CITY RESILIENCE PROGRAM

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CITY FINANCING FRAMEWORK

Financing vs funding: who provides the upfront money vs who pays in the end?
LEVERAGING (MFD)

“Expanding access to commercial and private financing sources for urban infrastructure (asset creation and service delivery) purposes”
WHY DO WE KEEP TALKING ABOUT IT?

- Infrastructure financing gap of $350 billion annually – over $1 trillion annually if SDGs are to be met (McKinsey, 2015)

- 70% of infrastructure over the next 15 years will be built in urban areas (CCFLA, 2015)
These modalities often overlap:
• Tax increment financing (LVC) involves borrowing
• Many forms of LVC involve a PPP of some kind
• PPPs often involve a form of indirect borrowing

Different modalities/instruments have different impacts on the financial position and revenue base of the city
Effects of borrowing depend on the type and how it is done:

- Borrowing will degrade the financial position of a LG if it used to avoid a hard budget constraint.
- The “Golden Rule”
Impacts on debt, revenue and asset position vary widely by instrument

- TIF increases debt; most other forms do not
- LVC invariably enhances revenue
- LVC funding may be used to invest in assets – or not
Financial Impacts

- PPPs which involve investment in assets often create indirect debt obligations.
- They therefore encumber revenues (through offtake agreements; payment guarantees etc.)
- “Investment” PPPs normally result in asset creation.
Obstacles to financing urban resilience

City governments lack funds to realize investments in resilient infrastructure.

Lack of bankable projects and pipeline of investments to attract private financiers.

Limited market development to enable flow of funds from private investors to city governments.
Borrowing Instruments

**LOANS**
1. Borrower
2. Lender
3. Maturities must match
4. Small-scale borrowers don’t have a choice

**BONDS**
1. Issuer
2. Bondholder
3. Liquid secondary market brings in more investors
4. For large scale borrowers
Municipal Debt Market Ecosystem

**INVESTORS**
- Bond purchasers
  - (pension funds, institutional investors)

**PRIVATE/COMMERCIAL BANKS**
- Private/commercial banks

**INTERMEDIARIES:**
- Govt. Dev. Banks/MDFs; Bond Banks, etc.

**INTERNATIONAL DEVELOPMENT BANKS/DONORS**
- (e.g., IFC, AFD)

**MARKET FACILITATORS**
- Credit Rating Agencies (e.g., Moody’s, S&P)
- Financial & Other Advisors
- Project Preparation Facilities (e.g., C40)

**BORROWERS**
- Municipality
- Urban Utility (e.g., Water Utility)

**RISK BEARERS/MITIGATORS**
- Monoline insurers
- Credit Enhancement Facilities
Four factors determine access by cities to debt finance

1. Financial sector and investment community
2. City or project revenue sources – the intergovernmental fiscal system
3. The quality of financial data and FM systems of the city
4. The legal and regulatory framework
The Demand Side: Creditworthiness

Of the 500 largest cities in developing countries, only 95 (19%) are currently rated as investment grade by an international or local rating agency.

Only 32 cities - out of the largest 500 - have issued a bond at the municipal level; these cities are in 12 countries (Argentina, Bolivia, China, Colombia, India, Mexico, Paraguay, Peru, Russia, South Africa, Uruguay, Vietnam).

### Breakdown by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Cities in top 500</th>
<th>Inv. Grade</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>EAP</td>
<td>178</td>
<td>12</td>
<td>166</td>
</tr>
<tr>
<td>ECA</td>
<td>44</td>
<td>9</td>
<td>35</td>
</tr>
<tr>
<td>LAC</td>
<td>92</td>
<td>34</td>
<td>58</td>
</tr>
<tr>
<td>MNA</td>
<td>43</td>
<td>0</td>
<td>43</td>
</tr>
<tr>
<td>SAR</td>
<td>82</td>
<td>35</td>
<td>47</td>
</tr>
<tr>
<td>SSA</td>
<td>61</td>
<td>8</td>
<td>53</td>
</tr>
</tbody>
</table>

* Cities in top 500

* Does not include Local Government Financing Vehicles

** 3 Cities in Vietnam have issued bonds, but ratings are not publicized.

* Breakdown by Region

- **Middle Income**: 178 (Inv. Grade: 12, Other: 166)
- **Least Developed**: 44 (Inv. Grade: 9, Other: 35)
- **Least Developed (with Inv. Grade)**: 92 (Inv. Grade: 34, Other: 58)
- **Least Developed (without Inv. Grade)**: 43 (Inv. Grade: 0, Other: 43)
- **Least Developed (with Inv. Grade)**: 82 (Inv. Grade: 35, Other: 47)
- **Least Developed (without Inv. Grade)**: 61 (Inv. Grade: 8, Other: 53)

* Countries in region with rated cities:
  - China
  - Indonesia
  - Armenia
  - Belarus
  - Argentina
  - Bolivia
  - Brazil
  - China
  - Colombia
  - Mexico
  - India
  - Côte d'Ivoire
  - Senegal
  - Senegal
  - South Africa
  - Uganda
  - Vietnam
  - Russia
  - Serbia
  - Ukraine
  - Paraguay
  - Peru
  - Uruguay
How to improve creditworthiness?

Three classes:
- Investment grade: BBB to AAA
- Non-investment grade: B to BB
- Speculative grade: C to CCC

3 major ratings agencies:
- Moody’s
- Fitch
- S&P
## When to look to PPPs?

<table>
<thead>
<tr>
<th>Improve access to basic services</th>
<th>Increase efficiency</th>
<th>Mobilize capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>▪ Output based performance - high quality service standards</td>
<td>▪ Accelerated construction</td>
<td>▪ Better fund-raising capabilities</td>
</tr>
<tr>
<td>▪ Regular maintenance and upgrade</td>
<td>▪ On-time and on budget delivery</td>
<td>▪ In-kind donations which increase fund flow</td>
</tr>
<tr>
<td>▪ Innovation</td>
<td>▪ Risk borne by party best equipped to handle it</td>
<td>▪ Budgetary efficiencies</td>
</tr>
<tr>
<td>▪ Value for money incentivizes project selection</td>
<td>▪ Access to best practices and private expertise</td>
<td>▪ Focus on revenues/commercial efficiency</td>
</tr>
</tbody>
</table>
When to look to PPPs?
When to look to LVC?

- Increases in land value due to population growth and economic development
  - The government, on behalf of the general public, may keep this portion of the land value

- Increases in land value due to public investment in infrastructure changes in land use regulations
  - Public service providers could capture this portion of the increment to cover the costs of public infrastructure and local service provision

- Increases in land value due to landowners’ investments
  - Private land owners should profit from this portion of the increment

- Intrinsic land value
  - Land buyers (or lessees) pay sellers (lessors) to obtain the property rights of land
<table>
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<tbody>
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<td><strong>Leveraging public real assets</strong></td>
</tr>
<tr>
<td><strong>Development charges</strong></td>
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<tr>
<td><strong>Sale of development rights</strong></td>
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<td><strong>Land pooling/readjustment</strong></td>
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<td><strong>Special assessments/betterment levies</strong></td>
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<td><strong>Tax increment financing</strong></td>
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**Example:** City A has high demand for additional residential in neighborhood Y. More development would require upgrades to sewerage, roads, electricity, storm water management, parks.

Traditional:
- $50m (issue bonds or tap transfers)
- $5m Imp Fees
- $25m own revenue

With LVC:
- $5m Imp Fees
- Sale of dev rights
- $20m Sale of dev rights
Away from Business-as-Usual as cities need more than traditional sources to finance their infrastructure gap

The CRP Approach:
A change of paradigm in the way resources are mobilized for infrastructure financing

**From Sole Provider to Catalyst**
- CRP channels WB resources into “bigger” projects and boosts the bankability of capital investment programs
- CRP assists cities to attract additional sources of financing including commercial debt, PPP structuring and monetizing or capturing value from land and real estate

**WB Loan as an Anchor**
- CRP anchors its transaction with a WB loan that is developed “business-as-usual” with the national government
- CRP has expertise in finding creative ways to support WB loan delivery in challenging or restricted situations e.g. through engaging financial intermediaries
WBG as a Catalyst for Capital Mobilization

World Bank project → CRP → Financial advisors → Investors
- Support project identification
- Project Identification
- Options for capital raising
- Finance infrastructure
- Transaction identification
- Structure deal
- Finance infrastructure

Cities

CRP added value

Bank Project BAU
Capital Raising BAU
CRP added value
CRP's Capital Mobilization Strategy provides a structured, 3-phased engagement process with every participating city to analyze the city's potential for private sector financing and prepare a concrete capital investment plan.
**RAPID CAPITAL ASSESSMENTS**

**CITY RESILIENCE PROGRAM**

**Focus:** Completion of a Rapid Capital Assessment that serves as a indicative high-level assessment to understand cities’ capacity and enabling environment for attracting private capital by i) raising commercial debt, ii) structuring PPPs, and iii) Land Value Capture (LVC) transactions.

**PUBLIC-PRIVATE PARTNERSHIPS**

- Track Record
- Procurement Capacity
- Regulatory Framework
- Government Co-Financing

**SURVEY OF CITY FINANCE**

- Fiscal Powers
- Financial Stability
- Resilience Planning

**LAND VALUE CAPTURE**

- Real Estate Market Capacity
- Security of Property Rights
- Land Use Regulations
- Local Fiscal Powers
- Land Cadaster/Land Data Management
- LVC Track Record
Focus: Development of a concrete Capital Investment Plan tailored to a prioritized investment and that identifies the spectrum of capital mobilization tools which could be structured to finance the respective investment.

**Activity 1**
Identify and validate investment projects
Identification, validation and preliminary assessment of each city’s priorities

**Activity 2**
Evaluate investments, build investment plan and capital structure
Assess projects’ feasibility to raise private capital through debt instruments, PPP and LVC, considering the legal, institutional, economic and market conditions.

**Activity 3**
Supporting development of enabling environment for urban resilience projects, realization and financing
Focus: support to structuring and execution of Capital Investment Plans and to prepare transaction documentation

- Approval of World Bank Loan
- Support in hedging, de-risking and credit enhancement
- Transaction management support in private capital mobilization (debt, PPP, LVC)
- Technical Assistance on regulatory and institutional reform
PORTO ALEGRE: Sample CRP Transaction

THE CHALLENGE: Urban regeneration in Porto Alegre’s 4th District is hindered by flash flooding, exposing the area to sustained blight

- Porto Alegre’s 4th District is a 640-hectare area, strategically located between the city’s historic center, international airport and major thoroughfares.
- It has substantial development and revitalization potential with evident capacity for land and property value appreciation
- This high revitalization and value growth potential is hindered by impacts of recurring flash floods due to a deficient drainage network, which augments blight, poverty, and inhibits development of the formal economy in the area

THE OPPORTUNITY: An initial public investment in drainage upgrades in the 4th District is able to facilitate district-wide urban upgrades and mitigate the area’s exposure to disaster risks, infrastructure and social challenges

- CRP, together with financial advisors Deloitte, assists Porto Alegre to structure the catalytic measures that could facilitate the revitalization of the 4th District, including drainage upgrades and incentivizing pilot investments.
- With proximity to the city center and good transit access in many of the flood-affected areas, drainage upgrades may become the last piece of the puzzle to enable massive urban development operation, empowering land value appreciation, providing opportunities for land value capture and private-sector participation in public upgrades.

TOTAL INVESTMENT in excess of USD 500 Million

- 390 mln in private capital
- 80 mln in World Bank-financed drainage investments
- 30 mln in public funds
THE CHALLENGE: Development patterns in Casablanca have been haphazard and unmoored from traditional economic nodes

- As a city marked by organic commercial growth patterns, there has been a historic dearth of assets to help anchor the city’s growth and development
- How to leverage new transport investments in a national high speed trainline and municipal tramway
- The city agency tasked with categorizing and reclaiming the city’s assets is Casa Patrimoine ("CP") – while cultural preservation is a key focus, the mission of the agency is to reactivate the city’s historical assets so that they serve a broader purpose of urban rejuvenation

THE OPPORTUNITY: Re-habilitation of Casablanca’s historic real estate assets near the new tramway line and high-speed train station to catalyze urban regeneration

- With the objective of increasing investment capacity, improving the business environment and enhancing access to basic services of the Municipality, the World Bank has been supporting Casablanca since 2017 through a $200 million Program for Results loan which includes activities aimed at increasing municipal revenues and mobilize private capital through PPPs
- CRP, along with financial advisors Deloitte, are assisting Casa Patrimoine to develop asset level redevelopment strategies for two historic sites: a de-commissioned abattoir and a centrally-located library

TOTAL AREA for the abattoir site of **5.5 hectares**

- Built in 1912, **closed in 2002**
- Connected to the **new tramway line**
- 500 meters from **new high-speed rail station**