



SUSTAINABLE FINANCING
AURELIE CHARDON

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Partnering to Deliver Innovative Financing for Green and Inclusive Cities



IFC (International Finance Corporation) is a sister organisation of the World Bank and member of the World Bank Group. It is the largest global development institution focused on the private sector in emerging markets, working in more than 100 countries. In the urban sector, IFC partners with governments and private sector players to support the development of fit-for-purpose, inclusive and sustainable urban infrastructure services. They share about their initiatives in Belgrade and São Paulo.

The Need for Partnerships

Cities power the global economy. They contribute over 80% of the world's gross domestic product and house more than half its population. But they also produce more than 70% of its greenhouse-gas emissions, use over 75% of its natural resources, and produce around half its waste. Rapid urbanisation and the climate crisis are bringing the need to improve the provision of urban services and crisis preparedness to the fore. Municipal leaders must move quickly to plan for sustainable growth and more efficient basic services, climate-resilient infrastructure, and the affordable housing required to better cater for the needs of their expanding populations.

It is impossible for cities to address these challenges alone. Mayors need to think not only about how much investment their cities need, but also about who they can partner with to ensure the best project and service delivery. In particular, private-sector solutions, innovation and best practice are critical to addressing their complex needs. Partnerships that work for both parties will be fundamental to creating the sustainable cities of tomorrow. Development partners, such as IFC, are available to help.

Large-Scale Rejuvenation of the Vinča Landfill through a Public-Private Partnership (PPP)

Let us take an example from the waste industry, a challenging sector for almost all cities, both in Asia and around the world. The Vinča landfill, located 15 kilometres outside of Belgrade, Serbia, used to be the largest unsanitary open-dump site in Europe, receiving 90% of Belgrade's waste. This is the equivalent of around half a million tons of waste a year, or 600 truckloads of trash daily. The landfill, which was the size of 185 football fields, was running out of capacity. The site was impacting the air quality in Belgrade and the surrounding areas, frequently catching fire and polluting groundwaters and nearby agricultural areas, as well as discharging untreated water into the Danube.



Waste pickers spent long days collecting recyclable material at the Vinča landfill in Belgrade, Serbia.
Image: Dominic Chavez, International Finance Corporation

When the city began exploring a solution to overhaul the landfill, Sinisa Mali, who served as the Mayor of Belgrade from 2014 to 2018, during the time the project to overhaul the landfill was developed, said, “We had no experience in waste and treatment...It was about trying to find a partner that not only had the financial means to finish the project, but also had the know-how and experience to operate it.”

In 2014, the City of Belgrade hired IFC’s PPP transaction-advisory team to act as lead transaction advisor to structure and tender a project to overhaul the management of its waste. The project entailed closing and remediating the old dump site and constructing a new European

Union-compliant sanitary landfill. It also featured a new waste-to-energy facility capable of processing up to 340,000 tons of municipal waste each year, as well as a combined heat and power facility for processing construction and demolition waste. This incinerating facility would be capable of powering around 30,000 households and delivering heat to the municipal district-heating system.

After a competitive dialogue with five pre-qualified bidders, the project was delivered under a long-term PPP contract awarded in 2017 to Beo Čista Energija (BCE), a special-purpose vehicle formed by France-based utility company Suez, Japanese conglomerate

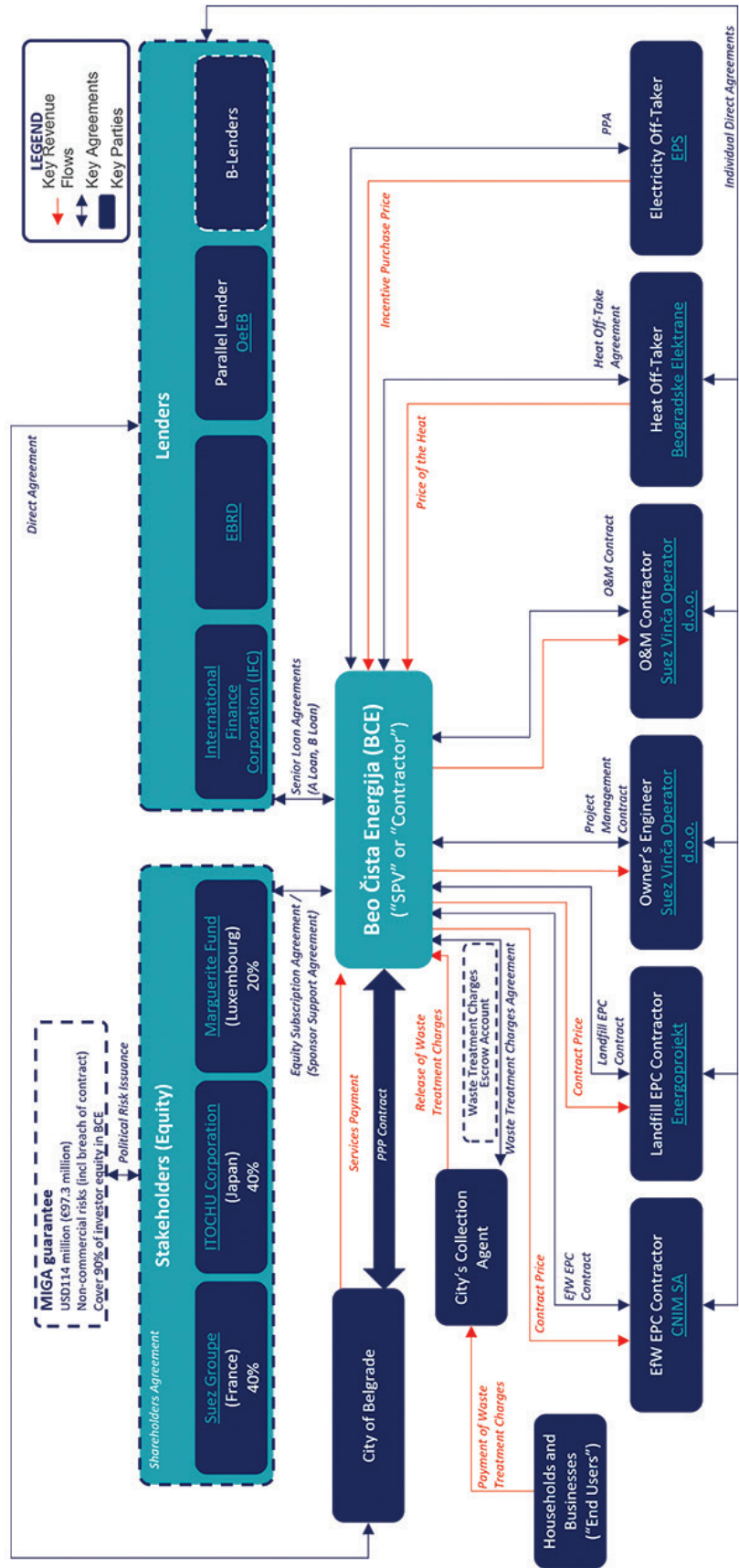
Itochu Corporation and a private-equity fund managed by European infrastructure investor Marguerite.

The total project cost was estimated to be €350 million. IFC and the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group that provides guarantees (political risk insurance and credit enhancement) to investors and lenders, issued €260 million in financing and guarantees to BCE. MIGA also supported the sponsors, guaranteeing €97 million for non-commercial risks, which covered up to 90% of investor equity in BCE.

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The financing package further included a €20 million blended concessional loan from the Canada-IFC Blended Climate Finance Program, a partnership between the government of Canada and IFC to promote private-sector financing for clean-energy and climate-adaptation projects. The European Bank for Reconstruction and Development, and the Development Bank of Austria also provided financing for the project.

The advisory efforts were implemented in partnership with the governments of Austria, Canada and Switzerland, and the Rockefeller Foundation. The project followed IFC's Performance Standards, which define IFC clients' responsibilities for managing their environmental and social risks.



Project structure scheme for the rejuvenation of the Vinča landfill. Image: Global Infrastructure Hub

Experienced sponsors, public-sector stakeholders, transparent structures and multilaterals to de-risk the project were all key to its success.

This was the first time a large-scale environmental infrastructure PPP project had been undertaken in the region, and it required a number of stakeholders, working together. Experienced sponsors, public-sector stakeholders, transparent structures and multilaterals to de-risk the project were all key to its success.

The project is expected to be fully commissioned by the summer of 2023. The mountains of trash have become green spaces, the sanitary landfill is in operation, and gas emanating from the trash is about to be collected to generate electricity. Future waste will also be processed to generate heat and electricity. It is estimated that the programme will allow Belgrade to reduce its greenhouse gas emissions by 250,000 tonnes of CO₂ per year, notably by curbing methane emissions from uncontrolled dumping.

Transforming São Paulo's Water Infrastructure by Leveraging Development Partners and Innovative Financing Solutions

Another example of a transformative urban infrastructure partnership comes from Brazil, where the investment needed to achieve the country's target of universal water and sanitation services by 2033 is estimated at BRL 750 billion (approx. US\$145 billion), according to the Brazilian Association of Private Concessionaires of Public Water and Sewage Services and KPMG.

Companhia de Saneamento Básico do Estado de São Paulo (SABESP), one of the largest water and sanitation companies in the world, sought to tackle the pressing problem of water loss during distribution. Such losses, called non-revenue water (NRW), come from leakages in the distribution system, under-registration of customer-water meters, data-handling errors, water theft and unbilled authorised consumption. NRW hampers the financial viability of water utilities because it results in lower revenues, lost water resources and increased operational costs.

SABESP partnered with IFC on Utilities for Climate (U4C), a new initiative that gives water utilities access to a package of tailored advisory services, investment products and knowledge-sharing partnerships. It is focused on building relationships with water



In February 2023, the facility started the production of electricity and heat from waste.
Image: Beo Cista Energija

Going Together to Go Far

utilities as they develop solutions to address climate change and boost commercial water infrastructure investment opportunities. As part of this initiative, and at SABESP's request, IFC funded and implemented a diagnostic and action plan to tackle NRW losses.

IFC also provided SABESP with a BRL 760 million (approx. US\$150 million) loan to finance investments that focused on improving water quality, and expanding sewage collection and treatment in some of the poorest neighbourhoods in São Paulo, as part of the Pinheiros River Clean-Up programme. The investment will support several projects that focus on sewage network construction, network interconnections and connection of households, social work with local communities, providing water distribution flexibility, and increasing water security.

This was the first blue loan in Latin America. Blue loans are aligned with the Green Loan Principles (GLP), and proceeds are exclusively dedicated to financing or refinancing activities that contribute to ocean protection and/or improved water management. Blue finance is a subset of the larger green finance market, which has expanded rapidly in the last several years.

These are just some of the many examples of how cities and subnational utilities around the world can tackle complex urban projects by tapping into the power of partnerships to access innovative financing solutions.

Municipal leaders have a huge and critical task ahead, and they do not have to face it alone. Solutions exist for them to share project risks, de-risk investments, leverage innovation, experience and knowhow from the private sector, and even be rewarded when they deliver on their targets.

Finding the right partners can take time and effort, but it is worthwhile. Track record, reputation and expertise are all important factors for selecting private-sector companies as partners. Municipal leaders should also be clear and realistic about their needs and priorities, and be ready to work hand-in-hand with their partners. Infrastructure projects take time, and there will be bumps along the road, which is why fostering good communication and trust amongst partners is essential.

Development institutions such as IFC are here to help by brainstorming to address key challenges, making connections,

structuring bankable projects, mobilising commercial financing, and leveraging World Bank Group and private-sector expertise to facilitate infrastructure projects through advisory and technical assistance. Engaging with them early and leveraging some of their tools and products can help foster innovative ideas and structures to address some of the key risks or concerns, and ultimately make the project a success.

Through the power of partnerships, the green, resilient and inclusive cities of tomorrow are no longer just a pipe dream. 🌱