

Selected glossary of technical and banking terms

Amortisation	reduction of loan outstandings usually in accordance with an agreed repayment schedule
Advance payment guarantee	a guarantee given on behalf of a contractor for example under a construction contract for repayment of advance payments made by the employer in the event of non-performance by the contractor
Assignment	the transfer of title to an asset - particularly of contractual rights, claims and debts - absolutely or for purposes of security
Bareboat charterparty	a long-term contract for employment and use of a vessel
Bid bond	a bond given on behalf of a party bidding for a contract to ensure that it will enter into and perform the contract if its bid is accepted
BOT (build-operate-transfer)	a structure of project finance whereby the project company will build and operate the project for a period determined to be sufficient to discharge construction costs and generate a satisfactory return during the operating period at the end of which the project is handed over to the host government usually without compensation
Buyer credit	a financing arrangement under which a bank in the supplier's country lends to the buyer—or bank in the buyer's country - to enable the buyer to make payments due to the supplier under a contract for supply of goods and/or services
Caps, collars, floors	techniques employed in hedging arrangements to minimise the effects of fluctuations in interest rates
Cash deficiency agreement	an undertaking, usually given by a parent company, to creditors of its subsidiary to ensure that the subsidiary will have sufficient cash to meet its commitments
Completion	satisfaction of the agreed tests for practical completion of a project, usually marking the end of the construction phase and the beginning of the operating phase
Completion guarantee	a guarantee, usually given by a parent company or sponsor, of performance of the project company's obligations to bring the project to the point of completion
Concession agreement	an agreement made between a host government and the project company or sponsors to permit the construction, development and operation of a project and, usually, to have access to public utilities
Conditions precedent	documentary and other conditions required to be satisfied before the borrower can request drawdown or other credit facilities to be made available under the terms of a facility agreement
Covenant	an agreement by a party to perform - or refrain from performing - certain acts, breach of which might constitute an event of default

Cross-default	an event of default triggered by a default in the payment of - or by the actual or potential acceleration of the repayment of—other indebtedness of the borrower or another company (whether associated or not)
Debt/equity swap	a transaction whereby the owner of a foreign currency debt instrument - usually for developing country debt - exchanges it for local currency-denominated debt securities or an equity interest in an enterprise in that country
Debt service	the payment of scheduled interest, fees, commissions and principal instalments under a loan agreement
Default interest	interest payable under the terms of a loan agreement on overdue amounts, usually at an enhanced rate
Depreciation	the reduction in the value of assets over time
Double tax treaty	an agreement between two countries to avoid or limit the double taxation of income and gains, whereby an investor resident in one country may apply for reduction of or exemptions from taxes imposed on his business by the other and/or be entitled to relief in respect of such income or gains in the investor's own country
Drawdown	a borrowing made under the terms of a loan facility
EBRD	the European Bank for Reconstruction and Development
EIB	the European Investment Bank
Equity	a company's paid-up share capital and other shareholders' funds, possibly including long-term subordinated loans
Escrow accounts	accounts into which a borrower or other party may be required to direct payment of receivables or other cash, and to which conditions apply restricting access to the funds; possibly charged in favour of the lenders
Event of default	an event which under the terms of a loan agreement entitles the lender to cancel the loan facility, accelerate payment of outstandings and enforce security (such as breach of covenant, insolvency, material adverse change)
Expropriation	the dispossession of assets by the state or a state entity, for example, under a nationalisation programme
Export credits	credit or guarantee facilities made available to exporters to promote the manufacture of goods or provision of services for export
Feedstock	the supply of raw materials, for example, crude oil, to a processing or refining plant
Finance lease	a financing device whereby possession of an asset is acquired for use for most of its useful life; rentals over the term of the lease are sufficient to enable the lessor to recover the cost of the asset plus a return on the investment
Field	a geographical area under which, for example, minerals or hydrocarbons are located

Floating charge	(England and Wales) a security interest created over the assets and undertaking of a company, including future property, whereby the company retains the right to deal with the charged assets in the ordinary course of its business
Force majeure	risks arising from circumstances, generally outside the control of the parties which entitle one or other party to refrain from performing its contractual obligations
Forward purchase	a financing structure whereby one party purchases agreed quantities of future production and/or cash proceeds from the project company, sufficient to produce a return to the purchaser of the purchase price plus an amount equivalent to interest
Full recourse	a (conventional) financing structure where the borrower - and possibly guarantors - undertake to be responsible for repaying the loan in full with interest, regardless of the success or failure of the project
Golden share	a shareholding interest entitling the holder to exercise a degree of control over certain activities of the company or over the transferability of its shares, usually retained, for example, by a state entity in a newly-privatised enterprise
Governing law	the system of law to which the terms and conditions of a contract are subject, either expressly or by operation of the rules of conflict of laws
Gross-up clause	a clause providing for a debtor to make additional payments to the creditor to compensate for withholding taxes or other levies which reduce the amounts actually received by the creditor
Hell-or-high water provisions	provisions which state an unconditional obligation regardless of any event affecting the transaction
IBRD	the International Bank for Reconstruction and Development (the World Bank)
IFC	the International Finance Corporation, the private sector lending agency of the World Bank
Indemnity	an undertaking to protect a person against the consequences of particular circumstances, in particular, for any financial loss
Joint and several liability	liability for example, under a guarantee given by two or more guarantors, which gives rise to one joint obligation and to as many several obligations as there are obligors, so that each is liable for the payment of the full amount, but performance by one discharges the others
Jurisdiction clause	a clause whereby one or more parties expressly submits to the jurisdiction of specified courts and, commonly waives any sovereign or other immunities it or they may have
Lender liability	liabilities which may be imposed on lenders as a result of action (or failure to act) on their part, for example, failing to honour a commitment to make a loan
Licence	an authority issued by a state or state entity, for example, to explore for or produce hydrocarbons or minerals in a particular area

Limited recourse	a financing structure in which the lender is relying to some degree on the project assets and cashflows for repayment and debt service without full guarantees from the project company or its sponsors
Margin	the extra percentage rate of interest charged above the relevant basis rate, for example, Libor or Prime rate, in a floating interest rate loan
Material adverse change	an event of default designed to permit acceleration in the event of changes in circumstances which might affect the successful completion of the project, performance of covenants or repayment of the loan
Negative pledge	a covenant whereby a borrower and/or guarantor will undertake not to create or allow the creation of encumbrances on its assets
Non-recourse	meaning the same as "limited recourse", sometimes used to indicate that the lender is placing a particularly high degree of reliance on the project
NPV (net present value)	an estimate of cash flows or the value of production to be generated by a project, net of operating costs and expenses, discounted back to the time of determination
Off-balance-sheet liability	a corporate obligation that does not appear as a liability on the company's balance sheet, for example, lease obligations and take-or-pay contracts
Offtake agreement	a long-term agreement to purchase minimum amounts of the product of the project, at an agreed price; often entered into by one of the project sponsors on a take-or-pay basis
Operating lease	a lease which is not a finance lease - perhaps a short-term lease whereby the lessee uses the asset for only a fraction of its useful life
Pari-passu clause	a covenant whereby the borrower and/or the guarantor agrees to ensure that its indebtedness under the loan facility shall rank at least equally with all its other unsecured debt, subject to debts preferred by operation of law, for example, certain taxes and wages
Participation agreement	an agreement whereby one bank agrees to fund all or part of another bank's loan on terms that the other bank will have to repay the funding only if, and to the extent that, it receives repayment from the borrower
Performance bond	a bond or guarantee given by a bank in favour of a project company on behalf of a contractor or supplier of a specified percentage of the value of the relevant contract, for example, construction contract or supply agreement
Pro-rata sharing clause	a clause in a loan or intercreditor agreement whereby banks agree to share amongst themselves amounts received or recovered from the borrower and/or guarantors pro rata to their participation in the financing
Production payment	a financing structure whereby one party purchases an undivided share in the minerals, hydrocarbons or production of the project company in return for periodic production payments by the project company in the production phase of the project
Promissory note	an unconditional promise in writing, signed by the debtor, undertaking to pay a specific sum on demand or at a future date

Put-or-pay agreement	an agreement whereby a supplier undertakes to supply an agreed quantity of materials to the project company and to make payments sufficient to enable the company to obtain alternative supplies in the event of the supplier's failure; often entered into by a project sponsor
Representations	a series of statements of fact and/or law made by one party to an agreement on the basis of which the other party undertakes to enter into the agreement; some or all of the representations may be repeated - or deemed repeated - periodically during the life of the agreement; material inaccuracies will normally constitute an event of default
Royalty	a share of the production or revenues reserved by the grantor of a licence, for example, to exploit hydrocarbons or minerals
Set-off clause	a clause permitting one party (eg, a bank or the agent) to set-off any cash deposits made with it by another (eg, the borrower or guarantor) against amounts owing to it under the loan agreement
Sovereign immunity	the doctrine under which it may be impossible to sue or seize the assets of a state or state entity
SPV (special purpose vehicle)	a company established for a particular purpose, for example, to achieve off-balance sheet or advantageous tax treatment or to isolate the parent's other assets from the creditors of the vehicle
Standby letter of credit	a letter of credit issued by a bank as a form of guarantee, entitling the beneficiary to make a drawing upon presentation of a certificate of non-payment under the guaranteed facility
Subordinated loan	a loan made on terms whereby the lender agrees that some or all payment obligations will rank behind certain other unsecured indebtedness of the borrower
Supplier credit	a financing arrangement under which the supplier agrees to accept deferred payment terms from the buyer and funds itself by discounting or selling the buyer's bills or promissory notes with a bank in its own country
Supply-or-pay agreement	see "put-or-pay agreement" above
Swap	the exchanging of one debt, currency or interest rate for another
Syndicated loan	a loan made available by a group of banks in pre-defined proportions under the same credit facility
Take-and-pay contract	an agreement between a purchaser and a seller whereby the purchaser's obligation to make payments, normally, arises only if the product or service is actually tendered (sometimes used to mean the same as take-or-pay)
Take-or-pay contract	an agreement between a purchaser and a seller whereby the purchaser agrees to pay specified amounts periodically in return for products or services even if there is no delivery of the products or performance of the services
Throughput agreement	an agreement whereby the user of a facility - such as a pipeline - undertakes to the pipeline owner to pass minimum amounts of, say, oil or

gas through the pipeline and to pay throughput fees sufficient to cover the owner's costs and debt service obligations

Tolling agreement

an agreement whereby the user of a facility - such as a smelter or refinery - undertakes to the facility owner to supply minimum amounts of raw materials for processing at the facility and to pay tolling fees sufficient to cover the owner's costs and debt service obligations; the user might be obliged to pay a capacity reservation fee even where nothing is put through the facility

Turnkey contract

a contract for the construction of a project and installation of all facilities, providing for the project to be handed over at the point where it is ready for immediate operation

Unitisation agreement

an agreement entered into where a field to be developed is covered by more than one licence with, as a result, different parties being ; the licensees' interests are unitised to reflect their interest in all the licences covering the field

Withholding tax

tax deductible at source from interest, fees, commissions or dividends

Working capital maintenance agreement

an undertaking, usually given by a parent company, to creditors of its subsidiary to ensure that the subsidiary has sufficient working capital to meet its commitments in accordance with the project and finance documents