

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 c
	Grants	Sum of money that is given but does not need to b
	Debt swaps	Sale of a foreign currency debt to an investor or d exchange for the debt relief.
	Green, social, thematic and sustainability linked bonds	Debt instruments where proceeds are used to fina and/or existing eligible projects/assets/companies
	Quasi equity	Debt, typically unsecured and subordinated that r ownership structure.
Equity Instruments	Equity securities	Ownership interest held by shareholders in an ent 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 f
Credit-enhancement Instruments	Interest-rate softening mechanisms	Lower interest rates and other costs below the ma
	On-lending / re-financing	Borrowing from external or domestic sources and entity / replacement of an existing debt obligation different terms.
	Project bond credit enhancement	Subordinated instrument, either a loan or conting bonds issued by a project company.
	Subordination of credit tranching excess spread, over collateralization, reserve accounts, etc.	Prioritization of collateralized debts, ranking one collecting repayment from a debtor. Subordinated loans, transferring risk in the event the results of p

Documentation		Definition
Risk-transfer Instruments	Insurances	The creation of risk transfer mechanisms that pro loss liabilities to capital market investors.
	Guarantees	A promise to repay the debt of another in the even
	Results-based climate finance	Funds are disbursed by the donor or investor after achieved and verified.
	Blended finance	Development capital as part of the effort to mobil
	Technical assistance grants	Sum of money that is given for capacity building instruction, training and consultation related to a repaid.
	Risk capital	Funds (equity / concessional loans) allocated to c with high level of uncertainty.

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.

