Infrastructure Finance

Discover more about financing, enabling, and delivering sustainable infrastructure in this section, including how to build stronger investment environments, design projects that are bankable, sustainable, and resilient, and create opportunities for private sector participation.

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Summarizer

This section provides an overview of infrastructure finance, including forms of finance, financing approaches, and types of financiers involved in infrastructure projects. It covers equity, debt, government, corporate, and project financing, as well as the key considerations in attracting private finance. The section also examines blended finance, climate finance, and Islamic finance as mechanisms to mobilize capital, manage risks, and support infrastructure development.

Infrastructure Finance involves both public finance, sourced from government budgets, grants, and sovereign borrowing, and support from multilateral institutions such as the World Bank, and private finance, contributed by investors, commercial lenders, and financial institutions. The Infrastructure Finance section in PPPRC provides an overview of how capital is mobilized for infrastructure projects, outlining key principles, financing types, risk mitigation strategies, and the range of institutions involved, with a focus on practical tools and mechanisms that support financially viable, resilient, and bankable projects.

Form of Finance

Finance is capital provided to develop an infrastructure asset, generally seeking to be repaid with the possibility of upside in the form of interest to be paid or a share of profit to be earned. Finance comes in the form of equity and debt.

- Equity funds are invested in the project company as share capital and other shareholder funds. They hold the lowest priority of the contributions; for example, equity holders cannot normally receive distributions unless the company is in profit.

- Debt contributions have the highest priority amongst the invested funds (e.g., senior debt must be serviced before most other debts are repaid). Repayment of debt is generally tied to a fixed or floating rate of interest and a program of periodic payments. Debt generally receives no upside; if the project is particularly profitable, the lenders will not receive a share of those profits but will only be paid the agreed debt service.

- Mezzanine/subordinated contributions (e.g., subordinated loans and preference shares) fall somewhere between equity and debt, with lower priority than senior debt but higher priority than equity.

Key Considerations in Attracting Private Finance

Infrastructure must be financially sustainable to attract private financing; its revenues need to be resilient and able to cover all operating expenses, including debt servicing, and provide shareholders with reasonable dividends. Lenders will be concerned about ensuring that the project is able to pay interest and repay the principal. They will have a conservative view on assumptions such as traffic forecasts and impose specific requirements (maintenance funds, reserve fund for debt service, minimum revenue guaranteed) to provide them with additional protections, which will have financial implications.

The decision as to which type of financing to mobilize will depend on government fiscal position, the market availability of financing, and the willingness of lenders to bear certain project risks or credit risks.

Types of Financing Approaches

The basic types of financing reflect the nature of the borrower:

- Government financing – where the government borrows money and provides it to the project through on-lending, grants, or subsidies or where it provides guarantees of indebtedness. The government is constrained by its fiscal space (in particular its debt capacity) and will have a number of critical needs competing for scarce fiscal resources.

- Corporate financing – where a company borrows money against its proven credit position and ongoing business and invests it in the project.

- Project financing – where nonrecourse or limited recourse loans are made directly to a special purpose vehicle. Lenders rely on the cash flow of the project for repayment of the debt; security for the debt is primarily limited to the project assets and future revenue stream. By using such techniques, investors can substantially reduce their equity investment (through debt leverage) and exposure to project liability, thereby reducing the total project cost. This said, project financing requires a complex structure of contracts, subcontracts, guarantees, insurances, and financing agreements in order to provide lenders with the security they require and the risk allocation necessary to convince them to provide funding. This complexity requires significant upfront investment of time and resources by the contracting authority in project development. Further, project financing may increase the overall costs of debt for the project.

Types of Financiers in Infrastructure

The nature of the financier will have a specific influence on the financing. Financiers for infrastructure reflect a huge variety of sources. The commercial markets provide the largest volumes of potential financing for infrastructure, including commercial banks (international and local), institutional investors (like pension funds, insurance funds), private equity and hedge funds, and corporate investors (eg vendor financing or shareholder loans). Also from the private sector, foundations, and philanthropic investors may support infrastructure, in particular in poor communities or impactful technology. Financing may also be mobilized from public entities, governments (local or foreign), development financiers (include bilaterals - owned by a single country and multilaterals - owned by a number of countries, e.g., the World Bank), sovereign wealth funds, and export credit agencies.

These different lenders can work together to provide a better capital mix to deliver more infrastructure. For example, blended finance is the use of development finance for the mobilization of additional commercial finance by using the low pricing, high-risk tolerance, and perceived risk management of development finance (and the technical assistance and project preparation that comes with it) to bring commercial lenders and borrowers together.

Blended Finance

Blended finance can mobilize commercial finance where such investments would be too risky for private finance alone, especially where the project involves “frontier” countries, technologies, or business models, which are otherwise below investment grade. Blended finance can help rebalance risks, enable investment, and ensure focus on developmental priorities. It uses the relatively low volume development finance to mobilize the high volumes of available commercial finance.

In other cases, financing may be mobilized based on the nature of the investment. For example, climate finance mobilizes capital for infrastructure that delivers climate change mitigation and adaptation activities. Mitigation refers to actions that seek to reduce or avoid the release of greenhouse gas (GHG) emissions or to remove emissions, for example, through increasing the capacity of carbon sinks, to slow the pace of global warming. Adaptation refers to efforts to enhance or improve the resilience of infrastructure, communities, economies, and ecosystems and adjust to both the current adverse effects of climate change and the predicted future impacts.

Climate Finance

Climate finance can provide access to dedicated funds (international and in some cases national), multilateral and bilateral development institutions, and strategic private investors (such as pension funds), as well as nongovernmental and philanthropic organizations that are committed to investing in climate mitigation and adaptation efforts. These entities may also offer low cost financing, such as grants, seed funding, and concessional loans.

Islamic Finance

The Islamic finance market can serve as a complementary source of finance for infrastructure development in emerging markets. Islamic law - shari‘ah – does not allow debt, therefore shari‘ah compliant financing must be structured to avoid debt characteristics. Therefore, due diligence process should include a shari’ah compatibility analysis with the aim of identifying and resolving any potential shari’ah breaches. In certain countries, an external shari’ah audit may be required before a transaction can be described as being shari’ah compliant. Islamic finance structures can be aligned with conventional finance; although the two are documented separately, the terms and conditions are structured to benefit both sets of financiers (Islamic and conventional) from the same or very similar commercial terms.

Sections

Skyline

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Financing Mechanisms

Cityscape

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Blended Finance

Modern cityscape

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Revenues

Bridge at sunset

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The PPPRC Asset Recycling Section

Risk Allocation - Bankability and Mitigation in Project Financed Transactions; Office Glass Ceiling

Risk Allocation

Skyscrapers

Government Support

Skyline

Risk Mitigation

Investors in Infrastructure in Developing Countries:Skyscrapper

Financial Intermediaries

Guarantees

Guarantees

Sources of Financing and Intercreditor Agreement: Close up of office tower

Intercreditor Arrangements

Skyline

Private Sector Mobilization

Further Readings on Financing and Risk Mitigation: Central Business Center

Further Readings on Infrastructure Finance and Risk Mitigation

Research and Publications in PPPRC

BROWSE BY REGION

- East Asia and Pacific (EAP)
- Europe and Central Asia (ECA)
- Latin America and Caribbean (LAC)
- Middle East and North Africa (MENA)
- North America (NA)
- South Asia (SA)
- Sub-Saharan Africa (SSA)

BROWSE BY SECTOR

- Power & Renewable Energy
- Urban & Cities
- Water & Sanitation
- Transport
- Telecom & ICT
- Solid Waste Management

BROWSE BY Topic

- Asset Recycling
- Climate
- Disruption
- Emission Reduction Credit
- Fragile and Conflict-Affected States (FCS)
- Gender
- Innovative Revenues for Infrastructure

This section is currently undergoing enhancements as we work to improve the Public-Private Partnership Resource Center. We are committed to providing the most up-to-date information and expert guidance. The content on this page is under review and will be updated shortly to reflect the latest developments. We encourage you to check back regularly for new content and insights.