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Certificate Programme in PPP Project Finance

## Introduction to PPP Project Finance

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Public-Private Partnerships (PPPs) are long-term contractual agreements between a public sector authority and a private party, where the private party provides a public service or project and assumes substantial financial, technical, and operational risk in the project. PPP Project Finance is a specialized area of finance that focuses on the funding and financial management of PPP projects. The following key terms and vocabulary are essential for understanding Introduction to PPP Project Finance in the Certificate Programme in PPP Project Finance.

1. **Public-Private Partnership (PPP):** A long-term contract between a public sector authority and a private party, where the private party provides a public service or project and assumes substantial financial, technical, and operational risk.
2. **Project Finance:** A financing structure where the lenders look primarily to the cash flows generated by the project as the source of repayment of the loan, with limited recourse to the sponsor's balance sheet.
3. **Special Purpose Vehicle (SPV):** A separate legal entity created to undertake a specific project or series of projects, with limited liability and ring-fenced assets and liabilities.
4. **Concession Agreement:** A contract between the public sector authority and the SPV, granting the SPV the right to operate and maintain the project for a specified period.
5. **Availability Payment:** A payment made by the public sector authority to the SPV for making the project available for public use, subject to performance criteria.
6. **Performance Bond:** A guarantee provided by a bank or insurance company to ensure that the SPV fulfills its contractual obligations.
7. **Take-or-Pay Contract:** A contract where the public sector authority agrees to pay for a specified minimum quantity of goods or services, regardless of whether they are used or not.
8. **Capacity Charge:** A charge paid by the public sector authority to the SPV for the availability of a specified capacity of the project, regardless of whether it is used or not.
9. **Shadow Toll:** A toll paid by the public sector authority to the SPV for each vehicle using the project, based on a pre-agreed formula.
10. **Tariff:** A charge paid by the users of the project for using its services.
11. **Revenue Sharing:** An arrangement where the SPV shares a portion of its revenue with the public sector authority.
12. **Non-Recourse Financing:** A financing structure where the lenders have no recourse to the sponsor's balance sheet, and the repayment of the loan depends solely on the cash flows generated by the project.
13. **Recourse Financing:** A financing structure where the lenders have recourse to the sponsor's balance sheet, and the sponsor is responsible for repaying the loan if the project cash flows are insufficient.
14. **Debt Service Coverage Ratio (DSCR):** A financial metric used to assess the ability of the project to generate sufficient cash flows to service its debt obligations.
15. **Loan Life Coverage Ratio (LLCR):** A financial metric used to assess the ability of the project to repay its debt obligations over its loan life.

16. Internal Rate of Return (IRR): A financial metric used to assess the profitability of the project by calculating the discount rate that makes the net present value of the cash flows equal to zero.
17. Payback Period: A financial metric used to assess the time it takes for the project to generate enough cash flows to repay the initial investment.
18. Sensitivity Analysis: A financial analysis technique used to assess the impact of changes in key assumptions on the project's financial metrics.
19. Scenario Analysis: A financial analysis technique used to assess the impact of different scenarios on the project's financial metrics.
20. Risk Management: The process of identifying, analyzing, and mitigating the risks associated with the project.
21. Value for Money (VfM): An economic concept used to assess the efficiency and effectiveness of the PPP arrangement compared to traditional procurement methods.
22. Public Sector Comparator (PSC): A financial model used to compare the cost of the PPP arrangement with the cost of traditional procurement methods.
23. Affordability Assessment: An analysis of the public sector authority's ability to fund the PPP arrangement without compromising its financial sustainability.
24. Procurement Process: The process of selecting the SPV through a competitive bidding process, including pre-qualification, request for proposals, and bid evaluation.
25. Due Diligence: An investigation of the project's technical, financial, legal, and environmental aspects to assess its feasibility and risks.
26. Financial Close: The point in time when all the contractual and financial arrangements are in place, and the project is ready to commence construction or operation.
27. Construction Risk: The risk associated with the construction phase of the project, including delays, cost overruns, and quality issues.
28. Operational Risk: The risk associated with the operation and maintenance phase of the project, including downtime, maintenance costs, and performance issues.
29. Force Majeure: An event or circumstance beyond the control of the parties, such as natural disasters, war, or terrorism, that may affect the project's performance.
30. Dispute Resolution: The process of resolving disputes between the public sector authority and the SPV, including negotiation, mediation, arbitration, or litigation.

#### Challenges in PPP Project Finance:

PPP Project Finance is a complex and challenging area, and there are several challenges that practitioners need to be aware of, including:

1. Complexity: PPP Project Finance involves multiple stakeholders, including the public sector authority, the SPV, lenders, and users, and requires a high degree of coordination and communication.
2. Risk Allocation: Proper risk allocation is critical to the success of PPP Project Finance, and any imbalances or misalignments in risk allocation can lead to disputes and project failure.
3. Financing Structure: The financing structure of PPP Project Finance is critical to its success, and any errors or misunderstandings in the financing structure can lead to financial distress or project failure.
4. Regulatory Environment: The regulatory environment of PPP Project Finance is complex and evolving, and

practitioners need to stay abreast of the latest developments and regulations.

5. Political Environment: PPP Project Finance is subject to political risks, including changes in government policies, regulations, and priorities, which can affect the project's viability and profitability.

6. Technical Complexity: PPP Project Finance involves complex technical issues, including design, construction, operation, and maintenance, which require specialized knowledge and expertise.

7. Environmental and Social Risks: PPP Project Finance involves environmental and social risks, including impacts on communities, ecosystems, and cultural heritage, which require careful consideration and management.

Conclusion:

PPP Project Finance is a specialized area of finance that requires a deep understanding of key terms and vocabulary, as well as an ability to navigate complex challenges and risks. Practitioners in PPP Project Finance need to have a solid understanding of financial metrics, risk management, procurement processes, and regulatory and political environments, as well as technical and environmental issues. By mastering these key terms and concepts, practitioners can contribute to the success of PPP Project Finance and help deliver essential public services and infrastructure to communities around the world.