Annex 1 : Glossary of terms

Capital markets: The market for long-term debt and equity shares. Capital markets channel savings from suppliers of capital such as retail investors and institutional investors, to users of capital such as businesses, government, and individual borrowers.

Climate finance: Finance directed towards climate action (inclusive of mitigation, adaptation and resilience)

Counterpart payment: A payment to be made by the partner country to receive the debt relief in a debt swap agreement between the creditor and partner country (debtor).

Concessional finance / borrowing: Concessional finance is below market rate finance provided by major financial institutions, such as development banks and multilateral funds, to developing countries to accelerate development objectives. The term concessional finance does not represent a single mechanism or type of financial support but comprises a range of below market rate products used to accelerate a climate or development objective.

Cost of capital: Minimum return that investors / funders expect for providing capital

Debt relief: Any form of debt treatment that relieves the overall burden of debt by altering the amount or repayment terms of outstanding debt.

Debt service: Payments to the creditor in respect of both principal and interest.

Debt sustainability: A country's public debt is considered sustainable if the government is able to meet all its current and future payment obligations without exceptional financial assistance or going into default.

Debt swap: A creditor forgoing payment of part of a partner country's debt, on condition that the partner country invests an agreed amount in a specific area.

Discount factor: The interest rate used to convert a future income stream to its present value.

First-loss capital: Credit enhancement provided by an investor or grant-maker who agrees to bear first losses in an investment in order to catalyze the participation of co-investors that otherwise would not have entered the deal

Guarantees: An agreement from a third-party lending institution or insurer which ensures that losses will be recovered in the event that the borrower defaults.

Innovative financing: Innovative finance includes mechanisms and solutions, which increase the volume, efficiency, and effectiveness of financial flows.

International capital markets: an International Capital Market (ICM) is a system for buying and selling of securities (like stocks and bonds) in more than one country. It's a market where nations gather to borrow and invest across borders.

Islamic finance: Refers to the provision of financial services in accordance with Shari'ah Islamic law, principles and rules. Shari'ah does not permit receipt and payment of "riba" (interest), "gharar" (excessive uncertainty), "maysir" (gambling), short sales or financing activities that it considers harmful to society.

Loan buy-down: An arrangement that usually involves three parties—the creditor, the debtor and the donor who would pay all or part of the outstanding loan amount.

Market-shaping mechanism: Disrupts existing practices in a way that corrects for market failures such as information asymmetry and create efficiencies by reducing transaction costs

Multiplier: The GPE Multiplier is an innovative finance instrument that provides an incentive and the financial resources to catalyze more and better investment in education. The GPE Multiplier works alongside other sources of external funding. It can be invested as a grant or used to lower the interest rate on concessional lending, for example from multilateral development banks or bilateral donors. It can also work alongside other, non-traditional sources of development finance, including private capital. All GPE-eligible countries are able to access a Multiplier grant under the 2021-2025 strategic plan.

Risk-sharing instrument: By providing upfront funding or by promising to absorb part of a potential loss, these instruments encourage public and private sector funders to extend new loans and leases to traditionally riskier recipients/uses (e.g., guarantees, insurance, first-loss capital)

Social impact bond: Impact bonds are innovative performance-based contracts between an investor, an outcome funder, and a service provider that tackle a social or environmental challenge. They are a form of public-private partnership that rewards investors for successfully delivering impact.