Making cities investable

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Cities are the engine of the global economy and rapid urbanisation is predicted to continue...

80% of global GDP is generated in cities.

55% of the world’s population lives in urban areas, a proportion that is expected to increase to 68% in 2050.

Consumes over 67% of the world’s energy and accounts for more than 70% of global CO2 emissions.

If the gap is not closed up 2 billion people will live in informal settlements by 2030 without access to clean drinking water, sanitation, electricity, waste collection, public transport etc.

Source: UN 2018

Source: C20

Source: UN 2018

Source: C20

Source: Coalition for urban transition
.... putting increasing pressure on cities’ infrastructure.

Each train in Mumbai carries around 3,250 more people than its capacity.  
ADB, 2019

With the right policies, investments of 4.5% of GDP will enable lower-and-middle-income countries to achieve the infrastructure-related Sustainable Development Goals and stay on track to limit climate change to 2°C

Each inhabitant of Mexico City will spend an average of 218 hours a year sitting in traffic
INRIX 2018

The solid waste cities produce is expected to increase by 70% by 2050
World Bank, 2018
There is a significant opportunity for cities to attract private capital into urban infrastructure....

Private investors globally control $120tn of assets.

Source: McKinsey


Source: Preqin Pro

50% of infrastructure investors plan to increase their allocation to the asset class over the longer term.

Source: Preqin Pro

The majority of investment is into brownfield (i.e. post-construction, operational, income producing) not greenfield assets.
...but cities must first identify the need and undertake an investment decision process...

<table>
<thead>
<tr>
<th>Critical public services</th>
<th>Investment decision</th>
<th>Financing decision</th>
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<tbody>
<tr>
<td>First and foremost, infrastructure needs to be planned for the purpose of providing critically needed public services (not structured for what is most feasibly financed)</td>
<td>Where do you best allocate capital in order to maximise value</td>
<td>How to pay for costs?</td>
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<td></td>
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<td>Corporate resources, debt or project finance</td>
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<td>If private investment is an ambition then how to create right conditions for investors</td>
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....then create the right conditions for investors...

This is needed because investment in low and middle income countries by pension funds, sovereign wealth funds, mutual funds, and other institutional investors is only 0.67% of the total global investment in developing countries.

(Source: World Bank PPP database)
...and overcome some challenges.

At a CITY level

Demonstrating:
• ability to forecast revenue flows
• ability to collect revenue flows
• Creditworthiness
  – reliable debt servicing
  – improving revenue base
  – degree of fiscal decentralisation

At a PROJECT level

Demonstrating:
• ability to forecast project income flows
• ability to collect project income flows
• appropriate risk allocation, e.g.:
  – Revenue / income risk;
  – Construction risk
  – Land acquisition; and
  – Legal risk

Key enablers

- Leveraging project preparation tools
- Integrated planning
- Clear and transparent policies and partly standardised contracts
- Building credit history through small projects with diverse lenders
- Comprehensive businesses cases analysing risks / impacts
- Fiscal decentralisation
- Alternative revenue sources e.g. LVC
Thank you