UNCDF
Impact Capital for Development

POLICY BRIEF

Mobilizing City-Friendly Investment Funds to Achieve Local Transformative Finance

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I. Why Are City-Friendly Investment Funds Important?

City-friendly investment funds increase the ability of local governments and other sub-sovereign entities to address key urbanization challenges, such as local infrastructure gaps, through sustainable sources of public and private financing. In particular, this type of solution can work for certain infrastructure investments with dedicated revenue streams, such as mass transit systems. Such funds open up the local market for further investments by promoting policy and regulatory reforms, strengthening domestic capital markets for subnational finance, expanding international capital deployed to subnational finance, and building the capacity of local governments to access finance.

In these investment funds, risk is mitigated by an investor owning the asset and managing it privately while producing the transformative outcome required.

When these funds are designed and implemented through the "city-friendly" perspective, they can demonstrate the potential of municipal and local government finance to national regulatory authorities and international investors to deploy public and private capital for infrastructure needs of cities and local governments.

II. What Are the Typical Bottlenecks?

Cities and local governments lack the necessary capacity to tap into investment funds and receive external credits. For example, they need coordinated support on conducting economic analysis and planning for capital investments, business plan development for investment projects, and tools for financial modeling and other projections.

They also need an enabling environment from policy, legislative, and regulatory perspectives, including technical support to financial mechanisms, such as project finance and domestic bond markets. Another area of support is on the pipeline of revenue-generating investments, such as support to projects in catalytic sectors that address the urbanization and climate imperative, value add to local economies, and proof of concept to market regulators and domestic financial institutions. However, at the root of these bottlenecks is the lack of transformative investments that are financeable.

Many investment funds are focused on finding bankable projects, which could preclude transformational impact by restricting revenues to be ringfenced to create a commercially bankable structure and adjusting risks to repay commercial finance, but the same project may not meet transformation objectives.

Instead, cities and local governments need an investment fund that promotes transformative and financeable projects that improve local productivity levels, contribute to planetary health, and impact local economic development.

III. Example of Effective City-Friendly Investment Funds

One clear example of this solution is the creation of **the International Municipal Investment Fund (IMIF)** that has been designed as a 'city-friendly' fund. In alignment with the Malaga Coalition agenda, UNCDF launched the IMIF in October 2019 to serve as an instrument of the Coalition to support local SDG-oriented projects in developing countries. The IMIF is a unique, bespoke investment fund that raised over 350 million EUR to exclusively help cities and local governments leverage concessional and commercial capital in domestic and international markets.

The Fund aims to finance urban resilient and sustainable infrastructure projects by investing in equity and quasi-equity securities to accelerate the achievement of the SDGs. In November 2019, UNCDF appointed Meridiam, a private infrastructure investment and global asset manager to manage the IMIF following a competitive selection process.

The IMIF features city-friendliness through its Technical Assistance Facility (IMIF-TAF) that was created and managed by UNCDF. The TAF provides capacity strengthening and policy support to cities and local governments by helping them finalize investment projects to access credit and with relevant policy and regulatory reforms at the national level.

The TAF harnesses the **UNCDF Dual Key system** to support local governments in developing a pipeline of revenue generating investments that ensures both development impact and financial sustainability. Support is targeted toward developing and emerging countries in particular sectors, including solid waste, water management and sewerage, urban development, transportation, and energy (renewable source and efficiency).

In 2020-2021, UNCDF has provided technical assistance and granted funding for over 15 municipal investment projects through the TAF process, and one such project is the Bus Rapid Transit (BRT) system to address congestion in Kumasi, Ghana.

Kumasi is the second largest city in Ghana, with over 2 million residents, and the over-concentration of investments in the city centre, segregation of land uses, and urban sprawl among others are causing the core areas to become congested, especially during peak hours.

This has been compounded by the absence of an efficient and scheduled public transport system, increased car ownership, and overreliance on low occupancy vehicles.

Therefore, Kumasi Metropolitan Assembly (KMA) submitted a proposal for the introduction of a seamless system that integrates a localized BRT system with the current operations of the privately operated Trotro system at designated locations in the city. The total project cost is approximately US$125 million via equity and debt. After the project passed the initial eligibility screening, UNCDF has been providing technical assistance on pre-investment phase, including business case development, assessment of the development impact and financial impact additionality, and sustainability, as well as project structuring and de-risking.

This project is not only financially sustainable, but will also contribute to improved access to safe, environmentally responsive, affordable, accessible and sustainable transport systems for all. Following the pre-investment support, UNCDF will also assist KMA with the investment process, post-investment business development, and monitoring and reporting of SDG-responsive impact and results.

Successful financing and implementation of this project will achieve multiple anticipated benefits, such as an environmentally responsible, reliable and affordable transport system that enhances physical accessibility and connectivity intra-city and inter-city, enhanced road safety and reduced congestion, as well as improved quality of life and environment.

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This policy brief's content directly comes from the UNCDF's flagship publication – Local Government Finance is Development Finance. For more information about the book, download here or via + QR code

For more information on the work of the Local Transformative Finance Practice, visit https://www.uncdf.org/local-development-finance

SCAN ME

The UN Capital Development Fund makes public and private finance work for the poor in the world's 46 least developed countries(LDCs).

UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.

UNCDF's financing models work through three channels: (1) inclusive digital economies, which connects individuals, households, and small businesses with financial eco-systems that catalyze participation in the local economy, and provide tools to climb out of poverty and manage financial lives; (2) local development finance, which capacitates localities through fiscal decentralization, innovative municipal finance, and structured project finance to drive local economic expansion and sustainable development; and (3) investment finance, which provides catalytic financial structuring, de-risking, and capital deployment to drive SDG impact and domestic resource mobilization.

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