

Financing Options and Instruments

Guidelines for Implementing Asset Recycling Transactions

Financing Options and Instruments

This section discusses the financing options and instruments available to the private sector and provides the relevant Authority with an understanding of the criteria issues to ensure the bankability of any proposed asset recycling scheme. Find more in the section below.

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The [Guidelines to Implementing Asset Recycling Transactions](#) is intended to be a living document and will be reviewed at regular intervals. Visit the [Asset Recycling: Decision maker’s notes for a practitioner's overview of Asset Recycling programs](#). To find more, check out the [Section Overview](#) and [Content Outline](#), or [Download the Full Report](#).

This section presents different modes of financing an asset recycling finance. Private sector participants in an asset recycling transaction will be required to fund the upfront payment to secure the concession or lease. The private sector may also be required to fund any required capital expenditure to refurbish or re-develop the asset. This section discusses the financing options and instruments available to the private sector and provides the relevant Authority with an understanding of the criteria issues to ensure the bankability of any proposed asset recycling scheme.

Traditionally, public sources have been the main source of capital available for finance, including financial resources from multilateral development banks (MDBs), multilateral organizations, governments, infrastructure funds and aid agencies. However, the cost of mitigating and adapting to climate change increasingly outweighs the amount of public funds available, thus there is a global need to increase and capitalize funds from the private sector and private sources such as commercial financial institutions, philanthropic organizations, institutional investors, non-profit organizations, corporate actors, institutional funds, etc.

This finance gap has led to the introduction of blended finance, where public and private sources contribute to a single funding flow, helping to reduce investment risks for the private sector. The blended-finance refers to the targeted use of [alternative financing](#) for high-impact projects (i.e., large infrastructure projects) where actual or perceived risks are too high for commercial lenders to enter on their own. While the search and preparation costs associated with accessing this means of financing may not always make it economically feasible, especially for small projects, as a rule, for larger projects it is worth exploring options to apply for this type of funding.

There are different typologies of financial instruments which generally fall under four (4) main categories: i) [debt instruments](#); ii) [equity instruments](#); iii) [credit enhancement instruments](#); and iv) [risk transfer instruments](#).

Types of Financing Instruments

The selection of the adequate instrument and/ or finance provider will depend on the type of asset recycling project as well as the type of concessionaire/ private partner selected. In the following table, a list of different types of instruments per category are presented:

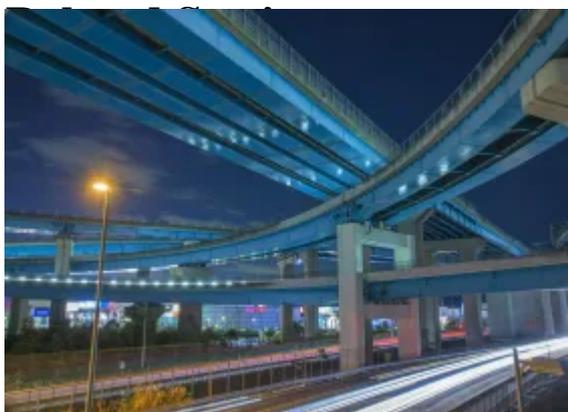
Table 8: Types of Financing Instruments

Documentation		Definition
Debt Instruments	Non-concessional loans	Sum of money that is given but needs to be repaid
	Concessional loans	Sum of money that is given at a relative cheaper cost
	Grants	Sum of money that is given but does not need to be repaid

Documentation		Definition
Debt swaps	Sale of a foreign currency debt to an investor or debt forgiveness by the creditor, in exchange for the debt relief.	Public and private investors
Green, social, thematic and sustainability linked bonds	Debt instruments where proceeds are used to finance or refinance, in part or in full, new and/or existing eligible projects/assets/companies.	Public (national, sub-national or municipal) and private investors
Quasi equity	Debt, typically unsecured and subordinated that raises capital base with no changes to the ownership structure.	Public and private investors
Equity Instruments	Equity securities	Ownership interest held by shareholders in an entity, realized in the form of shares of capital stock.
	Investment grants	Sum of money that does not need to be repaid.
	Co-financing	Joint financing between two entities working to fund a project.
Credit-enhancement Instruments	Interest-rate softening mechanisms	Lower interest rates and other costs below the market rate.
	On-lending / re-financing	Borrowing from external or domestic sources and re-lending to the entity / replacement of an existing debt obligation with different terms.
	Project bond credit enhancement	Subordinated instrument, either a loan or contingent debt, issued by a project company.
	Subordination of credit, credit tranching, excess spread, over collateralization, reserve accounts, etc.	Prioritization of collateralized debts, ranking one debt over another to collect repayment from a debtor. Subordinated debt, including loans, transferring risk in the event the results of a project are less than expected.
Risk-transfer Instruments	Insurances	The creation of risk transfer mechanisms that protect investors from loss liabilities to capital market investors.

Documentation		Definition
Guarantees	A promise to repay the debt of another in the event of default.	Governments, multilateral/bilateral finance institutions
Results-based climate finance	Funds are disbursed by the donor or investor after pre-agreed results of the activity are achieved and verified.	Governments, multilateral / bilateral finance institutions
Blended finance	Development capital as part of the effort to mobilize private capital.	Governments, multilateral/bilateral finance institutions
Technical assistance grants	Sum of money that is given for capacity building and information and expertise, instruction, training and consultation related to a climate activity but does not need to be repaid.	Governments, multilateral/bilateral finance institutions
Risk capital	Funds (equity / concessional loans) allocated to climate mitigation / adaptation activity with high level of uncertainty.	Governments, multilateral / bilateral finance institutions

Instruments that can reduce debt vulnerability risks while facilitating long-term investments would allow private sector to consistently take long-term risks into account.





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This section has not been prepared with any specific transaction in mind and are meant to serve only as general guidance. It is therefore critical that the content will be reviewed and adapted for specific transactions.

This is a new section of the website and is currently in draft form. For feedback on the content of this section or to suggest additional links or materials, please [contact the PPP Resource Center](#) using the feedback form.

