

# CLIMATE FINANCE GLOSSARY

## I. INTERNATIONAL CLIMATE FINANCE

### Accredited entity

An accredited entity is a national, regional or multilateral institution that meets a fund's standards and achieves a given accreditation status. It can be private, public or non-governmental. Entities can become accredited as implementing, delivery or executing entities (depending on the funds, see "Implementing Entity" below).

### Additionality

Additionality refers to the use of development funding to achieve climate-related objectives besides regular, business-as-usual development. Some funds (like the Green Climate Fund or the GEF Special Climate Change Fund) will not fund projects that are development projects with a climate change adaptation or mitigation co-benefit. Instead, the core focus of the project needs to be on climate change, and the fund's money will be spent in addition to other development funding. Additionality is an important and politically-sensitive concept that is still being debated on the international stage. More information can be found [here](#).

Additionality is one of the key principles of the European Union and for project finance. Read more here: [https://ec.europa.eu/regional\\_policy/en/policy/how/principles/](https://ec.europa.eu/regional_policy/en/policy/how/principles/)

### Annex I Parties

Industrialised countries listed in United Nations Framework Convention on Climate Change (UNFCCC) Annex I and committed to reducing their greenhouse gas emission. Most of these Parties signed the Kyoto Protocol and the Paris Agreement. See the list: <https://unfccc.int/process/parties-non-party-stakeholders/parties-convention-and-observer-states>

### Annex II Parties

Annex II Parties consist of the OECD members of Annex I, but not the EIT Parties. They are required to provide financial resources to enable developing countries to undertake emissions reduction activities under the Convention and to help them adapt to adverse effects of climate change. In addition, they have to "take all practicable steps" to promote the development and transfer of environmentally friendly technologies to EIT Parties and developing countries. Funding provided by Annex II Parties is channelled mostly through the Convention's financial mechanism. For details see the link under Annex I Parties.

### Clean Development Mechanism

"Clean Development Mechanism (CDM) is a mechanism under the Kyoto Protocol through which developed countries may finance projects on reduction or removal of greenhouse gas emissions in developing countries, and, in return, receive carbon credits for doing so which they may apply to meeting mandatory limits on their own emissions."

Definition from Government of Nepal. 2014. Climate Finance Glossary.

Read more: <https://unfccc.int/process-and-meetings/the-kyoto-protocol/mechanisms-under-the-kyoto-protocol/the-clean-development-mechanism>



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## Climate Action Plan

A climate action plan (CAP) is a detailed and strategic framework for measuring, planning, and reducing greenhouse gas (GHG) emissions and related climatic impacts. Local governments design and utilize climate action plans as customized roadmaps for making informed decisions and understanding where and how to achieve the largest and most cost-effective emissions reductions that are in alignment with other municipal goals. Climate action plans, at a minimum, include an inventory of existing emissions, reduction goals or targets, and analyzed and prioritized reduction actions. Ideally, a climate action plan also includes an implementation strategy that identifies required resources and funding mechanisms.

## Development Finance Institutions

National and international development finance institutions (DFIs) are specialised development banks or subsidiaries set up to support development project and programmes in developing countries. They are usually majority-owned by national governments and source their capital from national or international development funds or benefit from government guarantees. This ensures their creditworthiness, which enables them to raise large amounts of money on international capital markets and provide financing on very competitive terms.

Adapted from OECD website.

## Direct access

A mechanism in which national accredited entities (direct access entities) of developing countries gain direct access to funding provided by an international fund to implement the selected projects and/or programmes. These entities may wish to choose other executing entities to carry out the work.

Adapted from Government of Nepal. 2014. Climate Finance Glossary.

## Emission Reduction Purchase Agreement

“A legally binding agreement between buyers and sellers of carbon credits. Generally signed before CDM project is registered or credits are issued.”

Definition from Government of Nepal. 2014. Climate Finance Glossary.

## Emission trading

“Emission trading is a market-based approach to control greenhouse gases emission. It facilitates buying and selling of greenhouse gases by issuing certified emission certificate.”

Definition from Government of Nepal. 2014. Climate Finance Glossary.

## Financing Mechanism

Developed country Parties shall provide financial resources to assist developing country Parties in implementing the UNFCCC Convention. To facilitate this, the Convention established a Financial Mechanism to provide funds to developing country Parties. The operation of the Financial Mechanism is entrusted to the Global Environment Facility (GEF) and the Green Climate Fund (GCF).

Read more: <https://unfccc.int/topics/climate-finance/the-big-picture/climate-finance-in-the-negotiations>



## Implementing Entity

Generally, an “Implementing Entity” (IE) is responsible for vetting and endorsing project and programme proposals, and for disbursing funding from a fund when proposals are successful. The term IE can vary slightly depending on the fund.

- The Adaptation Fund accredits national, regional or multilateral IE. The IE works with an Executing Entity, in charge of the day-to-day management and on-the-ground interventions.
- The equivalent of IE for GEF is called “Implementing Agency”. IAs can be national (e.g. Development Bank of South Africa), regional (e.g. West African Development Bank) or multilateral (e.g. United Nations Environment Programme). NGOs can also become accredited as IAs (e.g. World Wildlife Fund). Like with the AF, a GEF Implementing Agency works with an Executing Entity.
- The equivalent of IE for GCF is called “Delivery Partner”. The Delivery Partner may work with an “Executing Entity”.

## Multilateral Development Bank (MDB)

Multilateral development banks (MDBs) can be categorized many ways. The two biggest groups are “main” and “sub-regional” multilateral development banks.

- a) Main: created by a group of countries to provide financing and professional advising for the purpose of development  
For example: World Bank, Asian Development Bank, Inter-American Development Bank Group
- b) Sub-regional: for a better deal banks lend to their members, borrowing from the international capital markets. Because there is effectively shared responsibility for repayment, the banks can often borrow more cheaply than could any one member nation

For example: Caribbean Development Bank, West African Development Bank

Read more: <http://www.iuc.eu/resources/>

## National adaptation plan (NAP)

“The national adaptation plan (NAP) process was established under the Cancun Adaptation Framework (CAF). It enables Parties to formulate and implement national adaptation plans (NAPs) as a means of identifying medium- and long-term adaptation needs and developing and implementing strategies and programmes to address those needs. It is a continuous, progressive and iterative process which follows a country-driven, gender-sensitive, participatory and fully transparent approach.”

Read more: <https://unfccc.int/topics/adaptation-and-resilience/workstreams/national-adaptation-plans>

## Nationally Determined Contributions (NDC)

“The Paris Agreement requires each Party to prepare, communicate and maintain successive nationally determined contributions (NDCs) that it intends to achieve. Parties shall pursue domestic mitigation measures, with the aim of achieving the objectives of such contributions.”

Read more: <https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs>



## Non-Annex I Parties

Non-Annex I Parties are mostly developing countries. Certain groups of developing countries are recognized by the UNFCCC Convention as being especially vulnerable to the adverse impacts of climate change, including countries with low-lying coastal areas and those prone to desertification and drought. Others (such as countries that rely heavily on income from fossil fuel production and commerce) feel more vulnerable to the potential economic impacts of climate change response measures. The Convention emphasizes activities that promise to answer the special needs and concerns of these vulnerable countries, such as investment, insurance and technology transfer. See further details under Annex I Parties.

## Official Development Assistance

“Official Development Assistance (ODA) refers to financial assistance provided to developing countries and the multilateral institutions by official agencies, including state and local governments of developed countries for promotion of their economic development and welfare. In 1970, it was agreed that developed countries would provide 0.7 per cent of their Gross National Income (GNI) as ODA to developing countries. ODA is also known as foreign aid.”

Definition from Government of Nepal. 2014. Climate Finance Glossary.

## II. ESSENTIAL FINANCIAL TERMS

### Amortization

“The gradual repayment of an obligation over time and in accordance with a predetermined payment schedule.”

Definition: Municipal Finance Glossary, Massachusetts Department of Revenue, 2008

### Asset

Is something one owns, such as property, structures, money, or investments like stocks or bonds.

### Audit

“An examination of a community’s financial systems, procedures, and data by a certified public accountant (independent auditor), and a report on the fairness of financial statements and on local compliance with statutes and regulations. The audit serves as a valuable management tool for evaluating the fiscal performance of a community.”

Definition: Municipal Finance Glossary, Massachusetts Department of Revenue, 2008

### Bankability

There is a lack of common understanding on what makes a project bankable. Also the term is misleading “bank” associated with bankers. A general approach is to consider a project or proposal bankable when it has sufficient collateral, future cashflow, and high probability of success, to be acceptable to institutional lenders for financing (<http://www.businessdictionary.com>).

### Climate finance

The term “climate finance” can be defined differently and there is no one agreed definition. The 2016 Biennial Assessment and Overview of Climate Finance Flows (UNFCCC), refers to climate finance as financial resources dedicated to adapting and mitigating climate change globally, aiming at reducing emissions of GHG, reducing vulnerability, and maintaining and increasing the resilience of human and ecological systems to negative climate change impacts.



## Climate Public Expenditure and Institutional Review

“Climate Public Expenditure and Institutional Review (CPEIR) is a methodological tool to analyze, how climate change related expenditure is being integrated into national and sub-national budgetary processes. It has three key pillars: Policy Analysis, Institutional Analysis and Climate Public Expenditure Analysis. It supports to identify and track climate related expenditure in the national budget.”

Definition from Government of Nepal. 2014. Climate Finance Glossary.

## Co-financing

Co-financing is a practice in which multiple entities finance the same project. Co-financing can be provided by the project developer or external entities. A strong co-financing plan (whether in-kind or in-cash) is a proof of wide interest in the project by a diversity of relevant actors, and is therefore an important feature of a project design.

Adapted from Government of Nepal. 2014. Climate Finance Glossary.

## Cost-Benefit Analysis

“A decision-making tool that allows a comparison of options based on the level of benefit derived and the cost to achieve the benefit from different alternatives.”

Definition: Municipal Finance Glossary, Massachusetts Department of Revenue, 2008

## Collateral

Some loans require property to assure repayment of the loan. This property is called collateral.

## Conditionality

Conditionality refers to conditions that recipient entities need to fulfil to receive financial support from funds. These conditions may include earmarking funds to certain sectors, co-financing, procurement design, fulfilling certain criteria under social and environmental context, etc.

Adapted from Government of Nepal. 2014. Climate Finance Glossary.

## Deficit

The excess of expenditures over revenues during an accounting period.

## Efficiency / effectiveness of funds

The efficiency of funds measures how much output can be produced with a given quantity of input. The effectiveness shows the success of the resources used in achieving the objectives set.

## Environmental and Social Safeguards

Any programme or project should limit environmental and social risks to the minimum. Environmental and Social Safeguards (ESS) are the measures undertaken to prevent and mitigate possible undue harm to people and environment.

Adapted from Government of Nepal. 2014. Climate Finance Glossary.



## Environmental Impact Assessment

Environmental Impact Assessment (EIA) is a process of evaluating the likely environmental impacts of a proposed project or development, taking into account inter-related socio-economic, cultural and human-health impacts, both beneficial and adverse.

UNEP defines Environmental Impact Assessment (EIA) as a tool used to identify the environmental, social and economic impacts of a project prior to decision-making. It aims to predict environmental impacts at an early stage in project planning and design, find ways and means to reduce adverse impacts, shape projects to suit the local environment and present the predictions and options to decision-makers.

Read more: <https://www.cbd.int/impact/whatis.shtml>

## Exit strategy

An exit strategy is a strategy designed to phase out a project/programme after achieving the set objectives ensuring that the ongoing activities, impact and results of the project/programme sustain even beyond the project's interventions.

Adapted from Government of Nepal. 2014. Climate Finance Glossary.

## Feasibility / Pre-Feasibility study

For most projects, the funding proposal need to be accompanied by a Feasibility Study (FS) showing the technical details of the project interventions and proving that these can be implemented from an engineering/technical standpoint. Required levels of detail may vary depending on the funder, the project nature and the project size.

A FS can sometimes be the second step after a Pre-Feasibility Study (PFS), which provides early technical considerations on the project interventions. While the FS's objective is to show how and why the selected interventions will be implemented, the PFS – usually a shorter study – shows why such interventions were chosen instead of other options.

## Leverage

“Leverage is used in the context of climate finance in which it refers to public finance (e.g. from international finance institutions) that is used to encourage private investors to back the same project. This can be in the form of loans, risk guarantees and insurance or private equity. This is also intended to reduce the perceived risk for the private sector. Financial institutions apply the terminology 'leveraging' to understand how their core contributions (for example, money provided by donor governments to a multilateral development bank) can be invested in capital markets to create an internal multiplier effect.”

Definition from Government of Nepal. 2014. Climate Finance Glossary.

## On-lending

An entity accredited under specialised fiduciary standards can receive money from a fund with the intention of lending it to other executing entities for the implementation of selected programmes and/or projects. This can also include providing equity or guarantees to other entities.

Adapted from Government of Nepal. 2014. Climate Finance Glossary.

## Project Preparation Facility

PPFs are used as means of developing bankable, investment-ready projects. A PPF may provide both technical and/or financial supports to project owners/concessionaires. Such supports can cover a wide range of activities including: undertaking project feasibility studies including value for money analysis; developing procurement documents and project concessional agreements; undertaking social and environmental studies; and creating awareness among the stakeholders.

Adapted from: Project Preparation Facility: Enabling local governments access to private finance, IISD, 2017



## Results-based Framework

A Results-based Framework (RbF) is a set of indicators, target and baseline information that forms the basis for the evaluation of a project. The design of the RbF is a crucial phase of project formulation, as the RbF will directly steer the execution of the project.

## Return on investment

Return on Investment (RoI) is a performance measure used to evaluate the efficiency of an investment or compare the efficiency of a number of different investments. The RoI tries to measure directly the amount of return on a particular investment, relative to the investment's cost. To calculate the RoI, the benefit (or return) of an investment is divided by the cost of the investment. The result is expressed as a percentage or a ratio and obtained with the following formula:

$$\text{RoI} = (\text{Gain from Investment} - \text{Cost of Investment}) / \text{Cost of Investment}$$

In the above formula, "Gain from Investment" refers to the proceeds obtained from the sale of the investment of interest. Because RoI is measured as a percentage, it can be easily compared with returns from other investments, allowing one to measure a variety of types of investments against one another.

Note that RoI is just one of several metrics used to assess and rank investment performance. Other examples include the Internal Rate of Return (IRR) and Net Present Value.

## Risk mitigation

The most commonly used risk mitigation mechanisms are guarantees (e.g., risk guarantees and credit guarantees) as well as risk insurance (e.g., political risk insurance). Guarantees and risk insurance products can cover the failure of the public sector party to meet specific obligations within a project. By mitigating critical government performance risks for private investors, risk mitigation products are useful tools to enhance the bankability of infrastructure projects.

Adapted from the World Bank

## Subsidies

A subsidy is a form of financial aid or support extended to an economic sector (or institution, business, or individual) generally with the aim of promoting economic and social policy. Subsidies come in various forms including: direct (cash grants, interest-free loans) and indirect (tax breaks, insurance, low-interest loans, depreciation write-offs, rent rebates).

Adapted from Collins Dictionary of Economics, 2013

## Sustainable public procurement

Sustainable Public Procurement (SPP) is a process by which public authorities seek to achieve the appropriate balance between the three pillars of sustainable development - economic, social and environmental - when procuring goods, services or works at all stages of the project.

Read more: [https://ec.europa.eu/environment/gpp/versus\\_en.htm](https://ec.europa.eu/environment/gpp/versus_en.htm)

## Technical assistance

Technical assistance is non-financial assistance provided by local or international specialists. It can take the form of sharing information and expertise, instruction, skills training, transmission of working knowledge, and consulting services and may also involve the transfer of technical data.

Adapted from UNESCO



## Transformative change

Transformative change is ambitious and aims to provoke a holistic change with considering inclusivity. This is as opposed to “business-as-usual” projects, that may contribute to addressing an issue, but not fundamentally change the way the issue is dealt with and will be tackled in the future.

## III. FINANCING MECHANISMS

### Betterments

Whenever part of a community benefits from a public improvement, or betterment (e.g., water, sewer, sidewalks, etc.), special property taxes may be assessed to the property owners of that area to reimburse the governmental entity for all, or part, of the costs it incurred in completing the project. Each property parcel receiving the benefit is assessed a proportionate share of the cost which may be paid in full, or apportioned over a period of up to 20 years. In this case, one year’s apportionment along with one year’s committed interest computed from October 1 to October 1 is added to the tax bill until the betterment has been paid.

Definition: Municipal Finance Glossary, Massachusetts Department of Revenue, 2008

### Blended finance

The term blended finance implies the mixing of both public and private funds through a common investment scheme or deal, with each party using their expertise in a complementary way. The concept and model was developed within the Redesigning Development Finance Initiative from the World Economic Forum, who defined it as “the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets.” Blended finance is a structuring approach that allows organizations with different objectives to invest alongside each other while achieving their own objectives (whether financial return, social impact, or a blend of both).

The main investment barriers for private investors addressed by blended finance are (i) high perceived and real risk and (ii) poor returns for the risk relative to comparable investments.

Supporting mechanisms have been traditionally used by development funders in a Blended Finance package to attract and support private sector investors by managing risks and reducing transaction costs. These mechanisms can generally be classified as providing:

- Technical Assistance, or grant funds to supplement the capacity of investees and lower transaction costs.
- Risk Underwriting, to fully or partially protect the investor against risk through appropriate risk mitigation
- Market Incentives, guaranteed payments contingent on performance of future pricing and/or payment in exchange for upfront investment in new or distressed markets.

Adapted from: <https://www.convergence.finance/blended-finance>

### Bond

A bond is a fixed income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental). Bonds are used by companies, municipalities, states, and sovereign governments to finance projects and operations. Owners of bonds are debtholders, or creditors, of the issuer. Bond details include the end date when the principal of the loan is due to be paid to the bond owner and usually includes the terms for variable or fixed interest payments made by the borrower.

Read more: <https://www.globalgreenbondpartnership.org/>





## Capital Assets

“All tangible property used in the operation of government, which is not easily converted into cash, and has an initial useful life extending beyond a single financial reporting period. Capital assets include land and land improvements; infrastructure such as roads, bridges, water and sewer lines; easements; buildings and building improvements; vehicles, machinery and equipment.”

Definition: Municipal Finance Glossary, Massachusetts Department of Revenue, 2008

## Carbon tax

“It is the tax levied on fossil fuels, especially those used by motor vehicles, intending to reduce the emission of carbon dioxide and for prompting a switch to clean energy. The tax money is intended to fund actions to combat climate change.”

Definition from Government of Nepal. 2014. Climate Finance Glossary.

## Certified Emission Reduction

Certified Emission Reduction (CER) is a certificate issued and generated under the Clean Development Mechanism (CDM), for each unit of reduction in the greenhouse gas emission from the atmosphere. One CER is equal to one metric ton of carbon dioxide equivalent (CO<sub>2</sub>e). It can be traded in a voluntary carbon market and used by developed countries to meet emission reduction commitments.

Adapted from Government of Nepal. 2014. Climate Finance Glossary.

## Concessional loan

Concessional loan is one of the financial instruments having special feature with no or lower interest and more extended repayment schedule than those of standard market.

Adapted from Government of Nepal. 2014. Climate Finance Glossary.

## Crowdfunding

Crowdfunding is an alternative source of income for local governments. It is guided by the principle that citizens can voluntarily invest a certain financial amount into a proposed project.

## Energy Performance Contract

An EPC is a contract where an array of services is agreed and the provider of the services is able to guarantee that a minimum of energy savings and/or sustainability value will be achieved. An Energy Service Company (ESCO) implements a customized energy service package, consisting of planning, building, operation & maintenance, optimization, fuel purchase, (co-) financing and user behaviour.

Adapted from Standard EPC documents , European Energy Service Initiative, 2010

## Equity

Equity is the difference between the value of the assets and the value of the liabilities of something owned. Alternatively, equity can also refer to a corporation's share capital. In this case the value of the share capital depends on the corporation's future economic prospects.

## Grant

Grants are non-repayable funds disbursed by the government or international financing institutions. The eligibility criteria are always defined by the donors.



## Green bond

Green bonds can mobilise resources from domestic and international capital markets for climate change adaptation, renewables and other environment-friendly projects. They are no different from conventional bonds, their only unique characteristic being the specification that the proceeds be invested in projects that generate environmental benefits. In its simplest form, a bond issuer will raise a fixed amount of capital, repaying the capital (principal) and accrued interest (coupon) over a set period of time. The issuer will need to generate sufficient cash flows to repay interest and capital. Returns from green bonds may be exempted from taxes.

Adapted from UNDP website.

## Guarantee / first-loss protection

A guarantor undertakes to fulfil the obligations of a borrower to a lender in the event of non-performance or default of its obligations by the borrower, in exchange for a fee. Guarantees can cover the entire investment or just a portion of it. Risk mitigation instruments such as guarantees focus on reducing key default risks (technology, political etc.) at various points in the financing cycle. Insurance involves the transfer of the risk of a loss, from one entity to another in exchange for money.

A type of guarantee is first-loss protection. First-loss protection instruments shield investors from a pre-defined amount of financial losses, thus enhancing credit worthiness, and improving the financial profile of an investment. They directly mitigate a project's financing risks by transferring a portion of the potential loss to the sponsor offering the protection that can take the form of a funded contribution to the investment (such as a cash injection) or an unfunded guarantee or credit line to be drawn upon when needed. By making projects more appealing to mainstream investors (or by aggregating them under the same mechanism), they also mitigate the perception of liquidity risks.

Adapted from Overseas Development Institute. 2014. Practical Methods for Assessing Climate Finance Flows and Climate Policy Initiative. 2013. Risks Gaps: First-Loss Protection Mechanisms.

## Intergovernmental transfer

Resources transferred from other levels of government (generally the national). Depending on the legal provisions and the transfer structures of each country, intergovernmental transfers can be unconditional or conditional and they do not have to be paid back. Earmarked transfers have to be used for specific, pre-defined purposes.

## Joint venture

"The term joint venture can describe a range of different commercial arrangements between two or more separate entities. Each party contributes resources to the venture and a new business is created in which the parties collaborate together and share the risks and benefits associated with the venture. A party may provide land, capital, intellectual property, experienced staff, equipment or any other form of asset. Each generally has an expertise or need which is central to the development and success of the new business which they decide to create together. It is also vital that the parties have a 'shared vision' about the objectives for the JV."

Read more: Joint Ventures: a guidance note for public sector bodies forming joint ventures with the private sector, HM Treasury, 2010

## Land value capture

Public regulation, planning or investment can increase the value of land. For example, improving road infrastructure will increase the value of land in suburbs. “Up-zoning”, i.e. changing an area for more intense development and commercial use, will increase the demand for such areas, thereby also increasing its value. Land-value capturing (LVC) allows the public sector to financially participate in such a value increase. The LVC works, whenever people perceive value they are willing to pay for it. People will often pay higher value to a house, where it has good access to where the residents want to go. In other words, the money is a reflection of the value created by the improved accessibility and the accessibility makes the land more productive. This uplift in value due to improved accessibility will vary depending on the local circumstances.

Existing LVC methods tend to focus on either specific developments or a general taxation or levy. The first is a development-based approach and the second a taxation-based approach. Most of the methods, however, include elements of both approaches and it is therefore often difficult to categorise them into one or the other.

Today’s LVC approaches take a much more balanced view of how value should be shared and captured. And that is not only unlocking new sources of funding, it is also creating a much stronger link between assets, funding and users. It makes sense therefore that the extra profit generated by transit should be shared between the agency providing the transit, i.e. the taxpayer, and the people who own the land. The potential, therefore, to unlock this extra value through a partnership between the public and private sectors needs to be explored.

Read more: Kamiya, Marco 2016: New solutions to close the gap on municipal finance

The Potential of Land Value Capture for financing urban projects, Inter-American Development Bank, 2017

<https://home.kpmg/xx/en/home/insights/2017/05/funding-wisely-unlocking-urban-transit-with-land-value-capture.html>

## Leasing

Local governments can act as lessee (borrower) or lessor (lender).

- a) Many local governments are “cash poor, land rich.” They have limited fiscal autonomy and/or small budgets. Nevertheless, they control substantial holdings of land and built-up properties that they do not need for public use now or in the foreseeable future. The assets local government can use as finance sources include land and existing infrastructure, such as water and energy facilities.

Land or existing infrastructure assets (e.g. water and energy infrastructure) can be leased to private sector developers and/or operators at a price. Leaseholds are rental agreements between the owner of land or of an infrastructure asset (in this case a city or a public sector entity) and the land developer or asset operator (usually a company). The resulting revenue can be used as initial capital for upfront costs related to public infrastructure investments.

- b) As a lessee local governments can purchase specific real or personal property from the Lessor by making periodic lease payments over an established timeperiod. Usually, interest portion of lease payment is tax-exempt.

Adapted from Financing the Transition: Sustainable Infrastructure in Cities, WWR& Long Finance, 2015 March

## Loan

Loan is given in exchange for future repayment of the loan value amount along with interest or other finance charges. A loan may be for a specific, one-time amount or can be available as an open-ended line of credit up to a specified limit or ceiling amount.

## Municipal Development Fund

Local/regional governments can set up their own development fund dedicated to urban development. MDFs aim to raise additional resources for public investment.



## Participatory budgeting

Means including citizens in formulating the budget. It is an innovative way of citizens involvement and decentralisation, improves the communication and dialogue between the local administration and citizens. It fosters social inclusion by allowing the poorest citizens to have a voice in budgeting decisions and it empowers neighbourhood associations and small organizations. Nevertheless, it can take a long time to implement budgetary decisions, in part because it is necessary to teach citizens the details of how the process works.

## Pooled finance

Pooling is the grouping together of resources, and related strategies for minimizing risk.

## Privatization

The most common form of privatization in local governments occurs when governments contract with private sector service providers, for-profit or nonprofit, to deliver individual public services, such as road maintenance, custodial services, fleet maintenance and water system operations and maintenance.

Read more: <https://reason.org/policy-brief/local-government-privatization-101>

## Public Private Partnership

“Public and Private Partnership is a general term for a contractual relationship between the public sector and private companies to finance, design, build and operate facilities such as roads, hospitals and schools. This form of financing is increasingly being explored as a means to fund climate-related infrastructures.”

The aim of this relationship is to use public policies and regulations to leverage private sector financing, who will receive payments from the public entity for providing a defined service.

Definition from Government of Nepal. 2014. Climate Finance Glossary.

## Revolving fund

Revolving fund is a fund set up for specified purposes with the concept that repayments to the fund may be used again for these purposes. Once implemented, the revolving fund model can be self-sustaining.

## Special Purpose Vehicle (SPV)

A special purpose vehicle, also called a special purpose entity (SPE), is a subsidiary created to isolate financial risk. The SPV is a distinct company with its own assets and liabilities, as well as its own legal status. As it is a separate legal entity, if the parent company goes bankrupt, the special purpose vehicle can carry its obligations.

Read more: CFI's Financial Analyst Training Program

## Voluntary Carbon Market

A voluntary carbon market project is similar to a CDM project but it is not regulated by the UNFCCC (see more under CDM). There are a variety of different standards that can be applied, dependent on the project type and size.

Voluntary carbon market projects generate Voluntary Emissions Reductions (VERs).

Adapted from Rwanda Environment Management Authority website.