Annex A: Glossary

This selective glossary is provided as a guide to assist readers with some of the terms and concepts used throughout the report.

Glossary	Definition
A/B Loan Structure	An A/B loan structure refers to instances where NIBs, DFIs and other international financial institutions seek to mobilise private sector finance for transactions. The A portion of a loan refers to the commitment made by the institution through its own resources, while the B portion of the loan refers to proceeds provided by third parties. By lending through this structure, the NIB acts as the Lender of Record and also acts as the Lead Lender and Administrative Agent for the entire loan facility. In many instances, lead institutions benefit from some form of Preferred Credit Status in the countries where they operate, meaning no withholding taxes apply to debt service payments, from which private sector providers of the B loan facility also benefit. This, in turn, allows the private sector lenders to offer finance at lower costs. It is important to note that, in the event of default, providers of the A loans are not obligated to repay the providers of B loans, rather a default on one aspect of the loan results in a default on the entire loan.
Additionality	Additionality, in this context, refers to providing financial services only where the market cannot or does not do the same, or otherwise does not provide financing on an adequate scale or on reasonable terms. There is also the concept of "development additionality", which the IFC disaggregates into operational and institutional components. Operational additionality refers to financing programs that help to address skills gaps which may exist between the recipient of the financing and the private investors, whereas institutional additionality may occur as the financing may require improved standards of environmental, social and corporate governance (ESG), sustainability, regulation, and better public/private risk allocation."
Asset-Liability Matching	Any financial institution needs to match its assets (investments and loans) with its liabilities. For instance, it is not possible to finance an infrastructure equity portfolio (with high risk and illiquidity) with debt, or a long-term loan with short-term finance, or local currency loans with foreign exchange, unless there is an external party capable of stepping in if, or, more likely, when problems arise from these asset-liability mismatches.
Authorised, Subscribed, Paid-In, Callable and Issued Share Capital	"Authorised"" share capital is the maximum amount of share capital a company is allowed to raise. Though this does not limit the number of shares a company may issue, it does put a ceiling on the total amount of money that can be raised by the sale of those shares. When a company issues shares for the first time, investors can submit an application expressing their desire to participate. "Subscribed" share capital refers to the monetary value of all the shares for which investors have expressed an interest. Subscribed capital can either be "paid-in" as cash or else "callable" – both IBRD and the European Investment Bank (EIB) only have small proportions of their capital which is paid-in, the rest is callable from the IBRD and EIB member countries. "Issued" share capital refers to the value of shares a company actually issues. The amount of issued share capital is generally much lower than the authorised share capital, so a company has the opportunity to issue additional equity at a later point in time.

Glossary	Definition
Bridge Financing	"Bridge Financing" is a short-term loan used ahead of an anticipated long-term financing option becoming available.
Capital Markets	Capital markets are any market for the buying and selling of long-term debt or equity-backed securities. These can be either public or private: • Public markets are traded markets. Capital market issues are generally arranged by investment banks, then often syndicated to a larger number of investors, and ultimately available to purchase on the secondary market in a bid/ask format. Bond mutual funds, hedge funds, pension funds and individuals can then purchase such securities via a broker according to the quoted price. In developed countries, these markets are wide and deep with many participants, creating liquidity and efficient pricing. Whilst many developing country equity markets are public markets, they are considerably less liquid. • Private markets do not involve trading in the way that public markets do; there is no bourse as such. Private markets include primary placement markets in which financial instruments are issued to sophisticated investors; private markets are typically much smaller, less liquid and subject to less financial regulation than public markets. Nonetheless, from an infrastructure financing perspective, such private markets can be important sources of capital. For instance, the US-based "Rule 144A market" (which is based upon a provision in the US Securities Act) has been tapped for bond finance for many infrastructure issues in Latin America and Asia. Moreover, private equity funds, which are typically not publicly listed, can also be seen as private markets.
Central, Federal or Commonwealth versus State, Provincial, or Municipal	"Central", "federal", or "commonwealth" refer to national governments, whereas the "state", "provincial", or "municipal" refer to sub-national governments. In many countries, all, or the majority of, funding invested in a NIB is from the national government, whereas the projects in which the NIB invests can have significant involvement from a sub-national government, as an investor, payee or guarantor.

Glossary	Definition
Concessional Finance	Concessional finance does not seek a return commensurate with the risk that it faces. When public financial institutions provide such finance, they are doing so at rates which are below what the private sector would typically charge. In the case of concessional equity or 'first loss' capital, the required rate of return is below what a commercial investor would be seeking. In the case of credit instruments, the part that is subsidised (that is, not fully priced for) can include the interest margin (which, principally, should reflect the risk faced) or a grace period, or sometimes an arrangement whereby the concessional debt product ranks junior to other participants in a debt structure, but without charging for the additional risk. It is a rule of corporate finance that financial products – debt or equity – are priced according to the risk profile of what is being financed, not at the finance provider's cost of funds. In pricing debt, it is usual to start with the wholesale rate that the finance provider is being charged (the cost of funds which is affected by the credit rating of the financial institution in question). This, in turn, is driven by the credit rating of the entity raising the capital, with institutions that have either implicit or explicit government support raising capital more cheaply than, say, a financial intermediary, which is taking full risk on its loan/investment portfolio. In pricing up debt for on-lending, the provider needs to take: (i) its own cost of funds (determined by its rating); (ii) add its own administration/management costs; (iii) then add a risk premium reflecting the credit quality of the borrower; and (iv) its target return on capital. In principle, it is possible to achieve a below-market loan pricing through adjusting any of the above. Often, if an institution is government-backed, it can simply pass on the benefits of its own lower cost of funds arising from its credit quality – note that very few private financial institutions have the same credit ratings as state-backed entities. A further reduction in the rate charged to the borrower arises through the public finance institution not seeking to make a return on capital. As such, it prices solely to cover any expected losses on its portfolio (with a degree of contingency). Clearly, this is much easier for a public institution than a private one, whose investors will be seeking a return commensurate with the risks they are taking. In addition to this, a more substantive level of subsidy is achieved by essentially buying down, that is, paying for, the administration or risk cost elements in the loan pricing. Blended finance combines grants (or grant-equivalent instruments) and non-grant financing from private and/or public sources to provide financing on terms that would make projects financially viable and/or financially sustainable. As such, loans can have varying degrees of concessionality, depending upon the approach taken.
Credit Markets	Credit markets are markets for bank loans. In high-income countries, these are typically the main source of finance for greenfield infrastructure, in which commercial banks specialise in project finance, providing committed facilities for long-term bank loans, which can be drawn down when required, such as during the construction process. Such facilities are more illiquid than debt raised in capital markets, although syndication may improve the degree of liquidity. Because only commitment fees are paid on undrawn amounts, they are particularly appropriate to greenfield projects, avoiding the need to pay interest on capital that is not required for several months or even years.

Glossary	Definition
Funding versus Financing	It is often common to use the terms "funding" and "financing" interchangeably when discussing infrastructure finance. However, strictly speaking, the former refers to how infrastructure services are paid for, typically by either user charges or government payments. Ultimately, long-term debt financing is a way of spreading out the funding of infrastructure capital expenditure over many years and, by doing so, making infrastructure tariffs more affordable. In many instances, extending the tenors of financing can lower tariffs more than reducing the interest rate, as it is normally the repayment of principal which accounts for a greater proportion of the tariff than the interest rate.
Fiscal Headroom	"Fiscal Headroom" refers to the scope governments have in their budgets to increase spending or reduce taxes. The size of the headroom may change due to unexpected windfalls, lower cost of debt, higher economic growth, etc. In the case of a sudden reduction in fiscal headroom, it is often infrastructure projects which may be affected first, as the government prioritises essential services.
Funded versus Contingent Financing	"Funded" finance is finance that is cash-based, that is, money is transferred as part of the financial transaction. Funded instruments include equity, debt and mezzanine products, such as subordinated debt. "Contingent" financing is financing which is only drawn on when required, such as a guarantee or an insurance product, as well as stand-by credit facilities; all are triggered by a specific event, such as a payment default. Contingent instruments involve the provision of underwriting capacity, as opposed to the provision of cash. They have the advantage that a given amount of cash can back a total of exposure that is greater than the amount of cash in question; this is called gearing.
Mezzanine Finance	Traditional finance is either senior debt or equity; mezzanine is a hybrid between the two. It can take several forms, from subordinated debt to preference shares, both of which are paid back after senior debt and before equity. There may be a right to convert this debt into equity at a contracted price per share if the loan is not being paid back.
Securitisation Vehicle	Securitisation is a process whereby various financial assets are combined into larger assets pools. These pools can then be divided and repackaged so that they can be sold off to investors based on their risk appetite. The securitisation vehicle is a special company set up which receives the pool of assets and is legally separate from the original holder of the assets (e.g. a bank). This is in order to provide certainty to the holders of the securities that they will have first priority on payments to the underlying loans.
Take-Out Finance	This is a type of loan which replaces short-term financing (e.g. a construction loan) with a longer-term arrangement with different terms (e.g. lower interest rates), once a given milestone is achieved or passed (i.e. construction is complete).
Tier 2 Capital	"Tier 2 Capital" is the secondary component of bank capital, in addition to Tier 1 capital, that makes up a bank's required reserves. Tier 2 capital is designated as supplementary capital, and is composed of items such as revaluation reserves, undisclosed reserves, hybrid instruments and subordinated term debt.