Executive Summary for IRI Guidelines

Innovative Revenues for Infrastructure Guidelines (IRI)

Executive Summary

The IRI Guidelines have been designed to help and guide planning agencies and Project Owners in analysing key parameters to apply Commercial Value Capture across a portfolio of projects or in individual projects. Find more on this page, or through the link below.

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Watch this space. *The Guidelines on Innovative Revenues for Infrastructure (IRI) is intended to be a living document and will be reviewed at regular intervals.*

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Increasingly, governments are looking for creative ways to pay for infrastructure, including through Land Value Capture (LVC) and Commercial Value Capture (CVC), as a means to go beyond the traditional "user pays' or "government pays' funding models. LVC has significant potential for providing alternative funding for infrastructure. The concepts surrounding, and implementation of, LVC is the subject of extensive analysis in the literature.[1] CVC is far less extensively considered, and therefore will be the primary focus of the Guidelines.

CVC can be a way for governments to increase revenues, to fund for example new projects, facility improvements, service expansion and/or improved asset maintenance, without increasing taxes or user fees. CVC revenues have, in many instances, proven to be successful in mobilizing additional funding for various infrastructure projects and help deliver better quality of public service.

Although CVC is most common and well-established in urban transit, it can be relevant for a number of sectors including but not limited to urban services, public housing, government offices, hospitals, schools, libraries, stadiums, street lighting, parking facilities, airports, telecom services, urban renewal projects, parks, wastewater treatment, solid waste treatment and conservation areas.

Governments play a critical role in maximizing CVC opportunities in infrastructure projects. By planning for spaces and places that create commercial opportunities and tapping into private sector expertise, governments will be in a far better position to explore and maximise the revenue generating potential of infrastructure. There is great value in engaging with the private sector in the early stages of project development, to get input on project design and assess CVC potential. Communities/stakeholders can play an active role in identifying and implementing CVC opportunities where they have the opportunity to voice their needs and have those needs incorporated in the project design.

Over-reliance on CVC revenues and excessive optimism in relation to demand increases over time can cause project delays or failures. For example, in some cases, projects rely heavily on CVC (in particular real estate driven) revenues. This can be a risky proposition, in particular where real estate values do not attain the levels expected, or where projected demand growth and improvements in footfall are not achieved. This drop in revenues, where CVC under-delivers, can undermine the financial viability of the project and lead to its failure. For this reason, thorough preparation of CVC is critical. These Guidelines will help mitigate these

risks and deliver better CVC outcomes.

Opportunities for application of CVC are many. While such applications are increasing with time, this report showcases six, non-exhaustive, broad categories of CVC application: (i) commercial associated with core-services; (ii) commercial activities within the footprint of the infrastructure; (iii) asset and resource optimisation; (iv) leveraging green-house gas emissions reduction; (v) repurposing or adapting/reusing idle assets; and (vi) commercial activities outside of the footprint of the infrastructure . However, not all projects can or should mobilize CVC, a cost benefit analysis is critical to test whether CVC should be pursued, in each case. The cost benefit analysis is not just about commercial and financial viability, but should also consider legal and regulatory constraints to assess the extent to which CVC should be implementable.

In addition to the cost benefit analysis of possible CVC opportunities, a few key principles should be considered when assessing CVC potential:

Objectives – Commercial revenues must never take the focus off infrastructure services. The provision of core services is the primary reason for investing in infrastructure development. Non-core services are meant to complement core services and improve the end-user experience. Project developers are easily distracted by non-core activities generating commercial revenues.

Comprehensive planning – Governments can apply a comprehensive planning approach that creates commercially-driven demand for integrated solutions by identifying the broader needs of users and beneficiaries within a community. Comprehensive planning looks at the infrastructure project in the context of other infrastructure sectors, local communities, national and local strategies and the dynamics of economic development. Through such models, CVC becomes a natural extension of community and national development, leveraging investments across the spectrum and providing commercial investment to further improve user experience and generate new cash flows to pay for infrastructure investments.

Impact on project design – Increasing commercial activities may also increase infrastructure service requirements and the right balance must be achieved without compromising the service level of the core infrastructure, for example where retail services are to be delivered within the footprint of the infrastructure, this may result in higher footfall, more traffic, more need for parking, more restroom facilities, etc. These additional demands must be included in the design of the infrastructure, potentially increasing the footprint of the infrastructure. While this increase in demand creates something of virtuous circle, developers will need to be sure that space fo these additional services and financing for the increased infrastructure services are sufficient.

Demand-driven – Similar to core services, the provision of CVC needs to be demand-driven. Like any other commercial investment, the design of CVC must follow consumer demand. CVC should not be designed based only on Government strategy or priorities only. There is always a risk when forecasting project fundamentals that demand will be exaggerated, undermining the sustainability of the project.

Ease of implementation –CVC opportunities should enhance project implementation (e.g. improving user experience, providing better services for the community, creating job) by increasing buy-in from key stakeholders. While CVC is likely to increase project complexity (by adding additional scope of work to deliver), the developer should ideally avoid CVC making a project significantly more complex to the point that risk of failure of the project reaches unmanageable levels.

Co-benefits –CVC can provide various co-benefits (economic growth, jobs, community development, climate mitigation, reduced subsidies), which should be encouraged. But these co-benefits may require additional investments and therefore cost more money. The project with CVC should be more financially viable than without CVC, even accounting for co-benefits.

Guidelines for applying CVC in infrastructure projects

Governments should consider CVC during early planning processes and later during the project preparation stage. Failure to engage early on CVC will limit opportunities and may undermine success of CVC opportunities.

The Guidelines for applying CVC in infrastructure projects have been designed to help and guide planning agencies and Project Owners in analysing key parameters to implement CVC across a portfolio of projects or for individual projects.

The Guidelines include six key steps as follows:

1. Identifying potential CVC for projects
2. Assessing readiness of enabling environment to support CVC
3. Conducting technical assessment of CVC
4. Assessing commercial feasibility of CVC
5. Planning for implementation of CVC
6. Assessing and mitigating CVC related risks

The Guidelines can be used in a flexible manner, to assess individual projects and for program-level assessment. The Guidelines may therefore be used differently by different parts of governments.

Visit the Innovative Revenues for Infrastructure sections below or check the Content Outline.

Footnote 1: World Bank, Finding Innovative Sources of Revenues for Infrastructure (2022), Financing Transit-Oriented Development with Land Value, Flood Protection and Land Value Creation (2015), Unlocking Land Values for Urban Infrastructure Finance (2021): International Experience (2013), The Municipal Public-Private Partnership Framework – Module 16: Harnessing Land Value Capture (2019)

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Abbreviations for IRI Guidelines

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The Guidelines on Innovative Revenues for Infrastructure (IRI) is intended to be a living document and will be reviewed at regular intervals. They have not been prepared with any specific transaction in mind and are meant to serve only as general guidance. It is therefore critical that the Guidelines be reviewed and adapted for specific transactions.

To find more, visit the Innovative Revenues for Infrastructure section and the Content Outline, or Download the Full Report. For feedback on the content of this section of the website or suggestions for links or materials that could be included, please contact the Public-Private Partnership Resource Center at ppp@worldbank.org.