

GLOSSARY

SESSION 1

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. The risk-return profile plays a pivotal role in determining 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 completion¹.

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.

Creditworthiness

An independent credit rating agency assesses 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 debts.

¹ Cities Climate Finance. (n.d.). Project preparation glossary. Retrieved from <https://citiesclimatefinance.org/resources/project-preparation-glossary>

² Ibid

³ International Monetary Fund (IMF). (1986). Government Finance Statistics Manual 1986: Glossary. Retrieved from <https://www.imf.org/external/pubs/ft/gfs/manual/1986/eng/pdf/glossary.pdf>

Investors use this score to decide if they want to fund a city. A higher score means more funding options are likely to be available. The World Bank has a useful tool for cities called the city creditworthiness self-assessment: <http://www.citycred.org>. Cities can use this tool to create a plan for improving their creditworthiness⁴.

D

Downstream Financing

Funding and financing that comes after project preparation is completed and project bankability is confirmed, which could be from public or private sources.

F

Feasibility Study

A study that provides specific information about the actions planned for a project and demonstrates that these can be carried out from both an engineering/technical and economic perspective. The amount of detail needed may differ based on the funding source, the type of project, and its size⁵. This study can confirm market opportunities, narrow down business model, document the potential impact and risk of the project, and give more detailed info before deciding to go ahead or not⁶.

Financial Model

Financial models help predict how well a company will do in the future. People use these predictions for different reasons, like figuring out a project's value, deciding on projects, buying companies, borrowing money, determining credit ratings, and more⁷.

O

Operational Expenditures (OPEX)

Ongoing expenses for the life of an infrastructure asset. They cover things like rent, salaries, purchase of goods and services (e.g. fuels, energy, internet), and other similar expenses⁸. These costs are usually listed in the company's income statement and directly affects its profit for the year⁹.

⁴ C40 Cities. (2022). C40 good practice guide: Creditworthiness. Retrieved from <https://www.c40.org/wp-content/uploads/2022/02/C40-Good-Practice-Guide-Creditworthiness.pdf>

⁵ Cities Climate Finance. (n.d.). Project preparation glossary. Retrieved from <https://citiesclimatefinance.org/resources/project-preparation-glossary/>

⁶ Cambridge Dictionary. (n.d.). Feasibility Study. Retrieved from <https://dictionary.cambridge.org/dictionary/english/feasibility-study>

⁷ Financial Edge Training. (n.d.). What is a Financial Model? Retrieved from <https://www.fe.training/free-resources/financial-modeling/what-is-a-financial-model/>

⁸ Cities Climate Finance. (n.d.). Project preparation glossary. Retrieved from <https://citiesclimatefinance.org/resources/project-preparation-glossary/>

⁹ Munich Business School. (n.d.). Capex (Capital Expenditure). Retrieved from <https://www.munich-business-school.de/en/l/business-studies-dictionary/capex>

P

Pre-Feasibility Study

A pre-feasibility study is an early analysis to figure out the best option for a project. It is a rough analysis of some aspects like technology, rules, environment, financial, and social factors to see how they might affect the projects¹⁰. It acts as an assessment, usually briefer than a feasibility study, offering initial technical insights on the project's intervention plans. It explains why these actions were chosen over other options and gives a clear summary of the advantages and additional benefits.

R

Risk-Return

The risk-return profile of an investment means balancing the possibility of gaining money with the chance of losing it. Risk of loss is the likelihood that the investment might not succeed. Return means making more/less money than what was initially invested over a period of time¹². When we compare how much money we might make with the risk of losing, it shows the investment's return/risk profile. Usually, higher returns involve higher risks, and investors need to decide how much risk they are comfortable with to get the returns they want¹¹.

¹⁰ Danish Energy Agency. (n.d.). Pre-Feasibility Study Guidelines. Retrieved from https://ens.dk/sites/ens.dk/files/Globalcooperation/prefeasibility_study_guidelines_final.pdf

¹¹ Iowa State University Extension and Outreach. (n.d.). Managing Risk in Farming: Risk Management Strategies. Retrieved from <https://www.extension.iastate.edu/agdm/wholefarm/html/c5-214.html>

