



What is Bankability?

A project is bankable, whether from public or private sources, when its risk-return profile meets investors' criteria and can secure financing to implement the project. Key criteria for bankability include the probability of meeting the project's financial, environmental, and social goals, sufficient estimated cash flows to cover costs and produce returns that meet investor expectations, and whether the project will be implemented by a creditworthy entity. Though the assessment of whether a project is bankable may differ between specific financiers, they all need confidence that the regulatory, environmental, social, and economic factors are unlikely to prevent the project from being completed (Rana 2017; GPRBA 2018). The risk-return profile of a project is the key to bankability (GPRBA 2018). Bankability is also sometimes phrased as investment-ready or finance-ready (CCFLA 2021). Bankability is influenced by project level, city level, and national level factors (Nassiry, Nakhoda, and Barnard 2016).

INFLUENCING BANKABILITY: PROJECT CHARACTERISTICS

Project characteristics that influence its bankability include the project's costs, revenue potential, benefits, and risks.

Project costs are a critical factor for bankability because of how they shape the risk-return profile. Climate projects often have higher or more uncertain costs when they are the first of their kind

A project is bankable, whether from public or private sources, when its risk-return profile meets investors' criteria and can secure financing to implement the project.

undertaken by a city (GPRBA 2018). **The potential for revenue** associated with a project impacts its bankability because it determines how a project can be funded and financing repaid. Low or uncertain revenue will negatively affect a project's bankability. For projects without direct revenue streams such as user fees, city-level revenue factors will be an even more important consideration for bankability (IFC 2021). **The benefits of a project**, sometimes also termed co-benefits, include the primary purpose of a project as well as ancillary positive impacts. For example, a public transport project might primarily be aimed at improving travel times and capacity on a corridor, but also create jobs, reduce noise, and air pollution, and spur private investment along the route. Integrating broader benefits into climate projects broadens the support base can make a project more bankable for financiers with mandates that extend beyond climate (Nohn and Bassetti 2021). The different mandates of potential financiers affect how benefits factor into bankability (Richmond et al. 2021). All projects will face **risks**, including technical, financial, political, and social

risks. Identifying, mitigating, and establishing appropriate risk sharing is a key part of project preparation to give financiers confidence that the project can be implemented and will perform as expected (Rana 2017).

INFLUENCING BANKABILITY: CITY LEVEL FACTORS

City level factors in project bankability include the city's administrative capacity, financial fundamentals, and political support.

The **administrative and technical capacity** to manage the preparation, implementation, and operation of the project has a major impact on the quality of preparation and whether financiers will have confidence that a project will be implemented as planned (Nassiry, Nakhooda, and Barnard 2016). The quality of a city's **financial fundamentals** shapes the funds available for a project and the city's creditworthiness—a fundamental consideration for investors. These fundamentals include financial management capacity, accounting systems, transparency, capital investment planning, budgeting and expenditure management, and procurement (World Bank 2021). **Political support** for a project is important, especially when project timelines extend beyond a single political term can affect the risk of a project being canceled or substantially changed. An overall stable political environment and evidence that the project enjoys broad support beyond a single administration, party, or official can help. The timing of projects can be key for political support. Projects that do not align with political cycles may struggle to gain support since incumbent politicians will not benefit from the project's completion (Nassiry and Pickard 2020). The inclusion of a project in a climate action plan or capital investments plan is one way of signaling political support. More broadly, linking strategic, spatial, investment, and budget planning to support investments in climate infrastructure projects helps to build capacity and investor confidence (World Bank 2021).

INFLUENCING BANKABILITY: NATIONAL LEVEL FACTORS

Major national level factors in project bankability are foreign currency risk, the intergovernmental architecture, fiscal transfers.

Foreign currency risk from fluctuations in exchange rates or limited currency convertibility is important for projects that get financing from international markets but will recover costs in local currencies (Nassiry, Nakhooda, and Barnard 2016). The powers and responsibilities of city governments to develop climate infrastructure projects will be determined by their country's **intergovernmental architecture and fiscal system**. This includes defining cities' tax powers, ability to borrow or enter into public-private partnerships (PPPs), and their responsibilities for public service provision (World Bank 2021). Most cities rely on fiscal transfers from national governments. The level of support and how they are structured can contribute to cities' ability to invest in climate-friendly projects (World Bank 2021).

BIBLIOGRAPHY

CCFLA. 2021. "Project Preparation Glossary." Cities Climate Finance Leadership Alliance. <https://www.citiesclimatefinance.org/publications/project-preparation-glossary>.

GPRBA. 2018. "New Perspectives on Results-Based Blended Finance for Cities: Innovative Finance Solutions for Climate-Smart Infrastructure." World Bank. <https://www.gprba.org/sites/gpoba/files/publication/downloads/2019-07/new-perspectives-results-based-blended-finance-cities-innovative-finance.pdf>.

IFC. 2021. "Financing Climate-Smart Investments in Cities." In Climate Investment Opportunities in Cities - An IFC Analysis. World Bank Group. https://olc.worldbank.org/system/files/Part%2010_Climate%20Investment%20Opportunities%20in%20Cities-12.pdf.

Nassiry, Darius, Smita Nakhooda, and Sam Barnard. 2016. "Finding the Pipeline: Project Preparation for Sustainable Infrastructure." Overseas Development Institute. <https://odi.org/en/publications/finding-the-pipeline-project-preparation-for-sustainable-development/>.

Nassiry, Darius, and Sam Pickard. 2020. "Demand for PPF Support for Climate Infrastructure in Cities: High-Level Findings from Expert Interviews." Overseas Development Institute.

Nohn, Matt, and Tommaso Bassetti. 2021. "Beyond Climate: Integrating Benefits in Sustainable Infrastructure." C40 Cities. <https://cff-prod.s3.amazonaws.com/storage/files/Y2esFMHHfdyskswlBm7KkR1hISAExxvJqhdT88j7.pdf>.

Rana, Fida. 2017. "Preparing Bankable Infrastructure Projects." World Bank. Getting Infrastructure Finance Right (blog). November 26, 2017. <https://blogs.worldbank.org/ppps/preparing-bankable-infrastructure-projects>.

Richmond, Morgan, June Choi, Rajashree Padmanabhi, and Amanda Lonsdale. 2021. "Financial Innovation for Climate Adaptation in Africa." Global Center on Adaptation and Climate Policy Initiative. <https://gca.org/wp-content/uploads/2021/03/GCA-CPI-Financial-Innovation-for-Climate-Adaptation-in-Africa.pdf>.

World Bank. 2021. "The State of Cities Climate Finance Part 2: The Enabling Conditions for Mobilizing Urban Climate Finance." World Bank. <https://www.citiesclimatefinance.org/wp-content/uploads/2021/06/2021-State-of-Cities-Finance-Part-2.pdf>.

GET INVOLVED

For more information, please visit the CCFLA website or contact us.

www.citiesclimatefinance.org

secretariat@citiesclimatefinance.org