ANNEX 6

Technical glossary

Affermage	A form of lease arrangement where fees paid to the lessor vary according to the amount of revenue collected from the facility, rather than being set at fixed levels. This contract design feature enables greater sharing of commercial risk between the lessee and lessor.
BOT, BOO, DBO and DBFO	Build-operate-transfer arrangements refer to PPPs where the private partner builds and operates a facility over the duration of the contract, at the conclusion of which it transfers the assets to the public authority. Under build-own-operate arrangements, the private partner instead retains ownership of the assets at the end of the contract. Design-build-operate and design-build-finance-operate are similar greenfield PPP models which do not specify asset ownership at the end of the contract.
Concession PPPs	Arrangements where revenue is raised directly from members of the public as user charges (e.g. toll fees) rather than having the government as the buyer. These arrangements involve significant demand risk transfer to the private operator. Concession PPPs may involve substantial new investment. However, in franchise PPPs, a subset of concessions may involve the rehabilitation or extension of existing state-owned assets.
EPC contract	A fixed price construction subcontract, bundling engineering, procurement and construction to deliver a facility by a given date. These contracts are designed to transfer the risk of time or cost overruns from the project company to the construction subcontractor.
Financial close	A project development milestone achieved when all contracts and financing agreements have been signed and all conditions required before the initial drawing of debt have been fulfilled.
Guarantees	Guarantees are frequently used to transfer certain defined risks to creditworthy guarantors and insurers that can more easily bear the risk. These aid efficient risk allocation and can reduce the cost of debt and equity finance. Two examples are political risk guarantees and credit guarantees.

Internal rate of return	The 'true' interest yield expected from an investment expressed as an annualised percentage. Calculated as the discount rate that sets the net present value of expected future cash flows to zero.
Key performance indicators	Quantification of elements of business or project performance along financial and non-financial lines. KPIs are used to monitor performance along dimensions that provide snapshot information regarding performance against various goals important to stakeholders.
Lease contract	A private operator leases government-owned assets for a fee over a fixed term. Operational risk is transferred to the private party, but it is not responsible for any significant capital investment.
Management contract	A short-to-medium term performance-contingent contract covering certain operational functions of a public facility and also some management functions. The private party contributes working capital, but will not necessarily be involved in any significant investment programme. Operational risk remains with the government. Management contracts may provide a segue to further private involvement. However, it is rare for management contracts to involve sufficient risk transfer for them to be considered as PPPs.