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# Accessing Climate Finance in Asset Recycling

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***On this page:*** *Find an overview of the usual process for mobilizing climate finance in this section. Read below or visit the Guidelines for Implementing Asset Recycling Transactions Section Overview and Content Outline, or Download Full Report for more.*

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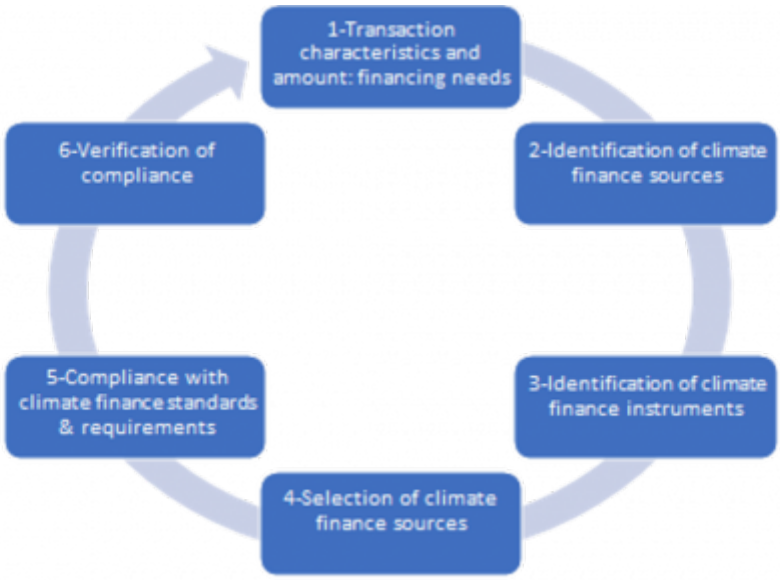
While the process for obtaining climate finance will vary depending on the financial source, the following flow chart presents a typical, non-exhaustive overview of the usual process for mobilizing climate finance.




Each step is discussed in more detail, below, after first distinguishing between the respective roles of the public and private partners to an asset recycling transaction in accessing climate finance.

## Roles of the public and private partners

In a typical asset recycling transaction, financing risk will usually be assumed by the private sector partner (for example, the Concessionaire), meaning the responsibility for considering and seeking climate finance sources and instruments will rest primarily with the private partner. Nonetheless, even in this case, the public sector project owner should play a cooperative and supportive role, for example by sharing any data, information, studies, or planning documents relevant to the asset that may inform a climate finance proposal and facilitating any government approvals or letters of support that may be required by the climate financier. In addition, in its role as contract manager, the public partner may be well-positioned or required to help monitor, report, and verify the achievement of results set by the climate finance instrument.

In other cases, however, the public sector may bear the financing risk and seek climate financing, for example where a particular climate source (a climate fund) will lend to only the public sector, not only for project preparation but also to finance the project itself. In addition, there may be advantages to the public sector project owner undertaking the preparatory work needed to access climate finance alongside the other project preparation activities, prior to commencing the tender process for the asset recycling transaction. Where a project appears to be a good candidate for climate finance and some form of climate finance is likely necessary for the transaction to be commercially viable, the public partner may consider completing studies needed for the climate finance proposal, or even completing the preliminary or full climate finance proposal, as part of the project preparation activities. This is especially true if the public partner can access project preparation assistance at the domestic or international level that can provide funding and other resources to support project preparation. These resources may be more accessible to public sector project proponents, particularly those in emerging markets and developing economies. In addition to the possibility of obtaining support for project preparation, this approach permits the expected climate finance source and instrument to influence the transaction structure and may reduce overall financing costs.

## Transaction characteristics and amount: financing needs

Initially, the public and private parties to an asset recycling transaction should assess its likely eligibility for climate finance predominantly in view of its expected mitigation and/or adaptation impacts or focus, while

also considering indirect benefits and other criteria that may bear on eligibility. In general, there are two types of projects: (1) those that focus on mitigation and/or adaptation; and (2) cross-cutting or thematic projects that integrate mitigation and adaptation elements into ongoing projects or programmes. To access climate finance, an asset recycling transaction should provide clear climate benefits, which will be assessed, measured, and reported by the borrower. That is, initial screening should focus on whether the project produces the right kind of outcomes, whether direct (reduced or avoided GHG emissions, reduction in harm, reduction in the risk of harm, or the realization of benefits to address climate variability and change), indirect (market development, capacity building, leveraging effects, sustainable development potential), or both.

While eligibility criteria will vary across climate finance sources, some of the most common, broadly applicable criteria are outlined in the box, below.

**Early-stage Screening Criteria for Climate Finance Eligibility**

Practitioners, public and private, should understand some of the key criteria and requirements for assessing the likelihood that a project or intervention will be able to access climate finance sources. As with most aspects of project preparation, this process is necessarily iterative and subject to change as more data and details about the project become known. Nonetheless, understanding these basic criteria can help practitioners identify projects with climate finance potential and guide decision-making as projects develop.

1. Mitigation and adaptation: An essential element for any climate finance proposal is the ability to demonstrate verifiable impacts in terms of mitigation action, adaptation efforts, or both. In this regard, practitioners should consider both direct effects (for example, a renewable energy project that avoids emissions from fossil-based power generation) and indirect effects (for example, projects that contribute to market development and thereby create new opportunities for additional, climate positive investments in the future). In addition, a key aspect of this criteria is the extent to which the climate benefits can readily and reliably be forecast, monitored, and verified. The clearer the impacts and the more easily they can be quantified, evaluated, and reported, the more likely the project is a good candidate for climate finance.
2. Co-financing/blended finance: Practitioners should consider how conducive the project size and risk profile are to co-financing or blended finance transaction structures. Size simply relates to the amount of investment needed – bigger investments create more space for multiple investors – while risk profile considers issues like the use of new technologies or project types that may attract impact investors, venture capitalists, or concessional loans from climate funds or DFIs. In any case, as discussed above, the ability to leverage private finance on top of public contributions is an increasingly important metric for many public climate finance sources.
3. Replicability: Pilot or demonstration projects in untested sectors intended to provide proof of concept, and thereby unlock similar investments in the future, may appeal to some climate finance sources. The same is true of first-mover projects intended to catalyse investment in proven sectors that so far have not developed in the specific jurisdiction. These projects are premised more on their potential to catalyse market transformation—prompting large-scale shifts in economies or sectors to more sustainable technologies or practices—than the more direct and limited climate impacts of the individual project.
4. Scalability: Opportunities for scaling up, including through successive rounds of financing, can increase the appeal of a project to some climate finance sources. Practitioners should consider whether there are options to build on and expand climate benefits after any immediate needs for operating, maintaining, and monetizing an asset are met.

In addition to initial screening for climate finance eligibility, at this stage the financing proponent (public or private) should undertake a reasonable transaction assessment based on relevant and reliable data to

determine the transaction amount and establish the financing needs. This will help establish whether there is a need for climate finance and, if so, begin to indicate what available instruments can best fill this need.

The financing proponent should also decide on the need for engaging a climate finance expert as early in the process as possible, which will depend on the availability of in-house expertise and that of potential partners. Another option is to identify potential dedicated Project Preparation Facilities and sources that may be able to provide support with preparing a climate finance transaction.

## Identification of climate finance sources

Assuming climate finance may be available and, if so, is needed or desired, the financing proponent should review public and private climate finance sources available and identify those sources most likely to be accessible for the specific asset recycling transaction, in light of the project type, themes, results area(s), and jurisdiction, among others. Once all reasonable options are identified, the available sources should be reviewed in terms of their criteria, due diligence requirements, and decision-making processes, to narrow the options and facilitate identification of the right source of climate finance.

To understand the landscape of available climate finance, the financing proponent should assess the local jurisdiction's readiness and access to international climate funds. This includes identifying any comparable local actors, public or private, that have successfully accessed climate finance and whether there are local accredited intermediaries that can facilitate access to different climate finance sources. While there is an increasing number of climate funding and financing sources, this does not directly translate into easier access and availability where the local policy framework is not conducive to access.

## Identification of climate finance instruments

As a next step, the financing proponent should identify and decide on the kind of financial instrument(s) and mechanism(s) that best suit the needs of the asset recycling transaction. This must take into account availability, transaction costs, financing costs, and the prospective financiers' risk and return appetites, among others.

## Selection of climate finance sources

Ultimately, the financing proponent should select the best sources of climate finance according to the asset recycling transaction's needs and the desired financial instrument(s). Depending on the asset transaction (specific objectives, technology, sector, theme, need for climate finance, etc.) and country readiness to access climate finance, a decision must be made whether to commence engaging with the identified financiers. There are a number of common principles that bear on securing climate finance, including capacity of the borrower (for example, creditworthiness, reputation, and experience), expected return on investment, making use of collaborative action, communicating the rationale for action, and building local capacity.

Accessing bilateral or multilateral sources generally requires the preparation of an initial concept note, which is followed by a full project proposal once the concept passes the assessment criteria of the financing source being approached. It is fundamental to make a strong case for justifying the need for financing by the financial source targeted for the asset recycling transaction project being proposed. In some cases, it is useful to prepare the full proposals as bankable documents (i.e., functionally ready for financial close, with all material terms defined). If several funding sources are being approached, this may entail a reiterative process with multiple financiers to reach financial close. In addition, larger projects or programmes that need to blend different funding sources and financial mechanisms often go through multiple funding rounds, either in succession or in parallel.

## Compliance with climate finance standards and requirements

The financing proponent will need to ensure that the asset recycling transaction complies with the specific standards, criteria, and requirements of the selected climate finance sources, according to the terms of the financial instrument, which may include the use of funds, as well as specific documentation and methodologies to follow throughout the process of reaching financial close and over the life of the project.

Climate finance standards and principles differ according to the type of financial instruments, sources, and sectors. An overview of the requirements for one (1) type of internationally certified climate finance instrument is provided as an example, as follows.

- The Climate Bonds Standard and Certification Scheme, developed by the Climate Bonds Initiative (CBI), is a labelling scheme for thematic bonds to be verified as Certified Climate Bonds. It is used globally by bond issuers, governments, investors, and financial markets to prioritize investments that contribute to addressing climate change. Certification is available for assets and projects that meet the requirements of the Climate Bonds Standard.
- In order to receive the "Climate Bonds Certified" stamp of approval, a prospective issuer of a thematic bond, in this case titled a Green or Climate Bond, must appoint a third-party Approved Verifier, which will provide a verification statement that the bond meets the Climate Bonds Standard. Examples of verifiers include Bureau Veritas, Deloitte, Carbon Trust, KPMG, and EY, among others.
- The Climate Bonds Standard allows Certification of a bond prior to its issuance, enabling the issuer to use the Climate Bonds Certification Mark in marketing efforts and investor roadshows. The Climate Bonds Standard Board (comprised of members representing USD 51 trillion in assets under management) confirms Climate Bonds Certification once the bond has been issued and the proceeds have been allocated to the projects and assets.
- Certified Climate Bonds (as well as Certified Climate Loans, which CBI also certifies, along with other debt instruments) are fully aligned with the Green Bond Principles. For thematic bonds, a set of principles have been published by the International Capital Market Association (ICMA) to outline best practices when issuing bonds serving social and/or environmental purposes through global guidelines and recommendations that promote transparency and disclosure, thereby underpinning the integrity of the market. The Certified Climate Bond process is premised on these ICMA principles, which include:
    - Green Bond Principles (GBP), which seek to support issuers in financing environmentally sound and sustainable projects that foster a net-zero emissions economy and protect the environment.
    - Social Bond Principles (SBP), which seek to support issuers in financing socially sound and sustainable projects that achieve greater social benefits.
    - Sustainability Bond Guidelines (SBG), which confirm the relevance of the principles and facilitate the application of their guidance on transparency and disclosure to the sustainability bond market.
    - Sustainability-Linked Bond Principles (SLBP), which provide guidelines that recommend structuring features and disclosure and reporting frameworks. They are intended for use by market participants and are designed to drive the provision of information needed to increase capital allocation to such financial products.
- Costs for obtaining verification as a Certified Climate Bond are both fixed and variable, depending on the size of the issuance. A minimum fee of USD 2,000 applies for bond issuers in developed countries and USD 1,000 for issuers in developing countries, which is assessed by CBI upon awarding the Certification label. Following the issuance of any certified bond (or a series of bonds in a programmatic certification process) a variable fee of 1/10th of a basis point (i.e. x 0.00001) of the bond issuance amount will be assessed. For example, on a USD 500 million bond, the certification fee is USD 5,000. If the variable fee exceeds the minimum fee, an additional amount will be payable at the time of bond issuance equal to the difference between the variable fee and the minimum fee.

## Verification of Compliance

The financing proponent should provide information for verification of compliance of the climate and/or social objectives that allowed access to climate finance. The use of qualitative performance indicators and, where feasible, quantitative performance measures (for example, energy capacity, electricity generation, GHG emission reductions, avoided GHG emissions, etc.) should be included in the compliance report according to the specific requirements of the climate finance providers and financial instruments used. All sources request quantifiable and measurable impacts in terms of either mitigation (reduced or avoided GHG emissions) or adaptation (increased resilience to the adverse impacts of climate change) that can be reliably measured, reported, and verified.

Third-party verification of compliance may be required, especially where climate finance is sourced internationally. However, this will depend on the particular jurisdiction, including the location of the project as well as the jurisdiction where the financing is procured.

**Related Content**

- **Guidelines for Implementing Asset Recycling Transactions (Download PDF version)**

**Additional Resources**

- Managing PPP Transactions
- Key Issues in Developing Project Financed Transactions

*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.*