United Cities and Local Governments
Cités et Gouvernements Locaux Unis
Ciudades y Gobiernos Locales Unidos

FMDV
Supporting local authorities to access funding

UN CDF
Unlocking Public and Private Finance for the Poor

Investor Prospectus

Technical Assistance Facility
International Municipal Investment Fund

December 2019

Index

Executive Summary

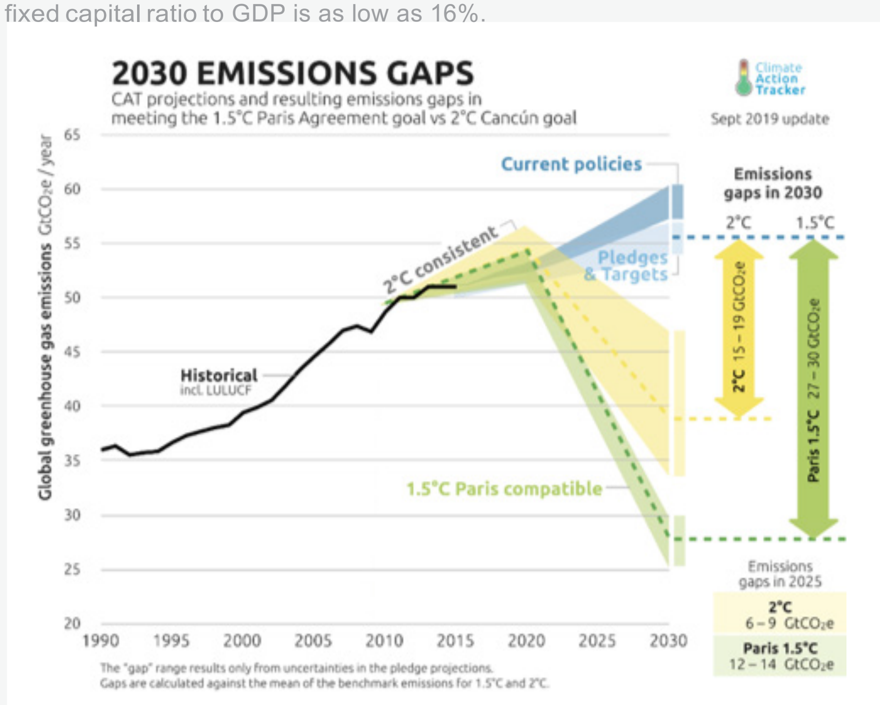
This prospectus details an opportunity for development partners, financial institutions, donors, and philanthropists to contribute to the International Municipal Investment Fund – Technical Assistance Facility (IMIF TAF) as part of our common efforts to secure a sustainable future for our shared planet and its people.

We are reaching tipping point, a pivotal moment in our collective human experience. Either we build green cities that provide quality lives for the next generation or we face a paradigm shift in our existence with millions of people facing enormous challenges in their lives - many of whom will choose to migrate. In the last two decades, despite the 2008 great recession, substantial progress has been made in reducing poverty in developing countries. This progress could now rapidly unravel and reverse in the face of the twin interlocking realities of urbanization and climate change.

Global emissions of greenhouse gases are exceeding the Paris Agreement targets and we are struggling to keep them under control.[1] If the science is right, then expect major changes to weather patterns. Are we ready?

Meanwhile, across the developing world and particularly in Africa, South Asia and South East Asia, urbanization is transforming the landscape.[2] This follows a similar trajectory to the earlier European urbanization or, for example, the more recent South Korean urbanization. Is the global financial architecture set up to finance the necessary resilient cities?

In each case, changes in economic structures and local food systems, demographic trends and increased access to information drive this rapid urbanization wave, which required large investment in infrastructure. Gross fixed capital formation has averaged well over 30% of South Korea's economy from 1977 to 2015 – reaching over 40% in some years. Infrastructure financing increased by more than three times from 1997 to 2010.[4] Over the last three decades, this investment surge has resulted in 99% of South Korean citizens benefiting from drinkable piped water. In contrast, for rapidly urbanizing Madagascar the gross fixed capital ratio to GDP is as low as 16%.



Similarly, gross fixed capital formation as a percentage of GDP in Mali is barely 18%, and the number is even lower in Guinea (13%) and Malawi (11%).[5] The 2019 UNCTAD report for least developed countries warns us that –

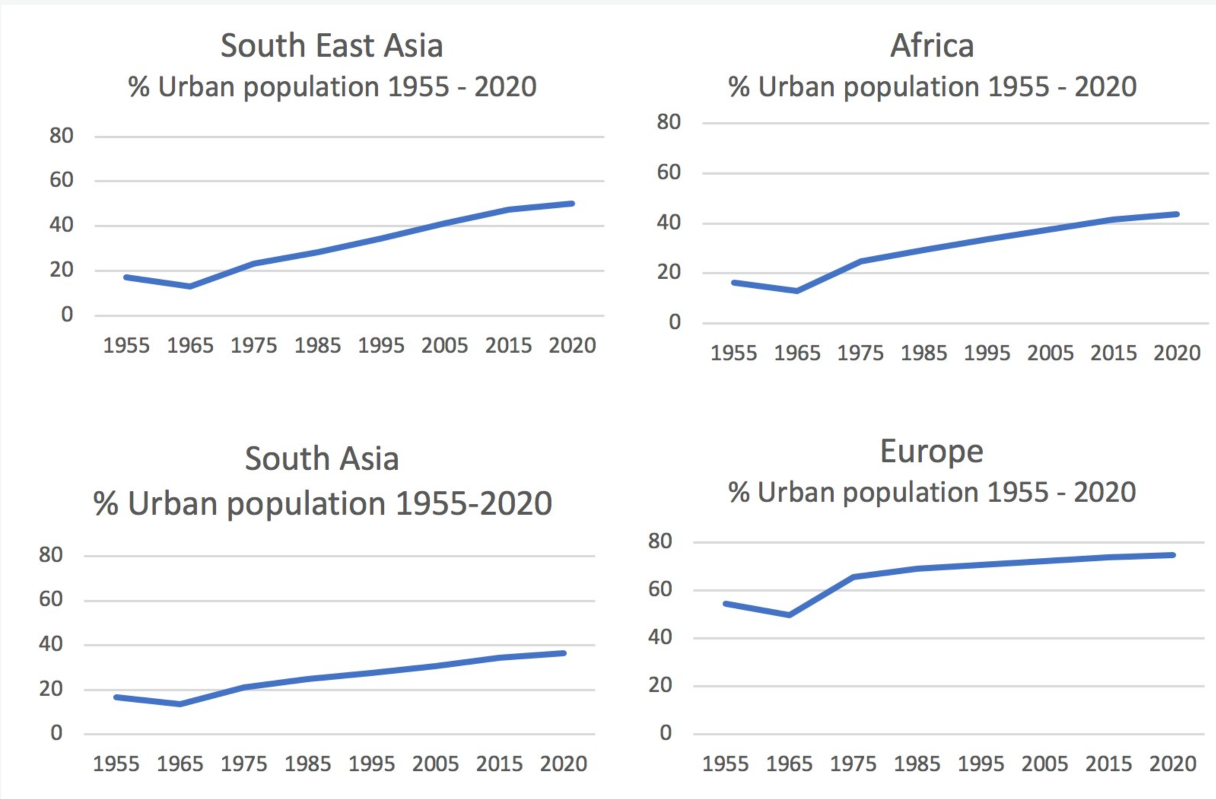
> *"Another critical consideration… is that GDP growth has mostly stemmed from final consumption and, only to a far lesser extent, gross fixed capital formation. The contribution of gross fixed capital formation, moreover, has shrunk since the global financial crisis of 2008/09, as overall growth slowed while the investment ratio stabilized at around 26–27 per cent of GDP."*[6]

The result of this under-investment can already be seen. Cities from Dhaka, Bangladesh to Dakar, Senegal are sinking under the weight of population increases and environmental challenges. The Plastics emergency and the Biodiversity crisis further compound the problem.[7] Sourcing the necessary green infrastructure finance will require long term capital at the right price for cities in developing countries. The current global financial system is not equipped to do this.

This is why the United Nations Capital Development Fund (UNCDF) and the United Cities and Local Governments (UCLG) in collaboration with the Global Fund for Cities Development (FMDV) have created a coalition for a global financial ecosystem that works for cities and local governments. This coalition is advocating for the necessary policy reform, regulatory changes, fiscal architecture and financial mechanisms & products at both global and national levels. The coalition is also collaborating on practical actions to drive the message home.

The International Municipal Investment Fund (IMIF) is initiated by UNCDF and UCLG with the collaboration of FMDV as an instrument of the coalition. In November 2019, following a transparent selection process, Meridiam, a private asset manager, was chosen to manage the IMIF, which will invest in local government projects that demonstrate solutions to the challenge outlined above. Each investment will not only be valuable in itself; it will also showcase how policy and regulatory reform to expand local fiscal space can accelerate these solutions at scale - thereby unlocking further investment flows. Meridiam is currently raising capital from development banks and commercial investors for the IMIF. The target capitalization is 350 million EUR at first closing. This will be deployed to city projects together with domestic banks and other investors, leveraging its contribution to domestic capital markets development for local infrastructure finance.

UNCDF will manage the technical assistance facility for the fund, the IMIF TAF, which will ensure that the pipeline of investments reaching the IMIF truly serves the purpose of the coalition. To do this the IMIF TAF requires an initial injection of US$50 million over the next five years. The IMIF TAF will begin work on 2nd January 2020 with an initial contribution of US$1.1 million from UNCDF's own resources. This document sets out details of how the IMIF TAF will work. Urbanization in the developing world will soon reach the same level as in OECD countries: The time is now!



IMIF Technical Assistance Facility

The IMIF TAF will provide the IMIF with a pipeline of fully prepared local government investment opportunities mostly under US$25 million in total size, in developing countries. These will be sourced by UNCDF, UCLG and FMDV through a common filter open to all cities and local government networks. The IMIF TAF will be managed by UNCDF's Local Development Finance team and reports to its Local Development Investment Committee (LDIC) chaired by the Director of Local Development Finance. The IMIF TAF will have an initial capitalization of US$50 million. Pipeline projects may benefit from UNCDF de-risking instruments (grants, reimbursable grants, concessional loans, guarantees) and capacity support to prepare projects to investment stage.[8] IMIF TAF also offers technical support to prepare the policy and regulatory environment for municipal finance. In summary, it supports cities and local governments in the following areas:

+ Capacity Strengthening: Support for local governments to promote local economic development, economic analysis, planning and capital investments; capacity support to investment projects on business plan development, financial modeling and other tools;
+ Enabling Environment: Policy, legislative and regulatory support to central and local government authorities to promote local economic development finance and local capital markets including technical support to mechanisms such as project finance and domestic bond markets;
+ Pipeline of Revenue Generating Investments: Support to projects in catalytic sectors that address the urbanization and climate imperative, add value to local economies and provide proof of concept to market regulators, domestic financial institutions, commercial banks, and international financiers.

"Dual Key" Pipeline and Local Development Investment Committee

The IMIF TAF will apply the Local Development Finance Dual Key pipeline development process to assess both the development impact and financial sustainability of each project to provide the IMIF with investment- ready opportunities. Box 1 indicates the dual key approach with respect to the IMIF– including information on current pipeline status.

At various points in the dual key process projects are assessed by the LDIC chaired by the LDFP Director and composed of UNCDF technical experts and independent observers who provide interrogation of financial and impact aspects of each investment. Proposals coming to the LDIC are presented and defended by the transaction teams which includes those held to account for assuring the impact of the investment and also those accountable for its financial sustainability. For the IMIF TAF pipeline the impact team will be led by the Municipal Investment Finance Programme Manager and the financial sustainability team will be led by the Local Finance Initiative Programme Manager. Independent municipal finance observers, including from UCLG and FMDV where appropriate, will assess both impact and financial sustainability prior to any voting and decision. Figure 1 indicates the two decision points of the LDIC with regards to IMIF TAF pipeline. Firstly, a sub-committee of LDIC will provide an initial go / no go on the investment proposal. A "go" decision moves the project to stage 1 in the dual key pipeline. Secondly the full LDIC meets during stage 3 in the pipeline to decide whether to submit the investment to Meridiam for a financing decision. The committee may also attach a de-risking instrument (grant / reimbursable grant / guarantee / concessional loan) to the project.[9] This may require deployment of UNCDF's on-balance sheet capital through its investment platform.

Box 1: Stages in the UNCDF Dual Key pipeline process and their relationship with IMIF TAF

Stage 0: Pipeline sourcing: The pipeline comprises local government led investment opportunities sourced systematically and thematically through three channels: Firstly, from the existing ecosytem of cities' networks including, when appropriate from specific calls for proposals in targeted areas (e.g. transport, clean energy); Secondly, from ongoing direct engagement with cities that includes bottom up, early stage investment planning as part of city development strategies. This early scoping mitigates risks of impactful projects that are not designed with both bankability and political support baked in, which can lead to disappointment later; Finally from a common joint portal open to all eligible cities, which will be designed and rolled out as the IMIF TAF pipeline grows. All projects are subject to the common, transparent filter and process illustrated in figure 4 and figure 5. Currently 20 projects are at stage zero. A dedicated technical note and operational note on sourcing arrangements will be published in Q1 2020.

Stage 1: Soft pipeline due diligence — pre-qualifications met: Includes the preliminary Go / No Go decision by the LDIC sub-committee (as indicated by figure 1) based on initial appraisal (initiation of pre-assessment and start of Dual Key), including impact pre-assessment, data collection, rapid financial assessment, stress tests, site visits, approximation of investment size and capital requirements, assessment of investors' appetite / sources, availability of finances and the sources of risks. This work is scheduled for Q1 2020 for the first batch indicated in figure 6.

Stage 2: Technical assistance complete – development impact & financial keys unlocked: Those projects that make it through the first appraisal are subject to full impact measurement assessment and analysis through global standards and agreements of thematic development projects, as well as verification of financial sustainability and investment potential. Both the impact team and the financial team need to be satisfied before the investment moves ahead.

Stage 3: Investment ready for submission to domestic banks / IMIF / UNCDF's own lending platform: The IMIF TAF team consults, negotiates, structures and selects appropriate investment options, including preparing an investment teaser, project information memorandum, capital structure, complete financial models etc. to present to lenders and investors. The opportunity is then submitted to the full LDIC, where the impact and financial teams defend the transaction to the committee members, including independent expert advisors. Following approval, the project is forwarded to Meridiam as indicated in figure 1.

Stage 4: Financial closure approved – UNCDF seed capital grant signed / bank loan term Issued / international finance loan term issued: This stage may include having the lender- and developer-signed loan agreement (or grant agreement where relevant), confirming conditions precedents are manageable (e.g., collateral, management, valuations, owner contribution etc.) and that the project implementation plan and public funding are confirmed. At this stage UNCDF may be co-investing in the project with the IMIF and these arrangements refer to the UNCDF interest in the transaction. The IMIF has its independent arrangements.

Stage 5: Financial disbursement conditions met: All conditions are cleared or mitigated, and the funds drawdown schedule and all lender internal approvals are confirmed. The disbursement process starts, funds are deposited in the project account, for UNCDF on balance sheet loans - project funds are transferred to the loan account and UNCDF monitoring of performance grants / loans / guarantees begins.

Stage 6: Construction phase & implementation: The project implementation milestones and timelines (construction, equipment, inventory, management etc.) are monitored. The IMIF TAF provides post-investment support to the local government or project sponsor where relevant, collects business reports and keeps the relationship with the developer warm. For on balance sheet operations, payment of interest and principle of UNCDF loans is made.

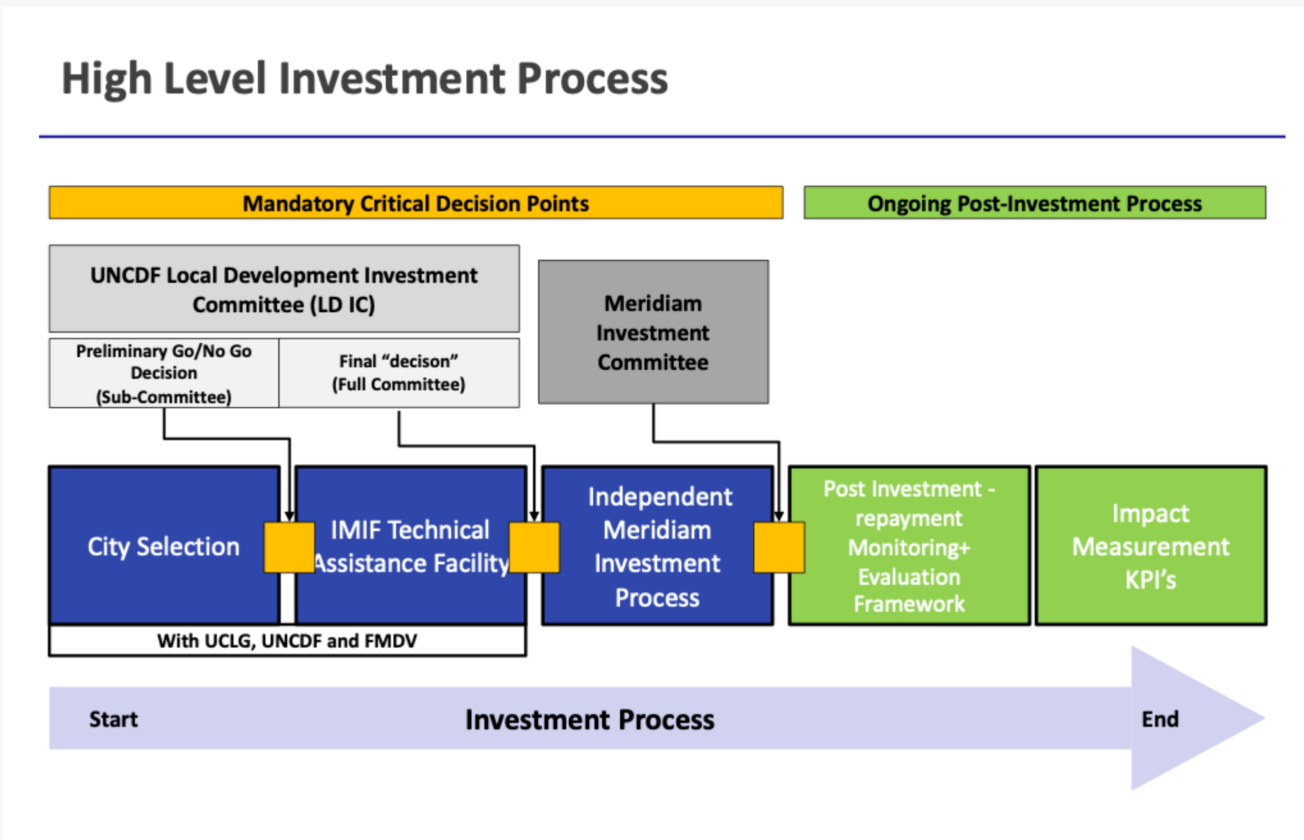
Stage 7: Assessment of performance & evaluation: This stage focuses on compliance with project design and objectives, technical and financial metrics and social and environmental standards (including environmental certificate issuance when applicable). Compliance monitoring examines data collection and business reports, analysis of performance (financial, production, technical, policy etc.), corrections, feedback, and revisiting risks. Payment of interest and principle of loans are done at this stage.

Stage 8: Impact measurement and reporting: Impact is measured through data collection and analysis to examine gaps, evaluation, improvement, policy influence and systemic change in accordance with the Local Development Finance and IMIF TAF theory of change. This will include measurement of how the investment: contributes to expanding the scope of municipal finance (for example, pioneer a new financial structure, contribute to a nascent municipal bond market, test a new type of PPP with local governments); and/or demonstrates how local government-sponsored projects can accelerate the implementation of the global development agenda.

The LDIC was created in 2016 and has met 23 times, approving 39 investment projects. Voting members include UNCDF's technical and investment teams. The Local Development Finance Senior Investment Manager and team provide a secretariat to the committee and its pipeline.

The dual key process was recognized by the International Finance Corporation at the 2019 Global SME Finance Awards, receiving an honourable mention in the "product innovation" category. [10] An online pipeline management system enables tracking of each project along the cycle and consolidation of relevant documents. Voting and minutes of all LDIC meetings are transparently recorded. Meridiam will have access to all projects in the dual key pipeline, which will enable the fund manager to synchronize with the upcoming investment opportunities.

Figure 1: High Level Investment Process for IMIF pipeline



Return on Investment

Overall Returns of the IMIF TAF

The intended outcome of the UNCDF and UCLG, FMDV coalition is to increase the ability of local governments and other sub-sovereign entities to address key urbanization challenges through sustainable sources of financing, both public and private. The IMIF is an instrument of this coalition. The IMIF TAF will both prepare investments for the IMIF itself and open the market for further investments, including by promoting policy and regulatory reform. To this extent the IMIF TAF is intended to indirectly, but measurably, generate a financial return by facilitating the success of the IMIF and by increasing other forms of subnational finance. The IMIF TAF will contribute to:

+ Remove the policy and regulatory hurdles to subnational finance;
+ Strengthen domestic capital markets for subnational finance;
+ Expand international capital deployed to subnational finance;
+ Build the capacity of local governments to access subnational finance;
+ Directly support and control the pipeline to the IMIF; and open up the broader market for subnational finance and more returns.

Investing in the IMIF TAF will also generate a significant impact return, as the SDGs and the Paris Agreement cannot be achieved without an increase in subnational finance and investment. The impact returns of the IMIF TAF will include:

+ Ecobonds and other financial products for subnational green finance based on the work of UNCDF's LoCAL programme for climate adaptation and mitigation;
+ Women's Economic Empowerment (WEE) and the application of UNCDF's WEE Index and economic assessment with a gender lens;
+ Measurable impact in local economic development, job creation, support to local value chains and other positive externalities;
+ Measurable impact on themes related to local government investment such as housing, bio-diversity, plastics and sustainable waste disposal, environmental management.

Returns from the IMIF TAF therefore indirectly encompass the financial returns secured by the IMIF, the financial returns secured by institutions that co-invest with the IMIF and broader financial returns from the newly opened subnational capital flows into the future, which have been facilitated by the policy impact of IMIF TAF. Impact returns directly include the SDG impact and Paris Agreement impact of the IMIF financed projects themselves. Indirect impact returns include the acceleration of this SDG and Paris Agreement impact through replication of the IMIF demonstration projects, including through wider use of the impact products piloted by IMIF TAF.

Financial Return on Investment

The financial returns on investment in the IMIF TAF are indirect but measurable. The IMIF TAF will be funded by grants and will not pay a return to those institutions providing its funds. However, indirect financial returns can be broken into three categories:

Firstly, the IMIF TAF will provide the bulk of the IMIF pipeline and will deliver bankable investments to Meridiam as IMIF manager. These will produce a return for the limited partners to the IMIF.

Secondly, the Meridiam Investment Committee (MIC) will take a sovereign decision on each project (see figure 1). There will be opportunities from the pipeline that are not approved by Meridiam but that will produce a return for other investors.

Thirdly, the IMIF TAF will open the market for municipal finance through the policy and regulatory reforms required for the IMIF investments.[11] Many IMIF TAF transactions will be the "first of a kind", creating opportunities for transactions developed and financed by others.

SDG Impact Return on Investment

In addition to the financial return on investment the IMIF TAF will deliver significant impact returns. These will be measured by the award-winning Local Development Finance Dual Key method that assesses both financial return on one hand and SDG impact on the other at a single investment committee.[12] The impact "key" is assessed by a different team to the financial "key". The impact key is measured through the appropriate metric – from the SDGs, NDCs or NAPs.[13] This approach means that the relationship between impact and financial sustainability is squarely addressed from the outset – mitigating the risk of financially sustainable projects with negligible development impact or projects with ambitious impact targets but no financial sustainability.

Where appropriate to the investment, the IMIF TAF will integrate some of UNCDF's ongoing work with impact investment products. This will also facilitate the potential replication of these to non-IMIF investments. The products under development include:

Climate change and local government EcoBonds: [14] The Local Climate Adaptive Living Facility (LoCAL) is a global mechanism that promotes climate adaptation through local government finance. This becomes critical in the rapidly expanding towns and cities of Africa and parts of Asia, unless resilience is locked into the built environment now, it will become difficult if not impossible to secure it later. Local governments have the analysis, mandate and convening power to accelerate the necessary investments for our collective survival - yet they face difficulties accessing the required finance. The LoCAL mechanism supports implementation of Nationally Determined Contributions and National Adaptation Plans in line with the Paris Agreement. The LoCAL guidelines are an annex to the UNFCCC National Adaptation Guidelines.[15] In line with the recent independent evaluation of the mechanism, LoCAL will be expanded to certify Local Government "EcoBonds" for climate adaptive infrastructure projects prepared through the IMIF TAF.[16] The development of the EcoBond initiative was supported by the Swedish government.

Water management and BluePeace Bonds: [17] The BluePeace approach to investment is based on the development of transboundary, multisectoral joint investment plans multiple countries or municipalities. This includes investments required for the provision of electricity or water for irrigation, industrial use, human consumption such as infrastructure, data, monitoring and marketing or other water-related projects. BluePeace incentivizes cooperation and political agreements with water as the 'entry point' or reason for engagement, leading to a reduction in social, political and economic conflicts and supporting peace. Taking the BluePeace joint investment plan from concept to reality requires a new financing structure blending public money and private capital – or blended capital which can be used to invest in a new type of financial instrument – the BluePeace Bond – the IMIF TAF will support local governments in the development and issuance of municipal BluePeace Bonds. UNCDF is collaborating with the government of Switzerland on BluePeace.

Sustainable urbanization, secure livelihoods and Women's Economic Empowerment: [18] Urbanization is major trend across Africa. Will rapidly growing secondary cities be able to foster secure, safe inclusive and prosperous economies? Women's Economic Empowerment is part of the answer. Evidence shows that investing in women's jobs and security has an accelerator effect on wider social progress. Yet this requires purposeful municipal strategies that combine vocational training, safe neighbourhoods, reliable public transport and appropriate care arrangements and investments in those local economic sectors that drive women's economic empowerment and raise the value of women's employment. The IMIF TAF will work with local government leaders through UNCDF's Inclusive and Equitable Local Development programme on investments that deliver women's economic empowerment. This will apply UNCDF's 'Local Economic Assessment with a gender lens' to identify those sectors and the Women's Economic Empowerment Index to assess the specific contribution of the investment to Women's Economic Empowerment.[19]

Investors and Partners

Three categories of financial partners to the IMIF TAF are anticipated:

Development Banks that are investees in IMIF: Potential IMIF investors include institutional development banks.

For these partners the rationale for contributing to the IMIF TAF is associated with their investment in IMIF itself, which will not only be compensated by the return from the IMIF but also from the market opened up for further financing in sub national projects. Through investing in IMIF and donating to IMIF TAF these institutions will contribute to the policy objectives of the UNCDF and UCLG coalition for a global financial ecosystem that works for cities and local governments.

Governments, Development partners and foundations: Contributions to IMIF TAF are requested from governments and development institutions, philanthropic foundations and interested family offices.

For these partners their contributions to IMIF TAF will reflect their policy objectives with regards to urban finance and the development outcomes that IMIF TAF will produce. The investment rationale includes the policy and regulatory reforms that IMIF will stimulate and the additional development impact. Furthermore, in many cities the IMIF pipeline of investment projects will be associated with ongoing development programmes of these agencies. UNCDF has already concluded an agreement with K-Water (The Korea Water Resources Corporation) for financial support and technical assistance to water related investments. For example, an IMIF financed waste to energy investment could be integrated into an environmental initiative funded bilaterally by a development partner. In this way funding to IMIF TAF will leverage existing policy and capacity building work.

Private sector investors and financiers: Whilst the IMIF TAF will not deliver a direct financial return it will build an ecosystem for private capital to contribute to a sustainable future. The IMIF TAF also transparently and efficiently measures and accounts for this impact. Private sector institutions are invited to contribute to the IMIF TAF through their corporate social responsibility programmes or through their technical assistance support. UNCDF has already partnered with Bechtel, a world-class engineering, construction and project management company to provide additional capacity to its support to local government investments.

The IMIF TAF will seek relationships with domestic private sector financial institutions such as subnational development banks, pension funds and domestic banks. For projects in country, these investors will not require exchange risk hedging and may have a different pricing of political risk than external financiers – potentially lowering the price of their capital, which can be repaid in local currency. This outreach will encourage consideration of co-investing with the IMIF. This approach deepens the impact on domestic capital market development.

Risks Management

Investment in the IMIF TAF carries a number of risks and strategies have been developed to mitigate these risks. There is a risk of limited pipeline and deal flow. There is also a converse risk of limited capacity to respond to a large pipeline. Finally, there is the risk of insufficient capitalization of IMIF TAF and / or IMIF itself.

Risk of insufficient dealflow: The IMIF initiative is an instrument of the UNCDF and UCLG coalition for a global financial ecosystem that works for cities and local governments. This means that its investment projects should meet three criteria: a) deliver financial returns; but also, b) produce environmental impact and social impact; and c) open up fiscal space for local governments through impact on policy and regulatory reform. In this regard there is a risk that the IMIF TAF will not be able to identify sufficient investments that meet these three criteria. In this scenario the IMIF would be unable to function as intended. The onus will be on the IMIF TAF to supply sufficient flow of deals to IMIF.

There is a false narrative about a large portfolio of local government transformational investments that could be implemented "if only" they could be connected with financiers. UNCDF's experience is that many of these projects certainly have local political support and high development impact. However, on closer inspection there are often two broad obstacles to their realization: Either the regulatory environment does not permit the financial structure that would make them bankable, or there is insufficient public investment to secure the desired impact, which the bankable element of the project cannot deliver alone. The IMIF TAF will work closely with cities and regulators in the early design stage to address these problems. The case studies in the next section provide some examples of this approach. This early engagement will also help mitigate any perception that IMIF engagement is 'diluting' the impact of projects that are already on the drawing board.

Yet regulatory reform and project development are time consuming. The risk remains that the IMIF TAF pipeline will include an insufficient number of projects that satisfy the three criteria outlined above. The strategy to mitigate this risk has two elements. In the short term, UNCDF already started pipeline preparation and ran the IMIF TAF in 'pilot mode' during 2019 even as the process to select the IMIF fund manager was ongoing. Now that process is complete UNCDF will fully operationalize the IMIF TAF from January 2020 whilst Meridiam is fund raising and incorporating the fund. The objective is to provide Meridiam with at least five investment ready projects meeting the three criteria by the time IMIF is established in mid 2020.

In the medium term, the UNCDF local development finance advisors will issue regular calls for proposals and the ongoing UNDCF programmes will actively link their work with potential IMIF investments where appropriate in Climate Finance, Women's Economic Empowerment and BluePeace. Additionally, UNCDF and UCLG, with FMDV, will source pipeline from their ongoing engagement with the cities networks such as ICLEI – Local Governments for Sustainability [20] and Global Covenant of Mayors for Climate & Energy.[21] Finally, UNCDF and UCLG, with FMDV, will manage an open portal for cities and local governments to enter the IMIF TAF pipeline through a jointly designed filter.[22] The dual key pipeline will operate a transparent standard operating procedure and transaction support process and Meridiam will be able to see the projects as they are coming down the pipe.[23] Meridiam may not invest in every project forwarded by the LDIC, therefore sufficient dealflow will be essential to the success of the endeavor.

Further features of the IMIF TAF risk mitigation strategy include:

+ Risk of limited pipeline due to slow progress on regulatory reforms: This risk is mitigated through UNCDF's deep appreciation and experience of advocacy, policy and regulatory reform for local government finance. The UNCDF Local Development Finance team has 25 years' experience in this area, as detailed in the IMIFTAF team section below. The case study from Bangladesh (see below section) indicates one example and the IMIF TAF will calibrate its investment pipeline to the timeline of this work.
+ Risk of limited pipeline due to low capacity in cities: Often cities present investment projects which are designed with insufficient attention to financial return potential. The IMIF TAF and its partners will work closely with the supported cities to ensure that financial sustainability is considered in the early design stages. Other risk mitigating strategies include UNCDF's work with sub national development banks and other financial intermediaries which can overcome some local government capacity constraints by absorbing specific transactions and / or financial flows on their balance sheets without defeating the purpose of opening up capital markets for local government. The case study from Nepal below provides an example.
+ Risk of limited pipeline due to limitations on sub-sovereign debt: IMIF was expressly created to expand local fiscal space and broaden and deepen sub national capital markets and will address the limitations on sub sovereign debt. It will lend directly to municipalities, purchase municipal bonds and also finance special purpose vehicles and PPPs that are sponsored by municipalities. The IMIF TAF will synchronize the dealflow to Meridiam in accordance with its success in opening up local fiscal space. For example, this means financing a particular model (e.g. PPPs as in the Guinea case study below) whilst the regulations are put in place for municipal bonds and then being in pole position to finance the bond issue when it occurs. Whilst this risk may limit the flow of deals from some eligible countries UNCDF is confident that sufficient pipeline exists for the deployment of IMIF capital.

Risks of insufficient IMIF TAF capacity to meet demand: A converse risk is that the IMIF TAF will have insufficient capacity to support the high demand from cities, leading to unmet expectations. To mitigate this risk UNCDF is investing US$1.1m of its own resources to establish IMIF TAF and to support capacity for the first 5 projects. Beyond this, UNCDF will ensure that communication with cities is concomitant to its capacity to support them. A fully funded IMIF TAF will be necessary if the IMIF itself is to fulfil its purpose as an instrument of the coalition for a global financial ecosystem that works for cities and local governments and proactive outreach will be conducted with institutions to mobilize these funds.

Risks of insufficient capitalization of IMIF TAF and / or of IMIF: UNCDF will raise funds for the IMIF TAF. Meridiam will raise funds for the IMIF. Whilst each entity will be managed separately there will be coordination in the fund-raising efforts. To get things started, UNCDF has committed US$1.1m to the IMIF TAF for 2020 which will produce an initial pipeline. In the event that Meridiam are unsuccessful in establishing and capitalizing the IMIF, UNCDF will ensure that these projects are placed with other investors. In these circumstances, UNCDF and UCLG will continue their coalition for a global financial ecosystem that works for cities and local governments with other partners.

Proof of Concept/Case Studies

The following three short case studies illustrate how the IMIF TAF will open up local fiscal space building on these examples of the ongoing work of UNCDF in municipal finance.

Bangladesh story

UNCDF supported the credit rating of 10 municipal governments in Bangladesh and worked with regulators on municipal bond issue.[24] Studies and consultations including an impact assessment tool for Municipal Eco Bonds based on the National Climate Change Risk Strategy of Bangladesh, as well as the review of legal and regulatory frameworks and investment portfolios. Proposals were received from nine Pourasavas (municipalities) worth Tk 9.12 billion initially for investment in different projects, such as trade centres, amusement parks, markets, water-treatment plants and residential buildings. UNCDF is currently structuring the first municipal bond in Bangladesh in the sanitation sector and is partnering with the Bangladesh Infrastructure Finance Fund Limited to facilitate three projects for financial structuring and to be made investment ready.

Nepal story

UNCDF supported the Government of Nepal to allow a financial intermediary, the Town Development Fund (TDF), to borrow independently on the market to finance social investments in newly created municipalities. Also, UNCDF assisted selected municipalities covered under TDF financing operations to develop a pipeline of capital investment proposals coupled with an assessment of creditworthiness, to increase the scale of financing. [25]

As a result of UNCDF's support, Nepal has borrowed US$130 million from Asian Development Bank for an Urban Water Supply and Sanitation (Sector) Project, which aims to support the ongoing efforts of the Government of Nepal to provide better access to water supply and sanitation services to the growing urban population. [26] This will further boost the role of the Town Development Fund as a conduit for local government finance. Building upon the successful implementation of earlier interventions, the project funds physical investments in water supply and sanitation infrastructure and non-physical investments to improve service regulation, governance, and user participation in selected municipalities.

UNCDF is currently putting together a technical assistance programme with the European Union in Nepal to build the capacity of TDF to issue debt instruments in the market and continue support to the growth of the municipal capital market in Nepal.

Guinea story

UNCDF has provided regulatory support to the Government of Guinea in order to support the financing of local infrastructure owned by municipalities. UNCDF seed capital grants to a city market for Boffa town, managed through a local government sponsored Special Purpose Vehicle. The project has unlocked new doors for financing local governments as well as promoting women's economic empowerment. The identification and design of the market included the application of UNCDF's Local Economic Assessment with a Gender Lens and the Women's Economic Empowerment index to maximise the impact of the investment. The Boffa market experimental process convinced the Guinea Government to allow local government to create SPVs that can to borrow since the law does not allow them to assume debt directly. Boffa market occupants are mostly women and the infrastructure is designed in a way that manages the needs of women.

Team and Governance

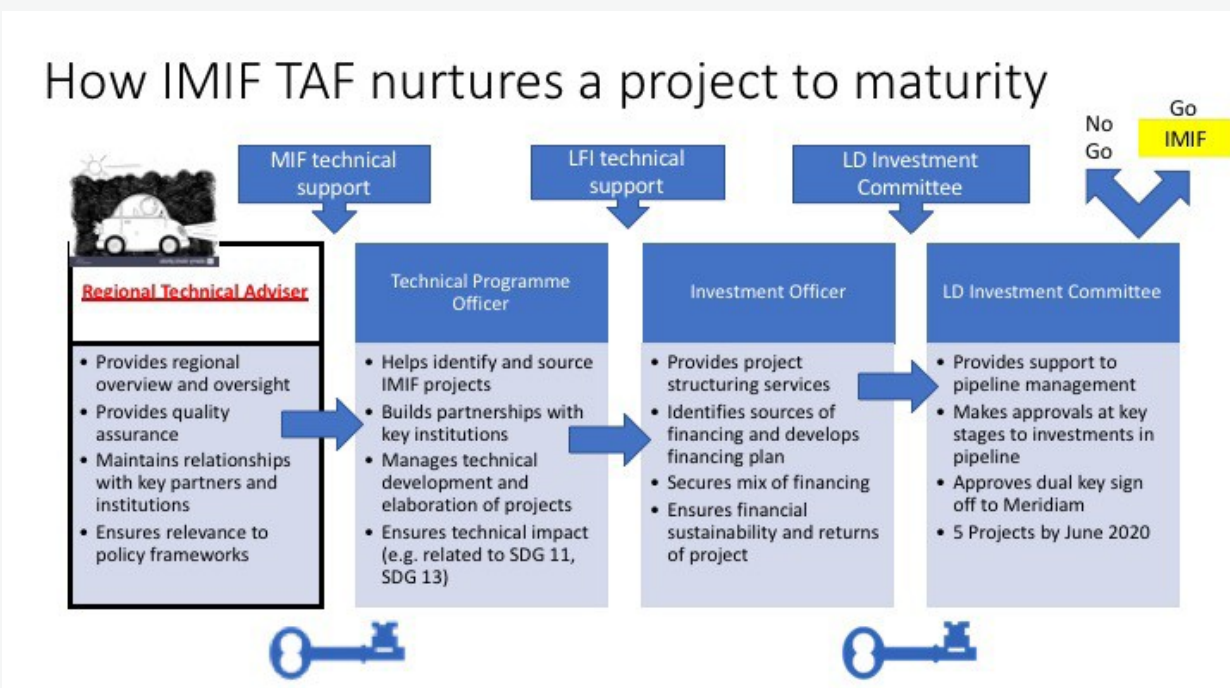
The IMIF TAF team reports to the LDIC chaired by the Director of Local Development Finance. The committee includes UNCDF staff, independent financial analysts and independent impact analysts. For IMIF TAF investments the independent analysts will be appropriately qualified to assess projects to be forwarded to Meridiam, who will be invited to participate in LDIC as an observer, where relevant.

The sourcing and development of IMIF TAF dual key pipeline will be driven by UNCDF's team of local development finance advisors based in Dakar – Senegal, Kampala – Uganda, Khatmandu – Nepal and Bangkok – Thailand. Technical support and advice to this team will be provided by the Municipal Investment Finance team.

Transaction structuring support will be driven by an Investment Officer team with expertise in municipal finance and a track record of structuring and bringing to market innovative and impactful local infrastructure investments in both the local government sector, the PPP sector through SPVs and directly with SMEs.

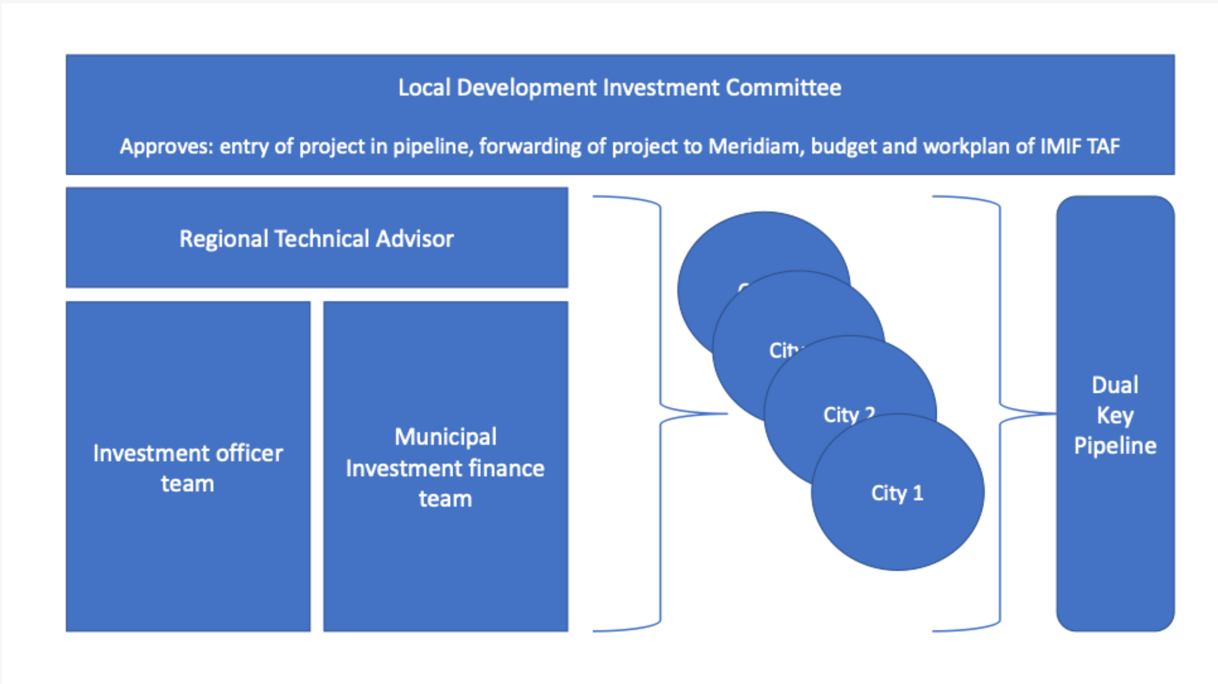
The pipeline process and communication with Meridiam on the progress of transactions will be managed by the Local Development Finance Senior Investment Manager who functions as secretariat to the LDIC. Figure 3 illustrates these IMIF TAF roles and responsibilities. Figure 2 illustrates how the team supports the dual key pipeline from sourcing to LDIC.

Figure 2: How IMIF TAF nurtures a project to maturity



The governance structure of IMIF TAF is outlined in figure 3 which shows the LDIC as the decision-making body which will firstly approve the entry of a project into the dual key pipeline (together with the allocation of financial and human resources for its support) and secondly approve the forwarding of a project to Meridiam following the dual key assessment of financial and impact criteria. The LDIC will also approve the IMIF TAF workplan, budget, and manage its day to day activities. Where appropriate the LDIC will form operational sub committees to expedite its work.

Figure 3: IMIF TAF Governance Structure



Initial Pipeline

As mentioned in the preceding sections, UNCDF and UCLG, with FMDV, operated the IMIFTAF in pilot mode during 2019. An initial request for interested cities yielded 52 respondents from UCLG's network plus 6 from UNCDF's existing engagement. Figure 4 details the components of the common filter that was applied to this initial sourcing. Figure 5 shows the 20 cities that passed through the filter process. These will be considered for entry to the IMIF TAF pipeline at the first meeting of the LDIC in January 2020 and figure 6 illustrates the process that will be followed with those selected cities, leading to at least 5 investment ready projects for the IMIF by mid 2020.

Figure 4: Pilot operation of IMIF TAF sourcing filter in 2019

City Selection Process – Pilot 2Q 2019.

Step 1

UCLG Request of Expression of Interest

- UCLG World Secretariat opened a limited submission window for "a call for proposals" via email communication to members.
- This took place in 1H 2019 for the first pilot cities to be selected.
- Interested cities would have to meet the requirements for the response to the call of the expression of interest which would include a letter that demonstrates senior leadership and political buy-in.
- UCLG Global Secretariat provided a summary report and final selection for this phase.

Step 2

City Scoring

- Cities that passed the previous stage were requested to provide additional data points that feed into a proprietary scorecard.
- The scorecard measures three sets of attributes of the city and the proposed projects in the following ways: Country Level, Municipal Level (Political, Regulatory, Governance, Finance, and Legal), and Project Level.
- A technical committee was formed composed of experts.
- The committee reviews the output of the scorecard and applies the human element to the final city score.

Step 3

Request for Detailed Project Submission

- Selected cities are asked to provide a complete project submission at this point.
- A gap analysis is conducted and further questions may be sent to the city.
- A file review is conducted before forwarded for a Preliminary Go/No Go decision to be made by the IMIF TAF subcommittee.

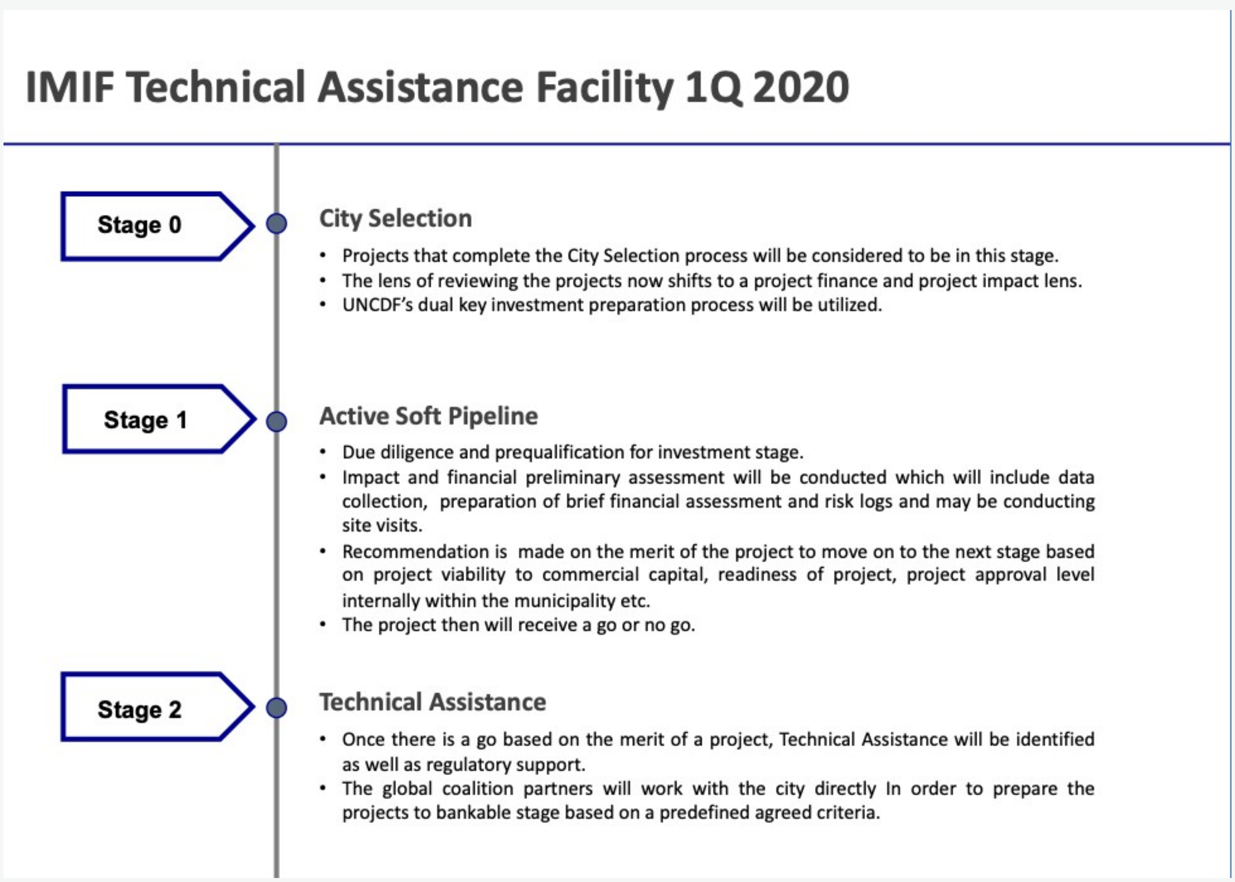
Figure 5: IMIF TAF city selection (first batch)

City Selection Process (first batch)

- The following cities have passed Step 2 as part of the first batch of the City Selection process and are listed below in no particular order.

S/N	Country	Municipality
1	Bolivia	Gobierno Autónomo Municipal de Sucre
2	México	H. Ayuntamiento de Acapulco de Juárez, Guerrero
3	Moldova	Telita City Hall
4	Maroc	Conseil municipal de Chefchaouen
5	Benin	Mairie de Porto-Novo
6	Argentina	Municipalidad de San Fernando del Valle de Catamarca
7	Dem. Rep. Od São Tomé and Príncipe	Câmara Distrital de Água Grande
8	Argentina	Municipio De Lanus
9	México	Gobierno de la Ciudad de México
10	Argentina	Santa Fe de la Vera cruz
11	Mexico	Cuautla
12	Ghana	Kumasi Metropolitan Assembly
13	Rwanda	Huye District
14	Indonesia	Jakarta Capital City Government
15	Cambodia	Poipet
16	Cambodia	Siem Reap
17	Senegal	Kédougou
18	Bangladesh	Kushtia
19	Bangladesh	Bhola
20	Bangladesh	Chandpur

Figure 6: IMIF Technical Assistance Facility Q1 2020 work flow



Financial Details and Performance Targets

The IMIF TAF requires an initial funding of $50m for the first five years. Meridiam will not invest in every project forwarded by the IMIF TAF therefore the success of the IMIF in terms of its development and policy impact depends on UNCDF being able to forward a sufficient flow of projects that satisfy the three IMIF criteria of a) deliver financial returns; b) produce environmental impact and social impact; and c) open up fiscal space for local governments through impact on policy and regulatory reform. This will guarantee that whilst Meridiam does not finance 100% of the IMIF TAF pipeline, most of the projects that it does finance will be drawn from this pipeline and therefore will further the development impact intended by the creation of the IMIF. The budget and performance targets have been designed with this consideration in mind.

Preparing an adequate pipeline for Meridiam will require an average of 35 investment ready projects per year. This includes 25 projects during 2020, the first 5 of which are currently being prepared from the 2019 pilot sourcing exercise. A second round of sourcing will begin in January 2020. Figure 7 indicates the performance targets for the IMIF TAF.

Figure 7: IMIF TAF five-year targets

Returns on Investment	Year 1	Year 2	Year 3	Year 4	Year 5
IMIF TAF prepared projects to investment ready stage Unit of measurement: # of projects	25	37	37	37	39
Legal and regulatory reform Unit of measurement: Innovation, regulation or policy reform enacted that expands market for local fiscal space in an IMIF TAF country influenced by the demonstration effect of an IMIF TAF supported investment project.	0	20	25	30	30
Capacity strengthening Unit of measurement: # of municipalities received capacity building support and trainings of its personnel	25	37	37	37	39

The operations of the IMIF TAF are scheduled to begin on 2 January 2020 and to cost US$50m over 5 years. UNCDF is committing US1.1m up front to get the pipeline going and bring to IMIF at least 5 investments by mid 2020. The funding gap for 2020 is US$8.1m. The table below indicates the IMIF TAF funding requirements. Detailed budget will be supplied on request.

Figure 8: IMIF TAF summary budget

Category	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Sourcing	$300,000	$300,000	$300,000	$300,000	$300,000	$1,500,000
Initial appraisal	$150,000	$150,000	$150,000	$150,000	$150,000	$750,000
Legal and regulatory preparation	$1,599,840	$1,599,840	$1,599,840	$1,599,840	$1,599,840	$7,999,200
Investment structuring	$2,400,000	$2,400,000	$2,400,000	$2,400,000	$2,400,000	$12,000,000
Investment readiness	$199,500	$199,500	$199,500	$199,500	$199,500	$997,500
UNCDF seed capital	$1,499,995	$1,499,995	$1,499,995	$1,499,995	$1,499,995	$7,499,975
Financial closure	$125,000	$125,000	$125,000	$125,000	$125,000	$625,000
Management and oversight, Assessment of performance, Impact measurement and reporting, Audit	$1,550,000	$1,550,000	$1,572,000	$1,594,000	$1,594,000	$7,860,000
Global advocacy and national systems for municipal finance	$775,000	$1,175,000	$1,375,000	$1,575,000	$1,975,000	$6,875,000
Sub Total	$8,599,335	$8,999,335	$9,221,335	$9,443,335	$9,843,335	$46,106,675
GMS	$599,947	$631,947	$689,707	$707,467	$739,467	
Total Budget	$9,199,282	$9,631,282	$9,911,042	$10,150,802	$10,582,802	$49,475,210
Funded Budget (UNCDF own Resources)	1,100,000	1,100,000	600,000	600,000	600,000	$4,000,000
Unfunded Budget	$8,099,282	$8,531,282	$9,311,042	$9,550,802	$9,982,802	$45,475,210

Exit strategy

The IMIF TAF will be evaluated after three years of operation leading to recommendations for its next phase. The evaluation will examine:

+ The success (or otherwise) of the UNCDF and UCLG, FMDV coalition for a global financial ecosystem that works for cities and local governments. Ideally there will be evidence of positive movement in the policy and regulatory environment;
+ The degree to which the IMIF TAF has built national capacities in each country through domestic banks, local governments and others that can independently develop pipeline. This section will include details on how this capacity will be mainstreamed in domestic institutions;
+ The success (or otherwise) of the UNCDG and Meridiam in coordinating on the investment pipeline, filter and project selection, project investment, fund capitalization and technical assistance facility capitalization.
+ The degree to which particular impact investment products generated by the IMIF TAF, such as EcoBonds and Local Economic Assessment with a Gender Lens have been adopted as investment tools.

On this basis the evaluation may recommend revised geographical focus and revised funding for the IMIF TAF. As a general principal, and objective of the IMIF TAF is to leave behind a national capacity for high impact local development finance through local governments and an ecosystem in which both domestic and international capital markets are deploying resources into this expanded local fiscal space. Therefore, the overall strategy is for IMIF TAF to exit national markets once this objective has been achieved. The evaluation may also note the degree to which the global advocacy has altered the policy environment and suggest further policy recommendations.

IMIF TAF and the International Municipal Investment Fund

The International Municipal Investment Fund (IMIF) is a unique, bespoke investment fund, initiated by UNCDF and UCLG, with the collaboration of FMDV, that is designed to focus exclusively on supporting cities and local governments, with a particular focus on developing countries, to accelerate the achievement of the SDGs and the Paris Agreement. The target for the IMIF first closing is 350 million EUR. Investments will be sought in the transport, utilities, clean energy, waste management, land use and city planning sectors, amongst others. The IMIF invests in commercially bankable projects sponsored by municipalities which expand their fiscal space and accelerate the implementation of SDG 11, SDG 13 and related SDGs. The IMIF is designed as a municipal support fund to increase the ability including capacity of local governments to access capital markets and through intermediaries.

Following a competitive selection process, Meridiam was selected as Fund Manager for the IMIF. [27] Meridiam will establish, fundraise for and act as the investment manager of the Fund. Meridiam will manage the IMIF with an objective to identify, develop and invest in resilient and sustainable infrastructure projects in urban and municipal environments non-OECD developing countries.

The IMIF will:

+ Advance the local implementation of the SDGs, with emphasis on SDG11 — “make cities and human settlements inclusive, safe, resilient and sustainable” and SDG13 — “take urgent action to combat climate change and its impacts;”
+ Meet financial return targets to ensure the long-term success of projects;
+ Meet a standard related to resilience and sustainability to ensure positive impacts for local communities in line with the implementation of the Paris Agreement; and
+ Develop municipal capital market access to cities in developing countries.

All cities that receive final investment financing from the IMIF will be required to sign a legal financing agreement with Meridiam. IMIF financing may be used to fund:

+ Local government sponsored or issued bonds (both general obligation and revenue bonds);
+ Local government sponsored Special Purpose Vehicles (SPV);
+ Local government sponsored Public Private Partnerships;
+ Direct lending / loans to local governments;
+ Direct lending / loans to subnational

development banks that support local government finance or purpose of bonds issued by these;

+ Other local government related financial instruments.

For projects that will receive support from IMIF TAF, the cities will sign an agreement with UNCDF and may receive financial and technical support from UNCDF.

IMIF Pipeline Development and Deal Origination
In alignment with LDFP's theory of change, the IMIF pipeline will consist of local government sponsored investments that drive the policy agenda of the UNCDF and UCLG coalition. Each investment in the IMIF pipeline will:

+ expand the scope of municipal finance (for example, pioneer a new financial structure, contribute to a nascent municipal bond market, test a new type of PPP with local governments); and/or
+ demonstrate how local government-sponsored projects can accelerate the implementation of the global development agenda.

The Fund will consider financing projects proposed by / coming from multiple sources including:

+ IMIF TAF - projects originating with the network of municipalities supported by the UNCDF and UCLG coalition. Projects identified are often under US$25 million in total size, with a sole sponsor that is often the city or an SPV fully owned by the city;
+ The Rockefeller Foundation's 100 Resilient Cities network of municipalities instituting resilience- based strategies;
+ Meridiam's network for sourcing and working with authorities to structure investable projects.

UNCDF will manage the IMIF Technical Assistance Facility (IMIF-TAF), which will pre-select and prepare projects for investment by the IMIF. Cities will be able to submit proposals through a common filter designed and implemented by UNCDF and UCLG, with FMDV.

Meridiam Investment Process

All projects financed by the IMIF must meet the requirements of both the Meridiam Investment Committee and a Resilience Committee focused on ESG risk mitigation, SDG impact optimization, resilience benefit and co-benefit assessment and consistency with LDFP's theory of change (see Figure 10, among other factors. A Management Review will assess the proposal against predetermined investment standards in an initial joint Meridiam and UNCDF Go / No Go test, after which approved projects will be divided into two categories:

+ Firstly, investments up to US$25 million in total size that meet UNCDF's criteria. These will follow the Dual Key pipeline development process, managed by the LDFP (described above). This supports local governments in sourcing, due diligence, structuring investments, assessing both development and financial impact (the Dual Key), unlocking additional financial flows, supporting implementation, measurement and reporting.
+ Secondly, other investment opportunities which have passed through the Go / No Go checklist will be developed by Meridiam in preparation for the Meridiam Investment Committee.

The Meridiam Investment Committee (MIC), which is the exclusive decision-making committee for the IMIF, will independently review each submission and decide on whether to invest or not. For the avoidance of doubt, UNCDF, UCLG and FMDV will have no role in the MIC and will not take part in or otherwise contribute to its deliberations, other than the preliminary processes described above.

Figure 1 illustrates the IMIF TAF process between the selection of city projects and forwarding the investments to Meridiam as IMIF fund manager. The orange boxes indicate decision points. The LDIC is involved in the first two decision points (accepting project into pipeline and forwarding project to Meridiam following application of Dual Key process). Meridiam as the IMIF fund manager will make the sovereign decision to invest. UNCDF is not involved in this latter decision.

Theory of Change

The IMIF TAF Theory of Change is aligned with the vision, mission and theory of change of UNCDF's Local Development Finance team and also with the purpose of the UNCDF and UCLG coalition for a global financial ecosystem that works for cities and local governments.

Local Development Finance Practice – Centre of Excellence for Local Government Finance

The IMIF TAF is managed by UNCDF's Local Development Finance Practice (LDFP), which has 25 years of experience working with local governments in developing countries. LDFP aims to be a centre of excellence and innovative fund for local government finance and local economic development finance. To support and accelerate transformative investments through local governments and domestic banks, LDFP designs, pilots and promotes the scale up of financing mechanisms and business models in both public and private sectors that support locally designed public investments and revenue generating capital investment projects led by local governments.

UNCDF works with local governments, national governments and multilateral institutions, such as other UN Agencies, the World Bank, the European Union and the Green Climate Fund on the investments, the capacity building, the policies and the regulatory reforms required to expand local fiscal space and drive environmentally sustainable local economic and social development.

The Problems Addressed by LDFP

As a centre of excellence for local government finance LDFP recognizes that the road to our sustainable future is not an elevated highway on concrete pillars, rather it is a winding lane passing through the heart of every town and city. However, fiscal resources and domestic capital markets are not investing in local governments and local economies in a way that promotes sustainable and equitable growth. This is holding back structural transformation and environmentally sustainable economic resilience which is required if humanity is to address the climate emergency. Local governments and local economies are not able to attract development finance and therefore the benefits of growth are bypassing many populations; and finance is not available for local catalytic infrastructure projects with high impact in critical themes such as women's economic empowerment, climate change, clean energy and food security.

LDFP's Theory of Change

LDFP believes that fiscal resources and capital markets can be opened up for local governments through the four interlinked outputs of all its activities:

+ Enhanced performances of local governments to plan, budget, invest and report;
+ New funding mechanisms in the public and private sectors;
+ Investment friendly policy and regulatory environment adopted;
+ Pipeline of investible projects considered for funding by private finance.

These are combined in each LDFP initiative to produce the outcomes of national system development for local government finance and local economic development finance. The purpose of LDFP is to accelerate the sustainable transformation of local economies and societies by increasing local fiscal space and local fixed capital formation through its theory of change.

Figure 9: Problems addressed by Local Development Finance @UNCDF

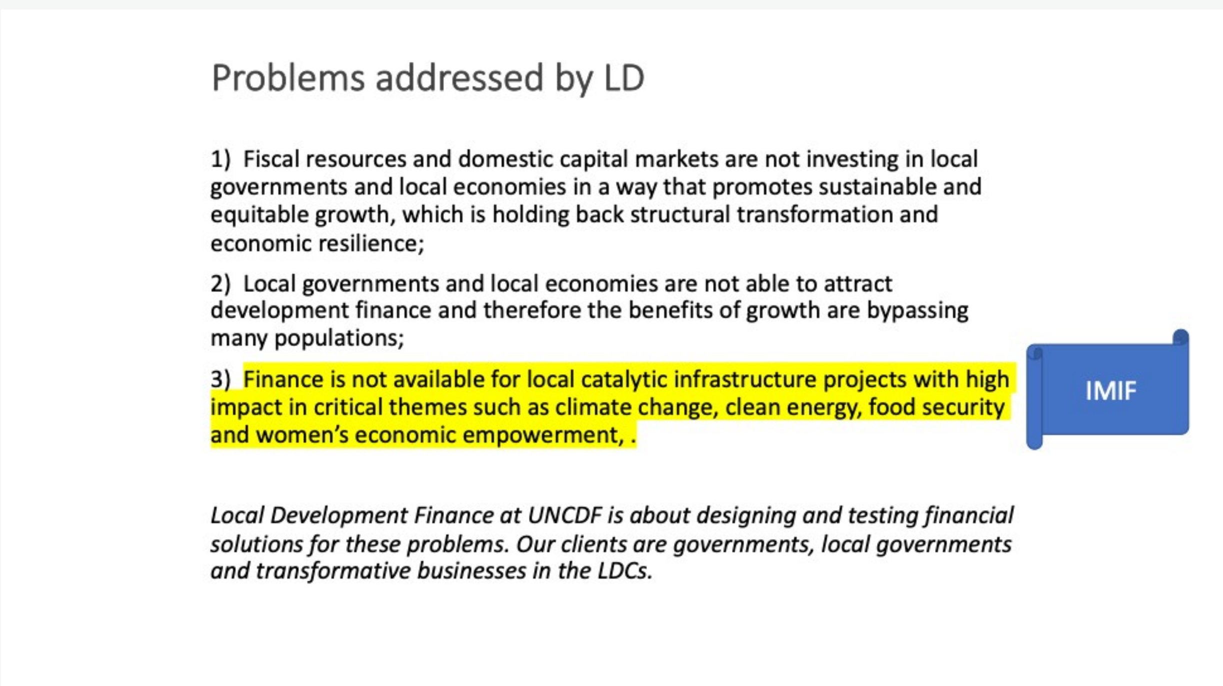
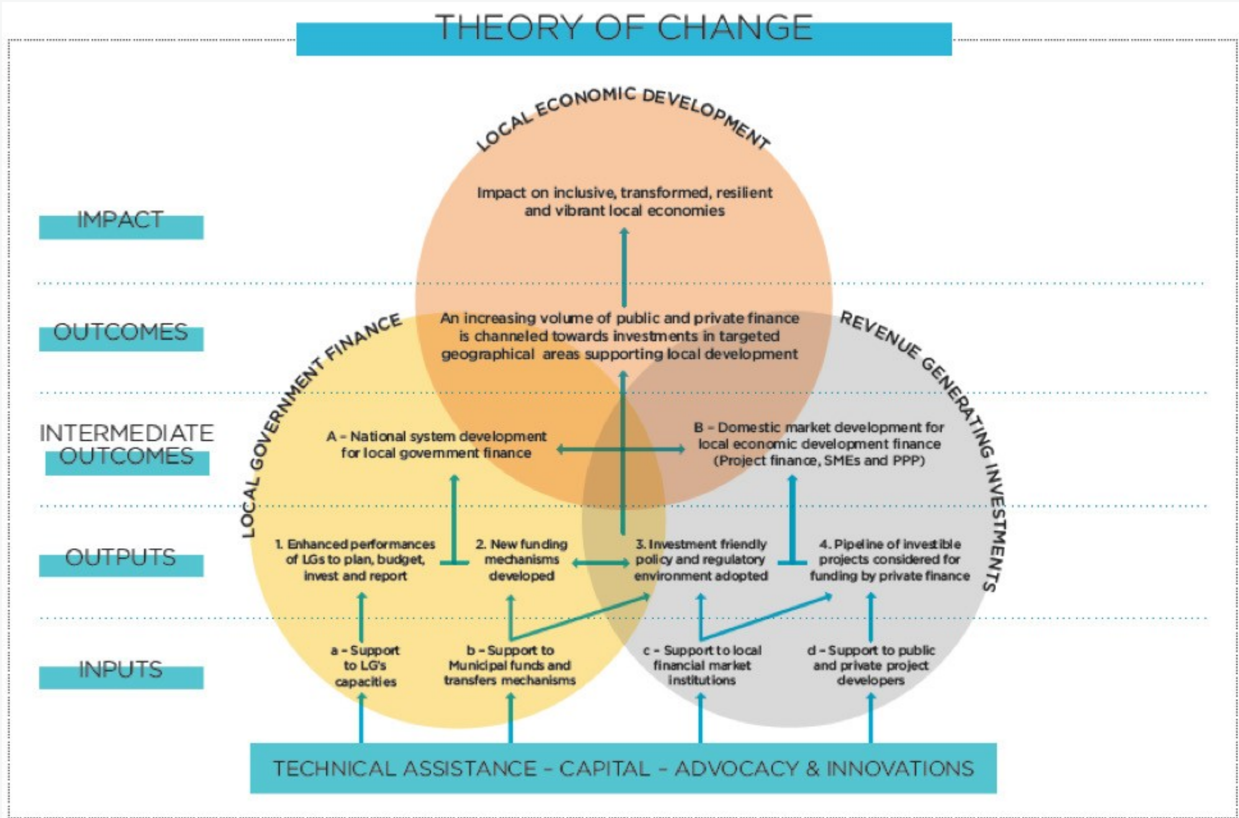


Figure 10: UNCDF Local Development Finance Theory of Change



The UNCDF and UCLG Coalition

To further its purpose UNCDF has joined with United Cities and Local Governments (UCLG), and its technical partner the Global Fund for Cities Development (FMDV) to create a coalition that advocates for a global financial ecosystem that works for cities and local governments, in which they access fiscal resources and capital at scale. The implementation of the Paris Agreement and the acceleration of the global development agenda requires local governments to play a leading role to secure our sustainable future. Indeed, the coalition believes that there may not be a sustainable future unless changes are made to current public and private financial systems, in favour of local governments. UNCDF issued a request for expressions of interest from fund managers for the International Municipal Investment Fund, which will serve as an instrument of the coalition. UNCDF will manage the Technical Assistance Facility for the IMIF (IMIF TAF) to ensure that it invests in projects which fulfil the purpose of the coalition.

United Cities and Local Governments

United Cities and Local Governments (UCLG) is the global organization of local and regional governments and their associations that represents and defends their interests on the world stage. Representing 70% of the world's population, UCLG members are present in all world regions, organized in seven continental sections, a metropolitan section and a regional forum. This network covers more than 240,000 cities, regions and metropolitan areas & more than 175 local and regional government associations present in 140 countries.

UCLG's mission: "To be the united voice and world advocate of democratic local self-government, promoting its values, objectives and interests, through cooperation between local governments, and within the wider international community".

UCLG includes among its main areas of political interest local democracy, climate change and environmental protection, the achievement of the Sustainable Development Goals, local finance, urban development and city diplomacy for peacebuilding.

UCLG's work programme focuses on:

+ Increasing the role and influence of local government and its representative organisations in global governance;
+ Becoming the main source of support for democratic, effective, innovative local government close to the citizen;
+ Ensuring an effective and democratic global organisation.

United Cities and Local Governments supports international cooperation between cities and their associations, and facilitates programmes, networks and partnerships to build the capacities of local governments. The organization promotes the role of women in local decision-making, and is a gateway to relevant information on local government across the world.

Global Fund for Cities Development (FMDV)

The Global Fund for Cities Development (FMDV) is a Global network of Local and Regional Governments, initiated by UCLG, dedicated to promoting and developing financing and investment solutions for urban development in a resilient, integrated and sustainable approach.

FMDV provides the appropriate expertise, organize the necessary instruments and facilitates the connections between supply and demand to create the conditions for long term financing and investments for local governments and urban development.

FMDV operates at global, regional, national and local levels and has collaborated with more than 1,500 cities and regions, from over 110 countries, 250 private companies, and most local development technical and financial partners.

Over the past 5 years, FMDV has contributed to mobilize around USD 1 billion in investment and financing for local governments in different regions of the world. Since 2018, UCLG has integrated FMDV as a special mechanism.

Meridiam

Meridiam was founded in 2005 by Thierry Déau, with the belief that the alignment of interests between the public and private sector can provide critical solutions to the collective needs of communities. Meridiam is an independent investment Benefit Corporation within the meaning of French law. It specializes in the development, financing, and management of long-term and sustainable public infrastructure projects and assets in the three core sectors: mobility, energy transition and social infrastructure sectors. With offices in, Addis Ababa, Amman, Dakar, Istanbul, New York, Luxembourg, Paris, Toronto and Vienna, Meridiam currently manages 7 billion Euros of assets, and more than 75 projects and assets to date. Meridiam is certified ISO 9001: 2015, ISO 26000 Advanced by VigeoEiris and operates on a proprietary methodology in relation to ESG and impact based on UNSDGs.
www.meridiam.com

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