



Date of submission to PPIAF:

10/28/2014

Prepared by:

Kirti Devi

PROGRAM CONCEPT NOTE

A. GENERAL INFORMATION

1. Proposed activity

a. Program title: City Creditworthiness Initiative

b. Geographic scope: Global

Select a region for regional activities.

Enter the country for country-specific activities.

c. Sector: Multisector

e. Regional Portfolio Coordinator and/or sector specialist: Lauren Wilson and Kirti Devi

f. TTL (name, title and unit): Joshua Gallo, Sr. Municipal Finance Specialist, GSURR

g. Client government partner(s) (name, title, contact information): Approximately 10 countries (200 municipalities, 600 officials)

2. Funding information

a. Amount requested: \$1,600,000 (FY2015)

b. a. Co-financing amount: \$2,825,000

c. Co-financing sources:

Rockefeller Foundation (\$1,500,000), Korean Green Growth Trust Fund (\$250,000), C40 Network (\$250,000), WB Africa Trust Fund (\$75,000), WBG/governments in-kind (\$750,000).

B. PROGRAM DESIGN

3. Background information (please provide information regarding needs assessment and key development challenges)

For sustainable development to become a reality, Cities and other sub-national entities responsible for essential public infrastructure need access to finance. Supporting these entities on the path to creditworthiness is necessary to unlock the potential for achieving larger, longer-term, sustainable investments. However, they will not be able to achieve creditworthiness overnight. It is typically a long process, which requires strengthening of fundamentals (in particular improving municipal revenues and financial management), but also stronger project development capacity (in particular planning and structuring),

long-term asset management, as well as a supportive enabling environment (both on the central government and private sector sides).

The City Creditworthiness Initiative is committed to supporting cities throughout this process by delivering technical assistance to sub-national authorities in developing countries with the objective of successfully structuring and closing market-based financing transactions for climate-smart infrastructure projects, using local currency markets if at all possible. The Initiative is conceived to coordinate and integrate existing efforts, instruments, knowledge, and resources from partners and stakeholders by identifying the most effective solutions and implementation arrangements for sub-national entities. Success of the Initiative hinges on the ability by multiple sources to deliver capacity and instruments to clients, drawing from best practice methodologies at a global level.

The City Creditworthiness Initiative is one of the strategic initiatives that PPIAF outlined in the three-year Business Plan and discussed during the Program Council Meeting in Zurich. (Attached please find the submitted note on the Initiative to reflect wider discussions with the donors).

4. Program goal and objectives

With the ultimate goal of enabling sub-national entities to structure viable investments that will deliver low-carbon and resilient infrastructure services, the Initiative will work with local authorities, including utilities, providing comprehensive, hands-on, and long-term support to help them:

- Improve creditworthiness by strengthening their financial performance;
- Develop an enabling legal and regulatory, institutional, and policy framework for responsible sub-sovereign borrowing through reforms at the national level;
- Improve the “demand” side of financing by planning/developing sound projects;
- Improve the “supply” side of financing by engaging with the private sector investors.

The Initiative’s comparative advantage is not necessarily the ability to come up with the next great idea, but rather to recognize effective, proven innovations and adapt them and take them to scale to meet our clients’ biggest challenges. By partnering with global and regional stakeholders, the City Creditworthiness Initiative will scale up impact through a systematic and long-term programmatic engagement with cities. As a case in point, PPIAF-SNTA has a strong track record applying established methodologies such as the Public Expenditure Financial Accountability (PEFA) and Debt Management Performance Assessment (DeMPA). Many cities benefited from such analytical work which was performed by partners but with direct support from PPIAF-SNTA.

The City Creditworthiness Initiative is designed as a platform to systematically reach clients with instruments that would otherwise be considered on a stand-alone basis. Reform-minded authorities seeking more, better, and longer-term financing for capital investments would engage with the Initiative to access capacity building support, international expertise, local hands-on assistance, peer-to-peer networking, credit rating and transaction guidance. To this effect, the Initiative will need to establish operational collaborations with key stakeholders to coordinate the most efficient and effective delivery of technical assistance to clients. Systematic partnerships will be pursued, and to some extent have been already achieved, at the national level (e.g. joint WB/IMF Debt Management Facility) and at the sub-national level (e.g. Deep Dive Umbrella Facility on Capital Market Development). Existing collaborations with practitioners, such as the very successful one with the Municipal Institute of Learning (Durban, South Africa) will continue to play a critical role and are the basis for engaging with other stakeholders.

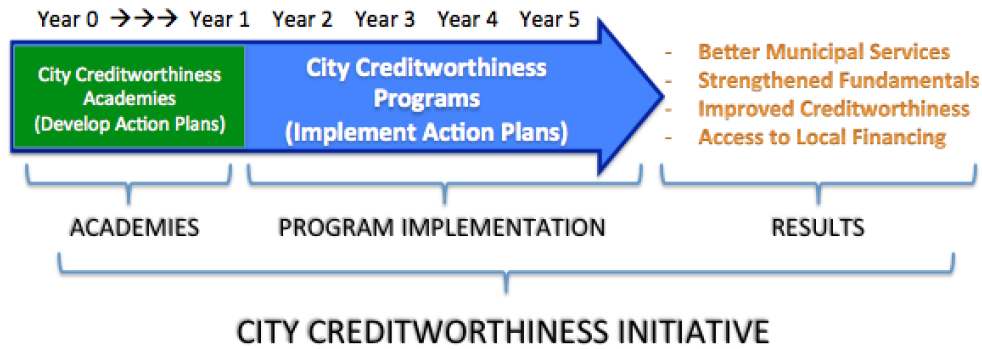
The direct result for all participating entities would be enhanced financial performance and improved overall capacity to deliver better infrastructure services.

5. Please describe the program’s main components and expected contributing activities in the order in which these are expected to be implemented (timeframe). We encourage you to use graphs and other visual aids when possible.

Elements of the Initiative

The City Creditworthiness Initiative is comprised of different elements/stages designed to achieve impact with efficient use of

limited resources.



1) Academies (5 day workshop): The first engagement with local government officials normally takes place through our City Creditworthiness Academies¹, an intensive one-week capacity building workshop presented from a practitioners' perspective. Chief financial officers, Treasurers, Revenue Directors, and Planners attend the Academies to master the underlying principles of creditworthiness. The 5-day Academy deals with the full range of factors affecting cities financial management performance, including issues determined by the enabling environment and options for financing: revenue management and enhancement; expenditure control and asset maintenance; capital investment planning; debt management; and, scoping out options for financing.

Using a preliminary self-assessment tool during the Academy, participants develop a customized draft action plan of specific institutional reforms, capacity building, and other actions that will improve their creditworthiness and facilitate their ability to plan, finance and deliver infrastructure services.

2) Develop Detailed Action Plans (Post academy engagement with cities, over a period of 2 to 3 month): Follow-on support to help cities further develop, finalize and achieve approval of credit-worthiness improving action plan will be provided to selected² participants after the Academy. This step will build on the draft action plan completed during the Academy by engaging with all relevant Departments from each Municipality (i.e. not just the few individuals who attended the Academy) and by vetting original results to determine final action plans that reflect broad ownership by the clients. This work will also identify and rally the support of partners³ to provide resources/capacity for action plan implementation.

The resulting detailed action plans will define carefully tailored short-, medium-, and long-term technical assistance and training activities designed to help the City substantially narrow or eliminate its creditworthiness gap. While some tasks (e.g. the need to obtain a shadow credit rating) may be clearly scoped out when the action plans are finalized, other tasks (e.g. the need to establish a debt management unit) will require additional analysis (e.g. a debt management performance assessment, or DeMPA) before they can be defined. In these latter instances, the action plan will list the DeMPA as the preliminary step, and subsequent actions will be determined on the basis of results from the DeMPA. This planning phase of the process is likely to span 2 to 3 months.

3) TA to Cities to Improve Creditworthiness (Engagement at the city-level, over a period of 1 to 4 years): A wide range of short-, medium- and long-duration technical assistance and training activities as specified in the detailed action plans will be delivered by PPIAF-SNTA and its partners. Examples of such organizations with which PPIAF-SNTA staff has already made contact include both for-profit and non-profit entities⁴. The range of interventions is wide and reflects the experience gained by SNTA and its partners over many years, encompassing everything from improving national legal and regulatory frameworks within which all cities' financial systems operate, to increasing the use of data in decision making and policy formulation, improving revenue collection and management systems and procedures, and reforming capital improvement planning and budgeting processes (e.g. DeMPA/PEFA methodologies). This phase – and the following parallel phases - of the process will likely require 1 to 4 years,

¹ A sample agenda for the Academy, including links to presentations/handouts/references, can be found at the following web-address: <https://app.box.com/s/1kdac8tik0263iexy0fy>

² Demand-driven (response to partner outreach) and criteria-driven (potential for climate-change impact).

³ Key partnerships under consideration are with the Rockefeller Foundation, C40 Network, UN HABITAT, World Research Institute.

⁴ In addition to the entities mentioned in footnote 3, MDBs, IFIs, UN agencies, bilaterals (including PPIAF donors), rating agencies, financial advisors, and foundations.

depending on each city's creditworthiness status at the beginning of the process.

4) TA to Support Transactions for Adaptation and/or Mitigation Projects (Engagement at the city level, in parallel to the assistance to cities for improving creditworthiness): As noted above, the City Creditworthiness Initiative is to be a learn-by-doing process for every City (and central government) which participates. In PPIAF-SNTA's experience, the best way any debt-issuing entity can learn to be more creditworthy is to work on the development, rating and closing of actual transactions to be realized with lenders. Thus, a portion of the City Creditworthiness Initiative's technical assistance engagement with each participating sub-national entity will be delivering financial advisory support focused tightly on one or a small handful of adaptation and/or mitigation projects. This work is expected to be undertaken in parallel to the overall creditworthiness improvement assistance outlined above.

5) Knowledge/Outreach: As specific participating cities achieve the knowledge and skills, the systems and process improvements necessary to increase their fundamental creditworthiness -- and as they develop creditworthy financing structures for specific adaptation and mitigation projects -- the Initiative will capture the knowledge gained through systematic engagements, for both in-country and global dissemination.

- Information Repository: Given the importance of capturing the knowledge and results from all related activities, the City Creditworthiness Initiative seeks to develop an online Information Repository⁵ for the following purposes:
 - a) To provide participating entities with a platform where to record and publicize progress on their path toward creditworthiness;
 - b) To provide participating entities, as well as the public at large, a benchmarking tool to compare indicators of financial performance at the country/regional/global level;
 - c) To provide development partners and private sector investors a detailed and live map/database of subnational authorities engaged in long-term reform toward creditworthiness;To provide existing and future stakeholders of the City Creditworthiness Initiative with a comprehensive monitoring tool of the activities undertaken and to be undertaken.
- Best Practice/Case Studies and Issue Briefs: Success of the Initiative hinges on the ability by multiple sources to deliver capacity and instruments to clients, drawing from best practice methodologies at a global level. Based on the data and wealth of experience assembled under the Initiative, it will be possible to highlight instances of best practices and case-studies around themes of common interest. For example, which cities have successfully recovered costs (after failing to do so) for collecting waste? How did they manage to do that?
- Community of Practice for Municipal Practitioners: One key vehicle for dissemination and engagement will be the newly established SNTA platform⁶ 'Community of Practice for Municipal Finance Practitioners.' This work is expected to be undertaken in parallel to the overall creditworthiness improvement assistance outlined above.
- Partnership outreach and coordination effort through the production of "infographic" material on the Initiative, the development of a website with information on the Initiative, including its progress/results, and targeted communication/dissemination to potential partners. These tasks are essential to identify and secure support from partners⁷.

⁵ A separate concept note for the proposed Information Repository can be accessed via the following web-address: <https://wbg.box.com/s/2darkhug9dpe714t8dne>

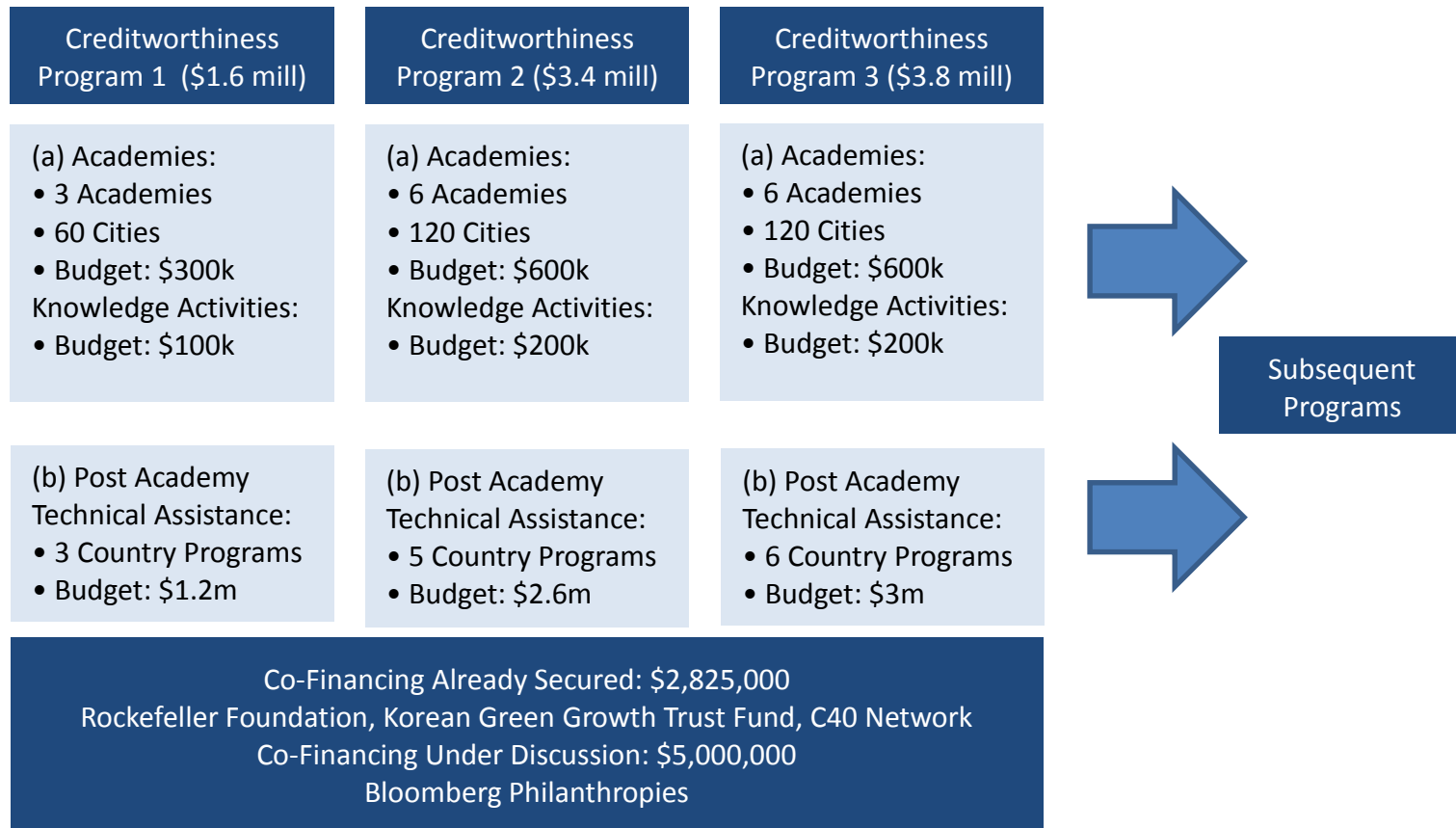
⁶ The platform can be accessed via the following web-address: <https://collaboration.worldbank.org/groups/city-credit-worthiness>

⁷ **Core Promoters to date:** PPIAF-SNTA (lead), World Bank's Low-Carbon, Livable Cities Task Force. **Additional Sponsors:** French Development Agency (AFD), Municipal Institute of Learning of eThekweni (Durban, South Africa), Korea Development Institute (KDI), Korean Green Growth Trust Fund (KGGTF). **On-Going Collaborations:** Rockefeller Foundation, C40 Network, UN HABITAT, World Research Institute.

6. Please indicate budget implications and potential implementing partners for each component. Please indicate which component(s) is PPIAF intended to participate in and the amount of financing required from PPIAF for each of these.

City Creditworthiness Initiative Implementation Schematic

Below is a schematic that describes the approach and PPIAF resource requirement for the City Creditworthiness Initiative. Each fiscal year funding will be required to deliver Academies, provide multi-city technical assistance programs as an outgrowth of the Academies, and produce key knowledge products. To ensure that the PPIAF donor group can effectively monitor the development of the Creditworthiness Initiative, a programmatic concept note will be submitted for approval each fiscal year. Under these programs, separate applications will be submitted to the donors each FY to solicit the funding requirement for the delivery of the Academies and related knowledge products (one application), and funding for the post-Academy technical assistance programs (one application per each program).

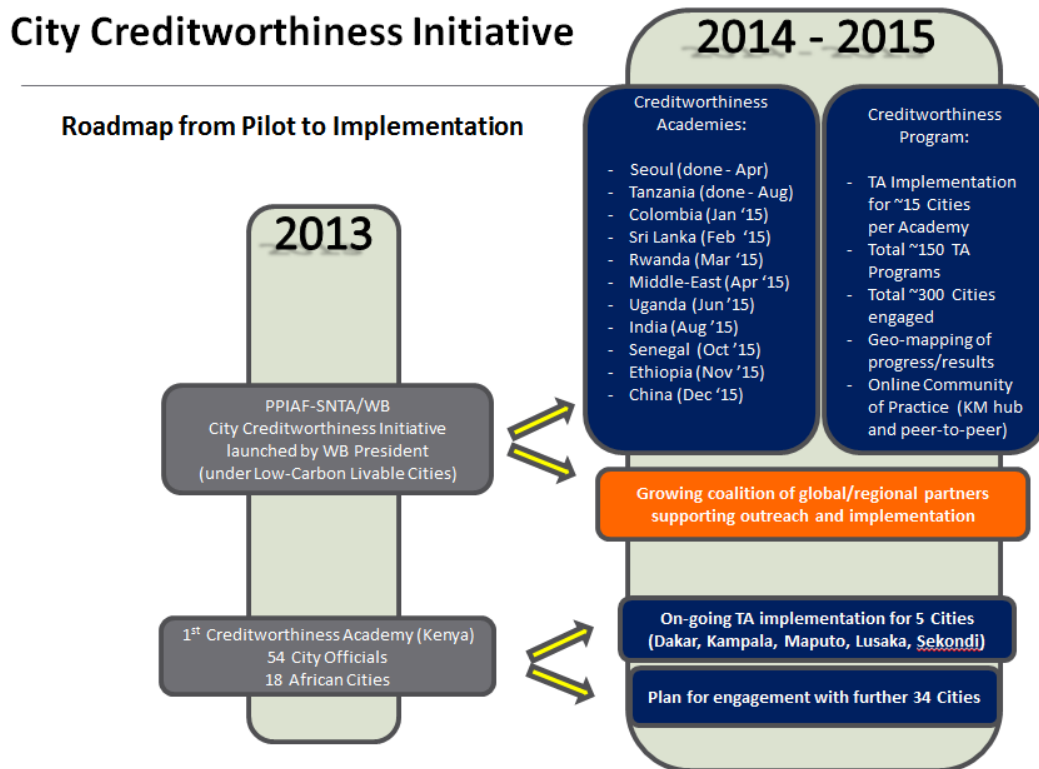


7. Please describe what PPIAF's expected role would be vis-à-vis other potential implementing partners.

Success for the Initiative depends entirely on building partnerships among development institutions/donors to leverage existing capacity and increase resources. For this purpose, an important effort will be dedicated to identify and secure support from partners (see footnote #7). Over \$2ml in co-financing have been raised already or are about to be formalized. Additional partnerships will have to be identified over the course of FY15-FY16 to fulfill the implementation needs for this Initiative which is estimated to require a total of about \$200ml to achieve the results described previously.

However, even a partial realization of the Initiative's objectives will align perfectly with PPIAF-SNTA's mandate and its strategy (as approved by the donors at the recent Program Council Meeting in Zurich). Further Program Concept Notes that will include additional Academies and technical assistance activities will be submitted for Donors' consideration as needed.

This "lifting" role from pilot to full-scale roll-out of the Initiative's related activities is also reflected graphically in the box below (the countries and dates are illustrative).



This graphic above reflects the ambition of the Initiative, with as many as nine "Creditworthiness Academies" to be delivered by the end of calendar FY15, including the related design of preliminary action plan for approximately 200 cities. Each academy will be coordinated with stakeholders on the ground and delivered in partnership with local institutions. This outreach will be followed by the finalization of a detailed action plan with selected cities, and assistance to improve creditworthiness and support transactions for adaptation and/or mitigation projects.

The Initiative will bring together resources and partners to implement at scale the model of technical assistance tested successfully by SNTA over the past years, presented below:



The Initiative will also capture the knowledge gained through such engagements for both in-country and global dissemination.

Request for PPIAF Support During the Initiative’s Launch Period:

This submitted program requests support for the City Creditworthiness Initiative’s during FY2015 (Program 1). The Initiative envisages submitting programs and applications for PPIAF’s support, as follows:

Program 1 (FY 2015)

- Application: Immediately upon submission of this Program Concept Note, the Initiative plans to submit its first application, requesting PPIAF support to deliver the first three (3) academies, to develop detailed action plans for three (3) cities, and to deliver the first batch of knowledge products (i.e. beta-version of the Knowledge Repository, the Initiative’s website with supporting documents and the online community of practice).
- Application: Separate applications will be submitted throughout this period to request donors’ approval for the implementation of technical assistance programs designed under the Initiative.

Program 2 (FY 2016)

- Application: A second request will be submitted to cover activities from July to December 2015, including three (3) additional Academies, developing detailed action plans for three (3) cities, and the delivery the last batch of knowledge products (i.e. full launch of the Information Repository and full roll-out of Initiative’s website and community of practice).
- Application: A third request will be submitted to cover activities from January to June 2016, i.e. three (3) additional Academies and developing detailed action plans for two (2) cities.
- Application: Separate applications will be submitted throughout this period to request donors’ approval for the implementation of technical assistance programs designed under the Initiative.

8. Implementation and governance. Please describe the potential implementing and governance model for this program.

The activities under the proposed grant will be managed by the World Bank Group’s Global Urban unit (Sameh Wahba, Practice Manager) under the Global Practice for Urban, Rural, and Social Development (Ede Jorge Ijjasz-Vasquez, Senior Director). The Initiative, by design, will draw from expertise and tools across the World Bank Group, other partners, and stakeholders. Of particular relevance will be the close collaboration with the World Bank’s Regions and Cross Cutting Solution Areas on Climate Change (CCSA- CC) and on Public Private Partnerships (CCSA-PPP). Further key collaborations within the World Bank Group will include teams from the following Global Practices: Finance and Markets; Macroeconomics and Fiscal Management; and Governance.

The grant will have a designated Task Team Leader (Joshua Gallo, Senior Municipal Finance Specialist) who will supervise all activities of the trust fund and ensuring that they are carried out according to Bank policies and procedures. The Bank will be responsible for submitting the narrative progress and final reports as may be requested by PPIAF.

The City Creditworthiness Initiative has committed to establish an Advisory Group to ensure successful coordination and synchronized implementation of the activities in the various regions. This PPIAF supported program will be included in the agenda of this Advisory Group. The Advisory Group will be composed of representatives appointed by the Rockefeller

Foundation and the World Bank on a regular basis through virtual or physical meetings. Advisory Group members shall include: one representative from the World Bank Group’s Urban unit, one representative from PPIAF, one technical expert on Municipal Finance (jointly identified by the Rockefeller Foundation and the World Bank Group’s Urban unit), one representative from the Rockefeller Foundation Innovative Finance, and one representative from the Rockefeller Foundation Resilience Challenge Program. Additional representatives, if needed, may be agreed upon jointly between the Rockefeller Foundation and the World Bank Group.

This Advisory Group will provide a platform for dialogue, information sharing and strategic/technical inputs for the project, In particular, it will discuss the beneficiary cities to receive technical assistance the Initiative, and take stock of progress, review terms of reference for activities, and review final outputs and other implementation milestones (financial/operational indicators).

The Bank will convene the Advisory Group and also organize consultation with other stakeholders as needed. Furthermore, the Bank will also lead the effort helping broaden and deepen donor_support for the activities under the proposed program_from both the philanthropic and official sectors.

C. EXPECTED RESULTS

<i>ADD/ELIMINATE ROWS AS NECESSARY</i>	EXPECTED OUTPUTS	CAUSAL ASSUMPTIONS <small>(PLEASE DESCRIBE WHY THIS EXPECTED INTERMEDIATE OUTCOME OR EXPECTED OUTCOME WILL CONTRIBUTE TO THE IMMEDIATE NEXT UPPER LEVEL)</small>	CONTEXTUAL ASSUMPTIONS <small>(WHAT NEEDS TO BE TRUE IN THE SPECIFIC CONTEXT FOR THE SPECIFIC EXPECTED INTERMEDIATE OUTCOME OR EXPECTED OUTCOME TO BE ACHIEVED?)</small>
Program goal: Sub-national entities invest in low-carbon and resilient infrastructure.			Legal and regulatory, institutional and policy frameworks are conducive for sub-national entities to access finance.
Expected outcome 1: Sub-national authorities achieve creditworthiness. Indicator: Transaction amount.	Technical assistance objectives achieved.	Creditworthy sub-national entities access financing for infrastructure investments.	Full buy-in from participating municipalities and central governments; availability of funding sources to support municipalities’ action plans and to finance projects; medium/long-term commitment by municipalities (across political mandates).
Expected intermediate outcome 1: Action plan implemented for identified municipalities.	<ul style="list-style-type: none"> • Municipalities identified. • Detailed action plans designed. • Creditworthiness assistance provided. • Transaction technical assistance provided. 	Technical assistance based on detailed action plans allows identified municipalities to reach creditworthiness and structure transactions.	Institutional buy-in exists for designing and implementing technical assistance.