URBAN FINANCE STRATEGY

June 2019
OUTLINE

1. Three interwoven sustainable urban finance challenges
   1. The need for finance for urban climate action greatly exceeds current supply
   2. Few programs support cities in defining and determining the feasibility of their projects
   3. Cities’ ability to access finance depends in large part on national policy

2. WRI’s approach to these interlocking challenges
   1. Research
   2. Tools
   3. Labs
CHALLENGE 1: FINANCING FOR URBAN CLIMATE ACTION IS INSUFFICIENT

- Investment (2016) represents 7-10% of sustainable investment demand in cities
- Total growth in investment was slow in 2016
  - For example, 5X increase in RE/EE still needed
- Investment in sustainable transport is in large transit systems
- Private sector capital (approx 50% of total) not fully leveraged and flows are volatile
- IMF estimates that there is $100 trillion AUM from institutional investors on sidelines

Source: UNFCCC Standing Committee on Finance, 2018 Biennial Assessment and Overview of Climate Finance Flows Technical Report
CHALLENGE 2: FEW PROGRAMS SUPPORT CITIES IN DEFINING AND DETERMINE THE FEASIBILITY OF THEIR PROJECTS

**Challenges**
- Poor design or scale
- Most projects fail during feasibility stage due to insufficient technical readiness and bankability concerns
- Unable to attract financing.

**Opportunities**
- Competitive process provides test of market potential and improves quality at entry
- Early-stage pre-feasibility support to improve technical readiness and business plan development
- Financial matchmaking to help better align projects to lenders requirements

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Adapted from GCoM presentation
**CHALLENGE 3: NATIONAL POLICY OFTEN LIMITS FINANCING FOR URBAN CLIMATE ACTION**

Insufficient creditworthiness is often seen as the primary constraint to investment, but it cannot be unbundled from the policy environment.

**City Creditworthiness:**
- Reliance on central government transfers
- Limited own generated revenues
- Poor financial statements
- Poor tax collections systems
- Lack of access to cheap financing

**Policy Factors:**
- Transfers are often directly and directly impacted by political decisions
- Decentralization of urban service provision without fiscal decentralization
- National disclosure and transparency requirements
- Weak collections and enforcement systems
- Sovereign ceiling and underdeveloped banking sector
TECHNICAL ASSISTANCE

• Business plan development
• Financial modelling
• Market exposure
• Pitch development
• Financial matchmaking with potential investors and lenders
• Scaling up
10 technologies were selected out of a shortlist of 23 during the Acceleration Innovation Challenge

– Water Management and Efficiency (3)
– Solid Waste (3)
– Electricity Efficiency (3)
– Renewable Energy (1)

“Many people feel that Government is the problem. We tend to miss important things – Globally innovations are driven by government systems. We must flip the way we work i.e. from Centre to Local – to actually – Local to centre.”

- Kunal Kumar, Mission Director, Smart Cities Mission
Project Concepts: Geographic Distribution

- Over 130 projects submitted with a wide geography and sectors
- Nearly 50/50 split of project concepts from public and private sectors

Project Concepts: Sector Distribution

- Water: 39%
- Buildings: 13%
- Waste: 8%
- Other: 40%
<table>
<thead>
<tr>
<th>Project</th>
<th>Description</th>
<th>City</th>
<th>State</th>
<th>Sponsor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Treatment and Reuse Plant</td>
<td>Development of a water treatment facility and recharge a currently dry water table</td>
<td>Cholula</td>
<td>Puebla</td>
<td>Private</td>
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<tr>
<td>Cerro de la Campana Bio-Cultural Park</td>
<td>Restoration of a park, develop a public green space, and improve accessibility for recreational use</td>
<td>Hermosillo</td>
<td>Sonora</td>
<td>Public</td>
</tr>
<tr>
<td>Biogas to Energy Generation Plant</td>
<td>Development of an urban bio-waste into a 1.2 MW electricity generation facility</td>
<td>Los Cabos</td>
<td>Baja California Sur</td>
<td>Private</td>
</tr>
<tr>
<td>Schools for Climate Program</td>
<td>Installation of photovoltaic systems in 16 primary and secondary public schools throughout the state</td>
<td>16 cities</td>
<td>Guanajuato</td>
<td>Public</td>
</tr>
<tr>
<td>Cancún Park</td>
<td>Transformation of a municipal dump into a public park and preservation of 4,000 hectares of the Nichupté Mangrove Flora and Fauna Protection Area</td>
<td>Cancun</td>
<td>Quintana Roo</td>
<td>Public</td>
</tr>
<tr>
<td>Sustainable Drainage Systems</td>
<td>Development of water bioretention areas, runoff management, and stormwater containment in urban parks and roads</td>
<td>Merida</td>
<td>Yucatán</td>
<td>Public</td>
</tr>
<tr>
<td>Restoration and Water Recharge Areas in the Chapultepec Forest</td>
<td>Reconstruction of the Dolores Dam and recovery of water recharge areas, improvement of water runoff management from the river basin, reduction of soil erosion and reestablishment of vegetation in the area</td>
<td>CDMX</td>
<td>CDMX</td>
<td>Private Trust</td>
</tr>
</tbody>
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