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 the only way 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 improving municipal credit markets 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.

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:

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

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. 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. 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, such as with TBB (Turkish Union of Municipalities). 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.
Reform-minded municipal authorities seeking more, competitively-priced, and longer-term financing for capital investments engage with the Initiative to access capacity building support, international expertise, local hands-on assistance, peer-to-peer networking, credit rating and transaction guidance.

The direct result for all participating entities is their enhanced financial performance and overall capacity to deliver better infrastructure services.

The path to creditworthiness and to market-based transactions will vary in length and scope of required interventions, depending on the baseline (at-entry) conditions of each sub-national entity and their enabling environment. Whatever the specific conditions, however, noteworthy financing results can also be expected also before a national scale investment grade credit rating is obtained. These outcomes will include overall financial performance improvements which will enable delivery of more and better public services. But they will also include sound financial transactions that can be pursued on a pilot-basis while progressing to improved creditworthiness. Examples of such transactions, possibly with credit enhancements, are hybrid-financing schemes, pilot public-private partnerships including increased collections and reduced operating costs, smaller loans from commercial banks, enhancement mechanisms applied to sub-national transactions, pooled financing, etc.¹

¹ For further details and examples of SNTA’s experience with these types of activities, follow the web-address provided here: https://wbg.box.com/s/okkeqpmto4r3ceuqpi8
As Cities and sub-national infrastructure service utilities follow their path to creditworthiness, credit enhancement techniques enable realizing smaller financing opportunities and pursuing larger ones. The private sector will take notice in each country and engage with increasing levels of partnership and financing arrangements. Eventually, creditworthy Cities command attention from institutional investors and unlock the potential for Cities to tap domestic capital markets for long-term financing of adaptation and/or mitigation projects.

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 - The first engagement with local government officials normally takes place through our City Creditworthiness Academies, 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; the use of special purpose vehicles to “ring fence” specific revenues; 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) **Support of Action Planning:** Follow-on support to help cities further develop, finalize and achieve approval of credit-worthiness improving action plan will be provided to selected\(^2\) 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 partners, e.g. TBB 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) **Creditworthiness Improvement Assistance:** A wide range of short-, medium- and long-duration technical assistance and training activities as specified in the detailed action plans could be provided through WBG and/or its partners. The range of interventions is wide and reflects the experience gained by WBG 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. This phase – and the following parallel phases - of the process will likely require 1 to 4 years, depending on each city’s creditworthiness status at the beginning of the process. Hence, a long-term partnership with a national entity (TBB in the case of Turkey) would be important not only to build a solid foundation but to ensure sustainability and impact.

4) **Creditworthy Transactions for Adaptation and/or Mitigation Projects:** As noted above, the City Creditworthiness Initiative is to be a learn-by-doing process for every City (and central government) which participates. In WBG 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. City Creditworthiness Initiative engagements are based on the learning-by-doing principle, i.e. 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. This work is expected to be undertaken in parallel to the overall creditworthiness improvement assistance outlined above.

\(^2\) Demand-driven (response to partner outreach) and criteria-driven (potential for climate-change impact).
5) Knowledge Management: 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 knowledge-sharing activities for both in-country and global dissemination. Given the importance of capturing the knowledge and results from all related activities, the City Creditworthiness Initiative seeks to develop an online Information Repository 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;
d) To provide existing and future stakeholders of the City Creditworthiness Initiative with a comprehensive monitoring tool of the activities undertaken and to be undertaken.

One key vehicle for dissemination and engagement will be the recently established platform ‘Community of Practice for Municipal Finance Practitioners.’ This work is expected to be undertaken in parallel to the overall creditworthiness improvement assistance outlined above.

Overall Results Framework

The City Creditworthiness Initiative seeks to achieve three categories of objectives, i.e. creditworthy project development, creditworthy institution building, and replicability.

- Under the creditworthy institution-building objective, the Initiative will assist the same pool of 300 local governments globally with performance improvements to narrow and/or eliminate their creditworthiness gap. It is expected that at least 75% of all entities will achieve this objective within the four-year engagement process. Furthermore, in the case of “higher-end” entities (i.e. sufficiently close to investment grade rating and with supportive enabling environment), the Initiative will seek to achieve improvements in their own general obligation creditworthiness sufficient to develop and finance at least one resilience and/or mitigation project using only general obligation pledges within the next four years. It is expected that at between 75% of the entities under the “higher-end” classification (which will be determined after the initial assessment) will achieve this objective within the four-year engagement process.
- The replicability objective of the Initiative is to indirectly enable other entities, beyond the 300 selected for direct assistance, to guide efforts toward successful creditworthiness-strengthening initiatives, reforms, and practices. This will be achieved by capturing and disseminating the knowledge and skills gained by the target cities so that sister cities in the host-countries and throughout the developing world (including for cross-country and
regional transactions/projects) can benefit from the knowledge gained by the Initiative. It is expected that at least 3,000 sub-national entities (i.e. ten times the number of entities directly engaged under the Initiative) will transfer/apply the knowledge from the Initiative to their respective jurisdictions. This objective will be supported and tracked by the online community of practice (for peer-to-peer learning), by the information repository (for benchmarking), and by the knowledge material from the Academies (for training).

**City Creditworthiness Initiative – Implementation At a Glance**

Objective

Help 300 cities become creditworthy and structure creditworthy financing transactions for infrastructure leading to low carbon and climate resilient development. The initiative will also address the enabling environment for creditworthy city financing. Success depends on building partnerships among as many development institutions as possible to implement all aspects of the initiative.

Openings for Assistance from Partner Organizations

City Creditworthiness Academies

- 3 planned for AFRICA Creditworthiness Academies
- 5 planned for ASIA Creditworthiness Academies
- 1 planned for AMERICAS Creditworthiness Academy
- 2 planned for MID-EAST Creditworthiness Academies

City Creditworthiness Action Plans

- 300 City Creditworthiness Action Plans (~ 5 cities per country)

City Creditworthiness Improvement Programs

- 5-Year Programs
  - Creditworthiness Improvement Assistance
  - Support for Creditworthy Financing Transactions

Climate Smart Infrastructure Investments

50-60 developing countries to participate

Participant Selection Process

Demand-driven & Criteria-driven
(response to Partner outreach) (potential for Climate Change impact)