



City Resilience Program

Capital Mobilization for City Resilience

The World Bank Group's (WBG) City Resilience Program (CRP) is an effort to assist city governments to build greater resilience to climate and disaster risks. For many major cities in the world, strengthening urban resilience is a multibillion dollar agenda that requires strong partnerships and new sources of capital. Cities are sometimes held back from pursuing the necessary investments because they lack the technical expertise and/or the access to capital to finance them. CRP tries to fill that gap by i. leveraging the WBG's broad set of sectoral expertise in designing urban resilience projects, and ii. better connecting cities to the necessary financing. The aim of CRP is to catalyze a transparent pipeline of well-prepared and bankable investment opportunities and to improve access for private and institutional investors to crowd into new markets. It is in this sense that CRP seeks to act as the bankers of the city, and to facilitate strategic investments that address the vulnerabilities and risks that cities face in a holistic way.

Strengthening urban resilience requires substantial investment in urban infrastructure and technologies. Oftentimes cities lack the capacity and financing to pursue and implement the investments that would be necessary to upgrade, build or re-build urban systems. Projections show that worldwide, investments of more than \$4 trillion per year in urban infrastructure will be needed merely to keep pace with expected economic growth, and an additional \$1 trillion will be needed to make this urban infrastructure climate resilient. The existing infrastructure financing gap highlights the need to better connect existing financing sources to city governments to allow for the necessary investments to materialize.

In order to maximize investments in climate resilience and realize significant impact at a global scale, CRP assists cities to expand and diversify opportunities to

access capital for infrastructure investments. Drawing on the WBG's financial expertise and convening power, CRP provides support in the design of the project, the identification of the appropriate financial instruments and in bringing together potential co-financiers and investors around concrete transactions. The aim is prepare solid investment opportunities in cities and to create a marketplace that meaningfully connects cities, donors and investors.

The Challenge: At present, there is an apparent disconnect between investors seeking opportunities and city leaders looking to finance their infrastructure needs. The market is not sufficiently developed to enable the flow of capital into infrastructure projects in developing countries, and city leaders often lack the expertise to capitalize on existing assets and take advantage of risk-mitigating and capital enhancing mechanisms. Al-

though there is a strong interest to invest in infrastructure in emerging markets and to reap the benefits of high returns, investors face difficulties in deploying their capital because of the perceived risks, high transaction costs and a scarcity of well-prepared projects.

The Solution: CRP will catalyze deal

flows for investors by supporting city governments in the design of large-scale investment programs. The focus will be on reducing transaction costs through, inter alia, conducting market reconnaissance, providing capacity-building to governments to move toward investment readiness, and facilitating the ne-

gotiation between cities and investors on specific transaction opportunities. More broadly, CRP will leverage the WBG's ability to deploy risk mitigation instruments and to mobilize other co-financing institutions and donors to expand sources of finance and improve the risk profile of transactions.

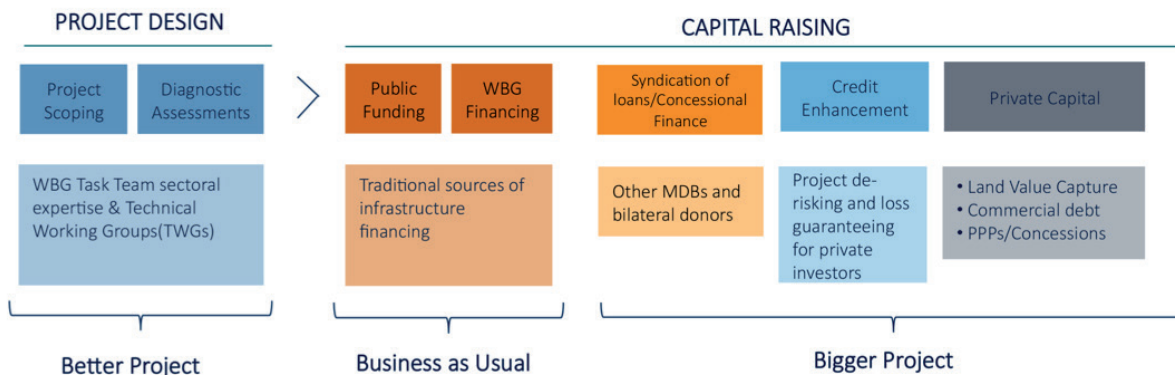
EXPANDING THE ACCESS TO FINANCE FOR INFRASTRUCTURE INVESTMENTS

CRP brings together public and private sources of finance and builds cities' capacity to leverage private debt and equity sources as described below. CRP promotes

ambition in both the technical design and the financial scope of the investments. By engaging cities from project design to project execution, cities will have the

necessary financial and technical support to carry out large-scale and transformative infrastructure investments.

Figure 1: CRP Value Added



1) Concessional and public finance. CRP cultivates strong relationships with other multilateral development banks, development finance institutions and bilateral donors. The goal is to systematically crowd in other sources of finance from the project inception phase, and exploit synergies and reduce costs in the planning and preparation of investments. Co-financing arrangements between multilateral and bilateral agencies can have a signaling effect in the market and catalyze additional financing support around a concrete investment opportunity. Finally, the strategic deployment of

concessional resources can improve the risk profile of transactions and thus mobilize private capital investments.

2) Private Capital Investment. At the same time, CRP seeks to directly promote access to private capital through the a) deployment of risk-mitigation mechanisms, including WBG guarantee products and credit enhancement tools; and b) building the capacity of cities to directly access financial markets through lending, PPPs/ concessions and land value capture instruments. The aim is to unlock capital and institutional funds including in emerging markets and attract

them to investment opportunities.

a. Risk-mitigation mechanisms

To increase the comfort level of private investors, the WBG offers a range of financial products that reduce the risks associated with lending to our client countries, including through guarantees, hedging and de-risking instruments. Risks that can be addressed include political risk as well as more traditional risks such as credit, foreign exchange and interest rate risks. The aim is to structure investment opportunities with risk-return profiles that match investors' return

expectation and liability structures.

CRP also contemplates the development of a Credit Enhancement Facility. Credit enhancements reduce investment risks by guaranteeing the first loss tranche on a portion of the loan portfolio.

The objective of such a facility would be

The World Bank Group's Risk-Mitigation Products

- *The Multilateral Investment Guarantee Agency (MIGA) promotes Foreign Direct Investment by providing political risk insurance and credit enhancement to investors and lenders against losses caused by noncommercial risks.*
- *The World Bank Treasury department (TRE) offers instruments that primarily aim to reduce foreign exchange and interest rate risks.*
- *The Financial Solutions Group (FSG) offers loan guarantees and credit enhancements to enable the flow of private capital into large infrastructure projects. They play a critical role in crowding in private capital to finance high risk / high impact investments.*
- *The Global Infrastructure Facility (GIF) is a partnership among governments, multilateral development banks, private sector investors, and financiers. It is designed to provide a new way to collaborate on preparing, structuring, and implementing complex projects that no single institution could handle on its own. GIF plays an important role in upstream de-risking of projects by providing grant support to project preparation, which enables specific investments to be brought to market and de-risked by FSG, TRE and MIGA.*

to provide guarantees for transactions where the expectation is that the fundamentals are sound enough such that the guarantees are unlikely to be called, but where private investors do not yet have sufficient confidence to invest without some form of protection.

b. Strengthen City Capacity to Access Private Capital

CRP focuses on equipping city governments with the practical tools necessary to unlock capital through direct borrowing, PPPs/concessions and land value capture. This requires strengthening cities' technical expertise in the design and implementation of borrowing mechanism, PPPs and land-based financing operations. The aim is to expand the toolset cities have available for accessing capital markets and unlocking financing for infrastructure projects.

Land value capture (LVC) is an effective tool for mobilizing private capital in urban infrastructure investment while limiting the impact on governments' balance sheets. The aim is to create and capitalize on private economic value. LVC can take the following forms: i) tax incremental financing, ii) special land taxes, iii) sale of development rights, iv) public real estate, and v) impact fees. The challenge for cities is to create the appropriate legal and regulatory context for LVC transactions, and to have the technical expertise to successfully negotiate with land and commercial developers in the design of projects. CRP aims to provide this expertise and capacity to city government.

A STRUCTURED APPROACH TOWARDS RAISING CAPITAL FOR URBAN RESILIENCE

CRP provides for 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.

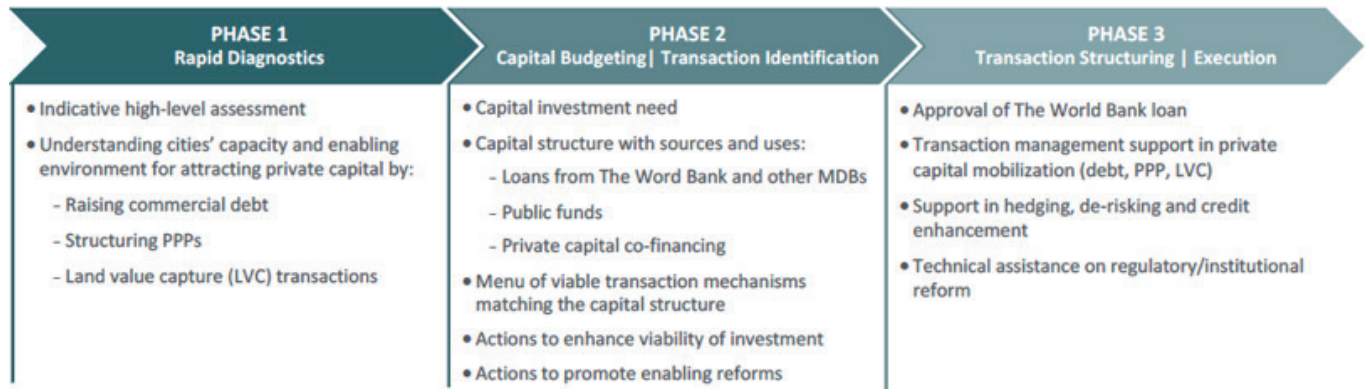
Phase I focuses on the completion of a Rapid Capital Assessment, which will give an indication of a city's underlying conditions (economic outlook, institutional capacity and track record) for private capital mobilization through debt instruments, PPPs and concessions, and land value capture. This assessment is meant to be a conversation starter with city officials to describe the spectrum of instruments available and to identify key barriers that cities face in accessing the

different types of private capital instruments.

Phase 2 will focus on the development of a concrete Capital Investment Plan tailored to a prioritized investment, and identifies the spectrum of private capital mobilization tools which could be structured to finance the respective investment. This helps to promote institutional or legal reforms as required to enable participation of long-term private capital in infrastructure finance.

Phase 3 further supports cities to structure and execute the previously defined capital investment plans and to prepare transaction documentation.

Figure 2. 3-phased engagement process

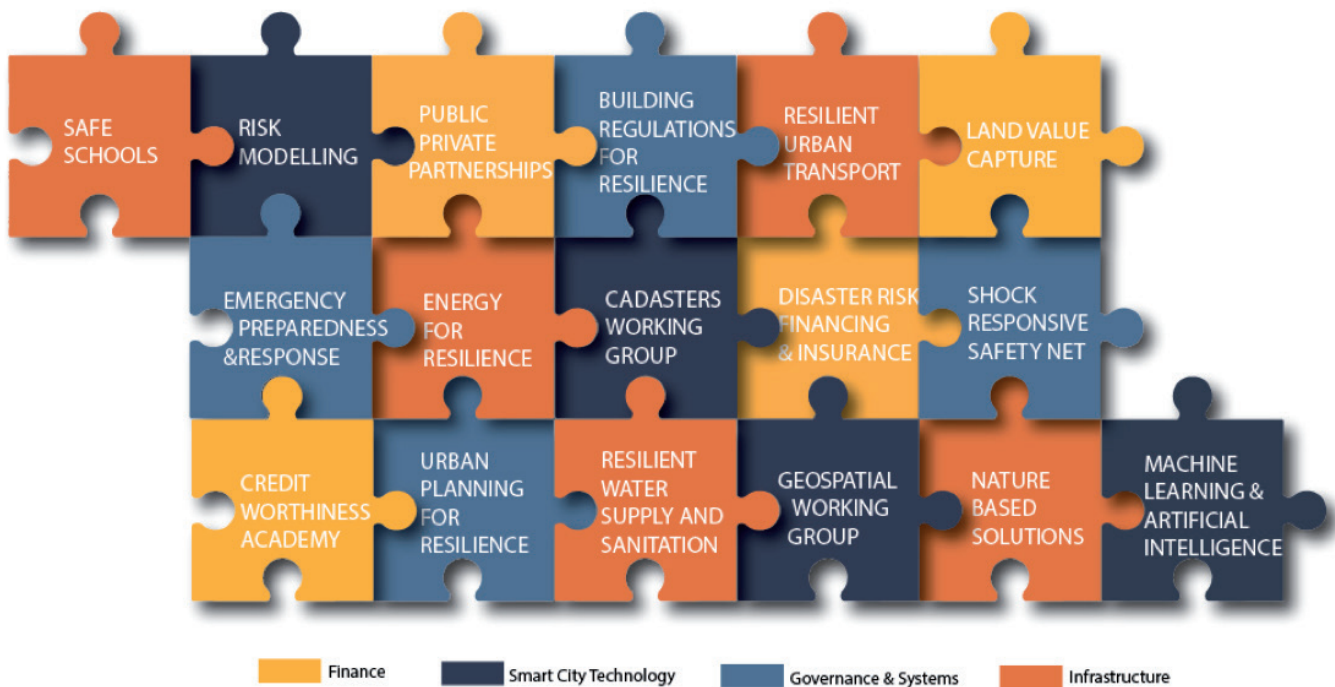


The different phases are supported by cross-sectorial Thematic Working Groups that bring together experts in

infrastructure investment, disaster risk management and resilience, governance and policy as well as specialized financial

advisory teams from the World Bank Group.

Figure 3. CRP Technical Working Groups



For further information <https://www.gfdrr.org/en/city-resilience-program>