GLOSSARY

PROJECT PREPARATION

A

Additionality

The principle that climate finance or project interventions must generate outcomes that would not have occurred without the support provided. It demonstrates that the investment creates new, measurable climate or development benefits beyond business-as-usual activities.

B

Bankability

Also known as being investment-ready or finance-ready. For a project to be deemed bankable, it should have the ability to secure financing, either through equity or debt, from public or private sources. The primary prerequisite for achieving bankability is effective project preparation. A financier will view a project as bankable when it demonstrates a high likelihood of success and is anticipated to generate adequate cash flows to cover expenses, ensuring the recovery of the investment. Alternatively, if the project is to be executed by a creditworthy public entity, it enhances its bankability. While the evaluation of a project's bankability may vary among financiers, they all require confidence in its financial viability and assurance that regulatory, environmental, social, and economic factors are not likely to impede successful completion.

Blended Finance

The strategic use of concessional or public/development capital (from governments, DFIs, MDBs, or philanthropies) to mobilise additional private investment in projects that deliver social, environmental, or development benefits. It works by reducing or sharing risks so that private investors are willing to participate in projects that they would otherwise consider too risky or low-return.

C

Capital Expenditures (CAPEX)

CAPEX refers to spending on physical assets that can't quickly be turned into cash. These assets have a useful life lasting more than one financial reporting period. It also includes repaying borrowed capital2. It can take the shape of acquiring land, intangible assets, government stocks, and non-military, nonfinancial assets, provided they exceed a minimum value and are intended for use for more than one year in the production process or for capital grants3.

Carbon Credit

A tradable certificate representing the reduction, avoidance, or removal of one metric ton of carbon dioxide equivalent (tCO_2e) from the atmosphere. Carbon credits are generated by verified projects and can be sold to companies or governments to offset their emissions or meet compliance obligations.

Carbon Finance

Financial resources generated from the sale of carbon credits or provided through carbon pricing mechanisms to support projects that reduce or remove greenhouse gas emissions. Carbon finance helps channel investment into low-carbon technologies and climate mitigation activities.

Concessional Finance

Capital provided on terms that are more generous than those available in the market, such as lower interest rates, longer repayment periods, grace periods, or grants.

Creditworthiness

The measure of a borrower's ability and willingness to repay debt, based on their financial health, track record, and risk profile. It reflects the degree of confidence that lenders or investors have that the borrower will meet repayment obligations in full and on time. Assessing creditworthiness typically involves looking at financial indicators, reputation and track record, external ratings and contextual risk factors.

Credit Rating Agency

An independent institution that evaluates the credit risk of borrowers - such as governments, corporations, or financial instruments - and assigns a rating that reflects their ability and likelihood to repay debt. They assess various aspects of a city's financial management and the broader socio-economic-political setting. They give a score based on these evaluations, showing how likely the city is to struggle with paying back its debt. Investors use this score to decide if they want to fund a city.

Credit Enhancement Mechanism

Any financial instrument or arrangement that improves the credit profile of a borrower or project, making it more attractive to lenders and investors. Credit enhancement reduces perceived risk and helps secure better borrowing terms (lower interest rates, longer tenor). Examples include guarantees, insurance, subordinated debt, or reserve funds.

D

Debt

Financing provided to a borrower that must be repaid over time with interest, according to agreed terms. In infrastructure finance, debt is often structured as long-term loans or bonds, with lenders repaid from project revenues.

Development Finance Institution

Specialised financial institutions, usually government-owned (national or bilateral), that provide risk capital, loans, guarantees, and technical assistance to support private sector investment and development projects. Their role is to fill financing gaps where commercial banks are unwilling to lend due to high risks

Downstream Financing

Alternatively known as Implementation Capital. The stage of financing that occurs once a project is bankable and ready for implementation. It refers to the actual investment in project implementation, such as construction, operation, and scaling. Downstream financing typically comes from lenders, investors, or blended finance once projects are considered bankable.

Due Diligence

A comprehensive appraisal of a project, company, or borrower undertaken by potential financiers or investors before committing funds. It assesses financial, technical, legal, environmental, and social aspects to verify assumptions, identify risks, and ensure compliance with standards. The outcome determines whether the investment is viable and what conditions may be attached

E

Equity

The portion of ownership in a company or project that is financed by investors in exchange for a share of profits and residual value. Unlike debt, equity does not require fixed repayments; instead, returns are earned through dividends, profit-sharing, or capital gains if the asset's value increases.

F

Feasibility Study

A comprehensive assessment of a proposed project's technical, financial, legal, social, and environmental viability. It provides the basis for an investment decision and includes detailed evidence on costs, risks, and expected benefits to determine whether the project is bankable and should proceed to financing and implementation.

Financial Model

A structured, quantitative tool that forecasts a project's financial performance. It incorporates assumptions on revenues, costs, and financing to simulate cash flows, test scenarios, and calculate key indicators such as Net Present Value (NPV), Internal Rate of Return (IRR), and Debt Service Coverage Ratio (DSCR).

Financial Close

The stage in a project cycle when all financing agreements have been executed, conditions precedent are met, and committed funds are available for disbursement. At financial close, the project can move from preparation into full implementation.

Fiscal Space

The budgetary capacity of a government to allocate resources for additional spending (such as climate investments) without endangering long-term fiscal sustainability or economic stability. It reflects how much room exists in public finances to support new priorities.

G

Guarantees

A type of credit enhancement where a third party (often a DFI, MDB, government, or insurer) commits to cover part of the losses if the borrower defaults or fails to meet obligations. Guarantees can cover different risks (e.g., political, credit, payment, currency) and provide reassurance to lenders that they will recover some or all of their funds in adverse scenarios.

H

Hedging

A financial strategy used to reduce or offset exposure to risks such as currency fluctuations, interest rate changes, or commodity price volatility. In climate and infrastructure finance, hedging instruments (like forwards, swaps, or options) are often used to protect project revenues or debt repayments from unpredictable market movements, especially when financing is in foreign currency.

I

Impact Investing

Investments made with the explicit intention to generate measurable social and environmental benefits alongside financial returns - with success measured not only in profit but also in climate outcomes and development indicators.

J

Just Transition

The principle that the shift to a low-carbon economy must be fair, inclusive, and socially equitable, protecting workers, communities, and vulnerable groups while creating new opportunities.

K

Knowledge Sharing

The systematic exchange of lessons, data, and tools to improve access to and effectiveness of climate finance (e.g., project preparation facilities or communities of practice).

L

Liquidity

The ease with which an asset or financial instrument can be quickly converted into cash without significantly affecting its market value. In climate finance, liquidity matters for instruments like green bonds or carbon credits, as higher liquidity makes them more attractive to investors by lowering transaction costs and enabling faster entry or exit.

Loss and Damage Finance

Funding dedicated to addressing the adverse impacts of climate change that go beyond what can be prevented through mitigation or managed through adaptation. It covers irreversible losses (such as land lost to sea-level rise) and recovery from climate-related damage (such as destruction caused by extreme weather events). Under UNFCCC processes, it refers to financial mechanisms that support vulnerable countries in coping with these unavoidable climate impacts

M

Multilateral Development Bank

International financial institutions owned by multiple member countries that provide loans, grants, guarantees, and technical assistance for development and climate-related projects. MDBs mobilise large-scale finance, reduce investment risks, and support policy reforms. E.g. World Bank, African Development Bank (AfDB), and Asian Infrastructure Investment Bank (AIIB).

Microfinance

The provision of small-scale financial services (loans, savings, insurance) to low-income households or microenterprises that lack access to traditional banking. In climate finance, microfinance enables household-level solutions such as solar home systems, clean cookstoves, and climate-resilient farming practices, contributing to adaptation and energy access.

N

Non-concessional Finance

Funding provided on standard market terms, without subsidies or preferential conditions. It typically carries commercial interest rates, standard repayment schedules, and no grace periods.

National Development Bank

A state-owned financial institution that provides long-term capital to support national development priorities, including infrastructure and climate-related projects. NDBs operate within their home country, often filling financing gaps where commercial banks are unwilling to lend.

O

Operational Expenditure (OPEX)

Ongoing expenses a business, project, or organisation incurs to run the daily operations of an infrastructure asset. Examples include rent, salaries, purchase of goods and services (e.g. fuels, energy, internet), and other similar expenses. These costs are usually listed in the company's income statement and directly affects its profit for the year.

Outcomes-based Finance

A financing approach where the release of funds is contingent on achieving predefined and independently verified results. Instead of paying upfront for activities, donors or investors disburse funds only once agreed outcomes are demonstrated. This model shifts performance risk to implementers and incentivises efficiency, innovation, and measurable impact.

P

Pre-feasibility Study

An early-stage assessment of a proposed project's viability. It provides a high-level analysis of technical options, potential costs, market demand, and risks to determine whether a project idea is worth pursuing further. Pre-feasibility studies help decision-makers decide whether to invest in a full feasibility study.

Project Preparation Facility

A financing mechanism or dedicated program that supports the early stages of project development. PPFs fund activities such as pre-feasibility and feasibility studies, technical assessments, financial structuring, and stakeholder engagement to make projects bankable and ready for downstream financing.

Public Private Partnerships

Long-term contractual agreements between a government (public sector) and a private entity in which the private partner finances, builds, and/or operates public infrastructure or services, in return for payments from the government, users, or a mix of both.

S

Special Purpose Vehicle

A legally separate entity created for a specific project or transaction, often used in infrastructure and climate finance. The SPV isolates the project's assets, liabilities, and cash flows from the parent company or sponsors, ensuring that financial risks are contained within the project itself. In project finance, lenders and investors provide capital directly to the SPV, which owns and operates the project

T

Technical Assistance

Non-financial support provided to strengthen the capacity of governments, institutions, or project developers to design, implement, and manage climate-related investments. TA can include policy advice, training, institutional strengthening, feasibility studies, project structuring, and knowledge transfer.

U

Upstream Finance

Capital provided at the early stages of a project cycle to support activities such as policy reform, institutional strengthening, capacity building, feasibility studies, and project structuring. The purpose of upstream finance is to reduce risks, improve project design, and prepare initiatives so they can attract downstream (implementation) investment.

Y

The income return on an investment, usually expressed as a percentage of its cost or current market value.