

Figure 12.1 Funding sources potentially available to support urban infrastructure projects

FUNDING SOURCE	DESCRIPTION	COMMENTS
Intergovernmental transfers	Cash transfers of tax revenues or other resources from central government to local authorities for general or specific use	The importance of these transfers in local budgets is generally linked to the level of fiscal decentralization authorized by a national government.
Taxes	May include: <ul style="list-style-type: none"> ■ general tax revenues (such as property, sales and income tax) ■ targeted environmental or location-specific taxes or surcharges linked to access to infrastructure services or other amenities. 	Taxation powers at the local level are typically tightly controlled and regulated by national governments. Targeted taxes that seek to internalize the cost of negative externalities are commonly used to support capital expenditures on environment-focused infrastructure.
Land value capture	A mechanism to allow a government to capture some of the development value impact of policy and zoning changes or amenity and infrastructure improvements in a designated area.	Typically targeted at the location-specific beneficiaries of a policy or zoning change or other capital investments. Can be structured as a tax (linked to existing property taxes) or as an auctionable development right. Generally used to support new capital investments.
User fees/tariffs	Directed at the users of a good or service (such as the per unit charges for electricity or water usage; ridership fees for public transport).	Fees/tariffs are usually tightly regulated, balancing equity and cost recovery goals. One benefit is that they can be adjusted relatively quickly and deliver immediate sources of new revenue compared with other financing sources that may be available only once a year or on a one-off basis. Can be used for either operating or capital expenditures.
Fines/penalties redirected for other use	Financial penalties for violation of environmental quality standards or other rules.	Generally considered to be an unstable revenue source. Presumes that a system exists to monitor and levy these fines. Alternatively, penalties may arise from legal proceedings assessing damages for rule violations.
Official development assistance (ODA)	Grants or subsidies	From multilateral and bilateral sources. Generally linked to a framing agreement laying out goals for how resources are to be used. Often comes with an emphasis on environmental and social safeguards designed to protect people and ecosystems. Depending on a country's development status, these funds may or may not include discounted (concessional) rates to ensure affordability.
Dedicated climate funds	May include: <ul style="list-style-type: none"> ■ loans/grants from Global Environment Facility, Green Climate Fund, Climate Investment Funds, or country- or region-specific funds ■ carbon markets or other market-based climate instruments. 	<ul style="list-style-type: none"> ■ May involve entitlement window with guaranteed resource flow to individual countries based on fixed parameters. Also includes project-based applications under certain funding windows. ■ Access to carbon-focused climate funds is linked to the mitigation outcome achieved, but if done properly projects can also be structured to deliver climate adaptation co-benefits.

Source: Adapted from World Bank 2018