Transport and Climate Change Week

#TransportWeek23

Introduction to (climate) finance

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CHANGING TRANSPORT

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Today's presentation

01 **Financing climate action**

02 **Categories and themes**

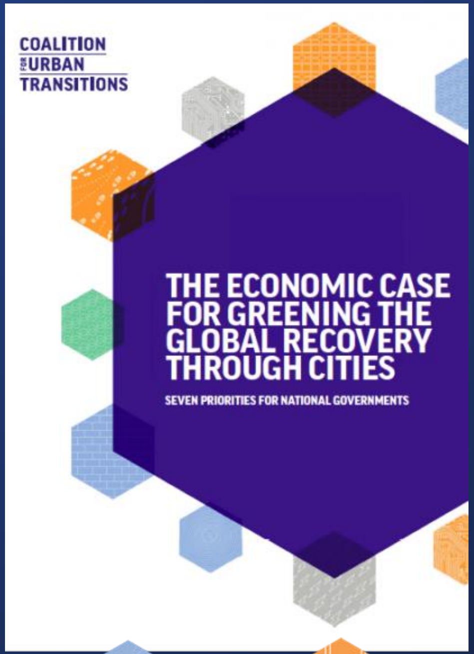
Financing climate action

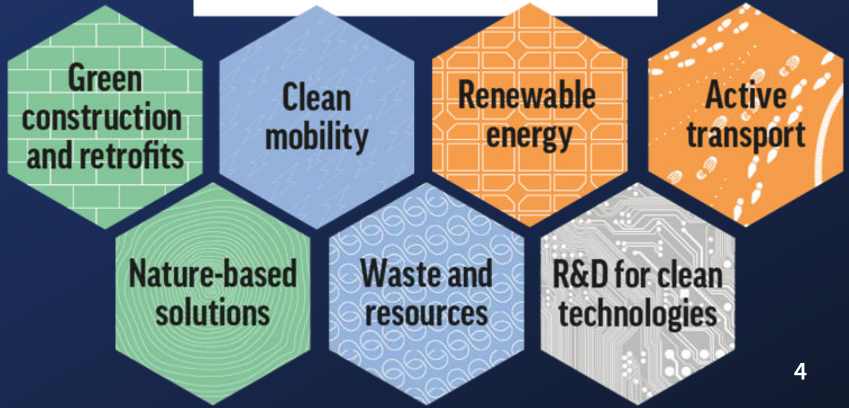
Why do we need urban climate finance?

Investing in sustainable and equitable infrastructure can help us make rapid strides towards a low-carbon, resilient, and inclusive future.

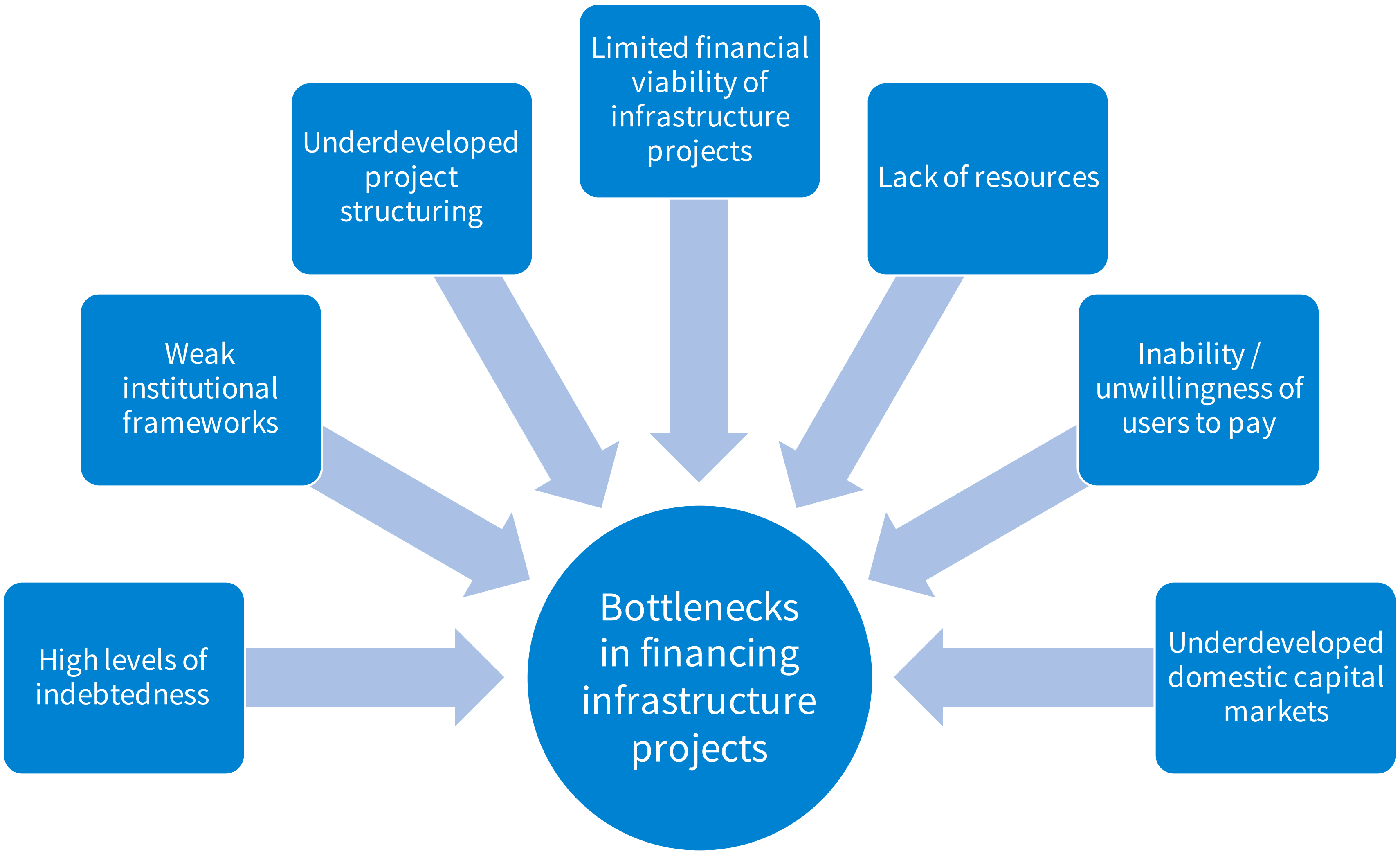
Finance flowing into sustainable and equitable infrastructure (e.g., in the transport sector) should address:

- The urbanisation challenge.
- The climate change challenge.
- The equity and inclusion challenge.
- The resilience to global shocks challenge.





But finance is limited by several bottlenecks



Categories and themes

Categories and themes

Funding and financing	Financial instruments and business models	Corporate/entity-level finance and project finance
Fiscal decentralisation (only subnational governments)	Creditworthiness	De-risking and credit enhancement

These are helpful categorisations which will help you contextualise the financial instruments that you will use in the exercise. The instruments are explained on the cards.

Funding and financing

Financing is how you pay upfront for infrastructure. It refers to how those who own infrastructure find the money to meet the upfront costs of building it.

Funding is how taxpayers, consumers or others ultimately pay for infrastructure, including paying back the finance from whichever source infrastructure owners chose.

Financial instruments and business models

Financial instruments are contracts between individuals/parties which hold monetary value.

A business model refers to the financial design of a (green infrastructure) project, which may involve different financial instruments and will include information on capex and opex.

Corporate/city-level finance and project finance

Corporate finance is about securing financing at the entity level and then financing the development or construction of the project against the overall balance sheet. The entity assumes debt/transfers equity, and uses those resources to pay for whatever projects it seeks to implement.

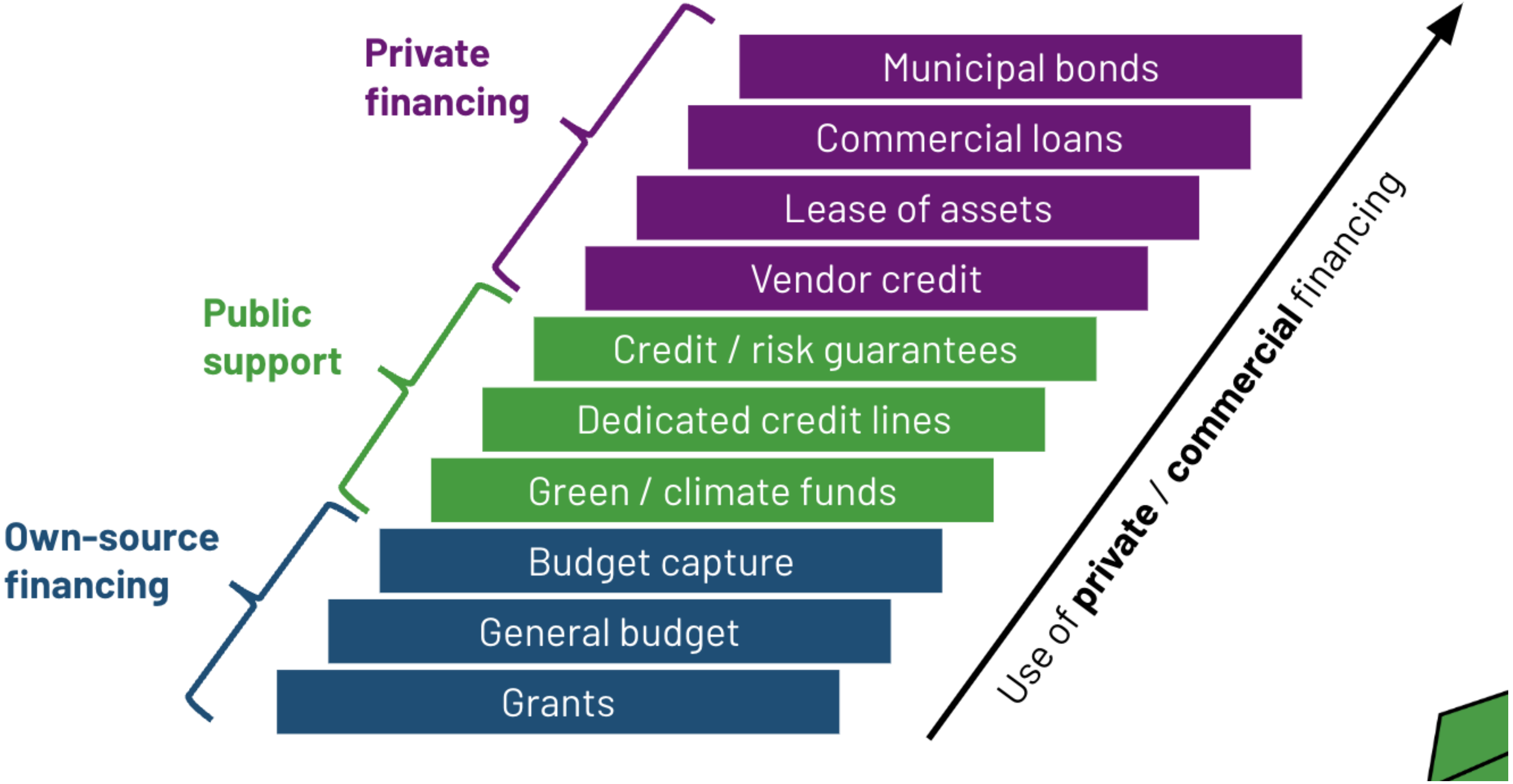
Project finance is where project financing for the project is paid back from the cash flow generated by the project itself. A project-specific entity assumes the debt/transfers the equity, not the country/city.

Sources of finance – The 'financing ladder'

Summarising the categories and themes

There are a range of financing options available for cities to pay for sustainable and equitable infrastructure, but their availability depends on enabling factors.

The actors will be motivated by different criteria: e.g., a govt by political priorities, a DFI by the potential development impact, a private financier by profits.



Enabling factors: Fiscal decentralisation and creditworthiness

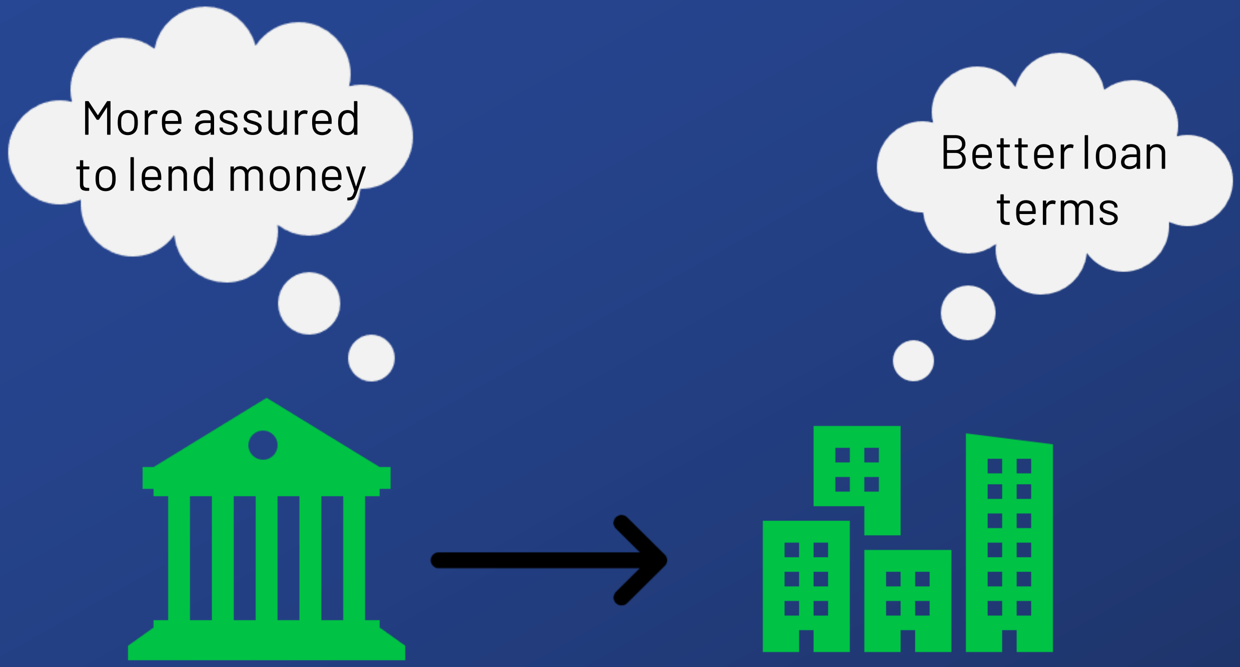
Fiscal decentralisation refers to the devolution of taxing and spending powers from central government authorities to sub-national government authorities.

In a decentralised system, cities have considerable power to mobilise and decide how and where to invest resources.

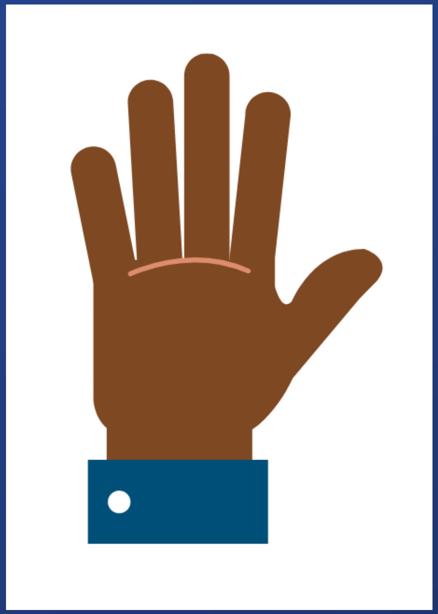
Creditworthiness refers to an assessment of the likelihood that a borrower will default on its debt obligations.

The assessment is carried out by a credit rating agency and gives out a score, i.e., a credit rating.

De-risking and credit enhancement



De-risking includes a number of financial and non-financial instruments. On the financial side, it includes guarantees (partial or full) and political risk insurance.



Questions?