Glossary

The following glossary of terms has been prepared by the authors. Some of these definitions are based on external sources, adapted for this PPP Certification Guide, while others have been developed by the authors to reflect common usage and good practice.

The main external sources used to develop this Glossary are:

- Lexicon: PPP Knowledge Lab. See: https://pppknowledgelab.org/glossary
- PPP General Terminology Glossary of Terms - Scottish Futures Trust. See: http://www.scottishfuturestrust.org.uk/files/publications/SFT_Publication_PPP_Terminology_Glossary_Revised_January_2012.pdf
- Public-Private Partnerships Glossary of Terms: Madhya Pradesh, Government of India. See: http://www.dif.mp.gov.in/ppp/PPP_Glossary.pdf
- The Glossary provided in *Public-private Partnerships: Principles of Policy and Finance* (2011), Yescombe, E. R. Publisher: Butterworth-Heinemann.
- Glossaries provided in several volumes of the *National Public Private Partnership Guidelines* (2008-2011), Australian Government, Infrastructure Australia. See: http://infrastructureaustralia.gov.au/policy-publications/public-private-partnerships/files
- Glossary provided in the *Guidebook on Promoting Good Governance in Public-Private Partnerships* (2008), United Nations Economic Commission for Europe at: http://www.unece.org/fileadmin/DAM/ceci/publications/ppp.pdf

Abandonment	Failure by the private partner to construct or operate the facility for a prolonged period of time.
Acceptance	Confirmation by the public authority or the independent certifier that conditions for the service availability have been met.
Accommodation projects	PPP projects involving the provision of buildings such as schools, hospitals, and prisons.
Affermage	A French term used to refer to a form of PPP in which the private partner is responsible for operating and maintaining existing infrastructure, but not for financing the investment. The private partner does not receive a fixed fee for its services. Rather, it retains part of the user charges with a portion of the receipts going to the

	procuring authority as owner of the assets. The payment to the procuring authority is a percentage of the receipts or a percentage of the total units of service provided.
Affordability	The ability of a project to be realistically accommodated within the inter-temporal budget constraints of the government.
Appraisal	Conducting a series of feasibility exercises that inform a decision to approve, cancel, or revisit the project before the structuring of the contract.
Appropriations risks	The risk that the public agency is incapable of meeting its financial obligations to the project because funds for the project fail to be obligated into its budget. Appropriation risks can affect projects in which the public agency is expected to make payments as a lump-sum during the construction period, as availability payments during the life of the project, or as a result of other events occurring in the life of the project.
Arbitration	A private form of adjudication wherein the parties can select an impartial third party/panel subject to a written agreement. Parties can select their own arbitrators based on desired expertise and background, and an independent arbitrator is also appointed. Parties are free to design and customize the rules of arbitration. The decision of the arbitrator is legally binding in most circumstances.
***Arrendamiento* (leasing of public goods)**	A legal alternative to government-pays Design-Build-Finance-Operate-Maintain (DBFOM) contracts wherein the land in which a facility will be constructed is not land reserved for public use. Rather, it is real estate that can be disposed of by the government.
Articles of Association	The document that sets out the purpose of the special purpose vehicle (SPV) and the rules governing how the SPV's office holders will run it.

	See also *Special Purpose Vehicle*.
Availability failure	A service failure which affects one or more functional areas or units of a facility.
Availability payments	Payments made over the lifetime of a contract in return for the private party making the infrastructure available. This is defined in the contract, and it is a common form of payment in government-pays PPPs.
Availability risk	This refers to the risk (especially from the public perspective) of the infrastructure not being available to use and/or not meeting the quality requirements or expected performance levels.
Bankability	The ability of a project to be accepted by lenders as an investment under a project finance scheme, or the ability of the project to raise a significant amount of funding by means of long-term loans under project finance, due to the creditworthiness of the project in terms of sufficiency and reliability of future cash-flows.
Base case	The financial description of the project in terms of costs, revenues, and resulting conclusions. It combines the sensitivity variables to consider the most likely scenario.
Base case financial model	The base case financial model agreed between the parties at the date of financial close. It may be updated, amended, and adjusted from time to time. The base case financial model typically includes all costs, revenues, and payments between parties, together with all parameters and assumptions underlying these calculations.
Baseline schedule	A project schedule prepared for coordination and monitoring purposes. It is used to identify the project's critical path and near-critical paths that, if delayed, would result in overall delays to project completion.
Benchmarking	A comparison of cost of an item or service against the market price for that item or service.

	In the context of government-pay PPPs with a relevant component of “soft services” (for example, in health PPPs, schools, and so on), benchmarking is used as a method to calculate price adjustments to the service payments based on a review of the market price of such services (for example, comparing the costs of the private partner or their contractors with the current market price of those soft services). Benchmarking is an alternative for “value testing”, the objective of which is to test the actual level of costs of the soft services against the market; this is the other most common alternative to market testing.
Best And Final Offer (BAFO)	As part of the Request for Proposal (RFP) phase, this is a further short listing process to determine a preferred bidder. See also *Request for Proposal*, *RFP phase*.
Bid bond	A written guarantee provided by the private party to the procuring authority. The bid bond is intended to ensure that if selected, the bidder will proceed with the contract. It is also known as a “bid submission guarantee”. The bid bond is generally returned to the successful bidder on effectiveness of the relevant contract or on financial close.
Bid bonus	Following an unsolicited approach, the bidding proponent receives a scoring advantage — an additional percentage added to its evaluation score — in an open bidding process.
Bid submission guarantee	Please see *bid bond*.
Bidder (or proposer)	In the broad sense, the company or a group of companies, such as a consortium, that submits a bid in response to a RFP. 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. In strict terms, the bidder is only the company or companies that commit to form the project company or private partner (also known as the SPV), with other members of the bidding consortium acting potentially as the “nominated contractor”. The government normally contracts only with the company or companies that form the SPV, or with the SPV itself.
Breach of contract	See *Contract breach*.
Breakage cost	The cost of early termination of a swap, bond, or other fixed-rate or inflation-indexed loan.
Brownfield projects	From a technical/engineering perspective, investments in projects on sites that have previously been used for industrial purposes or have been the site of significant buildings. From an investor perspective, project investments in infrastructure assets that were existing before the time of procurement, or that were previously greenfields but are in operation at the time the investment is made.
Business case	The document that articulates the rationale for undertaking an investment.
Calibration	The process to refine and assign final numbers and values to the various parts of the payment mechanism.
Capital expenditure – Capex	Capital expenditure (Capex): The initial construction costs of the infrastructure plus any expenditure on the constructed PPP assets that is not an operating expense (Opex).
Capital Asset Pricing Model (CAPM)	A technique for estimating the discount rate applied by an investor when evaluating a financial asset, or the return on capital required by that investor. CAPM calculates the discount (or the equity internal rate of return [IRR]) rate on the basis of a risk-free investment

	rate to which is added a market risk premium adjusted to the risk profile of the sector.
Capital grants or grant financing	Grant payments or capital subsidies paid by the government to directly finance a portion of the project costs. Also considered “co-financing”.
Capital markets	Markets concerned with raising capital by buying and selling debt and equity, dealing in shares, bonds, and other long-term investments.
Catch 22	A requirement that cannot be met until a prerequisite requirement is met; however, the prerequisite cannot be obtained until the original requirement is met.
Central agencies	Government ministries or departments which have whole-of-government policy responsibilities. Examples include the ministry of finance and the ministry of planning.
Change in law	"Change in law" typically encompasses the following occurrences after the execution of the project contract: (a) The enactment of new laws (b) The amendment, repeal or change of any law (c) In some jurisdictions, any judgment of a relevant court of law which changes a binding precedent.
Civil law	Civil law is codified. Such codes distinguish between different categories of law: substantive law establishes which acts are subject to criminal or civil prosecution, procedural law establishes how to determine whether a particular action constitutes a criminal act, and penal law establishes the appropriate penalty. In a civil law system, the judge’s role is to establish the facts of the case and to apply the provisions of the applicable code. Much civil law originates from the “*Code Napoleon*”.

Co-financing	Co-financing means, in the PPP context, the provision of finance by the public sector to finance a portion of the capital expenditures (Capex). When the finance is public finance in the strict sense (finance funded by budgetary resources, usually considered “grant payments” or “grant financing”, rather than finance provided by public financial agencies or public banks), it may be named pure co-financing. Co-financing is commonly associated with unfeasible user-pays projects so as to fill the viability gap, but it can also be applied to government-pays PPPs to increase commercial feasibility, or to increase the affordability of the project.
Co-lenders	When public financial agencies help to fill the loan gap by providing part of the loan. These agencies lend on similar conditions to the banking community.
Collateral warranties	A party contracting with the special purpose vehicle (SPV), such as a professional adviser or sub-contractor, will give certain undertakings and warranties directly to the bank that the work it carries out will be fit for purpose and will comply with all relevant statutory requirements; and that it will maintain a minimum amount of insurance cover for a specific period.
Commercial banks	Privately-owned banks that supply loans, known as debt, to the special purpose vehicle (SPV) which enables it to finance project activities.
Commercial close	The point at which all the significant commercial issues between the procuring authority and the consortium have been agreed. The PPP contract (or PPP project agreement) will normally be signed at commercial close. Sometimes, even if the PPP contract has been signed, the majority of its provisions will not become effective until financial close has been reached.

Commercial feasibility	Analysis conducted to check whether the project will effectively attract quality bidders, investors, and lenders, as well as highlight the main conditions that must be met to do so. Also includes "financial feasibility".
Commissioning	The process of testing that occurs at the completion of the construction of a project to ensure that the private partner has met all of the preconditions necessary for the project to commence operations, as well as demonstrated that the infrastructure can deliver the services in accordance with the output specifications. Sometimes referred to as project completion or construction completion; the latter refers more to completing the construction works before the tests and inspection by the authority to ensure that the asset is ready to provide the service as specified in the contract.
Commissioning risk	The risk of failure to meet the construction outcome as prescribed and/or the project, as constructed, failing to meet the completion acceptance criteria, causing a delay in earning revenue.
Common law	Common law is generally uncodified. This means that there is no comprehensive compilation of legal rules and statutes. Although common law does rely on some scattered statutes, which are legislative decisions, it is largely based on precedent, meaning the judicial decisions that have already been made in similar cases.
Commonwealth	The Commonwealth is a voluntary association of 53 independent and equal sovereign states. Its origins derive from the British Empire, when some countries were ruled directly or indirectly by Britain. Membership today is based on free and equal voluntary cooperation; no historical ties to the British Empire are required.
Communications infrastructure	The infrastructure built for the transmission of telecommunications and broadcasting networks.

Compensation events	Risk events for which the private partner is entitled to receive financial compensation if the event occurs and to the extent that the private partner is impacted financially. Compensation may only be partial, in which case the event may be referred as a shared risk.
Competitive dialogue process	A particular type of tender process where there is a specific phase, named the “dialogue phase”, in which the contract and Request for Proposal (RFP) are discussed or dialogued between the authority and the candidates (on a one-on-one basis), or prospective bidders (previously pre-selected or shortlisted on the basis of a Request for Qualifications – RFQ). The purpose of this is to refine the contract and RFP before the bid is requested (or the final bid when some previous bids have been called during the dialogue, usually on a non-binding basis).
Completion	When the private party has constructed a facility to the government’s requirements and the facility is deemed suitable for occupation and use.
Completion bond	Security provided by the construction subcontractor for performance under and completion of the construction subcontract.
Completion risks	Risks relating to the completion of construction of the facility and its initial ability to provide the services required by the PPP contract.
Concession	A grant of economic rights of a public asset in an administrative law jurisdiction to a private party by the government, including the legal title to possess the site of the land. It may also refer to a PPP contract that is generally reserved for contracts where the majority of revenue comes from users.
Concessionaire	Please see *private partner*.
Conditions precedent	Conditions to be fulfilled by the project company before drawing on the debt, or before the project contracts

	become effective.
Consortium	A consortium is a group of companies that has joined together to bid for a project. It is common for companies to form consortia to bid for PPP projects, as this enables them to bring together all of the capabilities required for the project (for example, construction, infrastructure operation, and financing capabilities).
Consortium agreement	The contractual relationship between the consortium members. It typically sets out in significant detail how the responsibilities, risks, and rewards will be shared and/or allocated among the members. If the bid succeeds, for example, the consortium becomes the preferred bidder and executes the PPP contract.
Construction contract	An agreement entered into between the special purpose vehicle (SPV) and the construction contractor for the design and construction of the PPP project assets. Also referred to as a "design build (DB) contract", "design and construction (DaC) contract", or "Engineering-Procurement-Construction – EPC contract."
Construction contractor	The party or group of parties (under a construction consortium or other form of joint venture) which is responsible for the design and construction of the PPP project assets, as well as for providing all of the material, labor, equipment (such as engineering vehicles and tools), and services necessary for the construction of the project. Also includes "Design and Construction (D&C) Contractor" or "Engineering-Procurement-Construction (EPC) Contractor".
Construction Phase	The period from financial close to the completion of commissioning during which the construction works are completed.
Construction risk	The possibility that during the Design and Construction Phase the actual project costs or construction time will exceed those projected.
Contingency	Unallocated reserve in the capital expenditure (Capex) budget to cover the cost of any unexpected, but required, capital expenditure. It is covered by contingent

	or standby funding.
Contingency reserve	A reserve to address the contingencies/risks which may potentially lead to service failure and/or default of the project. Both the private and public partners may establish contingency reserves.
Contingent guarantees	Guarantees against a future event or circumstance which is possible, but cannot be predicted with certainty and which might affect project revenue, for example, a minimum traffic guarantee.
Contingent liabilities	Obligations/liabilities triggered by a discrete but uncertain future event. This PPP Certification Guide applies this term especially for those liabilities that affect the government under the PPP contract.
Contingent liability fund	An account (which may be within or external to the government's accounts) to which transfers are made in advance, and from which payments for realized contingent liabilities will be made when due. Also known as a "guarantee fund".
Contract breach	A failure to observe a provision of the contract. It may lead to penalties and also to events of default or contract default. Also known as a "breach of contract".
Contract default	A breach of contract that relates to an obligation considered essential in the contract (including persistent breaches), which will entitle the procuring authority to terminate the contract. To be considered a default, a breach must usually be a material breach of the respective obligation. Also known as an "event of default".
Contract execution	Signing of the contract. See *commercial close*.
Contract management	The process of managing and administering the PPP

	contract from the time it has been agreed at contract signature through to the end of the contract term.
Contract management manual	A knowledge management tool for succession planning and transfer of knowledge through the team. It is also a guide which highlights the most immediate and critical actions that must be taken by the contract director when administering the contract.
Contract signature	See *commercial close*.
Contract value	The volume of capital expenditures (Capex) estimated by the procuring authority. It sometimes refers to the total amount of payments to be made by the procuring authority if the bid equals the ceiling on payments.
Construction, Engineering and Inspection (CEI) engineer	A CEI engineer or a CEI inspector provides oversight and inspection support to monitor the works to be done during the Construction Phase up to and including commissioning. The CEI engineer is contracted by and reports to the procuring authority, but does not give binding approvals. When the opinion and analysis conducted by an engineer monitoring the works is binding and the engineer is acting as an independent agent, this position is usually named *independent engineer* or *independent certifier* (see the separate definition in this glossary).
Consumer Price Index (CPI)	A measure of inflation; the official measure of inflation in a country. Also referred to as the Retail Price Index (RPI).
Conventional procurement	Procurement routes other than PPPs, which may be more commonly used to deliver public assets.
Cost-Benefit Analysis (CBA)	A type of analysis used to compare two or more options for a project or a decision based on economic flows duly adjusted, following some patterns. The CBA is primarily used to assess the socio-economic feasibility or value of the selected project or project under assessment (regardless of the method of procurement).

Cost-effectiveness analysis (CEA)	CEA relates the cost of an alternative to a measure of project objectives or to its key outcomes or benefits. For example, it could be dollars per time saved on various public transportation systems.
Country risk	The collection of risks associated with investing in a foreign country, including exchange risk, economic risks (gross domestic product [GDP] evolution, inflation risk), transfer risks (the risk of suffering a block in repatriation of distributions and cash flow to the investor), political risks, social risks (including risks of general riots), regulatory and legal risks (the risk of existing legal provisions affecting a foreign investor, or being more onerous than in the home country), corruption, and sovereign risk (risk of default of financial obligations by the country). The business climate in a country (and the risk of it being adverse) may be considered part of the country risk concept, or at any rate, distinctive factors for an investor when approaching an emerging market. Examples of such business climates include common or general legislation affecting a normal business (labor legislation, taxation, judicial system, and so on.), the state of the infrastructure necessary for the business, development or restrictions in the supply market (especially the availability of a qualified workforce and solvent local sub-contractors).
Cover-ratio requirements	A measure of the private partner's ability to meet its financial obligations. In broad terms, the higher the coverage ratio, the better the ability of the private party to fulfill its obligations to its lenders.
Credit enhancement	Instruments which are structured mainly to provide a higher protection to lenders, thus increasing the credit rating of the debt. When provided by the public sector, credit enhancements are a form of public finance (in revolving mode) that may not necessarily provide soft terms, and they decrease the average cost of capital of the project directly; instead, they enable the lenders to charge lower rates of interest due to the increased credit rating. Credit enhancements can also be provided by

	multilateral development banks (MDBs), export credit agencies (ECAs), and private sector monoline institutions.
Credit wrap	Please see *credit enhancement*.
Creditworthiness	An assessment of the likelihood that the private partner will default on its obligations. This is usually done by lenders or by specialized third parties, such as rating agencies. An entity which is "creditworthy" is deemed to have a low risk of default on a debt obligation.
Cure period	A period of time allowed for a party to remedy a default under a project contract. For example, the private party may have cure periods under the project contract, and the sub-contractor may have cure periods under the construction sub-contract.
Data room	A physical or electronic library of information, relevant to the project, and made available to bidders.
DB (Design-Build)	A conventional procurement type where the private sector designs and builds the infrastructure against a price funded by the public budget. Payments for the works are typically made as construction progresses, and the government retains the full responsibility over the asset when construction is completed.
DBF (Design-Build-Finance)	As in a Design-Build (DB) contract, the private sector designs and constructs the new facility, but it will be paid through a long-term stream of payments, usually after commissioning (irrevocable and unconditional) rather than as work progresses. This means that the contractor has to finance the cost of the works, acting as lender or lessor to the public party (usually a bank that provides the financing against a pledge based on the future government payments). Operation and maintenance is provided by the government or is outsourced to a separate agency.
DBFM (Design-Build-	A variation of the Design-Build-Finance-Operate-

Finance-Maintain)	Maintain (DBFOM) contract, where operations are *not* included in the contract scope.
DBFOM (Design-Build-Finance-Operate-Maintain)	In a DBFOM contract, the contractor develops the infrastructure with its own funds, that is, it will provide all or the majority of the financing. The contractor is also responsible for managing the infrastructure life cycle (assuming the life-cycle cost risks) in addition to being responsible for current maintenance and operations (the contract is often referred to as a DBFM when operations are *not* included in the scope of the contract). The contractor may be paid by users or by the government on the basis of service payments (payments linked to performance) or usage payments (linked to volume or use), but it may be also paid by fixed deferred payments (irrevocable and unconditional, as in a Design-Build-Finance [DBF] contract). DBFOM (and DBFM) contracts are the only type of contracts (in terms of scope) that fulfill all of the conditions required to be a PPP. However, whether a DBFOM may be regarded as a true PPP depends upon the effectiveness of risk transfer and the nature of the links between the performance and revenue.
DBOM (Design-Build-Operate-Maintain)	In a DBOM contract, the contractor constructs, or designs and constructs, the infrastructure and is paid for the construction works against public construction payments (as in a Design-Build [DB]). After construction, the contractor provides, operates, and maintains services (or only maintenance services) for which it also paid by the government at a pre-agreed price.
Debt agreement	Please see *financial agreement*.
Debt Service Coverage Ratio (DSCR)	Assessment of the ability of the project company to meet the debt service payment of each year. This is calculated by dividing the projected operating cash flow before debt service by the debt service of the respective year.
Defects liability period	The period of time within which the contractor is contractually obliged to return to the construction site to

	repair defects which have appeared in the contractor's works after the project has been commissioned by the public authority.
Demand risk	The risk that actual demand (that is, usage or patronage of the infrastructure) does not meet the forecast demand.
Demand risk guarantee	A guarantee that actual demand will meet the forecast demand. If actual demand is less than forecast demand, the guarantor makes a payment to the beneficiary of the guarantee.
Design and Construction (D&C) contract	Please see *construction contract*.
Design requirements	The requirements for the design of the facility as set out in the output specifications, the design documentation bid by the private party (and included in the project agreement as at contractual close), and the other design requirements set out in the project agreement.
Design risk	Defects in the design that result in the asset being built, but failing to meet the prescribed standards.
Developer's fee	Following an unsolicited approach, the original proponent is paid a fee by the government or the winning bidder. The fee can reimburse some project development costs, the project concept and proposal.
Direct agreement	An agreement normally made between the special purpose vehicle (SPV), the government party, and the lenders. Alternatively, it can be made between the SPV, the lender, and the primary sub-contractors. The agreement gives the lenders step-in rights to take over the operation of the key PPP contracts. See also *Step-in*.
Direct liabilities	Payment commitments that will be incurred regardless of the occurrence of an uncertain future event.
Discount rate	The rate used to calculate the present value of future

	cash flows, usually determined on the basis of the cost of capital used to fund the investment from which the cash flow is expected.
Discounted cash flow analysis	A general term for analysis which discounts a stream of future cash flows in order to calculate a Net Present Value. See also *Net Present Value*.
Downstream contracts or contractual structure	The structure of contracts wherein the responsibilities, risks, rights, and obligations are delegated from the SPV to the different private actors participating in the PPP.
Due diligence	Review and evaluation of the project, the project contracts, and their related risks. It is carried out by project investors and lenders before deciding to participate in/lend to the project. The term may be also applied to the project preparation activities or some aspects of the preparatory works to be handled by the procuring authority before the tender launch.
Dynamic tolling	Tolling levels that may vary in real time in order to respond to congestion. It is related to facilities where there is a toll-free alternative so that drivers have the ability to use tolled or non-tolled options, depending on the level of traffic and the process. These projects are also referred to as “express lanes”.
Early termination	When a contract is terminated before its natural term or “expiration”.
Economic Infrastructure	Infrastructure that makes business activity possible such as communication, transportation as well as distribution networks such as water, waste, and energy supply systems.
Economic IRR	The project’s internal rate of return (IRR) after taking into account externalities (such as economic, social, and environmental costs and benefits) not included in financial IRR calculation.

Empresa mixta	Please see *Mixed equity companies*.
Environmental Impact Assessment (EIA)	The formal process used to predict the environmental consequences, positive or negative, of a project. This is usually carried out by an agency or authority other than the procuring authority, and may result in changes being requested or necessary in the design and construction of the project.
Environmental Law	Laws, statutes, regulations, and other subordinate instruments relating to the environment (such as environment protection policies and industrial waste management policies).
EPC Contract (Engineering Procurement and Construction Contract)	A fixed-price, date-certain, turnkey contract. Usually, it involves design and engineering, equipment procurement or manufacture, and construction and erection of a process or other plant.
Equity	The portion of the share capital and other investment subordinated to senior debt provided by members of the special purpose vehicle (SPV).
Equity documents	The set of documents that constitute the framework for the equity investment, and how the different equity investors will contribute to it.
Equity free cash flow	A measure of how much cash can be distributed to the equity shareholders after all expenses, reinvestment, and debt repayment.
Equity Investors	Investors who finance a portion of the project’s capital expenditures (Capex), typically as share capital or subordinated debt. When referring to equity investors in this PPP Certification Guide, it is assumed that they are the sole investors or the investors that control the PPP company. Some equity providers may not want to have an active role in the PPP investment life cycle. This also includes “equity providers” and, “shareholders.”

Equity IRR	The internal rate of return (IRR) on the equity paid in by the investors, which is derived from distributions (mainly dividends, capital shares amortization, repayment of junior debt, and interest on junior debt).
Equity Providers	Please see *equity investors*.
Equity return	The internal rate of return which an equity investor is projected to receive.
Equity shares	The portion of a company's equity that has been invested into the PPP project's delivery vehicle, the special purpose vehicle (SPV). The equity shareholding enables the equity shareholders to influence the management of the SPV or control of the SPV, depending on the percentage of shares held; usually those parties who have invested equity into the SPV will have a higher exposure to risk.
Event of default	See *contract default*.
Expected risk parcel	A risk value added by the private partner to accommodate costs due to the uncertainty caused during financial estimation and feasibility exercises.
Ex-post evaluation	An evaluation conducted after a certain period has passed since the completion of the project, with emphasis on the effectiveness and sustainability of the project.
Expressions of Interest (EOI)	Expressions of interest by potential bidders for a project. In some jurisdictions, this term is used instead of Request for Qualifications (RFQ).
Expropriation costs (or land expropriation costs)	In the context of PPPs and other infrastructure, the costs to a private owner of the acquisition of land for the purpose of using that land for the benefit of the project.
FIDIC (International Federation of Consulting Engineers)	An international agency that produces standard form contracts used for construction works. The FIDIC conditions of contract are also widely used in international projects, with minor modifications.

Financial agreement	The set of documents under which a loan is provided for the development of the PPP facility. Also includes “loan documents/agreement”, “finance agreement”, and “debt agreements.”
Financial close	The point at which all of the project documentation is signed, all the pre-conditions attached to the project’s financing have been met, and the project funding becomes available.
Financial feasibility	Please see *commercial feasibility*.
Financial model	A digital spreadsheet computer file that incorporates, for the duration of the contract, all the investments, revenues, costs, and taxes as well as several analytical parameters and the relative inflation. The tool also incorporates the free cash flow of both the project company and the equity investor.
Financial structure (from the public perspective)	For the purpose of this PPP Certification Guide, the term financial structure (from the public perspective), refers to the definition of the means of compensation to be granted to the private partner in the contract and its conditions (tenor, timing, indexation and potential adjustments/deductions), including grants (to co-finance the capital expenditures, or Capex), service payments, subsidies, the right to collect user-payments, and any potential public party participation in the provision of financing (guarantees and other credit enhancement measures, equity or debt contributions). The financial structure may be regarded also as the resulting profile of government payments in terms of net present value (NPV) and yearly public expenditure, or the profile of payments to be received from the private partner (in over-feasible projects).
Financial structuring	Regarding the private side context, the work related to the designing of the mix of funds to be used to finance the project, especially with respect to how much debt to raise.

Financing	The source of money required up front to meet the costs of constructing the infrastructure. Financing is typically sourced by the government through surpluses or government borrowing (traditional infrastructure procurement), or by the private sector raising debt and equity finance (PPPs).
Fiscal feasibility	Please see *affordability*.
Fiscal risk	The risk that the fiscal outcome for government (that is, the government's financial position) will be different from that expected.
Fixed price contract	A firm-fixed-price contract that provides for a price that is not subject to any adjustment on the basis of the contractor's cost experience in performing the contract. This contract type places upon the contractor maximum risk and full responsibility for all costs and resulting profit or loss.
Force majeure	External unpredictable events beyond the control of either party that are construed or defined by a law, policy or the contract. The precise scope of this term varies by jurisdiction, but it typically includes "Acts of God" (natural disasters). It also often includes certain man-made events, such as war and terrorist activities.
Forex risk	Risks related to changes in currency/foreign exchange rates (Forex). This is applicable only when the project loans, costs, or charges are denominated in a foreign currency, either wholly or partially. Also referred to as currency risk.
Franchise	Similar to *affermage*, lease, or concession of services, but mostly or basically used in the transportation context. A franchise rarely includes the requirement for infrastructure investment, and usually the infrastructure is managed directly by the government or under a separate agreement.
Full service commencement date	The date on which contracted services and the government's core services may commence to be provided in, and in respect of, the facility, which is

	usually prescribed as the date of completion or the day after that date.
Functional design	A design prepared to indicate the functional requirements of a project, rather than providing actual inputs and works specifications.
Funding	The source of money required to meet payment obligations. In a PPP context, it refers to the source of money over the long term to pay the PPP private partner for the investments and operating and maintenance costs of the project. Funding is typically sourced from taxes (in government-pays PPPs), or from user charges (in user-pays PPPs).
Gearing	The ratio of a company's loan capital (debt) to the value of its ordinary shares (equity). Gearing is used interchangeably with "leverage" in this PPP Certification Guide.
Government	Refers to federal, state, and/or local/municipal government and their respective line agencies and/or ministries.
Government-pays PPP	A PPP in which the revenue of the private partner is in the form of budgetary payments, usually linked to performance or use.
Grant financing	The provision of direct payments from the government so as to finance a portion of the capital expenditures (Capex) from the budget. These payments are usually made during construction (monthly or quarterly as work is progressing or on the basis of specific milestones) or at the end of the construction period.
Grantor	The party which grants a concession, a license or some other right. Please see *procuring authority*.
Greenfield projects	From an engineering point of view, these are projects to be developed on sites that have not had previous

	industrial use or significant buildings. From an investor perspective, they are project investments that relate to a PPP that has recently been awarded or is under construction, and where there are significant new structures or very significant upgrades of existing infrastructures. In the latter case, depending on how relevant the value of the existing infrastructure is, greenfield projects may be also defined as yellowfield or secondary stage projects.
Green light decision	The decision by the authority to procure the project. It is usually made at the end of the Appraisal Phase, subject to confirmation after finalizing the structure and drafting of the whole tender package.
Guarantee fund	See *contingent liability fund*.
Hand-back	The transfer of the project assets, and responsibility for those assets, to the government upon the termination or expiry of the PPP contract.
Handover	Please see *hand-back*.
Hard services	Services which facilitate the overall functioning of the building according to specifications, such as maintenance and repairs.
Head of Terms (HOT)	The HOT sets out the key commercial areas that the Consortium parties expect to be addressed in the key PPP contracts, including the project agreement, construction, and operation and maintenance (O&M) contracts. The HOTs will set out the parties' commercial undertakings and will be agreed early on in the bidding process by the consortium parties.
Hedging	An arrangement in the financial markets to protect the project company against adverse movements in interest rates or inflation.
Independent certifier	A certifier normally appointed with the consent of both the private and public parties, and who must certify the construction works to comply with the specifications set

	out in the contract. The certifier must: • Inspect and monitor the work, attend any performance testing during commissioning, and advise the private party if any rectification is required • Certify that the Construction Phase has been successfully completed in compliance with the PPP contract • Issue a completion certificate as contractual evidence that the Construction Phase is complete and the project is available for the Operations Phase. In some jurisdictions, the independent certifier is also given quasi-judicial powers to make decisions during the dispute resolution process that are binding on all parties. See also *Construction, Engineering and Inspection (CEI) engineer*.
Independent engineer	Please see *independent certifier*.
Inflation risks	Risks to the project company's capital expenditures (Capex) or operating expenses (Opex) resulting from changes in the rate of price inflation.
Infrastructure	The basic physical and organizational structures and facilities, such as buildings, roads, and power supplies, needed for the operation of a society or enterprise.
Infrastructure fund	A fund established to invest in infrastructure and managed by a fund manager.
Institutional framework	The group of agencies and bodies within a government that influence the management and governance of the public action (or the management and governance of the PPP option, in the context of PPP frameworks).
Institutional PPP	A form of PPP, which is a sub-form of the Joint Venture (JV) or mixed-equity company, wherein the government controls the JV PPP company and usually owns the

	majority of the shares. This PPP Certification Guide considers that an institutional PPP may be regarded as a true private finance PPP when the private sector is involved significantly as an equity investor (with a significant portion of the equity shares), thereby assuming project risks, and the debt financing is at risk of performance.
Intellectual property	Inventions, original designs, and practical applications of original ideas protected by statute law through copyright, patents, registered designs, circuit layout rights, and trademarks. This also refers to trade secrets, proprietary know-how, and other confidential information protected against unlawful disclosure by common law and through additional contractual obligations, such as confidentiality agreements.
Interactive tender process	Similar to competitive dialogue in the sense that there are direct interactions on a one-to-one basis between the authority and a number of short-listed prospective bidders before submitting the proposal. The main difference with the dialogue process is that the Request for Proposal (RFP) is fully or substantially defined at the inception of the interaction phase, and the interactive phase focuses more on enabling prospective bidders to refine their understanding of the RFP and contract, rather than on suggesting or discussing changes to them.
Interest rate swap	A hedging contract to convert a floating interest rate into a fixed rate.
Interface Agreement	The primary purpose of an interface agreement is to regulate the relationships between the key sub-contractors with regard to their respective responsibilities in relation to the project, certain liabilities and payments, and the recovery of certain sums from one another.
Interface risk	The relationship with other contracts or activities of the government, or dependencies of the government, regarding the successful performance of the PPP contract.

Investment decision	The decision as to whether a proposed project is a good project. Is the government willing and able to provide the required funding (after accounting for any user fees, such as road tolls), regardless of how the project is procured?
Investors	See *equity investors*.
Invitation to Propose (ITP)	The act by which the procuring authority calls for proposal submissions. In a straight forward Request for Proposal (RFP) (with no dialogue or structured interactions), the invitation to propose is implicit in the RFP. However, in a dialogue or interaction process (and sometimes in a negotiated process), the ITP is issued at the end of the dialogue or interaction process once this process has ended, and the RFP and contract are definitive and have been discussed and clarified.
Joint Venture (with a public party)	This term is also widely used to refer to "mixed equity companies" or "*empresas mixtas*".
IRR or financial IRR	The rate of return of an investment calculated from its projected cash flows. The internal rate of return (IRR) is also the discount rate that equates the present value of a future stream of cash flows to the initial investment.
Junior debt	Please see *subordinated debt*.
Key Performance Indicators (KPI)	The financial or non-financial indicators used to measure the progress or success of the private party during the operating term on critical factors relevant to the project, and which will normally vary depending on the contracted services and other attributes of the project. KPIs are often included in the contractual arrangement because they may serve as the basis for certain payments to the private party.
Latent defects	Defects in the facility which noone could reasonably have found and whose effect does not appear until a later date.

Lease	A legal institution (similar to a concession and used in a number of common law countries) that allows the government to grant economic rights over the infrastructure or economic ownership of the asset. In some countries, the term “lease” may be reserved for project contracts where the government remains responsible for capital expenditures.
Legal framework	The legal system of a country which comprises the constitution, legislative enactment body, judicial decisions, treaties, and preceding law amendments.
Lenders	Institutions that provide lending to the project: mainly banks and institutional investors through project bonds.
Letter of intent	A document (which may or may not be binding) entered into between the different stakeholders in a consortium. The document expresses their interest to be an equity shareholder in the project (to be undertaken) and to bid together as a consortium.
Leverage	See *gearing*.
Life-cycle costs	The whole costs of an asset during the useful life of the infrastructure, or during the life of the contract that regulates the management of the infrastructure. This includes the initial investment/ costs of construction and any other maintenance work required to maintain the asset in an acceptable and constant technical state or condition. It can also include the state necessary to meet the performance requirements established in the contract.
Limited Recourse	Finance with limited guarantees from the sponsors.
Line agency (or line ministry)	Government ministries or departments responsible for policy development, planning, and delivery of specific services. Common examples include the ministry of transportation and the ministry of health.
Linear project	A project involving the construction of a facility over a long stretch of land; for example, a road.

Liquidated Damages (LDs)	The agreed level of loss when the private party commits a contract breach. See also *penalties*.
Loan documents/agreement	Please see *financial agreement*.
Loan Life Coverage Ratio (LLCR)	The ratio of Net Present Value (NPV) of cash flows available for debt service divided by outstanding debt in the period. The NPV is measured only up to the maturity of the debt. The ratio provides an estimate of the project's credit quality from the lender's perspective.
Long stop date	A date set by the procuring authority by which services must commence regardless of what events or claims occur during the Construction Phase. Non-commencement of services by this date would lead to termination of contract.
Macroeconomic risks	Risks to the project company's capital expenditures (Capex) or operating expenses (Opex) related to inflation, interest rates, or currency exchange rates.
Maintenance contract	See *operations and maintenance (O&M) contract*.
Maintenance risk	The risk of improper maintenance resulting in a lack of performance, which is implicit and covered in the availability and performance risk analysis.
Management contract	A contract wherein the long-term maintenance of the infrastructure is the only core objective which is transferred to the private sector.
Management Information System (MIS)	A tool used to record and manage the activities and documentation of a PPP project.
Market initiated proposal	See *unsolicited proposal*.
Market test (or market sounding) of a PPP Project	The process of assessing the reaction of the market to a proposed project requirement, and the level of market

	interest in the project.
Market testing of services	A method to handle value testing of the soft services of a PPP where such services are re-tendered by the private partner, and the government adjusts the service payments to the actual market value (including the possibility of substituting the soft service provider). See also *benchmarking*.
Mezzanine debt	See *subordinated debt*.
Mini-perm	A loan for the construction period and the first few years of project operations based on the project finance technique, to be refinanced in due course by longer-term debt.
Mixed equity companies	PPP structures in which the public authority retains an equity participation in the company as a shareholder. These are a common scheme in some civil code countries (and quite typical in Spanish-speaking countries, where they are called "*empresa mixta*", and are considered a specific legal type of public procurement or contract). They may be regarded as PPPs if they meet the PPP features. They are also often referred to as Joint Ventures (JVs). When the public partner controls the company or owns the majority of the shares, the PPP is also referred to as an institutional PPP.
Monte Carlo simulation	A problem solving technique used to approximate the probability of certain outcomes by running multiple trial runs, called simulations, using random variables.
Multi-criteria analysis	A sub-discipline of operations research that explicitly considers multiple criteria in decision-making environments with cost or price as one of the main criteria.
Mystery shoppers	The use of qualified individuals to survey and test the

	performance of the services provided by the private partner.
Negotiation phase	The selection of preferred bidder/awardee to the signing of the contract (in those tender processes that allow negotiation at this time).
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.
Nominee contractor	A specialist contractor forming part of and enhancing the credibility of a consortium, because of specialist skills and expertise, but who will not become an equity investor in the special purpose vehicle (SPV).
Non-Disclosure Agreement (NDA)	An agreement in which a party agrees to confidentiality obligations as a pre-condition to being given access to project information.
Non-recourse	Finance with no guarantees from the sponsors.
O&M (Operations and Maintenance) contract	As a procurement option for the government, in which a private operator (under contract) operates a publicly-owned asset for a specified term. Ownership of the asset remains with the public entity. It also includes a "maintenance contract" and a "facilities management contract."
Objectives (of a PPP framework)	What the government wants the PPP framework to achieve.
Off-taker	The entity that is committed to purchase the output of a project.
One-stage tender	A tender process in which the government issues its Request for Qualifications (RFQ) and Request for Proposal (RFP) together, and bidders submit their qualifications and bid as a single submission.

Open tender	A bidding process which is open to any interested bidder as long as they meet the qualification criteria.
Operations or Operating Phase	The period from the end of commissioning to the end of the term of the PPP contract, during which the private partner is responsible for the maintenance, and in many cases the operation, of the infrastructure. It is also named the maintenance phase when there are no operations involved. It is also sometimes known as the Operational Phase (for some authors and professionals, this may also mean the phase of the project that corresponds to the contract life).
Operations	<u>Narrow concept:</u> This implies or refers to toll or tariff collection from the users, or it implies the existence of a relevant interface with final users (operating a rail system in that sense would mean handling the service of transportation, that is, being in charge of driving the trains, even in the case that the private partner is not in charge of collecting the fee to the passengers). <u>Broad concept:</u> Other obligations and responsibilities that allow the infrastructure to be available to use. These activities are not necessarily only maintenance activities in the strict sense of the word. For example, for a road, the clearance of accidents or the service of removing snow (winter viability service).
Opex	Operating expenses: Costs for operating the infrastructure asset after construction delivery.
Opportunity Cost	The benefit one could have obtained by making an alternative choice.
Optimism bias	A bias that causes a person to believe that they are less at risk of experiencing a negative event compared to others. For example, a government may have an optimism bias of a traffic demand forecast which might be unlikely in future.
Output specifications	The service requirements under a PPP that are defined on the basis of results rather than means.

Parent company guarantee	A guarantee from a contractor's parent company for the fulfillment of all contractual obligations. The parent company will assume responsibility for the obligations and/or provide financial compensation to the special purpose vehicle (SPV) to cover the cost of failure.
Payback period	The length of time required for the accumulated cash inflows from an investment to equal the initial outlay.
Payment mechanism	The mechanism in the project contract that sets out the payment arrangements under a PPP contract between the public and private sector in government-pays PPPs. This normally includes detailed proposals about the timing of payments and the methodology for varying payments over time, such as in line with inflation.
Payment deductions	Deductions from the payments in a government-pays PPP. Also referred to as "payment adjustments" or "payment abatements". These are the immediate route for penalizing financially under-performance in government-pays PPPs.
Penalties	Payments to be borne by the private party if there is a breach of contract. They may also be referred to as direct or explicit penalties, so as to differentiate them from payment deductions. In many common law countries, the term "penalty" has a specific legal meaning, referring to an amount of compensation specified in a contract that is out of proportion to the likely loss suffered by the other party. In these countries, different terminology such as "liquidated damages" is used.
Penalty system	The scheme that defines categories of breaches and levels of penalties described in the contract.
Performance bond	See *performance guarantee.*

Performance guarantee	A written guarantee issued by a third party guarantor (usually a bank or an insurance company). This is then submitted to the procuring authority and/or the special purpose vehicle (SPV). It is intended to ensure that the private partner and/or the contractor will perform all of the obligations as stated in their contracts.
Performance monitoring system	A system typically comprising a set of indicators and procedures agreed upon in the project agreement, primarily for the purpose of determining whether the private party is delivering the contracted services according to the service specifications.
Performance points	A system that assigns “points” to each contract breach so as to track and record the breaches — and therefore performance — especially in order to control the risk of the private partner entering into a persistent breach situation.
Performance requirements	Performance requirements may be considered a part of the broader concept of "technical requirements" or "technical specifications". In general terms, this refers to the specifications in the contract as to what is requested of the private partner in terms quality and/or quantity. Performance requirements may also be named “output specifications” depending on the context (see definition), or “service requirements”, and may also be referred to under the broader concept of “operation and maintenance requirements”. The technical requirements related to construction may also be named “construction requirements” or “technical prescriptions for construction”.
Permits	Planning or other permissions required to construct and operate the facility.
Persistent breach	Consistent failure by the private partner to observe the provisions of the project contract. Persistent breach (as defined precisely in the contract in terms of the number of breaches, the accumulation of penalties or the accumulation of performance points) may result in contract early termination.

Political risks	Risks related to government action affecting the private partner or its operations.
PPP contract (broad definition)	A long-term contract between a public party and a private party for the development and/or management of a public asset or service, in which the private agent bears significant risk and management responsibility throughout the life of the contract. Remuneration is significantly linked to performance, and/or the demand or use of the asset or service. See also *private finance PPP*.
PPP agreement	See *PPP contract*.
PPP contract	The contract or agreement between the procuring authority and the private partner in a PPP project. The term "contract" potentially includes other agreements that may link the private partner with other public sector parties rather than the procuring authority, for example, through off-take agreements with a third party authority or body.
PPP contract structure or contract structure	The set of key commercial terms of the PPP contract, fundamentally those related to financial terms or "financial structure of the PPP contract" (how the private partner will be paid), and risk allocation terms or "risk structure of the PPP contract" (how risks are allocated to each party to the contract).
PPP framework	The rules, established procedures, and institutional responsibilities that determine how the government selects, implements, and manages PPP projects.
PPP framework documents	These are the documents which establish the PPP framework. They may be policy statements, white papers, laws, executive orders, departmental circulars, manuals, or other documents. The types of documents used differ by jurisdiction. In some cases, the framework may be specified by multiple documents all of which need to be taken and read together. Documents which

	establish the framework may do other things as well, such as setting out the PPP program.
PPP pipeline	A list of projects the government is considering for implementation as PPPs for a specific time frame (yearly, over 5 years, 10 years, and so on).
PPP process or PPP cycle	The steps that PPP projects proceed through in order for the project to be delivered. Steps include identifying the project, appraising the PPP, structuring the PPP and designing the contract, managing the tender and award processes, and managing the contract.
PPP program	The ways in which the government plans to use PPPs to achieve improved infrastructure service provision. This goes beyond the PPP pipeline to include plans to develop additional, unidentified projects. It may include indications of priority sectors in which PPPs are expected to be used and the relevant extent to which the government plans to use PPPs (as opposed to other service delivery mechanisms) in general or in any particular sector.
PPP program oversight	Supervision of the PPP program, and how it is implemented by parties that are at least somewhat independent from the entities implementing the PPP program. This ensures that they are following established rules and serving the public interest.
PPP Project structure or Project structure	The PPP project structure refers to the architecture of contractual relationships and cash-flows that govern the development and life of the project. It includes the PPP contract structure and the structure of the private contracts (also referred to as the downstream contract structure) that documents and allocates the responsibilities, obligations, risks, and rewards inherent to the PPP contract. “PPP project structuring” is a term used for the process of developing the PPP contract structure and the structure of the tender process.

PPP screening	To assess whether a project appears to be sound as a PPP and can proceed to the next stage of appraisal.
PPP unit	A government organization that supports contracting authorities in implementing PPP projects. They are often part of or attached to one of the central agencies, such as the ministry of finance.
Pre-feasibility study	An assessment of the basic parameters of a PPP project used to decide whether to go forward with more in-depth and expensive studies, such as feasibility studies and transaction development. See also *outline business case*.
Preferred bidder	The bidder identified at the end of the tender evaluation process as being the government's preferred partner to enter into (or enter into final negotiations for) a PPP contract. The preferred bidder is awarded the contract and called to contract signature.
Pre-qualification	The act of testing prospective bidders to determine whether they meet the pass/fail qualification criteria in advance of issuing the request for proposals.
Private finance	Any financing provided by the private sector that is at risk, that is, dependent on the financial performance of the project. From a broad perspective, any financing provided by the private sector might be regarded as private finance. On the other hand, "private finance" may be considered a regulation matter: from a national accounting and reporting perspective, private finance means financing that is not regarded as public debt, for example, it is not consolidated in the government's sector balance sheet. However, this PPP Certification Guide considers as "private finance" any finance provided by the private sector that is at risk in the sense that it is dependent on the performance of the project-contract. This consideration is aligned with the concept of the economic ownership of the asset, which is used by some standards and guides to assess whether a PPP

	asset should be consolidated or recorded in the government balance sheet.
Private Finance Initiative (PFI)	An alternative name introduced by the United Kingdom (UK) to refer to government-pays PPPs.
Private finance PPP	A long-term contract between a public party and a private party for the development (or significant upgrade or renovation) and management of a public asset (including potentially management of a related public service), in which the private party bears significant risk and management responsibility through the life of the contract, provides a significant portion of the finance at its own risk, and remuneration is significantly linked to performance and/or the demand or use of the asset or service so as to align the interests of both parties.
Private partner	The counter party of the procuring authority in the PPP contract. A private entity which has been granted the contract to construct and operate a government asset, and which is usually created under the form of a Special Purpose Vehicle or SPV (see *Special Purpose Vehicle*). It may also refer to the shareholder members of the SPV, however these are more accurately defined as “equity investors” or “shareholders”.
Private party	An alternative common name to mean private partner. Private party or parties may also refer to the private agents that participate in the project (including sponsors, contractors, lenders, and investors).
Privately-initiated projects	PPP projects originated and developed by private companies by way of an unsolicited or market initiated proposal.
Privatization	The permanent transfer of a previously publicly owned asset to the private sector.
Probity practitioner	An independent expert retained to monitor the bidding process at critical stages, assessing and reporting whether the process has been conducted to the required standards of probity.

Processes of evaluation criteria	The process to assess the offers of each of the bidders in order to select the preferred bidder. Broadly speaking, there are two main types of processes in terms of evaluation criteria: • Processes based only on price – where the technical factors should be assessed on a pass/fail basis. This may be referred to as an auction (although auction is more appropriate for asset monetization PPPs, that is, a concession out of existing revenue making infrastructure) and as a least cost selection. • Processes based on price in combination with other qualitative factors – basically related to quality of the technical offer (approach to construction and project design, and approach to operations and maintenance [O&M]). This may be referred as Quality and Cost Based Selection (QCBS), or more frequently as Most Economically Advantageous Tender (MEAT).
Procurement decision	The decision as to the best way of buying the project. Does the PPP procurement offer better Value for Money than the best practicable public sector delivery model?
Procuring authority	The unit/body/department within a government that is tendering and contracting the project. The public counterpart in the PPP contract. This is usually the same unit or body that promotes the project (the public promoter). For example, the ministry or department of transportation, the ministry of finance, and so on. It also includes "public party", "public partner", "public authority", and "grantor."
Project bond	A tradable debt investment in which an investor loans money to the private partner for a defined period of time at a variable or fixed interest rate for the development of a project. Project bond financing is a common option for countries with developed and deep capital markets, but it is usually applied as a re-financing solution (through

	"bridge to bonds" loans) and not as financing mechanism for construction. It provides access to wider resources for long-term finance, usually enjoying longer debt terms, but is a less flexible financial solution (as funds may not be usually drawn down progressively). Furthermore, varying the terms during the life of the PPP is more difficult.
Project company	The company that acts as the counterparty of the government in a PPP. Also referred to as "Special Purpose Vehicle" (SPV).
Project finance	A technique to negotiate and establish the long-term debt financing of a project, where the basis of the loan is the cash flow generated by the project alone.
Project Information Memorandum (PIM)	A document that sets out details of the project, including the anticipated key contracts and projected revenues, used in the context of fundraising negotiations as a document to be presented by the sponsor to the lenders. It may also refer to the project outline provided by the authority to prospective bidders and financiers during the testing and marketing of the project before tender launch.
Project Life Coverage Ratio (PLCR)	The PLCR is the ratio of the Net Present Value of the Cash Flows Available for Debt Service (CFADS), available over the project's remaining life, to the outstanding debt balance. This ratio is similar to the Loan Life Cover Ratio (LLCR), but in the LLCR, the CFADS is calculated over the scheduled life of the loan, whereas the cash flows for the PLCR are calculated over the project's life.
Project outline	The definition at a basic level of the project from a technical perspective.
Project preparation	Consists of activities handled by the government to mitigate project risks and advance matters that are the responsibility of the government before the contract is tendered.
Project steering committee	The committee of departmental/agency representatives

	established by the procuring authority to direct the development of the PPP project and deal with key issues.
Promoter	Usually refers to the procuring authority that promotes the project as a PPP. It is sometimes also used to refer to the private promoter. However, it is more appropriate to use the term “sponsor” to refer to the private party or parties that lead the bid preparation and the bidding consortium.
Pubic Asset	Fixed assets, for example assets purchased for long-term use, that are public works, subject or dedicated to public use or concomitant to the provision of a public service. Public assets are often referred to as public infrastructure, using infrastructure in the broad sense, as the type of public asset normally procured under a PPP.
Public debt impact analysis	Refers to the analysis made in some countries so as to define whether the PPP asset should be regarded as publicly owned for the purpose of accountability and reporting, with the liabilities of the contract reflected as public debt in the national accounts.
Public dominium/domain concession	In some civil code countries, land is granted to the private sector for 99 years; therefore, this limits the use of land to develop port facilities that will be operated under certain regulations and then reverted back to the government after that period.
Public finance	A term that is used to mean either: • finance provided by the government • finance that is recognized on the government balance sheet for accounting purposes (regardless of who actually provides the finance).
Public partner	See *procuring authority*.
Public party	See *procuring authority*.
Public procurement	The process of competitive bidding for a contract with the public sector.

Public Sector Comparator (PSC)	The cost estimate (adjusted for risk), from the public perspective, of a project being delivered under a conventional procurement method. It acts as a benchmark against which to compare the projection of cost estimates for the authority under the PPP option; this is done to determine if the PPP option offers Value for Money (VfM).
Punch List	A list of minor defects or non-compliances identified at commissioning, which do not prevent service commencement, but must be resolved within a set period of time.
Quality Management System (QMS)	A system used to integrate the various processes which enable the organization to identify, measure, control, and improve the various core business processes that will ultimately lead to improved business performance and mitigation of construction risk.
Ratchet Factor	In the context of payment mechanisms, a factor that increases the value of deductions applied to the payment, in order to penalise repeated or persistent under-performance, or unavailability that continues unresolved.
Rectification period	The time assigned to the private partner to rectify a certain default which interferes with the availability of the asset to users. This period is set in the contract by the public authority.
Reference design	Reference design refers to a technical blueprint of a design that is intended for others to copy. Third parties may be entitled to enhance or modify the design as required.
Refinancing	A change in the financial structure and/or financial conditions by renegotiating the existing debt or raising new funds to substitute for the current fund providers. Some contracts provide for the refinancing gains to be shared with the public partner.

Regulated investor owned utilities	In many countries (including Australia, France, the United Kingdom [UK] and the United States [US]), utility infrastructure (such as electricity generation and distribution systems, or telecommunication systems) can be owned by private entities rather than being subjected to concessions.
Relief events	Risk events for which the contract provides relief from obligations. If the event occurs and is affecting the ability of the private partner to perform or meet any obligation, the potential breach of contract will not be regarded as a breach. Therefore, penalties or potential reasons to consider the partner in default will not be counted.
Renewal Fund	An account into which funds are deposited by the private partner so that it can meet the anticipated costs of infrastructure renewals during the life of the contract.
Request for Proposal (RFP)	The set of documents issued by the procuring authority that set out: • The basis or requirements for submitting the proposal (which documents and in which format and contents the bidder has to submit) • The basis of the evaluation criteria for selecting the preferred bidder or awardee • The PPP contract that will be signed with the successful bidder and other annexed information such as forms, templates, complementary information for reference purposes, and so on. In one-stage open tender processes, the contents of a Request for Qualifications (RFQ) are embedded in the same set of documents, for example, the Request for Proposal (RFP) also includes the RFQ regulations. In some two-stage processes where a dialogue or structured interaction phase is considered (mainly in the case of “competitive dialogue”), the RFP and the contract are provisional (or even non-existent in some competitive dialogues) until the dialogue finalizes, and the contract and final or definitive requirements to submit and evaluate are defined. Usually in these processes, the first RFP is named the “descriptive document”.

	See also *RFP 'bid' phase, RFP evaluation phase, RFP phase, RFP response*. RFP may also be referred to in some countries as the Request for Tender (RFT).
Request for Qualifications (RFQ)	This is the government's request for qualifications issued to the market with respect to the project. The set of documents issued by the procuring authority that constitute the basis of the qualification and potentially the pre-selection of candidates (the short list). Qualified (or short-listed candidates) will then be invited to submit a proposal (or to enter into a new phase prior to bid submission, such as a dialogue phase or interactive phase). The response to the RFQ is the Submission of Qualifications (SoQ). It may also be called the submission of Expression of Interest (EOI).
Retained risk	The value of those risks or parts of a risk that the government bears under a PPP project.
Revenue maker project	A revenue maker is a project that generates its own revenues and provides sufficient revenue to make the project financially feasible without public funding. Another equivalent term is "self-financeable project". The term "over feasible project" is sometimes used when there are clear signs of a material surplus of revenue and financial value over the feasibility ceiling. These projects are user-pays PPPs, but the revenues may also include third party revenues, for example, selling the energy produced by a waste treatment plant in a waste-to energy project, or ancillary revenues (collateral secondary revenues of less relevance captured by means of collateral business, that is, businesses that are not the core of the PPP scope such as advertising revenues in a rail project, or restaurants/shops in an airport).
Revenue risk	See *demand risk*.

RFP ‘bid’ phase	The part of the Request for Proposal (RFP) phase where bidders are preparing RFP responses.
RFP evaluation phase	The part of the Request for Proposal (RFP) phase where the government is evaluating RFP responses.
RFP phase	The phase involving the release of the Request for Proposal (RFP) to bidders for detailed and binding RFP responses, followed by evaluation and selection of the preferred bidder.
RFP response	A proposal from a bidder in response to the Request or Proposal (RFP) issued by government for a project.
Right of Way	A right to a corridor of land typically required in linear infrastructure projects, such as roads or pipelines.
Ring Fence	The project´s company obligations are ring-fenced from those of the equity investors (that is, a breach of an obligation by the project company is not, in itself, considered a breach of an obligation by the equity investors), and debt is secured on the cash flows of the project.
Risk	An uncertain event which, if it occurs, may cause actual project outcomes to differ from expected outcomes.
Risk allocation	The allocation of the consequences of each risk to one of the parties in the contract, or agreeing to deal with the risk through a specified mechanism which may involve sharing the risk.
Risk assessment	The evaluation of the likelihood of identified risks materializing and the magnitude of their consequences if they do materialize.
Risk premium	An additional required rate of return that must be paid to investors who participate in risky investments to compensate for the risk.
Risk structuring	Defining the optimal risk allocation for the contract so as

	to decide which risks will finally be assigned to the private partner and to what extent, as well as which risks will be retained or shared by the public authority and to what extent.
Scope (of PPP framework)	The types of projects and sectors where the PPP framework will apply.
Secondary investors	Investors who invest in the private partner after financial close (usually in the early years of the Operations Phase), purchasing their shares from the primary investors.
Senior Debt	The main form of debt raised by the private partner, which is senior to other unsecured or otherwise more "junior" debt, that is, the senior debt generally has first priority for repayment, and the lenders of the senior debt have decision-making powers in priority to the lenders of the junior debt.
Service contract	The transfer of operation of a public service in the strict legal sense, for example a service related to water or transport of passengers, rather than maintaining or operating a road. In common law jurisdictions, the term “service contract” does not have a specific legal meaning and is used for a wide variety of outsourcing contracts, usually those with relatively short terms.
Service failure	A failure caused by the failure of the private party to provide the services in accordance with the contract service specifications.
Shadow lending	Loans provided by non-regulated lenders.
Shadow prices	In the context of economic analysis, prices that are duly adjusted to accommodate market imperfections such as foreign exchange limitations, labor costs, and energy consumptions. These are not to be confused with shadow tolls or shadow fares.
Shadow tolls (shadow	Shadow tolls or shadow fares (also known shadow

fares)	tariffs) are fares or tariffs paid by the government in lieu of the user. The term shadow toll is used for the particular type of tariff used for roads projects. Shadow payments per volume are one of the two main types of payment mechanisms.
Shareholders	Shareholders are the equity investors that hold shares in the special purpose vehicle (SPV) — noting that an investor may invest in other instruments rather than in equity shares, but will commonly also invest in equity shares).
Shareholders agreement (SHA)	The document that the special purpose vehicle (SPV) equity providers enter into and which sets out how they will work together to manage it.
Short-listed bidder	Those parties invited to submit a proposal in response to a Request for Proposal (RFP) for a project in which the government only allows a limited number of pre-qualified bidders to proceed to the RFP phase.
Single-till principle	An arrangement wherein the government provides finance from its annual budget for the general needs of the public, but without committing finance to a specific project.
Social infrastructure	Infrastructure that accommodates social services: hospitals, schools and universities, prisons, housing, courts, and so on.
Soft conditions	Conditions more favorable than current market conditions.
Soft loans	A soft loan is provided by the procuring authority. It is usually a subordinated loan, but senior to the equity, including subordinated debt provided by the equity investors. It is also common that the soft loan is in the form of a participative loan, that is, the government receives part of the upside of the project in exchange for the below-the market conditions. Remuneration and rights to receive distributions have to be clearly described in the contract.

Soft services	Services associated with the facilities management of a project (including items such as cleaning, catering and pest control) normally include a high labor component and are not intrinsically associated with the capital assets. These services, where transferred to the private sector under a PPP arrangement, will often be subject to market testing and/or benchmarking arrangements under the PPP contract.
Sovereign funds	A fund usually created or controlled by a government to invest in other countries.
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. In establishing a project consortium, the sponsor or sponsors typically establish a private partner in the form of a special purpose vehicle (SPV) which contracts with the government. The SPV is an entity created to act as the legal manifestation of a project consortium with no historical financial or operating record which the government can assess. An SPV/special purpose entity (SPE) is a legal entity with no activity other than those connected with the project. It also includes "private partner" or "project company".
Sponsor	The private company or companies that assume a leading role in preparing and submitting the bid and usually during the life of the contract until it potentially exits by selling its equity interest.
Standard contracts	Standard contracts represent the precise wording for certain contract provisions or contract clauses that public agencies are required to use (or at least required to document and justify deviations from).
Standstill period	A period in which a process is put on hold to allow another party or parties to take action. In the PPP context, it typically refers to either: • a mandatory period of time required between the award of a contract and the signing of that

	contract to allow for any challenge to the award decision • a contractually agreed period of time in which one party must refrain from taking specified forms of action.
State aid regulations	Regulations that limit the level of financial support that can be provided to a project by means of public loans or loans provided by a public agency, as well as guarantees.
State-owned enterprise	A company or enterprise created and owned by the government itself.
Step-in	The government's or the lender's option to assume the contractual responsibilities of a project party through managing their contract in cases when that party is not meeting its obligations under such a contract.
Strategic investment fund	A structured fund through which a government may invest in projects in its own country.
Subcontract	A contract between the private party and a third party, providing for performance of part of the private party's obligations under the PPP contract.
Submission of Qualifications (SoQ)	The act of the prospective bidder submitting the documents required in order to be qualified.
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.
Sunk Cost	A cost that has already been incurred and cannot be recovered.
Suppliers	A sub-contracting group which may specialize in a type of product or service used for the construction,

	operation, or maintenance of the facility.
Swiss challenge	Following an unsolicited approach, an open bidding process is conducted. If the proponent does not win, it has the option to match the winning bid and win the contract.
Syndication	The process by which the banks that initially agree to provide a loan to the private party reduce their underwriting by placing part of the loan with other banks.
Systemic risks	Risks related to general economic conditions which cannot be classified under specific strategies, and can be paid for only by a general increase in the return of the asset.
Technical completion	In a two-stage completion process, this is the stage of the works where the completion certifier is satisfied with all of the specified tests and completion criteria.
Technical requirements	The technical details about the project which allow a precise definition of the design of the infrastructure and the characteristics of the service to be implemented, and which address how performance and service delivery will be effected. Clearly defined technical requirements are essential for the assessment and allocation of costs for the commercial feasibility analysis of the project.
Technological obsolescence	Technological obsolescence refers to the risk of certain equipment becoming inadequate or outdated for the purpose of the service.
Temerity	An offer made on terms that might be considered reckless in the hope of winning the project and subsequently being able to negotiate a more favorable outcome. In some jurisdictions, such as Spain, it is customary to establish a threshold of temerity in relative terms. For example, any offer that is below the average bid by more than 15 percent will be considered too aggressive for the purpose of evaluation. According to Spanish legislation, the authority may give the bidder the

	opportunity to explain and argue the rationale of that offer and additional security may be required by the authority to ensure the availability of funds.
Tender process	The process by which bids are invited from interested parties to carry out the project. A tender process uses competitive pressure among bidders to obtain the best price and terms.
Term	The duration of the PPP contract, or the period until the final repayment date of the debt.
Termination for convenience	Termination by the government in the absence of default or other triggers for termination. The government will always reserve the right to terminate the contract early on the basis of public interest. Also known as “unilateral termination”.
Termination payment	A payment made by the government under the PPP contract, following termination of the project agreement. Also known as “termination compensation”.
Third-party revenues	The ability of the project company to generate revenues other than those from users or the public authority.
Traditional procurement	The delivery of the infrastructure and associated services by the government using a design and construct procurement process, or other procurement process that would traditionally be used by the government.
Transferred risk	The value of those risks (from the government’s perspective) that is likely to be allocated to the private party under a PPP project.
Turnkey contract	A contract with single-point responsibility for design, engineering, and procurement of any equipment, and construction.
Two-stage tender	A tender process in which the government initially issues

	a Request for Qualifications (RFQ), and then (after assessing the qualifications of potential bidders) only issues the Request for Proposal (RFP) to pre-qualified (or in some processes short-listed) bidders.
Unilateral termination	See *termination for convenience*.
Unitary charge	A term for government payments under a government-pays PPP contract.
Unitary compensation	See *unitary charge*.
Unitary Payment	See *unitary charge*.
Unsolicited proposal	A proposal made by a private party to undertake a PPP project. It is submitted at the initiative of the private firm, rather than in response to a request from the government.
Upfront payments or concession fee	A payment sharing mechanism wherein the public authority is to be paid upfront by the private partner in case the project shows revenue potential in excess of that required for commercial feasibility.
Upstream contract	The contractual agreement between the procuring authority and the private partner.
User charges	Payments made by users of the infrastructure, such as tolls in a toll road project.
User-pays PPP	A PPP project in which the revenues for the private partner are based on user-payments (for example, tolls for a road). This PPP Certification Guide considers any PPP where the majority of the revenues come from the users to be a user-pays PPP, even if the revenue is hybrid, for example, including some form of public payments.
User-funded PPPs	See *user-pays PPP*.
Value Engineering	The modification of designs and systems according to value analysis, typically with the objective of reducing

	costs.
Value for Money (VfM)	Broadly speaking, to obtain or receive Value for Money means that the money spent is worthy, that is, the value of the product or service received equals or exceeds the amount spent. The decision to spend (or invest in this context) is a wise decision as it is creating net value for the payer. The concept of “Value for Money” is often used in any investment decision to be taken by the government to mean that the investment is creating net value to the society (or to the tax payer), and it is tested by cost-benefit techniques (especially Cost-Benefit Analysis, CBA). However, in the context of PPPs, Value for Money is used in a more specific sense – see *Value for Money (in the PPP context)* below.
Value for Money (in the PPP context)	The benefits relative to the costs of procuring a project using a PPP compared to other procurement options. Commonly referred by its abbreviation Value for Money (VfM). In a PPP context, Value for Money can be tested at two different points in the project cycle: • during appraisal and structuring, a VfM test can determine whether the PPP alternative is a supportable procurement mechanism that is likely to provide best value to the public authority or better than the traditional procurement mechanism; • during the evaluation of bids, a VfM test can determine whether bids offer Value for Money against the cost of conventional procurement. A positive VfM result or the VfM expected from the PPP option is the result of the combination of private sector efficiency and innovation, risk transfer, whole life cost, and service provided by the facility.
Value testing	An exercise whose objective is to test the costs of the soft services being provided within the PPP contract against their market price at a certain point of time. This is to adjust the amount of the service payments to reflect the market price.

	The most common methods for value testing are benchmarking and market testing.
Viability Gap Funding (VGF)	A scheme wherein the projects with low financial viability are given grants (or other financial support from the government) up to a stipulated percentage of the project cost, making them financially viable as PPPs. The bidder who bids for a project with the least amount of financial support from the government is generally awarded the project.
Voluntary termination	See *termination for convenience*.
Weighted Average Capital Cost (WACC)	The WACC is the average cost of all the private financing resources of the project. It is a weighted average of the cost of the equity resources and the cost of debt.
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.
Yellowfield projects	PPPs where the original investment is related to renewals, refurbishment, or an expansion of existing infrastructure. They are also referred to as secondary stage projects.