Finding the Finance

Financing Climate Compatible Development in Cities

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Overview.

Local Level | International Level

Property Taxes.

Local Level International Level

What is it?

- very common
- main revenue stream for some cities
- fosters local autonomy

Challenges

- requires well-functioning administrative structures and an up-to-date real-estate-register
- large unplanned informal settlements and limited land rights

Case Study Bangalore

- property tax reform in 2007
- tax base was determined based on the location of the property and on the cost of construction
- to identify properties Bangalore used a simple but effective GIS mapping method
- tax rate was set at 20% for residential and 25% for non-residential units
- property tax income almost doubled within a year - reason: properties fell into higher value zones

User Fees.

Local Level International Level

What is it?

- levies charged for particular goods or services, e.g. for using roads
- can incentivize residents to act in a environmental or climate friendly manner
- toll roads, toll for parking spaces encourage public transport/non-motorised travel
- avoid discrimination: proportion free of charge, subsidized price, small user prices

Case Study London

- launched in 2003,
- charged on most motor vehicles
- to reduce the high traffic flow in the central area
- raise funds for London's transport system
- fee varies by day, time and location
- £2.6 billion whilst reducing traffic by 10%

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Development Charges.

Local Level International Level

What is it?

- one time levy towards on developers
- to build necessary infrastructure nearby (streets, schools, recreation centres)
- entry point for climate compatible development (LED street lighting, water retention areas, public transportation systems)

Case study Shah Alam City

- charge takes effect when existing properties face a change of use, density, plot ratio or an increase in floor area
- owners are charged a 30% fee of the increased capital value
- revenues flow into a state trust fund and are used for providing and improving infrastructure

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Green Bonds.

What is it?

- to finance "green" projects
- creditors: individuals, pension funds, insurance companies
- payback period 10-15 years

Challenges

- entry point for greenwashing
- creditworthiness is a fundamental requirement

Case Study Johannesburg

- first city worldwide to issue a green city bond, worth USD 143 million
- bond will be used to finance sustainable low-carbon projects (power, water, parks and transport)

Crowdfunding.

Local Level International Level

What is it?

- alternative source of income for cities, e.g. as start-up finance
- citizens or companies voluntarily invest a certain financial amount into a proposed project
- symbolic return

Case Study Liverpool

- crowdfunding project with the objective to save a flyover
- site Spacehive.com they engaged with local residents/companies
- six months of crowdfunding they successfully raised £80.000
- new project aims to turn the existing structure into an urban walk-/cycleway with trees and shops

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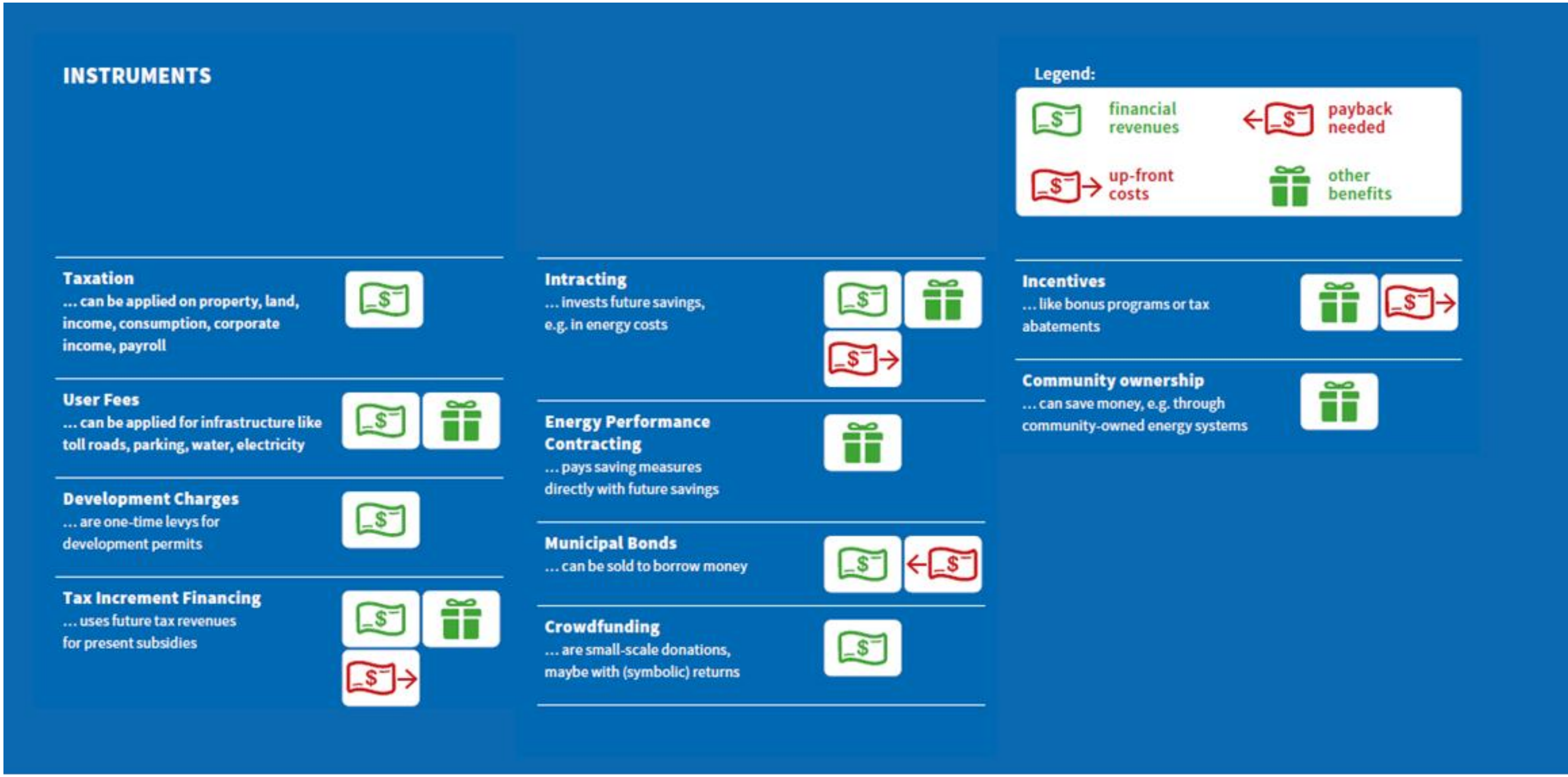
Overview.


INSTRUMENTS
Legend:
financial revenues
payback needed
up-front costs
other benefits
Taxation
... can be applied on property, land, income, consumption, corporate income, payroll
User Fees
... can be applied for infrastructure like toll roads, parking, water, electricity
Development Charges
... are one-time levys for development permits
Tax Increment Financing
... uses future tax revenues for present subsidies
Intracting
... invests future savings, e.g. in energy costs
Energy Performance Contracting
... pays saving measures directly with future savings
Municipal Bonds
... can be sold to borrow money
Crowdfunding
... are small-scale donations, maybe with (symbolic) returns
Incentives
... like bonus programs or tax abatements
Community ownership
... can save money, e.g. through community-owned energy systems

Overview

Local Level International Level

GREEN CLIMATE FUND

ADAPTATION FUND

gef

IDB

WORLD BANK GROUP

CIF

BANQUE AFRICAINE DE DEVELOPPEMENT AFRICAN DEVELOPMENT BANK

AFRICAN DEVELOPMENT FUND FONDS AFRICAIN DE DEVELOPPEMENT

ADB

Green Climate Fund.

- 10bn US$
- sub-national entities are eligible to become implementing entities
- cities often lack the fiduciary standards required for becoming an accredited implementing entity

Global Environment Facility.

Integrated Program on Sustainable Cities

- aims to facilitate integrated sustainable and resilient urban design, planning and management by providing policy and governance support
- 100m US$
- leverage other funding

World Bank Group.

WORLD BANK GROUP

- **City Creditworthiness Initiative**
  - hands-on learning programmes for city leaders
  - City Creditworthiness Academies

- **Subnational Finance Programme**
  - direct access for cities for essential infrastructure investments
  - full access to financial instruments on a commercial basis
  - offers help for the mobilisation of domestic resources

Other Source.

Local Level | **International Level**

- **100 Resilient Cities Challenge (Rockefeller)**
  - grant for hiring a Chief Resilience Officer
  - technical support / access to knowledge platforms
  - cities can apply directly

- **Global Infrastructure Basel (GIB)**
  - help cities to to find financiers

- **French Development Agency (AFD)**
  - direct "sub-sovereign" loans to local governments
  - capacity building support for cities

- **Cities Development Initiative for Asia (CDIA)**
  - medium-sized Asian cities
  - strengthening of local institutional capacities (project formulation)
  - link cities with financiers

Conclusion.

Local Level

International Level

Majority of financial instruments are not directly available to cities

- strong record of **fiduciary standards**, s**ocial and environmental safeguards** and **creditworthiness** are required
- strong cooperation with national level ministries are required

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Conclusion.

- climate finance central element for transition towards climate friendly urban future
- benefits of locally raised funds: strengthening ownership and sustainability of interventions as well as the stability of revenue
- however, sheer scope of the investments needed make international support necessary
    - World Bank: USD 500 bn annually needed to close the climate infrastructure gap in developing country cities
- international funding needed to encourage and ultimately kick-off transformative action in urban areas while locally raised funding to achieve and sustain the transformation

Thank you.

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