Glossary

**Balance sheet**
Statement showing an entity’s financial position at a certain date. It forms part of the financial statement. Measurements of financial position in the balance sheet are broadly classified under assets, liabilities, and equity.

**Border price**
The unit price of a traded good at a country’s border, that is, the free-on-board (FOB) price for exports and the cost, insurance, freight (CIF) price for imports. The border price is measured at the point of entry to a country, or, for landlocked countries, at the railhead or trucking point.

**Capital**
(a) In a business, the total amount of the owners’ stake, represented by the difference between assets and liabilities. Also called equity or net worth. In a corporation, capital represents shareholder equity. Capital stock may consist of common and preferred stock. see paid-in capital. (b) Goods purchased for use in production. (c) Net working capital, which is the difference between current assets and current liabilities. (d) Long-term assets that are not bought and sold in the ordinary course of business. The term usually refers to fixed assets, such as machinery, equipment, buildings, and land.

**Capital asset**
Asset purchased for use in production over a long period rather than for resale. Capital assets include land, buildings, plant and equipment, mineral deposits, and timber reserves.

**Capital budget**
The estimated amount planned to be expended for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods. The capital budget, however, is limited to the expenditures that will be made within the fiscal year comparable to the related operating budgets.

**Capital market**
Trading center for long-term debt instruments and corporate stocks. Capital markets provide a facility for governments and other entities to mobilize resources through issuing debt and equity capital.
**Cash flow**
Net amount of money generated or used from a given operation or asset for a given period.

**Cash flow statement**
Statement showing where a firm’s cash comes from and on what it is spent. The net result is reflected in the balance of the cash account as of a certain date. In its most refined form, the statement explains and accounts for the flows of cash, rather than working capital.

**Constant prices**
Future price values from which any expected change in the general price level is removed. When applied to all project costs and benefits over the life of the project, the resulting project statement is in constant prices. Expected significant changes in relative prices, that is, in expected price changes for an item compared with the expected change in the general price level, should also be incorporated in the valuation of costs and benefits at constant prices.

**Consumer surplus**
Savings to existing consumers arising from the difference between what they are willing to pay for an output and what they will be charged with the project. Consumer surplus can arise when expanded supply is associated with a fall in price. It can also arise when the output price is regulated by government and set below the demand price.

**Contingent liability**
(a) A possible obligation from past events that will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or (b) A present obligation from past events but is not recognized because (i) it is not probable that an outflow of resources will be required to settle the obligation; or (ii) the obligation cannot be measured reliably. Some examples: in corporate reports are pending lawsuits, judgments under appeal, disputed claims, and the like, representing potential financial liability.

**Conversion factor**
Ratio between the economic price value and the financial price value for a project output or input, which can be used to convert the constant price financial values of project benefits and costs to economic values. Conversion factors can also be applied for groups of typical items, such as, petrochemicals or grains; and for the economy as a whole, as in the standard conversion factor or shadow exchange rate factor.

**Cost-benefit analysis**
The method of measuring the benefits anticipated from a decision by determining the cost of the decision, then deciding whether the benefit outweighs the cost of that decision.
Cost of capital
Calculated as a weighted average of the interest costs of debt and equity capital. Equity funds include both capital stock (common and preferred stock) and retained earnings. Costs of capital are usually expressed as annual percentage rates.

Cost of sales
Generally, the cost of goods sold during a given accounting period.

Credit enhancement
Increasing the creditworthiness of a loan, security issue, or other instrument by providing specific guarantees from third parties (including MIGA, ADB), or by attachment of specified assets.

Current assets
Asset that can easily be converted to cash; also, one that will convert to cash or equivalent benefit within one year.

Current liability
Primarily an income statement classification, encompassing a debt or other obligation coming due within a year of the balance sheet date.

Current prices
Future price values that include the effects of expected general price inflation. When applied to all project inputs and outputs, they provide a project statement in current prices.

Current ratio
A comparison of current assets to current liabilities, is a commonly used measure of short-run solvency, i.e., the immediate ability of a firm to pay its current debts as they come due. Current Ratio is particularly important to a company thinking of borrowing money or getting credit from their suppliers. Potential creditors use this ratio to measure a company’s liquidity or ability to pay off short-term debts. Though acceptable ratios may vary from industry to industry below 1.00 is not atypical for high quality companies with easy access to capital markets to finance unexpected cash requirements. Smaller companies, however, should have higher current ratios to meet unexpected cash requirements. The rule of thumb Current Ratio for small companies is 2:1, indicating the need for a level of safety in the ability to cover unforeseen cash needs from current assets. Current Ratio is best compared to the industry.

Debenture
Long-term debt instrument that is a corporate security backed by the general credit of the issuer rather than by a lien on specific assets. The order of any prior claims is set forth in the debenture. Typically, in the event of liquidation, debentures have a low recovery ranking.
**Debt**
The amount due by a customer in respect of goods supplied or services rendered by you.

**Debt financing**
Raising money through selling bonds, notes, or mortgages or borrowing directly from financial institutions. You must repay borrowed money in full, usually in installments, with interest. A lender incurs risk and charges a corresponding rate of interest based on that risk. The lender usually assesses a variety of factors such as the strength of your business plan, management capabilities, financing, and your past personal credit history, to evaluate your company’s chances of success.

**Debt service**
Aggregate amount (usually per annum) of amortization, interest, and other charges on debt. Amortization includes sinking fund payments, if any. In the case of Bank loans or credits where only a portion has been drawn down by the borrower, debt service also includes a commitment charge on the unutilized portion.

**Debt service coverage covenant**
Form of capital structure covenant related to debt and equity and designed to ensure that an entity can meet its debt obligation from operational cash flow.

**Debt service ratio**
The measurement of debt payments to gross income.

**Debt-equity ratio**
Measure used in the analysis of financial statements to show the amount of protection available to creditors. The ratio equals long-term debt divided by total shareholder equity. Generally the higher the ratio, the higher the financial risk.

**Demand price**
The price at which purchasers are willing to buy a given amount of project output, or the price at which a project is willing to buy a given amount of a project input.

**Depletion premium**
A premium imposed on the economic cost of depletable resources representing the loss to the national economy in the future of using up the resource today. The premium is frequently estimated as the additional cost of an alternative supply of the resource, or a substitute, when the least cost source of supply has been depleted.
Depreciation
The amount of expense charged against earnings by a company to write off the cost of a plant or machine over its useful live, giving consideration to wear and tear, obsolescence, and salvage value. If the expense is assumed to be incurred in equal amounts in each business period over the life of the asset, the depreciation method used is straight line (SL). If the expense is assumed to be incurred in decreasing amounts in each business period over the life of the asset, the method used is said to be accelerated. Two commonly used variations of the accelerated method of depreciating an asset are the sum-of-years digits (SYD) and the double-declining balance (DDB) methods. Frequently, accelerated depreciation is chosen for a business’ tax expense but straight line is chosen for its financial reporting purposes.

Derivative
A transaction or contract whose value depends on or, as the name implies, derives from the value of underlying assets such as stock, bonds, mortgages, market indices, or foreign currencies. One party with exposure to unwanted risk can pass some or all of the risk to a second party. The first party can assume a different risk from a second party, pay the second party to assume the risk, or, as is often the case, create a combination. Derivatives are normally used to control exposure or risk.

Discount rate
A percentage rate representing the rate at which the value of equivalent benefits and costs decrease in the future compared to the present. The rate can be based on the alternative economic return in other uses given up by committing resources to a particular project, or on the preference for consumption benefits today rather than later. The discount rate is used to determine the present value of future benefit and cost streams.

Distribution effects
An analysis of the net income effects of project costs and benefits on different project participants, including the difference between financial and economic values for project outputs and inputs. Distribution effects can refer to the net income effects between, at least, producers, users, and government, and sometimes workers and lenders, as well, for utility projects; to the particular net income effect for the poor; and to the net income effect for foreign and domestic participants.

Dividend
Distribution of earnings paid to stockholders based on the number of shares they own. The most typical type is cash, but dividends may also be issued in such forms as stock and property.
**EBITDA (Earnings before interest, taxes, depreciation, and amortization)**

In accounting, EBITDA stands for "Earnings before Interest, Taxes, Depreciation, and Amortization" (sometimes named OIBDA for operating income before depreciation and amortization). Which as the name suggests is earnings excluding expenses from depreciation, amortization, interest, and taxes (earnings + ITDA), in the order the usually appear on the income statement, up to down. It’s the operating income with expenses for depreciation and amortization backed out.

**Economic analysis**

Attempts to assess the overall impact of a project on improving the economic welfare of the citizens of the country concerned. It assesses a project in the context of the national economy, rather than for the project participants or the project entity that implements the project. Economic analysis differs from financial analysis in terms of both (i) the breadth of the identification and evaluation of inputs and outputs, and (ii) the measure of benefits and costs. Economic analysis includes all members of society, and measures the project’s positive and negative impacts in terms of willingness to pay for units of increased consumption, and to accept compensation for foregone units of consumption. Willingness to pay and willingness to accept compensation are used rather than prices actually paid or received because (a) many of the project impacts that are to be included in the economic analysis either will be nonmarketed, for example, biodiversity preservation, or incompletely marketed, such as, water supply and sanitation benefits. Thus, some form of nonmarket value must be estimated. (b) many project impacts that are marketed will be bought and sold in markets where prices are distorted by various government interventions, by macroeconomic policies, or by imperfect competition.

**Economic efficiency**

A criterion for assessing an investment or intervention in an economy. An investment or intervention is said to be economically efficient when it maximizes the value of output from the resources available.

**Economic internal rate of return (EIRR)**

The rate of return that would be achieved on all project resource costs, where all benefits and costs are measured in economic prices. The EIRR is calculated as the rate of discount for which the present value of the net benefit stream becomes zero, or at which the present value of the benefit stream is equal to the present value of the cost stream. For a project to be acceptable the EIRR should be greater than the economic opportunity cost of capital.

**Economic opportunity cost of capital (EOCK)**

The real rate of return in economic prices on the marginal unit of investment in its best alternative use. This rate of return is estimated as the weighted average of the economic demand and supply price of capital, and therefore will be equal to the value of the marginal unit of investible funds to both investors and savers.
**Economic price of land**
The economic effect of the change in land use as a result of a project. Changes in land use can be the direct result of a project, or indirect, through the consequent displacement and relocation of households or economic activities. The economic price of land is estimated through its economic value in the best alternative use. In practice this is generally taken as the net economic value of production lost when land use changes. This valuation should include anticipated future changes in the productivity of the land. It can also be estimated through the willingness to pay to retain a without project land use.

**Economic viability**
The assessment that increases in output produced by a project using the least cost method will recover costs, provide an additional required rate of return, and sustain effective production in the face of uncertainty and risk.

**Effective demand**
Effective demand is the aggregate demand for goods and services that is backed up with the ability to pay.

**Elasticity**
The ratio of the proportionate change in one variable caused by a proportionate change in another variable, all other conditions remaining constant. For example, it is used to refer to the price elasticity of demand, that is, the relative response of demand to price changes; or the income elasticity of demand, that is, the relative response of demand to income changes.

**Environmental sustainability**
The assessment that a project’s outputs can be produced without permanent and unacceptable change in the natural environment on which it and other economic activities depend, over the life of the project.

**Equity**
The residual interest in the assets of the entity after deducting all its liabilities.

**Equity capital**
Company’s issued (or paid-up) share capital, without limitation or preference in how profits are distributed or how assets are ultimately distributed.

**Excludability**
The ability of suppliers to restrict the availability of outputs to those who can pay for it, or by other criteria. See also Private goods and Public goods.
**Externality**

Effects of an economic activity not included in the project statement from the point of view of the main project participants, and therefore not included in the financial costs and revenues that accrue to them. Externalities represent part of the difference between private costs and benefits, and social costs and benefits. Externalities should be quantified and valued, and included in the project statement for economic analysis.

**Financial analysis**

Transformation of financial data into a form that can be used to monitor and evaluate an entity’s financial position, plan future financing, and assess the entity’s size and growth rate. Financial analysis includes the use of financial statement analysis and financial projections.

**Financial internal rate of return (FIRR)**

The rate of return that would be achieved on all project costs, where all costs are measured in financial prices and when benefits represent the financial revenues that would accrue to the main project participant. The FIRR is the rate of discount for which the present value of the net revenue stream becomes zero, or at which the present value of the revenue stream is equal to the present value of the cost stream. It should be compared with the opportunity cost of capital, or the weighted average cost of capital, to assess the financial sustainability of a project.

**Financial model**

Mathematical model describing the relationships among financial variables of a firm. A functional branch of a general corporate planning model, it is used essentially to generate pro forma financial statements and financial ratios. The basic tool for budget planning, it is also used for risk analysis and "what if" experiments. Many financial models use special modeling languages and spreadsheet programs.

**Financial structure**

How a firm’s ASSETS are financed, constituting the entire right side (liabilities and equity) of the balance sheet. It is broader than capital structure because it also includes short-term debt and all reserves.

**Financial sustainability**

The assessment that a project will have sufficient funds to meet all its resource and financing obligations, whether these funds come from user charges or budget sources; will provide sufficient incentive to maintain the participation of all project participants; and will be able to respond to adverse changes in financial conditions.

**Financial viability**

The ability of an entity to continue to achieve its operating objectives and fulfill its mission over the long term.
**Fixed asset**
Item that has physical substance and an economic life in excess of one year. It is bought for use in the operation of the business and not intended for resale to customers. With the exception of land, fixed assets are subject to depreciation. Term usually refers to property and plant and equipment.

**Foreign exchange risk**
Risk taken in buying or selling foreign currency.

**Free cash flow**
Net income plus non-cash charges to income, specifically depreciation and amortization less capital expenditures, to sustain the basic business.

**Government failure**
Government failure is mirror term for public sector compared to market failure. It occurs when the government interventions introduced to correct for market failures do not lead to allocative efficiency.

**Gross margin**
The ratio of gross profit to sales revenue. (sometimes used as a synonym for gross profit). For a manufacturer, gross margin is a measure of a company’s efficiency in turning raw materials into income; for a retailer it measures their markup over wholesale. Gross margin is gross income divided by net sales, expressed as a percentage.

**Guarantee**
n. It is a document stating that goods or services are of good quality.
v. It is a promise to pay the debt of someone else in the event that the debtor defaults. A guarantee is not to be confused with indemnity.

**Income**
(a) During an accounting period, revenue earned that results in an increase in total assets.
(b) Revenue arising from sales of goods and services.
(c) Excess of revenue over expenses and losses for an accounting period (i.e., net income).

**Income statement**
Form showing the elements used in arriving at an entity’s net income for the accounting period; also called a profit and loss statement. Also called result of operations.

**Income tax**
Government levy on the net earnings of an individual, corporation, or other taxable unit. The TAX rate is usually graduated as earnings go from one tax bracket to another. The income tax provision is shown as an expense in the income statement.
**Interest**
In law, is a right or legal share of something or a financial involvement with something; in finance, it is a fixed charge for borrowing money; usually a percentage of the amount borrowed.

**Interest during construction (IDC)**
Interest payable on long-term or short-term debt incurred to finance capital works (e.g., plant or road construction in progress in a fiscal year).

Financing charges, including commitment charges, are also included. IDC is frequently capitalized (or charged to the project cost) until the asset is commissioned or treated as a capital expenditure item and transferred to deferred charges or deferred capital expenditure account. For Bank projects, IDC is computed as part of project costs to determine total financing requirements.

**Internal rate of return (IRR)**
Rate of return that equates the present value of future cash flows to the initial investment. Also referred to as the yield on investments.

**Least-cost analysis**
Analysis that compares the costs of technically feasible but mutually exclusive alternatives for supplying output to meet a given forecast demand. The analysis should be carried out using discounted values over the life of a project, where possible, using the opportunity cost of capital as the discount rate. Such analysis is used to identify the least cost option for meeting project demand.

**Leverage**
Ability of fixed costs to magnify returns to a firm’s owners. Operating leverage, a measure of operating risk, refers to the fixed operating costs found in a firm’s income statement. Financial leverage, a measure of financial risk, refers to financing a portion of the firm’s assets bearing fixed financing charges in hopes of increasing the return to owners. Total leverage is a measure of total risk. The way to measure total leverage is to determine how Earnings Per Share (EPS) are affected by a change in sales. Leverage is using given resources in such a way that the potential positive or negative outcome is magnified.

**LIBOR (London interbank offered rate)**
The rate that the most creditworthy international banks that deal in Eurodollars charge each other for large loans. It is equivalent to the federal funds rate in the U.S.

**Loan**
An agreement under which an owner of assets (the lender) allows another entity (the borrower) to use the assets for a specified time period. In return, the borrower agrees to pay the lender a payment (interest) and return the assets (cash) at the end of the agreed upon time period.
**Loan capital**
Forms of debentures and other long-term loans to a business.

**Loan loss ratio**
Indicates extent of uncollectible loans over the last period. Any loan more than one year past due should automatically be considered uncollectible.

**Loan period**
Total number of years from a Bank loan’s date of effectiveness, which normally falls three months after signature, to its last payment (including the grace period).

**Logistics**
Logistics is about the efficient flow of goods, services, and information from the point of origin of raw materials to the point of consumption of the final product.

**Long-term debt**
Debt that does not come due within one year.

**Marginal cost**
Change in total cost for an extra unit of production. It is useful to calculate marginal cost to determine whether the rate of production should be changed. In general, as activity increases, economies of scale set in because of greater experience and manufacturing efficiency. Eventually, however, diseconomies of scale (e.g., increased management supervision needs) occur, causing marginal costs to rise. When a company is at optimum output, marginal cost coincides with average total unit cost. The marginal cost curve is usually shown as a U-Shape on a graph.

**Market driven integration**
Unlike Europe, which established institutions of integration leading the process of European integration, market forces, led by multinational firms through their production networks have contributed to Asia’s integration.

**Market failure**
The inability of a system of market production to provide certain goods either at all or at the optimal level because of imperfections in the market mechanism; or the inability of a system of markets to fully account for all costs of supplying outputs. Market failure results in the overproduction of goods and services having negative external effects and the underproduction of goods and services having positive external effects. Market failure occurs for different reasons, for example, inadequate information, inadequate capacity, regulation of the movement of labor and capital, or rent-seeking behavior by producers. The existence of market failure provides a case for collective or government action directed at improving efficiency.
**Market structure**
Refers to the number of firms in a sector and the influence they have on setting price or other service conditions.

**Multi-country framework**
Economic analysis for individual project is assessed against real change in net national income arising from the project as a whole valued in economic prices for the country. For cross-border projects, it is important to assess the economic viability for the region as a whole adopting multi-country framework that includes all economies in the region.

**Net assets**
The difference between total assets and current liabilities including noncapitalized longterm liabilities.

**Net cash flow**
Equals cash receipts minus cash payments over a given period of time; or equivalently, net profit plus amounts charged off for depreciation, depletion, and amortization. Also called cash flow. Net cash flow is a measure of a company’s financial health.

**Net income**
Gross income from all sources less all administrative and operating expenditures, depreciation, taxes, and interest and other charges on debt.

**Net loss**
Amount by which total costs and expenses exceed total revenue for the accounting period.

**Net operating income**
Income after deducting for operating expenses but before deducting for income taxes and interest.

**Net present value (NPV)**
A method used in evaluating investments, whereby the net present value of all cash outflows (such as the cost of the investment) and cash inflows (returns) is calculated using a given discount rate, usually required rate of return. An investment is acceptable if the NPV is positive. In capital budgeting, the discount rate used is called the hurdle rate and is usually equal to the incremental cost of capital.

**Net worth**
Total assets less total liabilities. Net worth represents shareholder equity.

**Nominal prices**
An alternative expression for current prices. See Current prices.
**Non-incremental outputs and inputs**

Non-incremental output is output produced by a project that substitutes for supplies that would be available in the without project situation. Non-incremental inputs are inputs that are supplied to a project that, in the without project situation, would be produced and supplied to another project.

**Non-market failure**

Inefficiencies in the implementation and operation of economic activities. These may result from inadequate incentives to those involved in the provision of goods and services, inadequate information about methods and techniques, inadequate resources for maintenance and operation, or lack of accountability for outputs produced. Non-market failures can lead to insufficient and costly supplies, especially of public goods produced in uncompetitive circumstances.

**Non-traded outputs and inputs**

Goods and services that are not imported or exported by the country in which the project is located, because by their nature they must be produced and sold within the domestic economy, for example, domestic transport and construction, or because of government policy that prohibits international trade, or because there is no international market for the product given its quality or cost. Non-traded outputs that are incremental should be valued at their demand price, that is, at the average of their value to new and existing consumers without and with the project. Non-traded outputs that are non-incremental should be valued at their supply price, that is, taking into account the cost of supply of the alternative output being displaced. Non-traded inputs that are incremental should be valued at their demand price, that is, at the marginal economic costs of extra supply. Non-traded inputs that are non-incremental should be valued at their demand price, that is, at the average of the price that existing consumers would be willing to pay to retain supplies, and the price that new consumers would be willing to pay to acquire supplies.

**Numeraire**

The common yardstick that measures the objective being maximized. In project financial analysis this yardstick is the real income change for the project participants valued in domestic market prices. In project economic analysis, because the scope of the analysis differs, and because domestic market prices do not always reflect the scarcity value of project outputs and inputs, this yardstick is the real change in net national income for the project as a whole valued in economic prices. Generally, the real change in net national income can be measured at two different price levels. These are the domestic price level, where all economic prices are expressed in their equivalent domestic market price level values (the domestic price numeraire), and the world price level, where all economic prices are expressed at their equivalent world market price level values (the world price numeraire). As long as consistency is maintained in a particular calculation across all project effects, project decisions will not be affected by whether the domestic price level or the world price level is used to express the numeraire.
Onlending
Equivalent of re-lending in connection with new money loans. The funds are recorded as a deposit in the central bank, but the foreign bank and the contractual borrower (usually the central bank) agree that the loan proceeds will be made available to a third party within the country of the borrower.

Operating expenses
All selling and general & administrative expenses. Includes depreciation, but not interest expense.

Operating income
Revenue less cost of goods sold and related operating expenses that are applied to the day-to-day operating activities of the company. It excludes financial related items (i.e., interest income, dividend income, and interest expense), extraordinary items, and taxes.

Operating ratio
Measures a firm’s operating efficiency; calculated: company operating expenses divided by its operating revenues.

Operating revenue
Net sales plus other regular income sources related to the normal business operations of the entity.

Opportunity cost
The benefit foregone from not using a good or resource in its best alternative use. Opportunity cost measured at economic prices is the appropriate value to use in project economic analysis for valuing non-incremental outputs and incremental inputs.

Paid-in capital
Capital received from investors for stock, equal to capital stock plus paid-in capital, NOT that capital received from earnings or donations. Also called contributed capital.

Paid-up capital
The total amount paid by shareholders for their shares of capital stock.

Payback period
In capital budgeting, is the length of time needed to recoup the cost of capital investment. The payback period is the ratio of the initial investment (cash outlay, regardless of the source of the cash) to the annual cash inflows for the recovery period. The major shortcoming for the payback period method is that it does not take into account cash flows after the payback period and is therefore not a measure of the profitability of an investment project. For this reason, analysts generally prefer the discounted cash flow methods of capital budgeting; primarily, the internal rate of return and the net present value methods.
**Present value**
Discounted current worth of future cash flows from an investment. The discounted value of a payment or stream of payments to be received in the future, taking into consideration a specific interest or discount rate. Present Value represents a series of future cash flows expressed in today’s dollars. A given amount of money is almost always more valuable sooner than later, so present values are generally smaller than corresponding future values.

**Private goods**
Goods characterized by very high levels of subtractability and excludability. Subtractability means that one person’s consumption of the good reduces the quantity available to others. Excludability means that the producer can restrict use of the product to those consumers who are willing to pay for it, while excluding those who do not meet this or other criteria. Private goods can be produced under private ownership or under public ownership. Except under special circumstances, for example, production in conditions of natural monopoly and where the government lacks the capacity to regulate, production of private goods increasingly is undertaken under private ownership.

**Producer surplus**
The excess of the revenue received by a producer of a commodity over the minimum amount they would be willing to accept to maintain the same level of supply.

**Profit margin**
Ratio of net income to net sales.

**Project alternatives**
Technically feasible ways of achieving a project’s objectives. Project alternatives can be defined in terms of different possible locations, technologies, scales, and timings. It can also refer to alternatives between physical investments, policy changes, and capacity building activities. Consideration of project alternatives, and selection of the best alternative, should precede the assessment of economic viability.

**Project finance**
Money or loans put up for a particular project (e.g. a property development), which are usually secured on that project rather than forming part of the general borrowing of the company carrying out the development.

**Public finance**
1. The financing of the goods and services provided by national and local government through taxation or other means.
2. The economic study of the issues involved in raising and spending money for the public benefit.
**Public goods**
Goods characterized by very low levels of subtractibility and excludability, by contrast with Private goods above. Low subtractability implies that a good is available to all consumers at the same time, and consumption by one consumer does not use up or reduce the supply available for another consumer. Low excludability implies that if a good is provided to a consumer in a defined region then other consumers in that region cannot be easily excluded from consuming the same good. An example of a pure public good is national security, which is available to all citizens of a country simultaneously. Several other goods are quasi-public, having low levels of subtractibility and excludability. Public goods are generally provided under public ownership, although several can be provided, through contract and regulation, under private ownership.

**Rate of return**
The gain or loss for a security in a particular period, consisting of income plus capital gains relative to investment, usually quoted as a percentage. The real rate of return is the annual return realized on that investment, adjusted for changes in the price due to inflation.

**Real prices**
An alternative expression for constant prices. See Constant prices.

**Retained earnings**
Profits of the business that have not been paid out to the owners as of the balance sheet date. The earnings have been "retained" for use in the business (Retained Earnings is an account in the equity section of the balance sheet). It is comprised of the balance, either debit or credit, of appropriated or unappropriated earnings of an entity that are retained in the business. NOTE: Appropriated earnings are not available for dividends, but may be used to reduce a deficit or may be transferred to stated capital. Other appropriations of profits require a vote of the shareholders.

**Return on equity**
Measures the overall efficiency of the firm in managing its total investments in assets and in generating a return to stockholders. The return on capital that will accrue to the owners of a project after all financial obligations to lenders, government, workers, and suppliers are met. It provides an indicator for assessing the incentive to investors to invest in a project compared with other uses of their funds. It is the primary measure of how well management is running the company. ROE allows you to quickly gauge whether a company is a value creator or a cash consumer. By relating the earnings generated to the shareholders' equity, you can see how much cash is created from the existing assets. Clearly, all things being equal, the higher a company's ROE, the better the company.
Return on investment (ROI)
A profitability measure that evaluates the performance of a business. ROI can be calculated in various ways. The most common method is Net Income as a percentage of Net Book Value (total assets minus intangible assets and liabilities).

Risk analysis
The analysis of project risks associated with the value of key project variables, and therefore the risk associated with the overall project result. Quantitative risk analysis considers the range of possible values for key variables, and the probability with which they may occur. Simultaneous and random variation within these ranges leads to a combined probability that the project will be unacceptable. When deciding on a particular project or a portfolio of projects, decision makers may take into account not only the expected scale of project net benefits but the risk that they will not be achieved.

Risk premium
In a particular investment, the extra yield the investment must pay over the risk-free rate owing to various types of risk inherent in the investment. In the U.S., for example, any bond issuer other than the government must pay a higher interest rate because the risk of default on U.S. government securities is less than on those of other issuers.

Sensitivity analysis
The analysis of the possible effects of adverse changes on a project. Values of key variables are changed one at a time, or in combinations, to assess the extent to which the overall project result, measured by the economic net present value, would be affected. Where the project is shown to be sensitive to the value of a variable that is uncertain, that is, where relatively small and likely changes in a variable affect the overall project result, mitigating actions at the project, sector, or national level should be considered, or a pilot project implemented.

Salvage value
(a) Realizable value of a fixed asset after deducting costs associated with its sale; (b) Scrap value or the value to a junk dealer; or c) The amount remaining after all depreciation has been deducted from the original cost of a depreciable asset.

Shadow exchange rate
The economic price of foreign currency used in the economic valuation of goods and services. The shadow exchange rate can be calculated as the weighted average of the demand price and the supply price for foreign exchange. Alternatively, it can be estimated as the ratio of the value of all goods in an economy at domestic market prices to the value of all goods in an economy at their border price equivalent values. Generally the shadow exchange rate is greater than the official exchange rate, indicating that domestic purchasers place a higher value on foreign currency resources than is given by the official exchange rate.

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Shadow exchange rate factor (SERF)
The ratio of the economic price of foreign currency to its market price. Alternatively, the ratio of the shadow to the official exchange rate. This factor will generally be greater than 1. For economic analysis using the domestic price numeraire, the SERF is applied to all outputs and inputs, including labor and land, that have been valued at border price equivalent values, with project effects measured at domestic market price values left unadjusted. The inverse of the Standard conversion factor.

Shadow wage rate (SWR)
The economic price of labor measured in the appropriate numeraire as the weighted average of its demand and supply price. For labor that is scarce, the SWR is likely to be equal to or greater than the project wage. For labor that is not scarce, the SWR is likely to be less than the project wage. Where labor markets for labor that is not scarce are competitive, the SWR can be approximated by a market wage rate for casual unskilled labor in the relevant location, and adjusted to the appropriate numeraire.

Shadow wage rate factor (SWRF)
The ratio of the shadow wage rate of a unit of a certain type of labor, measured in the appropriate numeraire, and the project wage for the same category of labor. Alternatively, the ratio of the economic and financial cost of labor. The SWRF can be used to convert the financial cost of labor into its economic cost.

Standard conversion factor (SCF)
The ratio of the economic price value of all goods in an economy at their border price equivalent values to their domestic market price value. It represents the extent to which border price equivalent values, in general, are lower than domestic market price values. The SCF will generally be less than one. For economic analysis using the world price numeraire, it is applied to all project items valued at their domestic market price values to convert them to a border price equivalent value, while items valued at their border price equivalent value are left unadjusted. The SCF and SERF are the inverse of each other.

Subsidy
In the provision of utility services, the difference between average user charges and the average incremental cost of supply. A subsidy can be estimated in economic terms, using economic costs of supply, or in financial terms using financial costs of supply. The economic effects of a subsidy include the consequences of meeting them through generating funds elsewhere in the economy. Subsidies need explicit justification on efficiency grounds, or to ensure access to a selected number of basic goods.

Subtractability
The extent to which one user’s consumption of a good or service reduces the ability of others to consume the good or service without an increase in production cost. See also Private goods and Public goods.
Supply price
The price at which project inputs are available, or the price at which an alternative to the project output is available.

Time value of money
The concept, used as the basis for discounted cash flow calculations, that cash received earlier is worth more than a similar sum received later, because the sum received earlier can be invested to earn interest in the intervening period. For the same reasons, cash paid out later is worth less than a similar sum paid at an earlier date.

Traded inputs and outputs
Goods and services where production or consumption affect a country’s level of imports or exports. Project effects estimated in terms of traded goods and services can be measured directly through their Border price equivalent value—the world price for the traded product for the country concerned, adjusted to the project location. Border prices for exported outputs can be adjusted to the project location by subtracting the economic cost of transport, distribution, handling, and processing for export measured at economic prices. Border prices for imported inputs can be adjusted by adding such costs to the project site. Outputs that substitute for imports can be adjusted by the difference in economic transport, distribution, and handling costs between the existing point of sale and the project site. Project inputs that reduce exports can be adjusted by the difference in economic domestic costs between the point of production and the project location.

Transactions costs
The costs, other than price, incurred in the process of exchanging goods and services. These costs include the costs of negotiating and enforcing contracts, and the costs of collecting charges for goods and services provided. The scale of economic and financial transactions costs can affect the market structure for a good.

Transfer payment
A payment made without receiving any good or service in return. Transfer payments transfer command over resources from one party to another without reducing or increasing the amount of resources available as a whole. Taxes, duties, and subsidies are examples of items that, in some circumstances, may be considered to be transfer payments.

Underwriting
Acceptance of risk in return for payment. In a new securities issue, the underwriter -- known as the investment banker -- may perform an underwriting function by purchasing the securities at a fixed price from the issuer, hoping to sell them at a higher offering price and make a profit on the spread. Investment bankers usually form an underwriting group, also called a syndicate, to pool the risk and assure successful distribution of the issue.
**Unit of account**
The currency used to express the economic value of project inputs and outputs. Generally the currency of the country in which the project is located will be used as the unit of account. Occasionally an international currency may be used as the unit of account. Economic values using the domestic price numeraire can be expressed in either a domestic or international currency. Similarly, economic values using the world price numeraire can be expressed in either a domestic or international currency.

**User charge**
A charge levied upon users for the services rendered or goods supplied by a project.

**Weighted average cost of capital (WACC)**
An average representing the expected return on all of a company’s securities. Each source of capital, such as stocks, bonds, and other debt, is weighted in the calculation according to its prominence in the company’s capital structure.

**Willingness to accept (WTA)**
The minimum amount of compensation consumers would be willing to accept for foregoing units of consumption.

**Willingness to pay (WTP)**
The maximum amount consumers are prepared to pay for a good or service. WTP can be estimated as the total area under a demand curve. Changes in WTP can occur when the demand curve itself shifts because of changes in income or in the prices of substitute goods.

**Without and with project**
The future situation without a proposed project and the future situation with the proposed project. The difference between these two situations constitutes the impact of the investment, policy change, or capacity building activities. To be distinguished from the situations before and after a project that do not allow for expected changes without the project.

**Working capital**
Current assets minus current liabilities; also called net current assets or current capital. It measures the margin of protection for current creditors. It reflects the ability to finance current operations.

**Working ratio**
Ratio of gross operating revenues from all operational sources to total operating expenditures, excluding depreciation and non-cash charges.
**World price**

The price at which goods and services are available on the international market. The world price for a country is the border price, the price in foreign exchange at which imports are available at the port, railhead, or trucking point, or the price in foreign exchange received for exports at the port, railhead, or trucking point. Significant changes in relative world prices should be incorporated into the economic prices used in the analysis of projects.

**References:**


