

INNOVATION CAN FINANCE



**International  
Finance Corporation**  
WORLD BANK GROUP

**Patrick Avato**  
Lead, Cities Initiative  
Europe, Central Asia & MENA

29 January 2019



# STRUCTURE



Cities are at the epicenter of global development.



## CITIES & IFC: THE LAST 10 YEARS

**\$12B**  
invested

**350+**  
urban projects

**60+**  
countries

However poorly managed urbanization annuls the benefits of agglomeration.



Today, **24% of the world's urban population lives in slums**, and by 2030, about 3 billion people will be in need of proper housing.

---



Traffic **congestion can cost 2-4% of GDP** through lost time and wasted fuel.

---



Due to climate change, **1.5bn people live in vulnerable urban areas** prone to **floods or landslides**, mostly affecting low income population.

Cities must be prepared to attract private sector capital, innovation and know-how to address the infrastructure gap.



USD 20 trillion  
investment opportunity in  
buildings, urban transport and waste until 2030



Public Transport

**USD 500bn**

Low-carbon  
urban transport in  
Africa by 2030



Water

**85%**

Waste water  
in Latin America  
& the Caribbean  
lacks treatment



Green Buildings

**USD 400bn**

Building retrofits  
in Eastern  
Europe and  
Central Asia



Waste

**70%**

Global growth in  
waste generation  
until 2050

# There are various ways for Cities to leverage private capital and innovation.



## 1. Commercial Sub-national Finance

- Leverage city's balance sheet to borrow commercially, e.g. senior loans, municipal bonds.
- Allows city to complement sovereign lending, i.e. raise additional financing without relying/waiting for sovereign guarantee.



## 2. Public Private Partnerships (PPPs)

- Competitively tendered private involvement in infrastructure projects, e.g. concessions, management contracts
- Brings in private sector investment and expertise to help develop, finance and operate urban infrastructure assets.



## 3. Enable Private Sector Providers

- Create enabling environment and regulation to facilitate private service provision, e.g. ride sharing, bike sharing etc.
- Enables fully private investments in priority areas, potential need for regulatory oversight.

# But municipalities face several barriers to increasing investment for urban infrastructure projects.



No adequate long-term planning



Projects not designed according to best practice due to limited technology understanding and management of E&S risks



Limited financial capacity to prepare and finance projects



Low creditworthiness and limited borrowing history



Limited understanding of options to attract commercial capital and private sector solutions (PPPs, municipal bonds)



Complex governance, political will and election cycles delay project implementation



Only few projects are commercially viable and thus suitable for commercial investment and/or PPPs.

IN





# IFC engages across the full spectrum of urban infrastructure challenges.



As the World Bank Group's private sector development specialist, we provide much more than finance.

### Financing

Provide funds to cities and private companies

- Direct finance
- Syndication/mobilization
- Access to capital markets (municipal bonds)

### Public Private Partnerships (PPPs)

Support cities with structuring PPPs and attracting private investment and expertise

- Structure projects from technical, financial and legal perspective
- Organize competitive tenders to attract investors

### Advisory Services

Build capacity and develop projects according to international best practice

- Help in strategic city planning, e.g. through diagnostic sector analysis and project prioritization
- Provide project development support, e.g. technology choice or business models or E&S risk management



# CASE STUDY: PUBLIC TRANSPORT SYSTEM MODERNIZATION (2018)



## City

Mariupol, Ukraine

## Sector

Transport (Buses)

## Situation

- City wishes to modernize the public transportation system, including the bus system with more than 140 million passengers annually, mostly low-income and refugees from close conflict zone
- Half of all vehicles beyond maximum useful service life, almost half of bus fleet not operational
- System has subsidized fares below cost recovery level, inefficient routing and interconnections due to limited data insights, low safety with high traffic accident rates, low accessibility standards, high greenhouse gas emissions and air pollution, as well as competing private operators with low performance and safety standards

## IFC Support

### Financing:

- USD 15 million loan for procurement of more than 50 modern large capacity buses and upgrade of related infrastructure (dedicated lanes, bus stops, depots)

### Comprehensive Advisory Package:

- Guidance on procurement process and upgrade of infrastructure, e.g. for segregation of traffic
- Recommendations on institutional and regulatory reform of public transport system
- Development of medium-term business plan
- Development of transport model for route-network optimization

## Outcomes

- Enhanced bus service quality and safety
- Transport model allows testing/optimization of route scenarios based on updated data
- Reduced traffic congestion, incidence of traffic accidents, CO<sub>2</sub> emissions and noise pollution
- Spill-over effect on private transport providers through newly negotiated contracts

**Integrated investment and advisory package ensures sustainability of Mariupol's public transport system.**

# CASE STUDY: DECADE-LONG STRATEGIC PARTNERSHIP WITH IZMIR

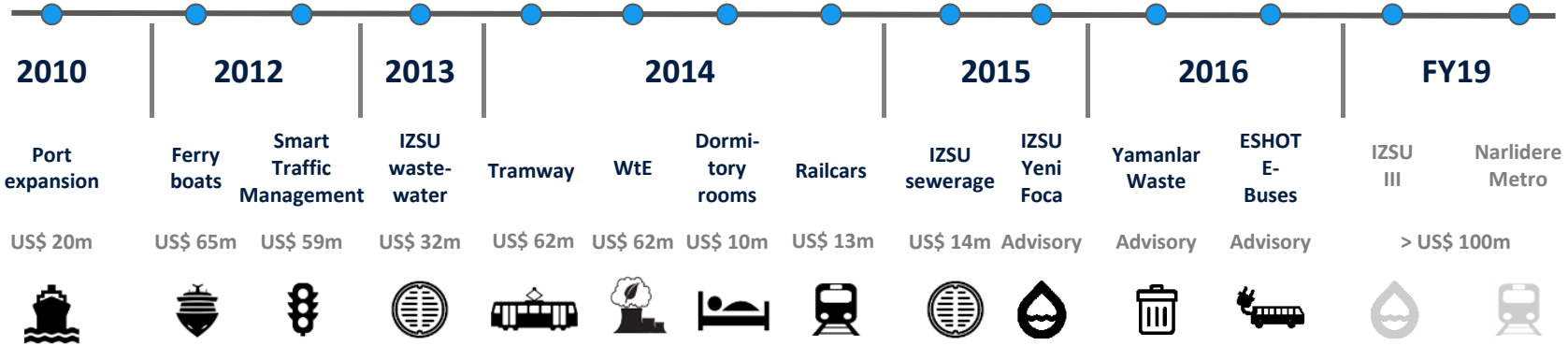


## Background information

**Population:** 2.8m (Metro: 4.1m), Turkey's 3<sup>rd</sup> largest city

**Critical sectors jointly identified with city:** Waste, water, transport

## Engagement History



## Cumulative Impacts

- ▶ **Total Investment:** USD 210m in IFC loans and USD 200m mobilization
- ▶ **Project Impacts\*:**
  - Transport: Reduction of travel time by 25%, of CO2 emission by 20,000t p.a.
  - Water: Facilitated access to waste water services for 240,000 people
- ▶ **Diversification of Finance:** 75% of funding from international sources, compared to 30% a decade ago

\*exemplary



# CASE STUDY: WASTE-TO-ENERGY PPP (2016-2017)

## City

Belgrade, Serbia

## Sector

Waste-to-Energy



## Situation

- The existing practices are at a very basic level, with old landfill posing substantial ecological issues
- City wants to make current practices compliant with EU legislation by building a greenfield state-of-the-art processing facility with RDF production & RDF-fired CHP plant & sanitary landfill + rehabilitate the old dumpsite
- Estimated project capacity ~340k tons MSW per annum, serving approximately 1.65m people

## Implementation challenges

- The City planned to mobilize private sector investment through an optimal PPP model, for the construction of a waste management complex

## IFC Support

### PPP Transaction Advisory

Structuring and implementation of a PPP transaction

- **Phase 1:**
  - Due diligence analysis of the project;
  - Assessment of investor's interest;
  - Preparation and presentation of the recommended PPP transaction structure
- **Phase 2:**
  - Preparation of tender documentation;
  - Support throughout implementation and conclusion of the project tender process

## Outcomes

- Introducing SWM and landfill management conforming to EU standards;
- Generating power through waste incineration: diversification of energy fuels and reduction of commercial losses, potential positive impact on GHG;
- Improving environmental conditions through more resilient infrastructure for waste storage and disposal;
- Applying internationally accepted practices to protect soil, water and air resources

**USD 74m IFC loan + USD 69m mobilization**

# Contact



Patrick Avato

Lead, Municipal Infrastructure Advisory  
Europe & Central Asia



[PAvato@ifc.org](mailto:PAvato@ifc.org)

---

***Thank you for your attention!***