



UN
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Impact Capital
for Development



UN Hub for
Subnational Finance

UN Hub for Subnational Finance



What is the UN Hub for Subnational Finance?

The UNCDF 2022 – 2025 Strategic Framework identifies UNCDF as a sub-national financing hub for the wider UN system and most importantly for the member states, cities and citizens that we serve. This function is driven and managed by UNCDF's Local Transformative Finance Practice (LTF) and, where appropriate, utilizes complementary functions such as the loans and guarantees platform (LDCIP).

The LTF team is united by a shared belief and understanding combined with a technical specialization. The belief is that a financial ecosystem that works better for regions, towns, cities and local governments in a necessary accelerator of the global development goals, especially – but not exclusively – with regards to the Least Developed Countries.

The technical specialization is the competence and skills to work with partners to build a policy environment and to pilot financial mechanisms, public and private business models that bring about this change. This competence built on over 20 years of experience in local government finance and local economic development finance.

Mission

The mission of the UN Hub for Subnational Finance is to support its clients in designing, testing and scaling up inclusive mechanisms for sub-national finance, particularly for the urban transition, the green transition and the productive transition

Vision

The vision of the UN Hub for Subnational Finance is a world where sub-national finance is a key component of development finance and therefore the SDGs are being achieved.

Our Clients

The clients of the UN Hub For Subnational Finance are national governments, regional governments, cities, local governments and agencies of local transformation such as utilities and special investment vehicles that drive local economic development.





UN Hub for Subnational Finance



Where do we Work?



Our partners

Donors	UN Partners	Multilateral Development Banks	Research Institutions	Funds	Regional Bodies	Alliances & Networks
       	           	     	       	     	   	      

Other partners include private sector, foundations and academic institutions.

Our Counterparts: LDC group, Ministries of finance, environment and local government, central banks, domestic banks, local governments and local government associations.

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Filling the Gap in Local Development Finance

A global standard for local climate adaptation

The **Local Adaptive Climate Living Facility (LoCAL)** was created by UNCDF in 2010 as a standard and country-based mechanism for least developed countries to fund local climate adaptation. Given the scale of the climate crisis this is an increasing priority for LDCs and the LoCAL mechanism is specifically referenced in the **Doha Programme of Action for the LDCs** and in the **UNFCCC** process as a Non Market Approach under article 6.8. LoCAL is built on UNCDF's expertise in local development funds and in local government finance. In 2022 the Performance Based Climate Resilient Grant mechanism at the heart of LoCAL was awarded **ISO 14093**. Under this business plan UNCDF will continue to grow the LoCAL mechanism promote the standard and establish a credible monitoring and certifying capacity for the ISO.

This will build on UNCDF's existing work with global benchmarks such as the collaboration with **OECD on the Sub National Observatory of Local Government Finance and Investment**.

Diversifying local access to investment capital

The publication **“Local Government Finance is Development Finance”** outlines how the current financial architecture is unable to provide the infrastructure investment required to transform rapidly growing developing country towns and cities so that they can boost productivity and living standards whilst making the green transition to sustainable, climate resilient and net zero economies environments. Governments cannot borrow sufficient capital on their balance sheets and left to its own devices the private sector cannot always supply capital at the right price for transformative investments. One solution is to build local fiscal space, open up domestic capital markets and encourage city friendly international investment whilst mitigating against sovereign indebtedness. UNCDF will expand its management of pipelines, technical assistance facilities and international guarantee funds to build city friendly mechanisms and institutions that diversify local access to investment capital.

The compelling narrative of local development finance

Local Development is not simply development that takes place locally because all development takes place somewhere. Instead, Local Development builds on local specificities, local capacities and local societies so that both monetary value and other benefits are retained locally and contribute to further local development. The purpose is to build sustainable systems for local development finance. This proven and effective strategy has been applied globally to societies emerging from conflict, economic challenges and disruptive external shocks. Since the 1990s UNCDF has been a thought leader in local development finance and will continue to offer its services to member states. This will include continuing programmes in Uganda, Somalia, Democratic Republic of Congo and growing elsewhere on demand. It will also include expanding UNCDF's thought leadership and partnerships in this area.

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Policy Framework for the UN Hub for Subnational Finance

The **Malaga Global Coalition for Municipal Finance** created by UNCDF and UCLG in collaboration with FMDV advocates for a **global financial ecosystem that works for cities and local governments**. Based on the outcomes of the first two Malaga Coalition Conferences, five elements of the financial ecosystem have been identified as the policy agenda towards the Third Conference: **intergovernmental fiscal transfers, own source revenue, domestic capital markets for long-term debt financing, city friendly investment funds, and a guarantee fund for cities**.



Malaga Policy Agenda in Practice

Intergovernmental fiscal transfers as vehicle for development finance

Intergovernmental fiscal transfers are an important part of local government finance. They should also be recognized as an effective vehicle for development finance. UNCDF has a long history in working with governments to develop and test out how to do this through Local Development Funds. These go to scale and are adopted by government and development partners. One example at national level is the country programme in Somalia. This approach is also deployed to climate adaptation, the **Local Climate Adaptive Living Facility (LoCAL)**, managed by UNCDF, is an LDC led standard and country-based mechanism that channels climate finance in over 34 countries through Performance Based Climate Resilient Grants (PBCRG). The PBCRG methodology was awarded an ISO (14093) in 2022 and UNCDF will promote and certify this standard.

Own source revenues to build local fiscal space

Own Source Revenue is a fundamental pillar of local government finance that complements Intergovernmental Fiscal Transfers and that builds a foundation for non-grant finance such as loans and guarantees by increasing local fiscal space. UNCDF collaborates with **UN DESA** on a global handbook for Asset Management (an important part of Own Source Revenue). UNCDF also supports member states and local government improve local fiscal space through tools such as PEFA, TADAT and innovative revenue generating including through digital methods. Examples include the Local Fiscal Space initiative. UNCDF is also a member of the **Local Public Sector Alliance** and supports the work of the Africa team. UNCDF collaborates with the **OECD** on the Global Observatory on Sub National Finance and Investment which is a leading reference volume in this space – also covering IGFT.

City-friendly investment funds

City Friendly investment funds that specifically respond to the development requirements of towns and cities are a further component of the Malaga policy agenda. **The International Municipal Investment Fund (IMIF)** is an instrument of the Malaga Coalition managed by **Meridiam**. The fund was established following a call for proposals led by UNCDF and the **United Cities and Local Governments (UCLG)** in collaboration with the Global Fund for Development (FMDV). UNCDF manages the technical assistance facility for the Fund. UNCDF is supporting **UCLG Africa** on the **African Territorial Agency (ATA)** that aims to be an investment vehicle for African Cities. UNCDF is partnering with **ICLEI** and with **UN Habitat** on the pipeline management, technical assistance and deployment of city friendly investment funds.

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Malaga Policy Agenda in Practice

Domestic capital market development to recycle national savings

Domestic Capital Market Development is a further objective pursued by UNCDF with member states through the Sub-National Financing Hub. In Tanzania, UNCDF is providing technical support to the **Tanga Urban Water Authority and Sanitation (UWASA)** to issue the first municipal bond to be launched on the Dar es Salaam stock market.

Similar arrangements are underway in West Africa including in partnership with the **Gambia River Basin Authority** and the **Swiss Agency for Development and Cooperation (SDC)** and in Asia in partnership with the **European Union**. Domestic capital markets have the potential to re-cycle domestic savings and provide sustainable long-term financing for local transformative infrastructure. UNCDF has secured a green bond rating for the Tanga transaction and is developing the capacity to support the wider UN system in sub national bond issuance.

City-friendly guarantee fund to accelerate urban transformation

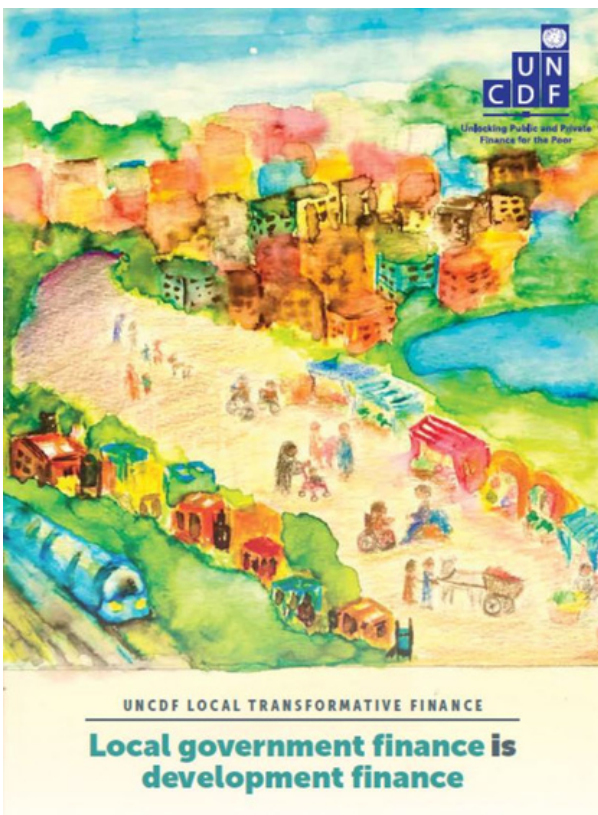
City Friendly Guarantee Facilities are critical to ensure that regions, cities and local governments can access non-grant finance from domestic and international financial institutions and to mitigate against potential impact on sovereign borrowing. UNCDF is partnering with the **European Union through the European Fund for Sustainable Development (EFSD+)** and plans to partner with the Swedish government on city guarantee facilities which will be managed as instruments of the **Malaga coalition**.

These facilities will be deployed to support domestic financial institutions develop city friendly financial products that can accelerate the implementation of innovative solutions tested by UNCDF. The ASEAN region is piloting this approach by combining the guarantee facility with a pipeline of transformative and climate positive city investments designed to solve specific development challenges

UN Hub for Subnational Finance - Business Plan



Local Government Finance is Development Finance



Development finance is about sustainably paying for social and economic transformation, which requires three types of transition: **1) urban transition from rural to sustainable urban spaces; 2) green transition from unsustainable to clean development; and 3) productive transition from low to high productivity.** Local government finance can be a powerful vehicle for development finance and the mission of UNCDF through the sub national finance hub is to support member states effectively meet their development objectives.

The flagship publication “**Local Government Finance is Development Finance**” outlines the relevance of these policy areas to the global development agenda. The UN Sub National Finance Hub helps developing countries deal with the triple challenge of improving the health of people, the health of the planet, and sustainable urbanization. These simultaneous objectives can be effectively addressed through local government finance—that effectively deploys funding and expands fiscal space and capital availability.

The key to UNCDF's interventions is the understanding that the cost of or access to capital is not always conducive to local transformation. The focus will be on building mechanisms that enable financeable transformative projects in the public or private sectors that have a high development impact and reimburse their funding either through direct repayments for non-grant finance or increases in local fiscal space and local economic resilience for grant finance.

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A few results

LoCAL Mechanism

15 M



Finance channeled to communities reaching 15 Million people

Engaged 328 local government authorities

Engaged with 34 countries



International Municipal Finance Fund

\$300M



Raised for the fund to expand subnational government credit access and support policy reforms

50

Over 50 projects received and under review in non OECD countries

\$125M

IMIF-funded BRT project in Kumasi, Ghana: total project cost of \$125m via equity and debt, through public-private partnerships

0%



Chefchaouen, Morocco: grant and reimbursable grant at 0% loan rate for public lighting system improvement

Uganda



Over 123,432 jobs were created mainly through the START facility and the LGEF



120 SMEs were reached with business development service



The Local Government Excellence Fund (LGEF) supported the establishment of over 17 medium-sized economic infrastructure projects

BluePeace



25 additional water kiosks will be built, in addition to the 40 under the initial Blue Peace program

\$608K

The Peacebuilding Fund is contributing \$608K

\$2B



The investment-ready projects identified amount to a portfolio of \$2 billion



Impact Capital for Development



The United Nations Capital Development Fund (UNCDF) is the United Nations' flagship catalytic financing entity for the world's 46 Least Developed Countries (LDCs). With its unique capital mandate and focus on the LDCs, UNCDF works to invest and catalyse capital to support these countries in achieving the sustainable growth and inclusiveness envisioned by the 2030 Agenda for Sustainable Development and the Doha Programme of Action for the least developed countries, 2022–2031.

UNCDF builds partnerships with other UN organizations, as well as private and public sector actors, to achieve greater impact in development; specifically by unlocking additional resources and strengthening financing mechanisms and systems contributing to transformation pathways, focusing on such development themes as green economy, digitalization, urbanization, inclusive economies, gender equality and women's economic empowerment.

A hybrid development finance institution and development agency, UNCDF uses a combination of capital instruments (deployment, financial & business advisory and catalysation) and development instruments (technical assistance, capacity development, policy advice, advocacy, thought leadership, and market analysis and scoping) which are applied across five priority areas (inclusive digital economies, local transformative finance, women's economic empowerment, climate, energy & biodiversity finance, and sustainable food systems finance).

