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**PPP GLOSSARY**

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<i>Term</i>	<i>Meaning</i>
Availability	The period when the facility (or the relevant part thereof) is able to provide the service as required under the PPP Contract.
Base Case	The lenders' projections of project cash flow at or shortly before the stage of Financial Closure.
Bidder	Someone who responds to a request for Expression of Interest or an invitation to submit a bid in response to a Project Brief. A bidder could be a single party or a consortium of parties, each responsible for a specific element, such as constructing the infrastructure, supplying the equipment, or operating the business. Government normally contracts with only one lead party (bidder) who is responsible for the provision of all contracted services on behalf of the consortium.
Bond	A debt instrument that is tradable
BOOT	Build, Own, Operate & Transfer: A PPP Mode under which the Concessionaire builds the assets, owns them, operates and maintains them and at the end of the Concession, transfers the assets back to the Sponsoring Authority. (eg – Real Estate projects)
BOT	Build, Operate & Transfer: A PPP Mode under which the Concessionaire builds the assets, operates and maintains them and at the end of the Concession, transfers the assets back to the Sponsoring Authority. (eg – Road projects)
Business Case	The formal presentation of the project for approval within the Public Authority and to other branches of government
Capex	Capital Expenditure; usually it refers to the initial costs of constructing the facility
Commercial Operations Date (COD)	The stage when project construction ends and commercial operations start
Concession	A PPP modality in which the general public usually pays Service Fees in the form of tolls, fares or other charges for using the Facility

Concession Agreement	The contract document for the project, specifying every element of the project in detail, to be signed between the Concessionaire and the Sponsoring Authority
Concession Period	The duration of the PPP contract
Concessionaire	The private partner awarded the tender for the implementation of the PPP Project
Conditions Precedent	Conditions to be fulfilled by the project company before drawing on the debt, or before project contract becomes effective. Also, conditions to be fulfilled by the Sponsoring Authority before the project contract becomes effective
Construction Phase	The period from Financial Close to the Service Availability Date
Construction Risks	Risks relating to the construction of the facility
Cost-Benefit Analysis	The ratio of the NPV of the benefits of a project to the NPV of its costs (from the public-sector point of view)
Cost-Effectiveness Analysis	A comparison of the costs of different solutions to procurement of a project
DBFO	Design-Build-Finance-Operate
DBFOT	Design-Build-Finance-Operate-Transfer
DBO	Design-Build-Operate, a form of long-term contract for construction and operation of a Facility, in which funding is provided by the Public Authority
Debt	Finance provided by the lenders
Debt:Equity Ratio	Ratio of debt to equity. This will range from 90:10 to 60:40 depending on the risks the project is facing
Debt Service	The amount of debt interest and the principal repayments
Debt Service Cover Ratio (DSCR)	The ratio of cash available for debt service to the actual debt service. Lenders typically require a DSCR ranging from 1.2 to 1.5 when there is no demand/market risk for the output and a higher level where demand/market risk is present.
Development Costs	Costs incurred by the Sponsoring Authority before Financial Close, such as consultancy charges, pre-feasibility analysis, etc.
Discounted Cash Flow (DCF)	A calculation of the current value (NPV) of a future cash flow
Discount Rate	The percentage rate used to reduce a future cash flow to a

	current value, and so calculate its NPV
Due Diligence	Review and evaluation of Project Contracts and their related risks, carried out by both the Public Authority and the lenders
Economic Infrastructure	Public infrastructure required for day-to-day economic activity, e.g., transportation and utilities.
Emergency Step-In	The right of the Public Authority to take over operation of the Facility for reasons of safety, public security, etc.
Environmental Impact Assessment (EIA)	A study of the effect of the project's construction and operation on the natural and human environment
Environmental Risks	Risks relating to the environmental effect of the construction or operation of the Facility
Engineering, Procurement and Construction Contract (EPC Contract)	A fixed-price, date-certain, turnkey contract. Usually, it involves design and engineering, equipment procurement or manufacture, and construction and erection of process or other plant. Till the time PPPs appeared on the scene, this was the most common mode of procurement in Governments
Equity	The portion of the project's capex contributed by the investors to the Project Company, either as share capital or subordinated debt
Equity IRR	The IRR on the equity paid in by the investors, derived from dividends
ERR	Economic Rate of Return, a method for the public sector to measure the net benefits of a project
Escrow Account	A bank account created specifically for a project. All of the incomes and expenses related to the project are to be routed through the Escrow Account. Usually, it is under the joint control of two parties
Exchange-Rate Risks	Macroeconomic risks related to changes in currency exchange rates. This is applicable only when the project loans, costs or charges are denominated in a foreign currency, either wholly or partially
Expression of Interest (EoI)	The first stage of the two stage bidding process (Request for Qualification or RfQ), wherein Technical and Financial Qualification documents are invited. Based on the criteria specified in the RfQ documents, potential bidders are short-listed for the next stage, i.e., inviting financial offers

Externalities	Economic, social, environmental or other effects of a project, the benefit or cost of which cannot be charged to users of the facility
Facility	The public infrastructure provided under the PPP Contract
Finance Lease	A lease in which economic ownership of the asset passes to the lessee, on whose balance sheet it is therefore treated as a loan; if a PPP is classified as a finance lease then the capex element of the Service Fees will be deemed to be public-sector debt
Financial Closure	The stage when the Concessionaire ties up with the banks/financial institutions for the funds required for the project, and conditions precedent to initial drawing of the debt have been fulfilled
Financial Model	The financial model(s) used by the Public Authority, investors and lenders to review and monitor the project
FIRR	Financial rate of return, the cash-flow benefit of a project from the point of view of the public-sector (as opposed to its economic benefit), or an investor in the project
Floating Interest Rate	An interest rate revised at regular intervals to the current market rate
Force Majeure	Acts of God and other specified risks (e.g. terrorism) which are beyond the control of the parties to the contract and as a result of which a party is prevented from or delayed in performing any of its non-financial obligations under the contract
Force Majeure Insurance	Insurance against third-party Force Majeure events affecting the Construction Subcontractor
Greenfield Project	Project involving constructing a completely new facility or building on a site where there have previously been no major structures
Gross Capital Formation	Formerly known as <i>Gross Domestic Investment</i> . It consists of outlays on additions to fixed assets of the economy (roads, railways, schools, drains, hospitals, commercial buildings, etc.), plus net changes in the level of inventories. Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales, and "work in progress."

Hard Infrastructure	Infrastructure such as buildings and other such physical facilities
Independent Consultant	A consultant appointed for supervision and monitoring quality of the project (different from TA). Usually, Independent Consultant is appointed after the project has been awarded and the Concession Agreement has been signed. The Independent Consultant ensures that the project work goes as per schedule and as per the quality criteria specified in the agreement
Inflation Risks	Risks related to the changes in the rate of price inflation which will affect the Project Company's capex or opex
Interest-Rate Risks	Risks resulting from changes in interest rates which affect the Project Company's capex or opex
Interest-Rate Swap	A hedging contract to convert a floating interest rate into a fixed-rate
IRR	Internal Rate of Return, the rate of return on an investment calculated from its future cash flows
Lead Manager(s)	Bank(s) arranging and underwriting the Project Company's debt
Lease	A form of debt in which the asset being financed is owned by the lessor; also used to refer to the right to use a Facility or other property for a specified period of time, and a Franchise (q.v.)
Lessee	The obligor under a lease (equivalent to a borrower)
Lessor	The provider of finance under a lease (equivalent to a lender)
Letter of Acceptance (LoA)	The contract award letter issued to the selected bidder after evaluating all valid bids received
Lifecycle Costs	The costs of major renewals of equipment/assets over the term of the PPP Contract
Limited-Recourse	Finance with limited guarantees from the Sponsors
Liquidated Damages (LDs)	The agreed level of loss when a party does not perform under a contract.
Macroeconomic Risks	Risks related to inflation, interest rates, or currency exchange rates having an effect on the Project Company's capex or opex
Mezzanine Debt	Subordinated debt provided by third parties other than the

	investors
Negative Grant / Premium	The amount offered by the Concessionaire to the Sponsoring Authority under a PPP Project, if the project is profitable. This is an important bidding parameter, if applicable
Net Present Value (NPV)	The discounted present value of a stream of future cash flows, i.e., the value of future cash flows in today's money
Non-Recourse Finance	Finance with no guarantee from the Sponsors, i.e., the lenders cannot mortgage/seize the personal assets/finances of the Sponsors in the event of payment default
O&M	Operation and Maintenance.
Operation Phase	The period between the start of commercial operations (COD) and the end of the PPP contract term.
Operation-Phase Risks	Risks relating to the operation phase which may affect the Project Company's revenues or opex.
Opex	Operating costs. (operational expenses)
Outputs	Service requirements under a PPP, defined on the basis of the Sponsoring Authority's requirements rather than how these requirements are to be delivered.
Owner's Risks	The responsibilities of the Project Company under the Construction Subcontract.
Penalties	Payments by the Project Company for failure to meet service requirements under a Concession.
Political Risks	Risks related to government actions affecting the Project Company or its operations.
PPP	Public Private Partnership, in which the Government contracts a private sector enterprise for providing a public asset or a service (roads, water supply, etc.), usually at a user charge.
Pre-Bid meeting	A meeting with the prospective/short-listed bidders before inviting firm proposals, to answer their queries.
Preferred Bidder	A bidder with whom the Public Authority pursues detailed negotiations under the Negotiated Procedure.
Preliminary Information Memorandum (PIM)	The information memorandum on the project which is used as a basis for obtaining financing bids from prospective partners. Usually, this is for circulation only between the Sponsoring Authority's PPP team.

Pre-Qualification	The first stage of a public-procurement process.
Primary Investors	The original investors in the Project Company, including the Sponsors.
Privatisation	Complete transfer of public infrastructure to the private sector, as compared to PPPs, where it remains in the public sector.
Project Finance	A method of raising long term debt financing for major projects through 'financial engineering', based on lending against the cash flow generated by the project alone; it depends on a detailed evaluation of a project's construction, operating and revenue risks, and their allocation between investors, lenders and other parties through contractual and other arrangements.
Public Goods	Public infrastructure which has to be freely available, and for which it is difficult to charge users, e.g. street lighting.
Public Procurement	The process of competitive bidding for a contract with the public sector.
Public Sector Comparator (PSC)	PSC represents the most efficient public procurement cost (including all capital and operating costs and share of overheads) after adjustments for Competitive Neutrality, Retained Risk and Transferable Risk (for definitions of these terms please refer to the Public Sector Comparator technical note) to achieve the required service delivery outcomes. This is used as the benchmark for assessing the potential value for money of private party bids in PPPI projects.
Rating Agency	A company providing an independent view on the creditworthiness of the Project Company.
Real Cash Flow/Return	The cash flow or return on an investment excluding inflation, i.e. 'money of today'.
Refinancing	The process by which the previously-determined terms and conditions of financing are later changed through negotiations with the senior lenders, to create refinancing benefits for the shareholders and public sector authority, e.g. improved interest rates or longer maturity or repayment terms.
Refinancing Gain	The benefit of a refinancing of the Project Company's debt.
Request for Proposal	The second stage of the two stage bidding process, wherein

(RFP)	only financial proposals are invited from short-listed bidders.
Rescue Refinancing	A restructuring of the Project Company's debt because of the financial difficulty being faced by the project.
Reserve Accounts	Accounts controlled by the lenders (or their trustee or escrow agent) in which part of the Project Company's cash flow is set aside to provide security for the debt or to cover future costs.
Right of Way	A right of access to the Facility through adjacent land.
Risk	It refers to the probability of an event occurring and the consequences of its occurrence.
Risk Allocation	The allocation of responsibility for dealing with the consequences of each risk to one of the parties to the contract, or agreeing to deal with the risk through a specified mechanism which may involve sharing the risk.
Risk Assessment	The determination of the likelihood of identified risks materialising and the magnitude of their consequences if they do materialise.
Risk Identification	The process of identifying all the risks relevant to the project.
Risk Management	The identification, assessment, allocation, mitigation and monitoring of risks associated with a project. The aim is to reduce their variability and impact.
Risk Matrix	A method of presenting all possible significant risks likely to be encountered in a project, the magnitude and likelihood of the risks occurring, their areas of impact, the allocation of risks between parties and the risk mitigation techniques to be employed.
Risk Mitigation	The attempt to reduce the likelihood of the risk occurring and the degree of its consequences for the risk-taker.
Risk Premium	The amount required to compensate an investor for assuming a particular risk attached to an investment proposal.
Roll-Over Risk	The risk that an interest-rate swap contract may not be amended on acceptable terms if the amount of debt or repayment schedule changes.
Secondary Investors	Investors who invest in the Project Company after Financial Close (usually in the early years of the operation phase), purchasing their shares from the primary investors.
Senior Debt	The major funding component of the funds required for

	construction etc. Provided by banks or bonds, it has priority of repayment over other funding sources.
Senior Lenders	Lenders whose debt service comes before debt service on mezzanine or subordinated debt or Distributions.
Sensitivities	Variations on the Base Case assuming a worse than expected outcome for the project.
Shadow Tolls	Tolls based on usage of the Facility, which are payable not by the users but by the Sponsoring Authority.
Single Stage Bidding	Adopted for small projects, wherein the Technical/Financial capability documents and Financial proposals are invited from bidders at the same time.
Site Risks	Risks related to the acquisition or condition of the project site.
Site-Legacy Risk	The risk of pre-existing contamination on the project site.
Social Infrastructure	Public infrastructure required to sustain society, such as schools, hospitals and prisons.
Soft Infrastructure	Provision of public services such as street cleaning or social services.
Sovereign Risk	The risk that there is no remedy available at law to prevent Government from legislating to affect the rights of the private party. Sovereign risk is a category of legislative and Government policy risk.
Special Purpose Vehicle (SPV)	In establishing a project consortium, the sponsor or sponsors typically establish the private party in the form of an SPV which contracts with government. The SPV is simply an entity created to act as the legal manifestation of a project consortium, with no historical financial or operating record which government can assess. An SPV is a legal entity with no activity other than those connected with its borrowing.
Sponsors	The investors who bid for, develop and lead the project through their investment in the Project Company.
Step-in	Government's option to assume all or some of the service delivery obligations of the private partner for a period of time. The circumstances where government may have the right under the contract to exercise rights to step-in may include a need to: prevent or mitigate a serious risk (to the

	environment; public health; safety of persons or property); guarantee continuity of an essential service; discharge a statutory duty; or deal with a default by the private partner. Through step-in rights, the lenders get the right to take over management of the Project Company to protect their security.
Subcontract	A contract between the Project Company and a third party, providing for performance of part of the Project Company's obligations under the PPP Contract.
Subcontractor	The party signing a Subcontract with the Project Company.
Subordinated Debt	Debt provided by investors whose debt service is paid after amounts due to Senior Lenders but before payment of dividends. Also known as 'Junior Debt'.
Subrogation	Right of an insurer or guarantor to take over an asset on which an insurance claim or guarantee has been paid.
Sub-Sovereign Risk	Risk specific to a Public Authority other than the central government.
Substitution	The right for the lenders, under Direct Agreement with the Public Authority, to substitute a new entity to take over the Project Company's rights and obligations under the PPP Contract.
Sunk costs	Costs, usually fixed, to be incurred at the beginning of a project (also known as "up-front costs").
Syndication	The process by which the Lead Arrangers reduce their underwriting by placing part of the loan with other banks.
Tariff	Payments under a contract, consisting of either an Availability Charge or a Usage Charge or both.
Termination Sum	The compensation payable by the Public Authority for the early termination of the PPP Contract.
Third-Party Revenues	The ability for the Project Company to generate revenues other than those from users or the Sponsoring Authority.
Transaction Advisor (TA)	The consultant for the project, offering financial, marketing and legal advice. Usually, TA offers service up to the stage of Financial Closure.
Transferable Risk	The risks that are likely to be allocated to the private party under a PPP arrangement.
Transparent	An action which incorporates objectivity and accountability;

	making certain that all parties have access to the same information about the process in question.
Turnkey Contract	A contract with single-point responsibility for design, engineering, procurement of any equipment, and construction.
Two Stage Bidding	Adopted for large projects, wherein the Technical/Financial capability documents are invited from prospective bidders prior to inviting financial bids. Only technically and financially qualified bidders are asked to submit financial bids later on.
Unavailability	A period when the Facility is not Available.
Unsolicited Proposals	Proposals for a PPP made without any tender request from the Public Authority.
Value for Money (VfM)	The test of whether the PPP alternative is a supportable procurement mechanism, better than the traditional procurement mechanism. It is the combination of private sector efficiency and innovation, risk transfer, whole life cost and service provided by the facility as a basis for deciding what offers the best value to the Public Authority. It deals with creation of an outcome (an objective) at minimum cost.
Variable Costs	Project Company costs subject to inflation.
Viability Gap Funding (VGF)	A GoI-initiated scheme, wherein projects with low financial viability are given grants of up to 40% of the project cost, making them financially viable under PPP. This is an important bidding parameter, if applicable.
Willingness to Pay	The willingness and ability of users of a Concession to pay the tolls or other usage fees required by the Concessionaire.
Windfall Gains	Politically-sensitive profits made by investors in PPPs from high returns on investment, debt refinancing or sale of their investment.
Working Capital	The amount of funding required for operating and financing costs incurred before receipt of revenues.