Washington D.C.

IFI

International Finance Institution, for example the World Bank or the EBRD.

IMF

International Monetary Fund, a multilateral agency headquartered in Washington, D.C.

Improved Sanitation Facilities

The improved sanitation facilities include flush/pour flush (to piped sewer system, septic tank, pit latrine), ventilated improved pit (VIP) latrine, pit latrine with slab, and composting toilet.

Improved Water Source

The improved drinking water source includes piped water on premises (piped household water connection located inside the user's dwelling, plot or yard), and other improved drinking water sources (public taps or standpipes, tube wells or boreholes, protected dug wells, protected springs, and rainwater collection).

In Situ Treatment

Treatment conducted where the resource is located, without moving it to another location for treatment.

Inconvertibility

A local currency that cannot be exchanged for another currency.

Indemnity

A legal obligation to cover the liability of another.

Indexed Loan

A loan with debt service repayment tied to some standard that is calculated to protect the lenders against inflation and/or currency exchange risk.

Indexed Rate

An interest rate linked to an index.

Information Memorandum

A document detailing a project and its financing, usually in connection with a syndication. See also project documents.

Input Supplier

The project participant that will bear the market risk of purchase and transportation of the input necessary for operation of the project.

Input Supply Agreement

The agreement entered into by the project company and the input supplier which defines the rights and obligations in relation to the supply of input for the project. It will be used to allocate the market risk of input cost and provision. This agreement will often be on either a take-or-pay or a take-and-pay basis.

See also constituent documents; project documents.

Institutional Framework

The series of institutions that together deliver the different functions and inputs from the Government needed to implement a PPP program.

Institutional Investors

Investors such as banks, insurance companies, trusts, pension funds and foundations, and educational, charitable and religious institutions.

Intercreditor Agreement

An agreement between lenders as to the rights of different creditors in the event of default, covering such topics as collateral, waiver, security and set-offs.

Interest During Construction

This interest accumulated during construction, before the project has a revenue stream to pay debt service, is usually rolled up and treated as capitalised interest. See also grace period and capitalised interest.

Internal Rate of Return

The discount rate that equates the present value of a future stream of payments to the initial investment. See also financial internal rate of return, but see economic internal rate of return.

International Bank for Reconstruction and Development

A multilateral agency focused on middle income countries based in Washington D.C, part of the World Bank group. Also known as the World Bank.

International Commercial Terms

(or Incoterms) A series of international sales terms, closely corresponding to the U.N. Convention on Contracts for the International Sale of Goods, that identify transaction costs and responsibilities between buyer and seller and reflect state-of-the-art transportation practices. See www.iccwbo.org/incoterms.

International Development Agency

A multilateral agency focused on developing countries based in Washington D.C, part of the World Bank group. Also known as the World Bank.

International Energy Agency

Established in 1974 to monitor the world energy situation, promote good relations between producer and consumer countries and develop strategies for energy supplies during times of emergency.

International Finance Corporation

The private sector arm of the World Bank group, based in Washington D.C.

International Financial Institution

An organisation jointly owned by a group of countries and designed to promote international and regional economic co-operation. See also bilateral agencies; export credit agencies; development finance institution.

Intra Vires

An act within the scope of one's authority. See also ultra vires.

IPP

Independent power producer, a power generation BOT project.

IRR

(Internal Rate of Return) The discount rate that equates the present value of a future stream of payments to the initial investment. See also financial internal rate of return; economic internal rate of return.

J

JOA

(Joint Operating Agreement) An agreement governing the manner in which the parties to the agreement will manage a block, and entered into following award of the licence.

Joint and Several Liability

In the context of a guarantee for which there is more than one guarantor, liability that gives rise to one joint obligation and to as many several obligations as there are joint and several promisors, such that any one promissor is liable to pay the whole of the obligation and must then recover amounts from the other promisors. The co-promisors are not cumulatively liable, so that performance by one discharges all. See also liability.

Joint Liability

Liability that is owed to a beneficiary by two or more obligors. Each joint obligor has the right to insist that any co-obligor be joined to a dispute as co-defendant. See also liability.

Joint Operating Agreement

An agreement governing the manner in which the parties to the agreement will manage a block, and entered into following award of the licence.

Joint Venture

Often used to describe any jointly owned corporation or partnership which owns, operates or constructs a facility, project or enterprise. More specifically, an arrangement between two or more parties for the joint management or operation of a facility, project enterprise or company under an operating agreement which is not a partnership.

L

Latent Default

A potential default that may have always been present but unidentified.

LDO

Lease-Develop-Operate (similar to BOO).

LDs

(Liquidated Damages) A fixed periodic amount payable as a sanction for delays or substandard performance under a contract. Also known as a penalty clause.

Legal Risk

A risk that a defect in the documentation or legal structure will affect cash flow or debt service.

Letter of Credit

A guarantee limited in time and amount. A letter of credit is a written undertaking by a bank (issuing bank) given to the seller (beneficiary) at the request and in accordance with the instructions of the buyer (applicant) to effect payment up to a stated sum of money within a prescribed time limit and against stipulated documents. See also confirmed letter of credit; revocable letter of credit; stand-by letter of credit.

Lien

A legal security interest in an asset.

Limited Partnership

A partnership consisting of one or more general partners, jointly and severally responsible as ordinary partners, by whom a business is conducted; and one or more limited partners, contributing in cash payments a specific sum as capital and which are not liable for the debts of the partnership beyond the funds so contributed.

Limited Recourse

Lenders have access to the sponsors' credit or other legal security for repayment (besides the project's cash flows) only under certain limited conditions (legal or financial). There is usually recourse in the event of fraud or misrepresentation/ nondisclosure – thus "non-recourse" is better described as "limited recourse". See also recourse.

Liquidated Damages

(LDs) A fixed periodic amount payable as a sanction for delays or substandard performance under a contract. Also known as a penalty clause.

Liquidity

The ability to service debt and redeem or reschedule liabilities when they mature, and the ability to exchange other assets for cash.

Logistics Performance Index

The Logistics Performance Index includes quality of trade and transport related infrastructure (e.g. ports, railroads, roads, information technology) on a rating ranging from 1 (very low) to 5 (very high).

LPVR

Least Present Value of Revenues, financial bids are based on the least amount of revenues over the period of the concession, discounted back to the date of issue.

LROT

Lease-Refurbish-Operate-Transfer. The project company leases the project, refurbishes it, operates it for a period and then transfers it back to the contracting agency. Similar to BOT.

M

Maintenance Bond

A bond to provide funds for maintenance and repair of equipment or a facility. Maintenance bonds are used in connection with construction contracts to ensure that a construction contractor will repair mistakes and defects after completion of construction. The retention bond may be used in lieu, leaving a portion of the contract price on deposit with the project company to ensure performance.

Maintenance Reserves

Reserves set aside to make up for any lack of funds available to the project company when maintenance costs exceed forecasts or where, periodically, maintenance costs will be higher than during other periods of the project.

Management Contracting

A structure whereby a private company takes on the management of the project, selecting contractors, setting prices, and overseeing construction and other services for the benefit of the contracting agency for a fee, generally based on performance or total cost.

Marginal Cost of Capital

The incremental cost of financing.

Marginal Tax Rate

The tax rate that would have to be paid per additional dollar of taxable income earned.

Market Risk

Changes to the amounts sold or the price received which would have an impact on gross revenue. Sometimes known as sales risk.

Material Adverse Change Clause

A general event of default designed to pick up any change in circumstances which might affect the likelihood of a borrower paying its debts or performing its covenants. The clause is couched in general language and is used to supplement more specific events of default.

Maturity

The date upon which a given debt falls due for repayment.

Mechanical Completion

The project is substantially complete with only minor elements, usually identified on a punchlist, left outstanding.

Merchant Bank

A bank which, besides lending and deposit taking (usually not from the public), engages in trading and advisory services, and acts as an underwriter and fund manager of securities.

Mezzanine Financing

A mixture of financing instruments, with characteristics of both debt and equity, providing further debt contributions through higher-risk, higher-return instruments, subordinated debt, sometimes treated as equity

MIGA

Multilateral Investment Guaranty Agency, the political risk insurance (PRI) arm of the IBRD.

MLA

Multilateral lending agency

Monoline

Specialist insurers, whose business is the provision of financial guarantee insurance

Mortgage

A pledge or assignment of security of particular property for payment of debt or performance of some other obligation. Also an indenture of trust or a security agreement.

Multilateral Lending Agencies

Organisations jointly owned by a group of countries and designed to promote international and regional economic co-operation. In particular, these lending agencies may have such goals as aiding development and furthering social and economic growth in member countries. Also known as "multilateral agencies". See also bilateral agencies; export credit agencies.

Municipal Waste

Waste originating from a community, which may be composed of domestic (sewage) and industrial waste water.

N

Natural Gas

(NG) Gaseous forms of petroleum consisting of mixtures of hydrocarbon gases and vapours, the more important of which are methane, ethane, propane, butane, pentane and hexane; gas produced from a gas well. Natural gas is usually classified as "wet" or "dry" depending on whether the proportions of gasoline constituents that it contains are large or small. See also dry gas; liquefied natural gas; liquefied petroleum gas; wet gas.

Natural Monopoly

A monopoly exists where consumers are limited to one supplier for a specific service. A natural monopoly occurs where it is only feasible for one supplier to supply the services in question, perhaps because the service is dependent upon an existing infrastructure which would be prohibitively expensive to duplicate. A natural monopoly makes it impossible for a competing supplier to provide the services desired at a lesser or equal cost.

Negative Pledge

The borrower agrees not to pledge any of its assets as security and/or not to incur further indebtedness.

Net Present Value

(NPV) The discounted value of an investment's cash inflows minus the discounted value of its cash outflows. To be adequately profitable, an investment should have a net present value greater than zero.

Non-convertible Currency

Those currencies whose circulation is restricted by the local authorities and where the exchange rate is artificially set by those authorities (usually well above the inevitable local black market rate)

Non-recourse

The lenders rely on the project's cash flows and collateral security over the project as the only means to repay debt service, and therefore the lenders do not have recourse to other sources, for example shareholder assets. More often, non-recourse debt is actually limited recourse debt. See also recourse.

Novation

The transfer of rights and obligations from one entity to another, e.g. following the substitution of a new debtor for an old debtor or one bank for another under a loan facility by way of transfer certificate. Under a novation the transferor is released from all obligations to the creditor. Also known as assignment.

NPV

Net present value, the discounted value of an investment's cash inflows minus the discounted value of its cash outflows. To be adequately profitable, an investment should have a net present value greater than zero.

O

ODA

Official Development Assistance. A general term for assistance provided by developed countries to developing countries, whether in the form of grants, loans or other assistance.

OECD

Organisation for Economic Cooperation and Development, based in Paris.

Off-balance Sheet Liabilities

Corporate obligations which do not need to appear as liabilities on a balance sheet, e.g. lease obligations, project finance and take-or-pay contracts.

Offshore Entity

An entity operating outside the restrictions of the legal and tax regimes of a given country.

Offtake

The product produced by a project.

Offtake Purchase Agreement

The agreement whereby the offtake purchaser undertakes to purchase an amount of some or all of the project output, e.g. the power purchase agreement in the context of a power project and a water purchase agreement in the context of a water treatment project. See also constituent documents; project documents.

Offtake Purchaser

The purchaser of the product produced by a project. The term is often used in connection with take-or-pay contracts.

Operating Cash Flow

Project revenues accruing from operation.

Operating Risk

Risk related to cost, technology and management components, including inflation, that have an impact on opex and project output/throughput.

Operation and Maintenance Agreement

The agreement allocating to the operator the obligation to operate and maintain the project in accordance with its requirements. See also constituent documents; project documents.

Opex

Operating expenditures, always expressed as cash.

OPIC

Overseas Private Investment Corporation. A self-supporting United States government corporation providing insurance and, in some cases, partial financing to United States private investment in developing countries.

Outline Business Case

An assessment of the basic parameters of a PPP project used to decide whether to go forward with more indepth and expensive studies – feasibility studies and transaction development. See also outline business case.

Outsourcing

Allocating services and risks to an external, usually private, entity. This term can refer to many different scenarios, from simple assistance with isolated tasks to comprehensive risk allocation.

P

Par

Principal amount at which an issuer agrees to redeem its notes or bonds at maturity.

Pari Passu

Of instruments, ranking equally in right of payment with each other and with other instruments of the same issuer. From Latin: with equal step.

Penalty Clause

A fixed periodic amount payable as a sanction for delays or substandard performance under a contract.

Performance Bond

A bond payable if a project is not completed as specified. Some performance bonds require satisfactory completion of the contract while other performance bonds provide for payment of a sum of money for failure of the contractor to perform under a contract.

Permanent Works

A technical term in the construction industry referring to works performed by the construction contractor which are to form part of the completed works and therefore stay at the site. See also temporary works.

PFI

(Private Finance Initiative) The United Kingdom private finance initiative is a specific mechanism for funding infrastructure with standard form terms and conditions set out by the United Kingdom Treasury. It follows a BOO structure. This term has been replaced in the United Kingdom by "public private partnerships"; however, the term "public private partnerships" is also used internationally as a general term. Therefore, this text will refer to PFI when discussing the United Kingdom structure. See also public private partnership (PPP).

Physical Completion

The stage at which a project is virtually complete with only minor elements, usually identified on a punch-list, left outstanding. See also completion.

Political Risk

Risks usually comprising currency inconvertibility, expropriation, war and insurrection, terrorism, non-government activists, and legal and administrative approvals. The first three are normally insurable. It often overlaps with the political component of force majeure risk. See also country risk; sovereign risk.

Power Purchase Agreement

(PPA) An offtake purchase agreement in relation to a power project, for the purchase of electricity generated.

PPP Framework

The combination of legal, regulatory, institutional and financial framework that together facilitates the implementation of PPP, generally on a programmatic rather than ad hoc basis.

PPP Institutional Framework

The series of institutions that together deliver the different functions and inputs from the Government needed to implement a PPP program.

PPP Institutions

The Government institutions, units and agencies that perform functions specific to PPP, in support of the PPP programme, often including a PPP unit.

PPP Laws

Laws designed to support and regulate PPP transactions and programmes. See also BOT laws and concession laws.

PPP Legal Framework

The laws and regulations that create the enabling framework for a PPP programme.

PPP Policy

The Government policy on the implementation of the PPP programme.

PPP Unit

A Government unit or agency focused on PPP, often located in a powerful central agency (e.g. planning or finance) able to enforce the PPP policy and provide the support needed to implement PPP transactions.

Pre-emptive Rights

Shareholder rights to maintain their proportional share of the entity by subscribing proportionally to any new stock issue or attempted sale of shares by a shareholder to a third party.

Pre-feasibility

A preliminary study of a transaction and whether that transaction appears likely to succeed. See also outline business case.

Pre-feasibility Study

An assessment of the basic parameters of a PPP project used to decide whether to go forward with more indepth and expensive studies – feasibility studies and transaction development. See also outline business case.

Pre-qualification

The process whereby the number of qualified bidders is limited by reviewing each bidder's qualifications against a set of criteria, generally involving experience in the relevant field, capitalisation, site country experience, identity of local partners and international reputation.

Present Value

The value today of a future payment, calculated by discounting at a specified discounting rate.

PRI

Political risk insurance.

Prime Rate

The rate at which banks lend to their best (prime) customers. The all-in cost of a bank loan to a prime credit equals the prime rate plus the cost of holding compensating balances.

Principal

A sum on which interest accrues. It is capital, as distinguished from income or the par value of a loan, exclusive of any premium or interest which is the basis for interest computations. Also, a person on whose behalf an agent or broker acts.

Private Finance Initiative

(PFI) The United Kingdom private finance initiative is a specific mechanism for funding infrastructure with standard form terms and conditions set out by the United Kingdom Treasury. It follows a BOO structure. This term has been replaced in the United Kingdom by "public private partnerships"; however, the term "public private partnerships" is also used internationally as a general term. Therefore, this text will refer to PFI when discussing the United Kingdom structure. See also public private partnership (PPP).

Pro Rata

Shared or divided in proportion or according to a ratio.

Procurement

To obtain; gain access to. The process by which the contracting agency obtains infrastructure services on terms and price considered to be the best available as they were reached through a competitive process. See also tendering process and bidding process. See also bid process; tender process.

Profitability Index

The ratio of the present value of future cash flows from a project to the initial investment in the project.

Project Development Fund

A programmatic approach to funding of the cost of feasibility studies, transaction advisers and other costs of project development, to encourage contracting agencies to use high quality transaction advisers and best practice.

Project Documents

(or project agreements) The commercial agreements that are the subject of this book, including the concession agreement, the construction contract, the input supply agreement, the offtake purchase agreement and the operation and maintenance agreement. See also constituent documents.

Project Financing

A loan structure that relies for its repayment primarily on the project's cash flow, with the project's assets, rights and interests held as secondary security or collateral. See also limited recourse and non-recourse financing.

Public Private Partnership Framework

(PPP framework) The combination of legal, regulatory, institutional and financial framework that together facilitates the implementation of PPP, generally on a programmatic rather than ad hoc basis.

Public Sector Comparator

(PSC) An assessment of the likely cost of public sector project delivery, used as a comparator to assess whether a PPP proposal represents value for money. A pro forma PSC is generally not helpful, and instead a holistic assessment of PSC and value for money should be undertaken.

Purchase Option

The right to buy or sell property during a certain period or on the happening of certain events at a particular price (the "exercise price"). See also option.

Put or Put Option

An option whereby one person has to sell an asset to another person at a set price at some established point in the future (European). A contract allowing the holder to sell some property to some person at a fixed price at any time within a given period (United States).

Put-or-pay Contract

A contract under which a party agrees to supply a raw material, product or service for a certain price during a stated period and agrees to pay for an alternative supply if it cannot perform.

Q

Qualitative Risk Assessment

The emotional, reactive assessment of risk, resulting from an individual’s social, cultural, educational, commercial and emotional context.

Quantitative Risk Assessment

The mathematical assessment of the likelihood and gravity of a given risk, for example by probability analysis. An accurate quantitative risk assessment is rarely, if ever, possible due to risk noise.

R

Receiver

A person/entity appointed under the legal security documents to administer security on behalf of the project lenders.

Recourse

In the event that the project (and its associated escrows, sinking funds or cash reserves/stand-by facilities) cannot service the financing or the project completion cannot be achieved, then the lenders have recourse either to cash from other sponsors and/or corporate sources or other non-project security. See also full recourse, limited recourse and non-recourse.

Reference Banks

In relation to interest rates calculated by reference to a particular basis rate, the bank or banks whose quote, or the average of whose quotes, for the basis rate is taken as being the basis rate for the purposes of calculating interest payable.

Regulator

A governmental or independent body setting standards or striking a balance between the interests of consumers and the service provider.

Reinsurance

The procedure used by insurance companies to reduce the risks associated with underwritten policies by spreading risks across alternative institutions, portioning out pieces of a larger potential obligation in exchange for some of the money the original insurer received to accept the obligation. The party that diversifies its insurance portfolio is known as the ceding party. The party that accepts a portion of the potential obligation in exchange for a share of the insurance premium is known as the reinsurer. Also known as "insurance for insurers" or "stop-loss insurance".

Renewable Energy

Energy resources that are continually available or can be replenished (e.g. solar, wind, wave, biomass, hydroelectric, geothermal). See also clean energy.

Required Rate of Return

The minimum future receipts an investor will accept in choosing an investment.

Requirements Contract

A contract whereby a user of a product agrees to buy its requirements for a plant or operation from a supplier. There is no requirement to take a minimum amount or to pay if not delivered, as in a take-or-pay contract.

Reserve Account

A separate amount of cash or a letter of credit to service a payment requirement such as debt service or maintenance.

Residual

The assumed value of an asset at the end of a loan, lease or pro forma cash flow. It is sometimes insured. See also tail.

Residual Cushion

The amount of net cash flow from the project after the project financing has been repaid. If it is expressed as a percentage of the original loan amount, it is the "residual cover". See also cushion.

Residual Value

Sometimes used to indicate the value of the assets associated with a project at the expiry of the concession period, for example the value of the assets transferred to the contracting agency at the end of the life of a PPP project.

Residual Value Risk

The residual value is not known at the time of entering into a PPP project. The residual value risk relates to this uncertainty and to the fact that the project as transferred to the contracting agency will be worth more or less than projected.

Restructuring

An arrangement by a borrower to replace debt of one maturity with debt of another (longer) maturity – and perhaps of a different type. See also refinancing; rescheduling.

Retention

An amount held back from construction contract payments until the construction contractor fulfils certain obligations, generally 5-15 per cent. of the contract price.

Retention Bond

A bond to provide funds for maintenance and repair of equipment or a facility. Maintenance bonds are used in connection with construction contracts to ensure that a construction contractor will repair mistakes and defects after completion of construction. The retention bond may be used in lieu, leaving a portion of the contract price on deposit with the project company to ensure performance.

Return on Assets

(ROA) Net profits after taxes divided by assets. This ratio helps a firm determine how effectively it generates profits from available assets.

Return on Equity

(ROE) Net profits after taxes divided by equity investment.

Return on Investment

(ROI) Net profits after taxes divided by investment.

Revaluation

A formal and official increase in the exchange rate of a currency that is made unilaterally by a country or through the International Monetary Fund.

Revenue Flow

Net income, depreciation and amortisation during a given period. A measure of a company’s liquidity. Also known as cash flow or "revenue stream".

Reverse Osmosis

Liquid desalination or treatment using pressure across a semi-permeable membrane.

Revocable Letter of Credit

A letter of credit that can be changed or cancelled by the issuing bank or by any party involved until the time payment is made.

Revolving Credit Agreement

(or revolving line of credit) A legal commitment on the part of a bank to extend credit up to a maximum amount for a definite term. The notes evidencing debt are short-term, such as 90 days. As notes become due, the borrower can renew the notes, borrow a smaller amount or borrow amounts up to the specified maximum throughout the term of commitment.

Revolving Line of Credit

(or revolving credit agreement) A legal commitment on the part of a bank to extend credit up to a maximum amount for a definite term. The notes evidencing debt are short-term, such as 90 days. As notes become due, the borrower can renew the notes, borrow a smaller amount or borrow amounts up to the specified maximum throughout the term of commitment.

Risk Noise

The combination of qualitative risk assessment and insufficiency of information that influence an individual’s assessment of a risk and distract from an accurate quantitative risk assessment.

Risk Premium

An additional required rate of return that must be paid to investors who invest in risky investments to compensate for the risk.

RLT

Refurbish-Lease-Transfer (similar to BOT).

ROO

Rehabilitate-Own-Operate (similar to BOO).

ROT

Rehabilitate-Operate-Transfer (similar to BOT).

S

Sale and Leaseback

A transaction in which an investor purchases assets from the owner and then leases such assets back to the same person. The lessee receives the sale price (and can return it to capital) and continues to enjoy the use of the assets.

Sales Risk

Changes to the amounts sold or the price received which would have an impact on gross revenue.

Secondary Market

After the initial distribution of bonds or securities, secondary market trading begins. New issue houses usually make a market in bonds or securities which they have co-managed.

Secured Creditor

A creditor whose obligation is backed by the pledge of some asset and is therefore secured debt. In liquidation, the secured creditor receives the cash from the sale of the pledged asset to the extent of its loan.

Secured Debt

Debt secured against specific assets or rights accessible to the lenders in the event of default.

Securitisation

A process that changes bank loans or other non-tradable financial transactions into tradable securities.

Security

A legal right of access to value through mortgages, contracts, cash accounts, guarantees, insurances, pledges or cash flow, including licences, concessions and other assets. Lenders can act on security rights in the event of default by the borrower. A negotiable certificate evidencing a debt or equity obligation/shareholding.

Security Agreement

An agreement in which title to property is held as collateral under a financing agreement, usually by a trustee.

Semi-convertible Currency

Semi-convertible currencies can only be bought or sold through a central bank at specific fixed rates of exchange.

Senior Debt

Debt which, by agreement or legal structure, takes priority over other (junior) debt, allowing the senior lenders to have priority in access to amounts paid to the lenders by the borrower from time to time, and to borrower assets or revenues in the event of default. This priority may be binding on liquidators or administrators of the borrower.

Set-off

An agreement between the parties involved to set off one debt against another or one loss against a gain. A banker is empowered to set off a credit balance on one account against a debit balance on another if the accounts are in the same name and in the same currency.

Several Liability

In the context of a guarantee, for which there is more than one guarantor, each guarantor’s liability to pay the whole of the debt guaranteed. The promises of the co-guarantors are cumulative and payment by one does not discharge the other. See also liability.

Shareholders’ Equity

The book value of the net assets (total assets less total liabilities). Also known as net worth.

Short-term Debt

An obligation maturing in less than one year.

Simple Interest

The charge for the loan of money or for a deferment of the collection of an account, computed by applying a rate of interest against only the amount of the loan or account. Contrasts with compound interest in that interest is only charged on the principal for the entire life of the transaction and no interest is charged on any interest already accrued. See also interest rate.

Sinking Fund

A reserve fund established or set aside for the purpose of payment of a liability anticipated to become due at a later date.

Soft Currency

A currency perceived by the market to be reasonably unlikely to maintain its value against other currencies over a period. The convertibility of soft currencies is usually, or may become, restricted. See also hard currency.

Solvency

The state of being able to pay debts as they become due.

Sovereign Immunity

A historical doctrine of law in certain jurisdictions under which sovereign governments may not be sued or their assets seized.

Sovereign Risk

Political risk caused by the fact that one of the parties is a sovereign entity. See also country risk.

Special Purpose Vehicle

(SPV) An entity created to undertake a single task or project in order to protect the shareholders with limited liability, often used for limited or non-recourse financing

Spread

In the trading or quotation of a security’s price, the difference between the bid and the offered price. Also used in loans as a synonym for margin.

Stand-by Credit

An arrangement to lend money on demand, usually at market rates and sometimes with a commitment fee. Overdraft facilities are sometimes used for stand-by credit by corporate borrowers.

Stand-by Letter of Credit

A letter of credit that provides payment to the beneficiary when it presents a certification that certain obligations have not been fulfilled.

Standard Deviation

The volatility of returns, or the average deviation from an expected value or mean.

Step-in Rights

The right of a third party to "step in" to the place of one contractual party where that party fails in its obligations under the contract and the other party to the contract has the right to terminate the contract.

Straight Debt

A standard bond issue or loan without the right to convert into the common shares of the issuer.

Straight-line Depreciation

Depreciation of an asset by equal amounts each year over the life of the asset. See also depreciation.

Sub-sovereign Entities

Emanations of a sovereign entity, such as regional, provincial and municipal governments and state owned enterprises.

Subordinated Creditor

A creditor holding a debenture having a lower priority of payment than other liabilities of the project.

Subordinated Debt

Debt which, by agreement or legal structure, is subordinated to other (senior) debt, allowing those (senior) lenders to have priority in access to amounts paid to the lenders by the borrower from time to time, and to borrower assets or revenues in the event of default. This priority may be binding on liquidators or administrators of the borrower.

Subrogation

The acquisition of another person's rights, usually as a result of assuming or discharging that person's liabilities, particularly in connection with guarantees and insurance.

Substantial Completion

The stage at which a project is virtually complete with only minor elements, usually identified on a punch-list, left outstanding. See also completion.

Sunk Costs

Capital already spent.

Super-turnkey Contract

Based on a turnkey construction contract, the contractor is required to contribute to the financing of the construction, often by agreeing to the deferral of the payment due to it until after completion or during operation.

Supply Risk

The risk that the availability of raw materials or input to a project (for example, raw water) will change from those assumed/projected. In the case of a resources extraction project, this is called reserves risk.

Supply-or-pay Contract

A contract under which a party agrees to supply a raw material, product or service for a certain price during a stated period and agrees to pay for an alternative supply if it cannot perform. Also known as a put-or-pay contract.

Swap

The exchanging of one security, debt, currency or interest rate for another. Also known as a switch. See also currency swap, hedge, futures contract, option.

Sweep

All available cash flow used for debt service.

Switch

Sometimes used as a synonym for a swap; for example, buying a currency spot and selling it forward.

Syndicate

A group of banks participating in a single credit facility; a syndicated loan or syndicated credit facility. A group of bond houses which act together in underwriting and distributing a new securities issue.

Syndicated Credit Facility

A credit facility in which a number of banks undertake to provide a loan or other support facility to a customer on a pro rata basis under identical terms and conditions evidenced by a single credit agreement.

T

Tail

The remaining reserves after the project financing has been repaid. Sometimes means the residual.

Take-and-pay

If the project's output is deliverable and can be taken, it will be paid for.

Take-or-pay

In the event the project's output is not taken, payment must be made whether or not the output is deliverable. Also known as through-put contract or use-or-pay con tract. See also requirements contract.

Temporary Works

Works performed by the construction contractor which are designed to assist in the construction of the permanent works but do not form part of the completed works and will therefore be removed from the site before completion.

Tender Bond

A bond of a fixed amount, usually one per cent. to three per cent. of the tender contract price, deposited by bidders with the tendering authority at the time of submission of their tenders as a form of guarantee that the bidder will enter into a contract and achieve financial close in conformity with the tender. The bid bond is generally returned to the successful bidder on effectiveness of the relevant contract or on financial close.

Tender Process

A procurement mechanism using competitive pressure amongst bidders to obtain the best price and terms.

Tenor

The number of years a loan is outstanding; the term or maturity. Also tenure or maturity of debt.

Term Loan

A fixed-period loan, usually for one to 10 years, that is paid back by the borrower in regular (often monthly) instalments with interest. This is the most common form of business loan; it may be secured or unsecured.

Term Sheet

A document, not generally intended to be legally binding, setting out the main agreed terms and conditions to a transaction between the borrower and arranger.

Termination

The act of bringing the contract to an end by one of the parties in accordance with a right to do so granted by the applicable law or the contract.

Trade Finance Agency

Another term for export credit agency.

Trade Financing Programmes

Another term for export credit incentive programmes.

Tranche

A separate portion of a credit facility, perhaps with different lenders, margins, currencies and/or term.

Transfer Risk

The risk that a given currency will not be allowed to be sent out of the country, usually due to central bank restrictions or a national debt-rescheduling. See also currency risk.

Translation Risk

A type of foreign exchange risk arising from the need to translate the assets and liabilities of a foreign subsidiary into the currency of the home country.

Trust Deed

The deed in which an issuer of notes or bonds, any guarantor and the trustee set out the obligations of the issuer and guarantor and appoint a trustee to represent the interests of the bond or note holders.

Tunnel

A combination of a ceiling and a floor, for example to an interest or foreign exchange rate, structured through swaps, options, hedging or by agreement.

Turnkey Construction

Where one contractor is responsible for the design and construction of a project to completion, so that it is ready to produce cash flow. See also EPC or design-build.

Twinning

Creating associations between cities, communities or utilities, often in different countries and generally limited to public sector entities, in order to create communities of interest, support networks, sharing of technology and know how and possibly more formal joint venture arrangements.

U

Ultra Vires

An act outside the scope of one’s authority. See also intra vires.

Undivided Interest

A property interest held by two or more parties whereby each share in profits, expenses and enjoyment, according to its respective interest, and whereby ownership of the respective interest of each may be transferred but physical partition of the asset is prohibited.

UNIDO

United Nations Industrial Development Organisation.

Unsecured

The financier has no security, merely the obligation/undertaking from the borrower to repay.

Unsecured Loan

A loan made on the general credit of a borrower. The lenders rely upon the borrower’s balance sheet and the capability of the borrower’s management to manage its assets and produce sufficient cash flows to repay the debt. No assets are pledged.

Unsolicited Bid

A bid proposal submitted by a bidder outside of a formal bid process in the hopes of securing the award of the project without competition, or with some advantage.

Use-or-pay Contract

Another name for a take-or-pay contract or through-put contract.

Useful Life

The period during which an asset will have economic value and be usable. The useful life of an asset is sometimes called the "economic" life of the asset.

V

Vacant Possession

Property which has been abandoned, vacated and forsaken by any tenant or third party.

Value for Money

(VfM) The optimum combination of whole-of-life costs and quality of the good or service to meet the user's requirements and not the choice of goods and services based on lowest cost bid, it extends beyond financial cost to include quality considerations, such as the ability to meet the service requirements of the users.

Variable Duration Notes

At the coupon payment date of a note, the holder elects either to receive payment or an additional note with identical terms.

Variable Rate Loan

A loan made at an interest rate that fluctuates with the prime rate, the LIBOR or some other index.

Variation Mechanism

(or change mechanism) The contractual procedure set out for making a change, specifically how a change can be made and how to calculate the resulting change in contract price and time for completion.

Venture Capital

Equity and risk capital for new entrepreneurial ventures, invested in a stage earlier than other capital would normally be available. The capital bridge before accessing capital markets. Venture capitalists look for significant growth prospects, and will expect to improve the business, and take it to the public capital markets, in the short term.

Viability Gap Fund

(VGF) The Indian programmatic approach to capital grants, using a fund to sequester budget allocations and roll them over from one year to the next, establish criteria for funding allocation. See also capital grants.

Vitiation

Where the project insurance involves several insured parties (with varying interests in the insured risk), and the insurance fails due to a breach of one of those obligations by one of the insureds.

Volatility

The degree of fluctuation that occurs away from a value, such as the mean, of a series of figures. The greater the volatility in returns, the higher the risk.

W

WACC

(Weighted Average Cost of Capital) The total return required by both debt and equity investors expressed as a real post-tax percentage on funds usage.

Warrant

An instrument allowing the holder to purchase a given security at a given price; for either a set period or into perpetuity (a call option on a security).

Weighted Average Cost of Capital

(WACC) The total return required by both debt and equity investors expressed as a real post-tax percentage on funds usage.

Withholding Tax

A tax on interest, royalty or dividend payments – usually those paid overseas. It may be deducted at source to mitigate the risk of avoidance, in particular by foreign recipients.

Working Capital

The part of the capital of a company that is employed in its day-to-day trading operations. It consists of current assets (mainly trading stock, debtors and cash) less current liabilities (mainly trade creditors).

Working Capital Replenishment

An undertaking by an industrial company sponsor and/or parent to make liquid funds available to a special purpose subsidiary or company to enable such a company to keep its working capital at sufficient levels to service debt and meet operating expenses.

Wraparound Loan

A long-term loan structured with a short-term loan in such a manner as to postpone payments of principal (and sometimes interest) on the long-term loan until the short-term and long-term wraparound may produce level debt service for both loans over the life of the long-term loan.

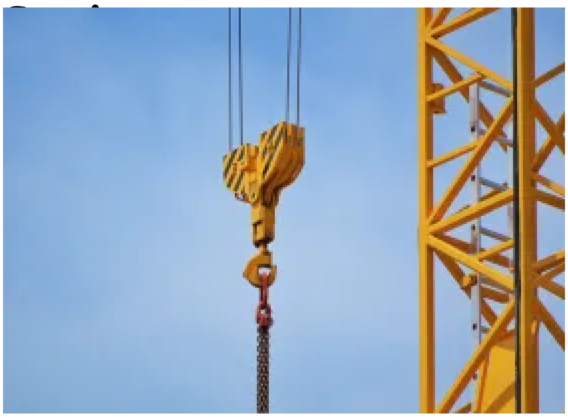
Y

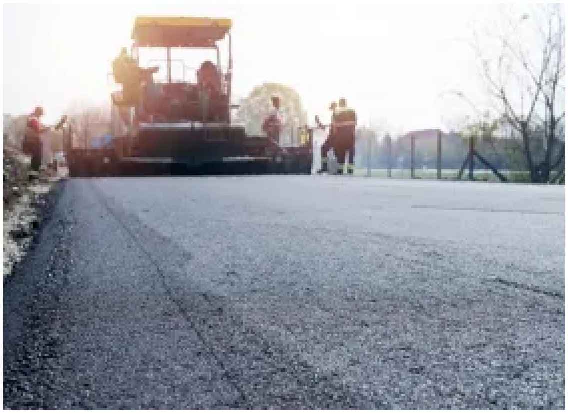
Yield Curve

A curve showing several yields or interest rates across different contract lengths (2 month, 2 year, 20 year, etc.) for a similar debt contract. The curve shows the relation between the (level of) interest rate (or cost of borrowing) and the time to maturity, known as the "term", of the debt for a given borrower in a given currency. The shape of the yield curve indicates the cumulative priorities of all lenders relative to a particular borrower. Lack of a yield curve of sufficient length makes it difficult for lenders to price debt at that maturity.

Yield to Maturity

> The rate of return yielded (for example, by a debt security held to maturity) when both interest payments and the investor's capital gain or loss on the security are taken into account





[What is a PPP: Defining "Public-Private Partnership"]

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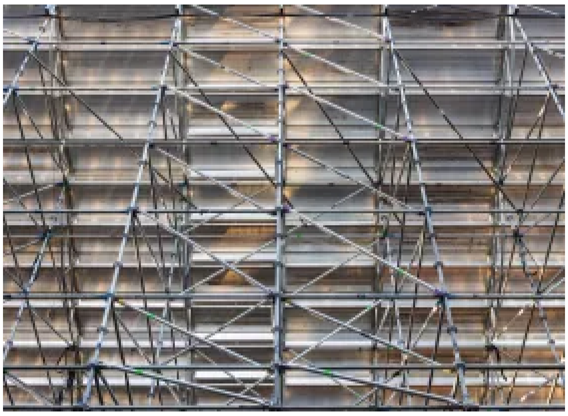
[Public Financial Management Frameworks for PPPs]

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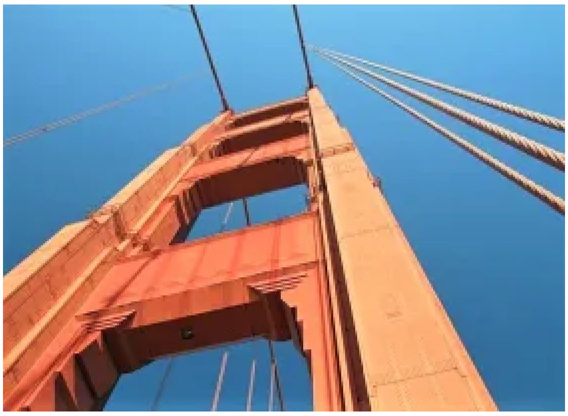
Designing PPP Contracts



PPP Reference Guide 3.0 (Full version)

Research and Publications in PPPRC

BROWSE BY REGION

- East Asia and Pacific (EAP)
- Europe and Central Asia (ECA)
- Latin America and Caribbean (LAC)
- Middle East and North Africa (MENA)
- North America (NA)
- South Asia (SA)
- Sub-Saharan Africa (SSA)

BROWSE BY SECTOR

- Power & Renewable Energy
- Urban & Cities
- Water & Sanitation
- Transport
- Telecom & ICT
- Solid Waste Management

BROWSE BY Topic

- Asset Recycling
- Climate
- Disruption
- Emission Reduction Credit
- Fragile and Conflict-Affected States (FCS)
- Gender
- Innovative Revenues for Infrastructure