FINANCING STRATEGIES AND RATE OF RETURN

INFRASTRUCTURE PROJECTS CAN BE FINANCED THROUGH PUBLIC OR PRIVATE INVESTMENT OR A COMBINATION OF THE TWO. INFRASTRUCTURE PROJECTS INVOLVING PRIVATE CAPITAL HAVE TWO BROAD APPROACHES TO FINANCING:

ON-BALANCE SHEET FINANCING

HOW: The project sponsor provides equity and debt capacity.

TYPICAL PROJECT TYPE: Projects that are part of the sponsor's core business (e.g., an electricity company building and operating a power plant).

RISK: Lenders have recourse to the primary sponsor.

COST: Overall financing cost is typically cheaper, by virtue of the backing provided by the sponsor.

OFF-BALANCE SHEET FINANCING (OR PROJECT FINANCE)

HOW: A separate project entity is formed, and the assets and liabilities of the infrastructure project are ringfenced from those of the sponsors.

TYPICAL PROJECT TYPE: These are often larger, more risky projects, as project finance helps spread risk.

RISK: These projects typically have limited or no recourse, meaning that sponsors could in theory walk away from a failed project.

COST: Correspondingly, the cost of financing for off-balance sheet projects typically is higher.

BY THE NUMBERS*

$1.5 trillion
annual investment in infrastructure the World Bank estimates is needed through 2030 to address challenges

$1
infrastructure investment = $1.50 in economic activity

SOURCE:

Understanding Infrastructure Disputes: Financing Strategies and Rate of Return (December 2021).

***SOURCES (By the Numbers):**

Seong Ho Hong, "Mid-2023 update: Data on private investment in infrastructure shows mixed picture," World Bank Blogs (December 4, 2023).

Vivien Foster, Maria Vagliasindi, & Nisan Gorgulu, "The effectiveness of infrastructure investment as a fiscal stimulus: What we've learned," World Bank Blogs (February 2, 2022).

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