

**UNITED NATIONS CAPITAL DEVELOPMENT FUND**  
**Global Programme Document**

<b>Project Title</b>	<b>MUNICIPAL INVESTMENT FINANCING PROGRAMME</b>	
<b>UNCDF Outcome(s):</b>	<p><u>Outcome 1</u>. Increase financing for basic services and inclusive transformative growth/local economic development</p> <p><u>Outcome 2</u>. Foster policy environment conducive to enabling sustainable financing for development and the structural transformation of local economies</p>	
<b>Relevant Sustainable Development Goal:</b>	SDG 11: Make cities and human settlements inclusive, safe, resilient and sustainable	
<b>Expected Outcome(s)</b>	Increased ability of local governments and other sub-sovereign entities to address key urbanization challenges through access to sustainable sources of capital financing.	
<b>Expected Outputs</b>	<p><u>Output 1</u>: LGs and other sub-sovereign entities have transformative capital investment plans, demonstrated debt-carrying capacity, and enabling conditions for infrastructure financing</p> <p><u>Output 2</u>: Local fiscal space increased with debt financing transactions closed and repayments initiated</p> <p><u>Output 3</u>: Sustainable development of municipal financing mechanisms to contribute to the partner country realisation of SDG11 targets</p>	
<b>Implementing Partner:</b>	UNCDF	
<b>Responsible Parties:</b>	Local Government institutions in participating countries	
<p><b>Brief Description:</b> The aim of the Municipal Investment Financing (MIF) Programme is to increase the ability of local governments and other sub-sovereign entities to address key urbanization challenges through access to sustainable sources of capital financing. The Programme will improve resilience and quality of life in LDC cities in Africa and Asia, especially for the poor. Specific objectives include (i) improving access to capital for investment in critical urban infrastructure and services in LDC cities targeted by the program, (ii) creating or strengthening financial markets and market intermediaries so that they can facilitate capital access for cities, and (iii) establishing policies, standards, and practices that improve the efficiency and effectiveness of the capital financing process in beneficiary countries.</p>		
<p><b>Programme Duration:</b> 5 years  <b>Anticipated start date:</b> 8/24/2015  <b>Anticipated end date:</b> 08/23/2020</p>		<p><b>Total estimated budget* :</b> US\$ 24,685,750</p> <p>Out of which:</p> <p>1. Funded Budget: US\$ 2,700,000</p> <p>2. Funded Budget (In kind) US\$ 45,000</p> <p>3. Unfunded budget: US\$ 21,940,750</p> <p>* Total estimated budget includes programme costs and indirect support costs</p> <p><b>Sources of funded budget:</b></p> <p>UNCDF: US\$ 880,000</p> <p>SIDA: US\$ 1,620,000</p> <p>World Bank: US\$ 200,000</p> <p>Sources of funded budget (In kind):</p> <p>FMDV US\$ 45,000</p>
For UNCDF:		
<p>Judith Karl Executive Secretary United Nations Capital Development Fund</p>		

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## ACRONYMS

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AFD	<i>Agence Française de Développement</i>
CPI	<i>Consumer Price Index</i>
DEX	<i>Direct Execution Modality</i>
FMDV	<i>Global Fund for Cities Development</i>
GDP	<i>Gross Domestic Product</i>
GFCF	<i>Gross Fixed Capital Formation</i>
GNI	<i>Gross National Income</i>
IFI	<i>International Financial Institution</i>
IFIs	<i>International Financial Institutions</i>
IRRM	<i>Integrated Results and Resources Matrix</i>
KM	<i>Knowledge Management</i>
LDC	<i>Least Developed Country</i>
LDFFP	<i>Local Development Finance Programme (LDFFP)</i>
LG	<i>Local Government</i>
MIF	<i>Municipal Investment Financing</i>
MMSF	<i>Municipal Market Support Facility</i>
MoU	<i>Memorandum of Understanding</i>
MUNIF	<i>Municipal Investment Funds</i>
NGO	<i>Non-governmental organization</i>
ODA	<i>Official Development Assistance</i>
PBA	<i>Programme-Based Approach</i>
PIU	<i>Programme Implementation Unit</i>
PPPs	<i>Public-Private Partnerships</i>
RFP	<i>Request for Proposals</i>
RRF	<i>Resources and Results Framework</i>
SBAA	<i>Standard Basic Assistance Agreement</i>
SDGs	<i>Sustainable Development Goals</i>
UNCDF	<i>UN Capital Development Fund</i>
UNCDF	<i>United Nations Capital Development Fund</i>
UNCTAD	<i>UN Conference on Trade and Development</i>
UNDESA	<i>UN Department of Economic and Social Affairs</i>
UNDP	<i>UN Development Program</i>
UNV	<i>UN Volunteers</i>

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## 1 ABOUT THE UNITED NATIONS CAPITAL DEVELOPMENT FUND

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The original mandate of the United Nations Capital Development Fund (UNCDF) from the UN General Assembly (UNGA) is to “assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans” (Resolution 2186 (XXI), 13 December 1966). The mandate was complemented in 1973 to serve first and foremost but not exclusively the LDCs.

UNCDF has a unique financial mandate within the UN system. It provides investment capital and technical support to both the public and the private sector. The ability to provide capital financing – in the forms of grants, loans and credit enhancement – and the technical expertise in preparing portfolios of sustainable and resilient capacity building and infrastructure projects, makes its mandate complementary to the mandates of other UN agencies. It also positions UNCDF as an early stage investor to de-risk opportunities that can later be scaled up by institutional financial partners and increasingly by philanthropic foundations and private sector investors.

UNCDF has proven its ability to deliver true leverage on smaller and more risky investments and interventions within its core areas of expertise: Inclusive Finance and Local Development Finance.

UNCDF has also a proven track record in developing local public finance capacities, which were brought to a national scale by larger development partners (i.e. World Bank). It is also one of the development agencies most involved in promoting financial inclusion through a market development approach. From an early support to national microfinance strategies in the 1990s, UNCDF has updated its market development approach through the development of a new diagnostic tool and programmatic framework to support the development of national financial inclusion strategies.

UNCDF is the only UN agency mandated to focus primarily on the Least Developed Countries (LDCs), currently supporting 33 out of the 48 LDCs with country programmes, as well as regional and global programmes.

UNCDF’s work on inclusive finance seeks to develop inclusive financial systems and ensure that a range of financial products is available to all segments of society, at a reasonable cost, and on a sustainable basis. UNCDF supports a wide range of providers (e.g. microfinance institutions, banks, cooperatives, money transfer companies) and a variety of financial products and services (e.g. savings, credit, insurance, payments, and remittances). UNCDF also supports newer delivery channels (e.g. mobile phone networks) that offer relevant potential for scale.

UNCDF’s work on local development finance aims at ensuring that people in all regions and locations benefit from economic growth. This means dealing with the specific local challenges of, for example, peri-urban areas and remote rural locations. It means investing domestic resources into local economies and services through, inter-alia, fiscal decentralization, climate finance and project finance. UNCDF focuses its efforts towards strengthening public financial management and local revenue, improving the quality of public and private investments at the local level.

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## 2 CONTEXT

### 2.1 GLOBAL CONTEXT

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*“We further acknowledge that expenditures and investments in sustainable development are being devolved to the subnational level, which often lacks adequate technical and technological capacity, financing and support. We therefore commit to scaling up international cooperation to strengthen capacities of municipalities and other local authorities. We will support cities and local authorities of developing countries, particularly in least developed countries and small island developing States, in implementing resilient and environmentally sound infrastructure, including energy, transport, water and sanitation, and sustainable and resilient buildings using local materials. We will strive to support local governments in their efforts to mobilize revenues as appropriate. We will enhance inclusive and sustainable urbanization and strengthen economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning, within the context of national sustainable development strategies. We will work to strengthen debt management, and where appropriate to establish or strengthen municipal bond markets, to help subnational authorities to finance necessary investments.” -- Outcome document of the Third International Conference on Financing for Development: Addis Ababa Action Agenda”.*

Managing cities and urban growth has become one of the pressing development challenges of the 21<sup>st</sup> century. The importance of this challenge is explicitly recognized as one of the 17 Sustainable Development Goals, which are replacing the Millennium Development Goals, and which will guide international development cooperation over the next fifteen years. SDG 11 is explicitly about making cities and human settlements “*inclusive, safe, resilient and sustainable*”.

Urbanization is causing a historic global demographic transformation that will be one of the biggest drivers of economic growth in the 21<sup>st</sup> century. Today, one-half of the world’s population lives in cities that generate more than 80% of global Gross Domestic Product (GDP).<sup>1</sup>

One-third of the world’s urban population resides in developing countries, and this portion is growing rapidly. The share of the national population that is urban in lower-middle-income countries stood at 39% in 2014 and at 30% in low-income countries. By 2050, these figures are expected to be 57% and 48 % respectively. While only about one-tenth of the world’s largest urban areas are in Least Developed Countries (LDC), thirty of the thirty-five most rapidly growing large cities worldwide are located in LDCs.<sup>2</sup> In other words, the world’s fastest-expanding urban agglomerations are currently found in the Global South.

The magnitude of the urban demographic shift is staggering. Rural to urban migration, combined with the effects of urban population growth, could add another 2.5 billion to the world’s urban population by 2050. Close to 90% of this increase will be witnessed in Asia and Africa.<sup>3</sup>

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<sup>1</sup> McKinsey Global Institute, *Urban World: Mapping the Economic Power of Cities*, 2011.

<sup>2</sup> United Nations Department of Economic and Social Affairs, *World Urbanization Prospects: The 2011 Revision*, <http://esa.un.org/unpd/wup/CD-ROM/Urban-Rural-Population.htm>

<sup>3</sup> United Nations, Department of Economic and Social Affairs, *World Urbanization Prospects: The 2014 Revision*, <http://esa.un.org/unpd/wup/Highlights/WUP2014-Highlights.pdf>.

The Intergovernmental Panel on Climate Change notes with very high confidence that urban climate change-related risks are increasing. Extreme events can damage housing, especially informal structures, undermining safe housing (SDG Target 11.1). Ensuring that cities are resilient to natural disasters, as per the Sendai Framework (SDG Target 11.b), will be increasingly important if disasters become more regular and more intense.

Urban growth is not limited to capital cities, but is having a profound impact on secondary cities and towns as well. Myanmar has three cities on the list of the largest urban areas; Bangladesh has three as well. UN DESA reports that close to half of the world's urban dwellers reside in settlements of less than 500,000 inhabitants compared to around one-eighth living in mega-cities with over 10 million inhabitants (UN, World Urbanization Prospects: The 2014 Revision).

The future development of the LDCs, and their ability to meet the SDGs, now depends significantly on how well urbanization is managed in LDC cities and towns. If well managed, cities can be engines for economic growth that structurally transforms the broad sectors of local economies and for expanding access to basic services for large sections of the population. But while the developing world is urbanizing faster than the developed world, to date, the correlation between urbanization and economic growth has been weaker in developed countries.

The challenge of urbanization. Urban life offers more socio-economic potentials compared to rural life, and these are driving urbanization. Economic opportunities are more diverse (especially in countries where agricultural employment is declining), education and health care are more accessible, and gender roles may be less restricted. But urban life also has its drawbacks, including crime, crowding, and the cost of living. And while cities offer individuals unique opportunities to build resilience, their growth can also create new vulnerabilities to a broad range of hazards inclusive of economic shocks.

There is abundant evidence that developing countries are under-prepared for the scale of urbanization that is taking place and are struggling to face the challenges of urban growth. Urbanization takes place in the average LDC city without effective land use planning, the provision of and inclusive access to basic services. Poor populations are found to be concentrated on sites subject to a myriad of hazards and which foster increased disparity between rich and poor that result in the creation of new social tensions and insecurities that can turn the hopeful vision of life in a modern city into a nightmare, especially for the poor.

The economic potential of cities, especially tier 1 and tier 2 cities in the LDC's will not be fully realized until city governments have both the tools to manage the development challenges being thrust upon them and have access to resources to improve economic, environmental, and social conditions. The Municipal Investment Financing (MIF) Programme proposed in this document is designed to address one of the most binding constraints cities face: The lack of sustainable sources of long-term financial resources to invest in urban infrastructure and services.

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## 2.2 NATIONAL AND LOCAL CONTEXT

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The expansion and growth of cities and towns due in the main to urbanization makes functional and fiscal decentralization more viable and more necessary, and in many countries local autonomy is growing. Increasing the capacity of local officials can not only improve urban resilience and quality of life, it empowers cities and towns to contribute in important ways to national and sub-national development plans and targets.

While the mandatory and legal responsibilities delegated to local governments vary considerably from one country to the next, LDC cities often have mandates to provide: (i) basic services and infrastructure, including water, sanitation, public transportation, public lighting, and solid waste management, among others; (ii) resilience building, and climate mitigation and adaptation, including energy efficiency, flood management, and public building retrofitting and (iii) local social services and infrastructure, including health, education, and childcare facilities, among others.

In the past, most LDC cities would not have had the autonomy, information technology, or knowledge of trends in the urban sector worldwide to embark on significant development projects or to prepare multi-year investment plans. But with the increasing interconnectedness of cities around the world and the growing competition among them, this has changed.

Even so, while needs and aspirations may grow, the financial options available to cities in most LDCs have not kept pace with the growth and increasing complexity of the cities themselves. Cities are stuck in a vicious cycle of limited resources leading to a constrained response and supply of basic services, while the population of the city and the demand for services continue to grow.

Ironically, many local government capital investments have high economic and social returns, and therefore should be prioritized. For instance, transportation signals that reduce congestion free people's time for more productive purposes. Investments in drainage that reduce flooding in commercial areas reduce trading days lost to post-flood recovery. In these cases, domestic private capital should be available to finance municipal investments that cannot be financed through grants.

Mobilizing resources to finance investments into productive assets that increase local GFCF and improve services at the municipal level is one of the most challenging aspects of local development, especially if the goal is to provide resources on market-like conditions in a sustainable manner, for instance from loans or bonds, as is the goal of the MIF Programme. Even when government transfers are predictable and generous (which is the exception), they are rarely adequate to finance major infrastructure improvements in growing cities. The capital investment financing that is available to local governments is often provided by national agencies whose own access to capital is highly constrained.

The conditions required to provide local governments with capital market access are understood. The critical challenges are bringing borrowers and lenders together in a market relationship, and managing the risks inherent in this type of financing.

There are countries where creating market access to investment capital for cities is not feasible. Where risks are too high, or financial markets lack liquidity or are too underdeveloped, raising local funds for municipal investments may be impossible. (This situation prevails, for example, in fragile, conflict, and post conflict states).

In other countries, such financing may be feasible, especially as national savings increase and the financial markets developed to support inward investors that seek new investment options. It is also highly likely that in most LDCs, viable municipal projects can be developed. Public officials and the private sector may have little familiarity with strategies to raise funds for local development projects, but these actors can be mentored and brought together to define such strategies. Through the development of effective tri-partite partnership (government, private sector, and civil society) collaboration and supportive external technical assistance, experience shows that national governments, local governments, and private market actors can work together to create the enabling conditions, prepare projects for financing, and mobilize financial resources. Strategies for risk management are also essential.

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## 2.3 SECTOR CHALLENGES AND GAPS

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LDCs display a predictable set of conditions that undermine municipal financing. Addressing all of them is a long-term process that cuts across many sectors. This section outlines the most critical constraints that the MIF Programme will work to address. These constraints often create their own inherent risks, which will affect the programme and its activities (annex 3).

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### 2.3.1 LACK OF AN ENABLING ENVIRONMENT FOR INVESTMENT

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The establishment of a transparent and sound regulatory framework for investment that complies to international norms is a prerequisite for attracting capital flows. Such frameworks ensure that contracts are upheld, that local governments are protected from expropriation, and that commercial disputes can be arbitrated. In the absence of these frameworks there is a lack confidence in municipal capital investments among institutional and individual investors with negative implications for domestic debt markets.

#### Municipal legal and regulatory framework

The municipal policy and legal framework makes it legal and feasible for local governments to borrow and to mobilize the resources to repay the credit, and establishes other conditions that lower risks for investors. In many LDCs, the municipal law either does not contemplate borrowing, or limits it to a very short term (1-2 years). The law also may not prevent newly-elected local officials from repudiating the borrowing of their predecessors, which creates repayment risks for investors.

A framework needs to be put in place that (i) allows local governments and other local entities to raise private funds; (ii) provides the means to repay the funds, by using user fees, tariffs, or other charges and/or tax revenues; (iii) sets standards for the preparation and reporting of financial information, (iv) establishes international arbitrary mechanisms and systems to resolve issues and (v) provides adequate stability over time in all these dimensions.

#### Capital/financial markets legal and regulatory framework

The policy and legal framework for the financial sector and/or capital market establishes the rules that permits the origination, sale (in the case of securities), and structuring (in the case of Public-Private Partnerships) of financial transactions, and governs the handling of funds repaid by the local government. Regulations also establish the recourse in the event local governments default. These rules create certainty for both investors and borrowers, and are likely to need some reform before sustainable market-based municipal financing mechanisms can be established.

The market must (i) mobilize adequate resources to invest in local governments' or other local entities' investment needs; (ii) create risk/return trade-offs agreeable to both investors and borrowers, (iii) provide a yield curve that permits the pricing and re-pricing of securities and loans, (iv) include a means for the secondary trading of securities; (v) include capable intermediaries, analysts, and trustees; and (vi) ensure adequate stability over time in these dimensions. LDC financial markets rarely satisfy all these conditions.

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### 2.3.2 MISMATCH BETWEEN INVESTMENT NEEDS AND AVAILABLE FINANCE

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Whether the investor is a bank or a bond buyer, the risks and returns requirements of the investor and the risk and cost conditions for the borrower have to match up. Establishing an effective demand depends also on: (i) investor familiarity with the municipal investments, (ii) investor ability to evaluate return and risk; and (iii) availability of appropriate funds.

These conditions are often absent in developing countries due to the nascent nature of the financial markets, lack of investor confidence, and lack of tools to mitigate risks. Until market players gain experience, municipal projects in developing markets also have high transaction costs that reduce returns.

Domestic private finance in developing countries without capital markets is dominated by banks that are risk averse and either do not have funds, or are reluctant, to lend long term. As a result, lenders are unlikely to consider investing in city infrastructure projects without guarantees or the provision of funds for on-lending from development banks.

In developed countries, institutions such as credit rating agencies and investment banks help to develop municipal markets by matching up investor and borrower requirements. These entities either do not exist in many developing countries and where they do, they do not work with municipal governments. Public/private collaboration in market development can help to overcome these gaps.

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### 2.3.3 LACK OF CREDITWORTHY LOCAL GOVERNMENTS AND BANKABLE PLANS AND PROJECTS

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LDCs commonly exhibit low levels of domestic savings, which can be utilised for investment purposes. Thus, for most cities, achieving access to capital financing at a reasonable cost from sources other than transfers and own source revenues will require sustained attention to improving the policies and practices underpinning their creditworthiness. A World Bank study found that only a small percentage of the 500 largest cities in developing countries could be deemed creditworthy—about 4% in international financial markets and 20% in local markets.

Municipal transactions can either finance specific investments (such as a sewage treatment plant or commercial centre), or finance an investment plan or a programme of investments that vary in size and sector. With the former, local governments would often repay the transactions from revenues associated with the investment itself (sewerage fees or commercial rents); while in the latter, repayment would be from all municipal taxes, fees, tariffs, or other sources.<sup>4</sup> While these distinctions do not always hold, MIF plans to focus on comprehensive investments most attractive to private investors, which are expected to be capital investment plans, rather than individual investment projects.

Identifying sustainable bankable projects as part of capital investment plans from creditworthy local governments means building the local capacity to: (i) provide accurate information about the operational and financial activities of the local government; (ii) identify and prepare sustainable transformative bankable projects; (iii) provide a strong repayment stream and demonstrate or mobilize local willingness to pay; and (iv) manage the financed projects during the life of the bond issue or other financing to ensure continued operation and maintenance of the investments, and collection of associated revenues, where relevant.

Often, local governments have only a laundry list of investment projects that are not strategically formulated and effectively sequenced or have been subjected to basic financial and economic analysis. What is required is to assist local governments to prepare a list of projects that supports a medium- to long-term development plan for the city, has been consulted with key stakeholders to ensure their support and willingness to pay for these investments, and to seek formal approval of the plan with the city council or corresponding legislative body. Providing this support may mean providing training to develop local skills in areas such as municipal accounting, local government strategic transformative development and financial planning, investment/project preparation, and cost recovery strategies.

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<sup>4</sup> This difference is reflected in the distinction often made between revenue bonds that are repaid from the revenues associated with a single project, and general obligation bonds, which are repaid from general municipal revenues.

## 2.4 RATIONALE FOR INTERVENTION

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A critical assumption underlying the MIF is that some level of domestic private capital is available in the majority of LDCs that could be filling the critical demand for financing of local investments via productive infrastructure projects that offer a high social and economic return. However, there are associated risks and market failures that keep this private funding from being invested in these investments.

While markets are sometimes viewed as self-directed, and therefore not in need of "*external intervention*," in fact, financial intermediaries and other market players are constantly developing new products and services on a speculative basis when they believe the product will produce a profit in a reasonable timeframe. In the case of municipal financing, market actors have no familiarity with local governments as borrowers, and may be overestimating the risks involved. At the same time, the effective demand may be small at first, so an extended and unpredictable length of time may be needed to build the market to the point where it is profitable.

In a developed market, designers of new financial products can extrapolate from products and services created for other market segments, but domestic markets in LDCs may be handicapped by having a very limited innovation, so the expertise may have to be built locally, sometimes using knowledge brought in from outside the country.

These conditions help to justify intervention by development agencies; however, the complexity of the undertaking makes it very difficult for a single donor or other agency to take on the entire range of challenges listed above. For this reason, while external assistance can be justified, the best approach is a collaborative effort among two or more agencies, operating within the confines of a strategic agreement with the respective government on goals, strategic socio-economic targets, activities, and timing of deliverables.

MIF has been designed to work with government to establish these goals and recruit partners who can collectively deliver the necessary programme of activities. In doing so, this will bring a sharper focus on channelling development partners' efforts towards this innovative financing instrument that purposefully increases the net fiscal space for local governments to invest and enhancing the practical value and understanding of MIF's objectives, and UNCDF's approach more broadly.

## 2.5 UNCDF'S ROLE AND ADDED VALUE

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United Nations Capital Development Fund's (UNCDF) mandate from the UN General Assembly (1966) is to "*assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans*". The mandate was modified in 1974 to focus on "*first and foremost the least developed among the developing countries*". This original mandate -- to promote economic development in the least developed countries -- remains highly relevant today. Within its economic development mandate, UNCDF focuses on public and private financing mechanisms. Effective and efficient finance -- in both the public and private sectors -- can spur economic growth and make it more sustainable and inclusive. UNCDF's focus on financing mechanisms has special relevance for least developed countries, where public financial management is often weak and private financial systems are often underdeveloped and inaccessible to the poor. UNCDF's support is ultimately designed to promote sustainable and inclusive growth that empowers people and countries to unleash their potential.

UNCDF approach to local development finance in least developed countries recognises the need to unlock existing sources of capital for local development and attract new investment capital to the local level. To this end, UNCDF applies its seed capital and technical assistance to develop innovative solutions that leverage, through the mobilization, allocation, investments in, and accountability of resource flows to the local level for local development, thus meeting the capital funding gap. This means that the key factors are the demonstration effects of the innovations and the additional fund flows unleashed for local development. This requires strengthening the capacity of existing public and private institutions and the procedures they use as well as providing the seed capital itself.

This is illustrated in Figure 1 that shows the purpose of local development finance is poverty reduction through sustainable, inclusive and equitable local development. The Local Development Finance Practice (LDFP) programmes mobilize, allocate, invest and make accountable these increased flows through improved and strengthened local public and private institutions. This is the new basis from which resources can be invested through various vectors, private and public initiatives, allowing for clear indicators and for local development to become more efficient, remaining closer to the population, and creating resilience and multiplier effects. The circle at the bottom left shows how UNCDF seed capital and technical assistance is applied towards this end. The term “capital” is applied in its wider sense, encompassing its multiple definitions as: A factor of production; an accounting term in public finance (i.e. not a recurrent cost); a large scale fiscal or financial flow; an income generating resource; and finally a valuable and/or expendable resource. LDFP seed capital leverages these flows to the local level, promoting poverty reduction through local development.

UNCDF is one of the four UN agencies listed in the UN Handbook on LDCs and regularly monitors the data compiled on LDCs by the UN Conference on Trade and Development (UNCTAD) and UN Department of Economic and Social Affairs (UNDESA). This will be a factor in the geographical strategy of MIF and the reporting on activities will include the dimensions of poverty impact reduction.

*Figure 2-1: UNCDF's core approach to local development finance*



UNCDF has a strong track record of investing in countries and issues where others do not, and then “*leveraging in larger sources of public and private capital.*” UNCDF today operates in 40 of the world’s 48 least developed countries. 70% of its portfolio is in Africa, with 50% is in post-crisis countries.

The lens through which UNCDF’s investment can be further continued and expanded upon is through the renewed approach mentioned above. The reason for this reorganised approach, building on the success of traditional performance-based grant delivery was in taking into account the precise challenges currently facing LDCs in terms of their productive and development capacities, given the changing landscape in the world and amongst LDCs themselves. This further incorporates an understanding of the new realities on the ground in LDCs as they are growing in a differentiated manner; some countries are experiencing rapid growth while others continue to lag, and where there is also uneven growth within countries and regions resulting in relative disparities and disequilibria. Furthermore, there remains a consistent lack of public and private assets, investment for service delivery and resilient, equitable and sustainable growth.<sup>5</sup>

This new context demands a change that is reflected in LDFP’s orientation and with MIF specifically, in how to more effectively link and mobilize private investments with more equitable growth within LDCs. The challenge lies in providing options for governments, particularly at the sub-national level, with the necessary tools to address their local developmental challenges and transformative economic policies ensuring they have the proper capacity in which to manage these challenges. At the same time, there is a priority on achieving targets of global developmental agendas including the forthcoming Sustainable Development Goals (SDGs)<sup>6</sup> for which national governments and organisations including UNCDF are committed, and the success of which will be largely determined in the world’s cities.

A core objective of MIF is in its revolving nature, which aims to reinvest the proceeds of growth back into LDCs economies, ensuring long-term sustainability. While LDCs are growing, they remain in this category but with different fiscal receipts. A perennial challenge is to provide a breakthrough opportunity in order that they achieve a level whereby consistent and equitable growth is reachable. MIF will therefore serve as the bridge that links together the interests through effective tri-partite partnerships involving urban local governments, the private sector and community groups.

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<sup>5</sup> Please refer to UNCTAD’s *Least Developed Countries Report 2013*, which details the convergence trend of urbanization trends.

<sup>6</sup> In their current form in the Open Working Group’s proposal, for which UNCDF provided technical input, and which will be adopted at the global summit in New York in September 2015. The proposed urban SDG, focused on “empowering inclusive, productive, and resilient cities,” provides a forward-looking framework to achieve sustainability for which MFI can incorporate the important element of finance.

The parameters are delineated through the renewed Core Approach of UNCDF for which some context is given to provide a clearer understanding in how this relates to MIF, specifically.

#### Mobilize (Financing for development)

- *Resource mobilization will focus on utilizing domestic private funding sources, where UNCDF can provide the required expertise to instill confidence in triggering excess savings on the part of investors towards comprehensive sustainable investments for cities, while ensuring the necessary technical assistance and legal frameworks are in place to reduce institutional barriers to market entry. These are not mutually exclusive options but must be taken together in order to drive this process forward, in that domestic private sector funds would not otherwise participate in the sustainable development of LDCs. UNCDF has the capacity through its mandate and fiduciary responsibility to bring responsible innovative financing options to LDCs, and can guide this process providing assistance, particularly to local governments, allowing access to much-needed finance, and working jointly to reduce or do away with the many constraints and impediments that currently exist. Donor funds and/or IFIs can provide crucial support in the form of credit guarantees or to buy-down rates in order to draw in investors. The key element is to drive growth and investment domestically, creating a cyclical pattern by unlocking access to private sector funds, by reducing transaction costs, minimizing risks and building transparent markets in the process.*

#### Allocate (Effective and sustainable resource allocation through local development institutions)

- *MIF will support the provision of mobilized resources towards priority investment needs in accordance with relevant capital investment planning conducted on the part of the local government. While the general inclination is for funding to be applied towards urgent concerns, UNCDF will work with local governments to consider long-term sustainable investments to address comprehensive capital investment planning of priority investment needs with both revenue and non-revenue generating projects, and any combination of components covering sustainable urban infrastructure and the environment, and incorporating climate adaptation, disaster risk reduction, and resilient housing. The ability of a city to have sufficient funding to invest in a comprehensive capital investment plan is a powerful tool in advancing their development, and distinguishes MIF beyond individual project finance initiatives by providing broad support to the local government as a whole. Appropriate allocation is an important component in using this innovative funding mechanism to deliver positive developmental, gender and social outcomes.*

#### Invest (Transformative sustainable local investments)

- *MIF's mission is for effective, targeted investments of mobilized funds to catalytically benefit communities helping them to become more financially self-sufficient, keep investment funds circulating in the local economy, and building and promoting networks of trusted local relationships. Funding should be applied with long-term sustainable development priorities as a focus, in areas such as urban infrastructure, energy efficiency, water and sanitation, waste management processing facilities – all of which can have far-reaching impacts on the social and economic welfare of communities, environmental sustainability and climate resilience. What is responsibly invested by the local government will determine its success, and its potential socio-economic transformation and human investment encompassing support for gender, the urban poor, and a more complete participation of its citizens. A proper investment strategy for local economic development for local governments in core civic infrastructure, and municipal spending on community based initiatives can create interest and momentum providing additional multiplier benefits which can extend to regional and national economies.*

Account for (Increase Accountability in local citizens)

- *Accountability is crucial to the renewed core approach across the practice and project streams, and is an important component to MIF. Properly evaluating MIF promoted activities and impacts will determine the degree to which residents and taxpayers in local governments will receive improved service provision and be protected from the risks of market based transactions. Effective accountability and adherence to introduced procedures, by all involved, particularly government partners will ensure in large measure the success of the sustainability component of MIF in providing a degree of legitimacy to stakeholders and the people in the communities that will be witness to tangible improvements and have increased confidence in municipal leaders, their responsible governance and in delivering on municipal improvements. On the programming side, accounting for investments and transactions will be conducted on multiple levels, initially through the programmatic reviews conducted by UNCDF's LDFP to ensure alignment with outcomes and output indicators. In addition, reliable reporting on funds disbursement channels including investment and procurement practices and regular audits will also be used as a verification tool. A final check will be on the part of investors and the community, to witness transparency in reporting practices and appropriate outreach efforts. Integrity is crucial, without which accountability is weakened and the process is undermined.*

## 3 PROGRAMME STRATEGY

### 3.1 ADVANCE THE MUNICIPAL FINANCING AGENDA

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Current policy debates create a supportive atmosphere for reinvigorating the effort to improve financing systems for local government investment. These include the post-2015 development agenda discussions and the increasing emphasis on urbanization as a determinate of LDC growth and transition to middle-income status. Further, other economic and social concerns - such as the search by investors for new opportunities as the financial crisis subsides, the growing need for investment for climate change mitigation and adaptation, and increasing emphasis on equity as a development indicator - provide additional reasons to promote the municipal financing agenda worldwide, and particularly in the LDCs.

MIF will be an important platform for UNCDF, and the UN in general, to make the case that the time has come to understand and address the myriad of restrictions that keep an adequate flow of sustainable capital financing, including financing by the private sector from both domestic and international sources, from being invested in productive assets that increase local GFCF (urban infrastructure) and other urgent needs of local governments in the developing world.

### 3.2 SUPPORT COMPLEMENTARY EFFORTS TO MAKE CITIES MORE RESILIENT

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Nearly all development agencies and International Financial Institutions (IFIs) have, in the past few years, launched programmes that promote urban resilience, green cities, sustainable cities, a number of which promote urban climate change mitigation and adaptation. These initiatives include the World Bank's "*Low Carbon Liveable Cities Initiative*," the Asian Development Bank's (ADB) "*Cities Development Initiative for Asia*," and "*Urban Financing Partnership Facility*," and the "*100 Resilient Cities Initiative*," originally launched up by Rockefeller Foundation, that supports the adoption of a view of resilience that includes not just the shocks - earthquakes, fires, floods, etc. - but also the stresses that weaken the fabric of a city on a day-to-day or cyclical basis such as chronic food and water shortages.

Most of these programs acknowledge the necessity of improving cities' access to financing. The IFIs can provide financing, but among development banks, only the French bilateral bank, Agence Française de Développement (AFD), can provide non-sovereign loans to cities, and no agency can provide all the resources that are needed by cities in practically any developing country in a sustainable manner.

There is an apparent confluence of visions in the urban sector on how to combat climate change, and the importance of equipping local authorities, on the front lines to adapt and mitigate the effects of climate change. As a result there are numerous partnership opportunities for UNCDF among these organizations, for which MIF provides an ideal pathway to promote UNCDF's work targeting municipal financing in LDCs, potentially calibrating the many different ideas into a sharper focus on making cities more resilient. These and other urban initiatives are described in Annex 4: Urban Initiatives Complementary to the MIF Programme.

### 3.3 SUPPLEMENT OR LEVERAGE MUNICIPAL GRANT FUNDING WITH SUB-SOVEREIGN CREDIT

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As numerous studies and international policy declarations make clear, there is currently woefully inadequate grant funding available worldwide to address investment needs related to key development challenges, including urbanization in LDCs.

The Istanbul Plan of Action (2011) calculates that LDCs need to grow at a rate of 7% a year for the decade 2011–2020, in order to keep up with the rate of population increase, which is high in a majority of the LDCs. Historically, for developing countries, this requires investment amounting to a gross capital formation rate of 25%. Only 17 LDCs achieved this in 2011.

LDC governments have significant fiscal constraints. While about 40% of official development assistance (ODA) currently benefits LDCs, ODA to LDCs, particularly in sub-Saharan Africa, has fallen in recent years, and this trend is likely to persist.

For this reason, there continue to be calls to develop mechanisms that attract private funds, both domestic and international, to assist in addressing development needs. An effective and proven approach is to use public funds to leverage private financing specific to each country's context, but to date, at least for the municipal sector, there are no formulas that allow this to take place.

UNCDF is not alone in trying to respond to the need to operationalize this requirement; numerous international and national development agencies are engaged in the effort. However, UNCDF has unique experience with channelling grant funding to the local level on which it can build. To that end, MIF will evaluate towns and cities already participating in other UNCDF programs as potential beneficiaries of financing. The MIF Programme will also use this expertise, in partnership with other agencies, to make new efforts in LDCs to develop practical tools and approaches that unlock sustainable capital funding for local governments increasing their net local fiscal space for development.

The programme will work with other DPs to identify, test and pilot innovate forms of municipal finance that leverages diaspora, crowdsourcing, funds matching and other innovations. Projects that emerge for financing will, where appropriate, be linked to UNCDF global pipelines of investible projects in such areas as climate resilience and local economic development.

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### 3.4 MITIGATE RISKS THAT THWART PRIVATE FINANCING

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New investment capital will flow to local governments only if the associated risks can be adequately mitigated or significantly reduced. As described in Annex 3, Programme Risks and Mitigation Measures, risks associated with MIF include: programme-level risks, such as misjudging the level of demand from governments and local governments for MIF or UNCDF's capacity to mobilize the necessary partnerships, and financial and human resources to make MIF viable; Country-level risks, such as the inability of governments to enact national reforms needed to support MIF, a lack of local governments willing to take the actions necessary to qualify for financing, and delays in the delivery of partner commitments. As with any programme that involves financing on commercial terms, there are Market-related risks, including shortcomings in market policies and institutions that cannot be addressed in the timeframe of the project, and (with respect to transactions) credit, liquidity, and operational risks that can affect both investors and borrowers.

Fortunately, there are many ways to effectively manage risk, as also described in Annex 3. Approaches may include, for MIF and for country projects, taking the time to establish reliable partnerships and conduct objective assessments upfront, and with respect to market risks, improving financial information, supporting the establishment of credit rating systems, and providing credit guarantees.

Properly designed and executed planning of capital investments and corresponding financial management in local governments are of the utmost importance in reducing risks of market-based financing and ensuring the necessary confidence of investors. MIF tools and methodologies will be applied for enhancing mid-term municipal financial management capacity, ensuring proper monitoring, execution of commitments, and advanced identification and mitigation of potential risks.

Evaluating municipal financial management and investment decisions and their impacts will help determine the degree to which residents and taxpayers in local governments will receive improved service provision and be protected from the risks of market based transactions. Effective accountability and adherence to introduced procedures, by all involved, particularly government partners will ensure in large measure the success of the sustainability component of MIF in providing a degree of legitimacy to stakeholders and the people in the communities that will be witness to tangible improvements and have increased confidence in the municipal leadership, their responsibilities in governance and delivering benefits.

The challenge is to find the right mix of risk mitigation tools that incur a reasonable cost, and to apply these tools over a reasonable period of time in ways that have real and predictable results. The MIF Programme will focus on risk mitigation as one of the primary means whereby lenders and borrowers can reach the common ground where both are satisfied and sustainable private finance can flow.

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## 4 PROGRAMME DESCRIPTION

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### 4.1 PROGRAMME OUTCOME

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The MIF Programme is a five-year, US\$ 24.7 million initiative that will provide assistance to at least four countries and support financing transactions for at least twelve local governments (3:1 ratio).

The Programme Outcome of the Municipal Investment Financing (MIF) Programme is to increase the capacity of local governments and other sub-sovereign entities to address key urbanization challenges through access to sustainable sources of capital financing. Addressing these challenges will produce positive changes in the lives of people living in LDC cities in Africa and Asia, especially the poor. These urbanization challenges are outlined in Section 1, and include the need to increase financing for urban services and investments that contribute to resilience; to strengthen social and economic conditions, leading to equitable economic growth; and to improve the quality of life consistent with UNCDF's Strategic Framework, thereby contributing to broader development outcomes.

UNCDF's mandate, through MIF, is to leverage the resources of governments to mobilize private capital investment. This approach to municipal financing is critical to addressing the imbalance that exists within LDCs while creating opportunities for collaboration with the private sector and transitioning local governments from traditional pure grant funding to a mix of public and private sources, in order to address local challenges. This is not intended to replace, but to enhance public finance flows for cities, to properly invest in to comprehensive plans to promote urban goals delivering on economic, environmental and social outcomes. It is an opportune time to work on mobilizing non-traditional resources and increase the efficiency and effectiveness of financial flows. This can be achieved by:

- *Utilizing domestic private sector capital that would otherwise remain dormant and not be directed to municipal investments. MIF and UNCDF's involvement will support the technical capacity on the demand side enabling a crowding-in effect to catalyze risk adverse investors;*
- *Channelling funds towards investments, through instruments such as EcoBonds,<sup>7</sup> to provide capital to support priority investment needs to a growing urban population, particularly the urban poor, who are disproportionately affected by environmental conditions and climate change yet are largely overlooked due to the lack of effective local financing capabilities;*
- *Improving institutional effectiveness and coherence by coordinating with national and local governments in ensuring that the necessary legal and regulatory frameworks are in place and are implemented. The effective implementation of the frameworks will provide a legal base for sustainable municipal financing, with a clear understanding of the respective responsibilities of all stakeholders involved in the process.*

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<sup>7</sup> UNCDF has proposed the Energy, Environment and Climate Resilient Obligation Bond (EcoBond) as a local government bond or agreement that could raise public and private resources to support locally defined investment priority needs for sustainable urban development (Annex 12).

The above three features correspond with the results framework developed by UNCDF in keeping with the organization's renewed focus on the current challenges facing LDCs (described as "*UNCDF Objectives*" with the related two Outcomes on the cover page) and are linked with the three specific parameters outlined below:<sup>8</sup>

1. *The net increase in local fiscal space available for local development in sub-national territorial jurisdictions supported by UNCDF;*
  2. *The gross increase in fixed capital formation comprised of investments located within sub-national territorial jurisdictions supported by UNCDF;*
  3. *Policy environment supported enabling increased financing for local development (public and private).*
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## 4.2 PROGRAMME BENEFICIARIES

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The ultimate beneficiaries of the MIF Programme are citizens of the target cities in the LDC countries that elect to participate, whose quality of life will be improved by the investments made with the financial resources raised by MIF. These investments should improve the quality of services, and the safety and resilience of the cities where these investments are made. Because informal and low-income neighbourhoods suffer the worst service deficits in most LDC cities, it is important that residents of poor neighbourhoods participate in participatory processes associated with the design of the capital improvement program, so that investments that improve and reduce hazards in their neighbourhoods are prioritized. The imperative of local involvement applies specifically to women and girls, who are particularly affected by inadequate local public services to the point where girls may be kept out of school to fetch water, but may be given no voice to demand improved conditions. Women and children are also highly exposed to security risks associated with the lack of nearly sanitation services and to the effects of environmental degradation and climate change when they affect the home or work location.

Intermediate beneficiaries include the local governments who participate in the program. If they follow the rules and procedures of MIF fully their creditworthiness in the context of financial capital investment programmes will improve and if MIF succeeds in improving the sustainability of the financing system for local governments, the improved creditworthiness will give these local governments on-going access to financial resources.

Indirect beneficiaries include other local governments in the target countries, who will benefit from the establishment of financing mechanisms, and other countries in the region, who may be able to learn from the financing models established in the target countries.

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## 4.3 PROGRAMME OUTPUTS

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The anticipated programme outputs are entirely consistent with UNCDF's key outputs. MIF outputs support the strengthening of the legal and policy framework for private finance; the capacity of local governments and other key actors, including financial market actors; the availability of financing options for sub-sovereign transactions; contribution to realisation of pertinent SDGs along with effective knowledge management, project planning monitoring and evaluation. The broader outputs are an important means by which to improve the performance and accountability of local governments, while leveraging domestic private sector funds through priority, transformative local investments. This also includes initiatives to develop central government agendas in support of local government finance, for which MIF can have an important contributing role.

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<sup>8</sup> Please see the UNCDF Integrated Results and Resources Matrix (Methodological Note).

MIF's strategic development focus is unique in that it supports the option of financing of transformative municipal capital investment plans. These plans often incorporate not only revenue-generating projects, but projects that address the investment needs of poor and underserved urban populations, which may not be strictly revenue-producing. Targeting local governments' investment needs as a whole implies engaging municipal leaders and councils in the development and implementation of long-term plans for their cities, while properly managing local (own-source) revenues so that financing can be raised from both public and private sources, and later repaid. The following represent the key outputs from this approach:

- *Local governments and other sub-sovereign entities have capital transformative investment plans, demonstrated debt-carrying capacity, and enabling conditions for financing;*
- *Local fiscal space increased with debt financing transactions closed and repayments initiated.*
- *Sustainable development finance mechanisms to support realization of SDG11*

These outputs will be accomplished by carrying out a range of activities at the programme, country, and local government level. However, while MIF has clear global objectives, each country framework will be designed to reflect the unique needs and context of the country. MIF will therefore serve as an umbrella for tailored interventions in assisted countries. The results from each country project will contribute to the programme outcomes, and will provide valuable knowledge to improve the global effort to build local financing capacity. Given the unique internal conditions and influencing external environments found in countries, it is not expected that the programme outputs to be replicated nor main constant in the context each country programme. However the overriding outputs and corresponding activities are described in the following sections.

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#### **OUTPUT 1: LOCAL GOVERNMENTS AND OTHER SUB-SOVEREIGN ENTITIES HAVE TRANSFORMATIVE CAPITAL INVESTMENT PLANS, DEMONSTRATED DEBT-CARRYING CAPACITY, AND ENABLING CONDITIONS FOR FINANCING**

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This output is intended to help the Programme's target countries create the enabling conditions for private financing of local government investments, and prepare local governments to attain credit worthiness. These activities strengthen the "demand side" of the financing equation. Activities include identifying and addressing key policy and legal constraints that impede the development of appropriate financing vehicles. This will be initiated through an assessment that identifies such constraints on a country-by-country basis. A process to reach agreement on the critical constraints will follow the assessments, how the constraints will be addressed through reforms, and the identification of technical assistance requirements related to these reforms. This could include, for example, more in-depth legal analysis or assistance to draft policies, legislation, or regulations.

The strategic and financial planning capacity of local governments will be assessed (looking for good candidate local governments for financing transactions), along with the norms for financial reporting in the municipal sector. Depending on the outcome of these assessments, technical assistance may be needed for tasks such as: (i) assisting local governments to prepare transformative investment plans, (ii) providing other technical assistance to ensure municipal repayment capacity, and (iii) working with Associations of Chartered Accountants and/or government to improve the presentation of municipal financial information.

Once one or more local governments are selected in each target country, the activities in this output are aimed at making the demand of these local governments for capital access more effective and more attractive to those with financial resources to invest. The goal is for each local government to have three outputs, each of which provides an indicator of their investment potential. These outputs are: (i) financial statements in a form acceptable to investors that can be used as the basis for credit evaluation; (ii) a transformative strategic plan and corresponding multi-year, gender-sensitive, capital investment plan for the local government, that have been prepared in a gender-sensitive, participatory inclusive manner, with inputs from stakeholders, and ratified by the City Council, and (iii) an independent credit evaluation. The precise form of these outputs will vary from one target country/city to another.

In parallel, the process for selecting local governments will begin, in consultation with governments. This may be undertaken through a selection process by the government and UNCDF, after asking local governments to demonstrate compliance with qualification criteria, or through an open competition. (MIF will seek to receive a demonstration of commitment from LGs before making any selection.)

Reforms to support municipal finance are likely to affect policies, laws, and regulations of several government agencies, including the Ministry of Finance, the Central Bank, financial sector regulatory bodies, and the ministry responsible for local government. UNCDF will promote an intergovernmental approach through the creation of working groups on LG financing among the key government agencies. Ultimately, the goal is for national governments to develop strategies for improving local government access to private finance, and to foster its implementation over time.

Numerous partner agencies work on municipal strengthening in most LDCs, and the MIF Programme can complement their work with the introduction of added-value innovations, technical assistance, and accompanying training activities. UNCDF will need to agree on how to collaborate with a multitude of different actors, developing solutions to effectively and efficiently integrate their work to contribute to the goals of MIF. Key partners in addition to government include: Local governments, local government associations, International Financial Institutions (IFIs), bilateral donor agencies, international and local NGOs, associations of chartered accountants, and credit rating agencies.

The estimated budget associated with Output 1 is US\$ 3,872,000. The specific targets related to this output, organized by topic, are:

Adequate policy and legal framework for LG credit in place:

- 1.1 Complete assessments of frameworks in 4 target countries;
- 1.2 Identify impediments and programme reforms with government and partners in 4 target countries;
- 1.3 Deliver technical support activities on reforms in 4 target countries;
- 1.4 Develop and agree on plan to address market impediments in 4 target countries.

Local government financial planning and reporting improved:

- 1.5 Assess LG financial reporting in 4 target countries against international bench marks;
- 1.6 Provide TA to improve planning and reporting standards and practices in 4 target countries.

Local governments selected and assisted:

- 1.7 Select target LGs in all 4 target countries;
- 1.8 Establish baselines on a timely basis in each target country;
- 1.9 Assess fiscal capacity and sustainable transformative capital planning capacity in 12 target LGs;
- 1.10 Governments and LGs in 4 target countries agree on procedures for preparation of gender-sensitive capital investment plans;
- 1.11 Financial TA delivered to 12 target LGs;
- 1.12 Participatory multi-year sustainable transformative capital investment plans completed and approved by 12 target LGs;

Coordination with government and partners established:

- 1.13 Form intergovernmental working groups on LG finance in 4 target countries;
- 1.14 Identify partners working in LG sector and actively participate in coordination mechanisms with them in 4 target countries.

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**OUTPUT 2: LOCAL FISCAL SPACE INCREASED WITH DEBT FINANCING TRANSACTIONS CLOSED AND REPAYMENTS INITIATED**

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This output contributes to strengthening the "*supply side*" of the financing system. Local government transactions are likely to be financed with more than one source of funding. The appropriate sources may vary depending on the size of the transaction, the type of transaction (sector, structure, repayment sources), or the level of risk, among other factors. In addition, as success is gained over time, new types of investors may be interested in opening new financing channels.

Therefore, UNCDF will work on increasing access to both public and private funding sources and will work to raise third-party funds to contribute to developed local government transformative capital investment plans. Depending on the results of national and local market assessments, private financing sources could include (i) commercial banks, (ii) pension funds, (iii) bond market, (iv) private placements, or (v) public-private partnerships (PPPs). Sources other than private market financing could include, among others: (i) Municipal Investment Funds (MUNIF) (public or private funds dedicated specifically to local government investment, established as a special window inside a municipal development funds or other intermediary); (ii) budgetary resources, (iii) public contributions to PPPs; or (iv) non-traditional international investors from diverse sources (see text box on Municipal Market Support Facility, pg. 28).

The work under this output includes: (i) research to understand the existing nature of the private markets, including identifying market actors and their investment preferences, and major market impediments; (ii) engaging private market actors and entities in the market development process; (iii) assessing public municipal financing sources; (iii) designing mechanisms to channel public funds and reduce risk in order to use public funds to leverage private financing; and (iv) defining standards for structuring and evaluating the creditworthiness of municipal transactions. The output area will also deliver added-value comprising of (i) encouraging exchanges between public sector and private entities and (ii) support the preparation and funding of financial transactions. The work under this component consists largely of technical assistance, policy advocacy, and facilitation.

If the market assessment reveals market impediments that require changes in laws or regulations, these will be incorporated into the specific country action plan to be agreed with the associated national government (*output target 1.4*). For instance, in many countries, bank reserve requirements create disincentives for private investment in municipal bonds. If market regulations need to be modified, bankers should be involved in reviewing draft legislation or rules. MIF will be positioned to facilitate this, but the ultimate responsibility for delivering such reforms falls to national governments.

The actors involved in carrying out this component include central governments; local governments; public or private intermediaries such as municipal development funds; financial and capital market entities involved in project structuring, such as investment banks; and traditional and non-traditional investors interested in helping to develop the municipal finance market such as foundations or social investors.

The estimated budget associated with Output 2 is US\$ 15,488,750. The specific targets related to this output, organized by topic, being:

Assess financing options:

2.1 Assessments of public and private LG municipal financing options, market actors, demand for domestic investment opportunities, and market impediments completed in 4 target countries.

Design financing mechanisms:

2.2 Develop action plan and responsibility matrix to establish MUNIF and/or other financing mechanism in 4 target countries;

2.3 MUNIF and/or other financing mechanism adopted or capitalized in 4 target countries.

Private sector engagement:

2.4 Engage private sector actors in development of municipal market in 4 target countries;

2.5 Facilitate the holding of public/private workshops and/or training sessions on municipal market development in 4 target countries.

Standards and procedures for municipal finance:

2.6 With government and private market actors, develop standards and procedures for private transactions in 4 target countries;

2.7 Agree on and/or establish credit evaluation process in 4 target countries;

2.8 Support completion of credit evaluations in 12 target LGs.

Complete financial transactions

2.9 At least one financing transaction completed in each of the selected target countries;

2.10 Financing transactions in good standing in selected target countries.

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### **OUTPUT 3. SUSTAINABLE DEVELOPMENT OF MUNICIPAL FINANCING MECHANISMS TO CONTRIBUTE TO THE REALIZATION OF SDG 11**

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Output 3 is designed to ensure alignment and contribution of the programme to the global and individual countries commitments to SDG 11. As previously indicated (Section 1.1) the programme will help countries mitigate the effects of urban migration in the context of city and peri-urban service provision, infrastructure, and economic opportunity. Through such alignment and contributions sustainability of the programme will be in-built from its initiation and through the entire implementation cycle and beyond.

Output 3 comprises of the following: -

- *Development of evidence informed knowledge products;*
- *Programme specific reporting in relations to emerging SDG 11 issues and programme contribution to country level SDG targets;*
- *Development and establishment of a post MIF programme mechanism for municipal finance markets (MMSF).*

To further institutionalize planned intervention activities and to ensure the establishment of strong learning links between developing countries, the MIF Programme includes knowledge management activities including south-south exchanges with cities and countries that are successfully advancing the municipal financing agenda. Delegations from the first pilot countries (in Southeast Asia and sub-Saharan Africa) will participate in regular knowledge exchanges; these meetings will provide a chance for:

- *Information-sharing among leaders from cities with experience in municipal finance;*

- *Dialogue between the representatives of pilot countries to share stories of success and failure and identify common challenges and opportunities to improve local government financing;*
- *Development of broad milestones (global municipal financing related) that can be easily monitored and shared with donors and partners.*

The MIF Secretariat will carry out an initiative to mobilize external financing for the Programme from external sources to complement UNCDF funding, including non-traditional investors, to increase the funding for MUNIFs or other financing vehicles; acquire bonds; provide guarantees; invest directly in projects; or use for other investment approaches. By the end of the project, the goal is to establish the Municipal Market Support Facility, a sustainable institutional structure to channel these resources to additional projects and target countries in the future.

The estimated budget associated with Output 3 is US\$ 2,000,000. The specific targets related to this output are:

1. *SDG 11 Baselines established on a timely basis in each target country;*
2. *SDG 11 monitoring system is implemented and specific country indicators and sources of verification are identified;*
3. *MIFP specific SDG 11 progress report formulated indicating progress of contribution from the MIF programme;*
4. *Study tours/ knowledge exchanges completed with delegations from 4 target countries.*
5. *Lessons learned and compiled into knowledge management products using evidence generated by MIF country level projects;*
6. *Develop strategy to mobilize external financing for MIF Programme for co-financing, guarantees, Municipal Market Support Facility or other purpose;*
7. *Collaborate with traditional and non-traditional donors to mobilize financial resources;*
8. *Municipal Market Support Facility operations manual and internal rules of business formulated;*
9. *Municipal Market Support Facility is established and funded.*

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## 4.4 SELECTION OF COUNTRIES, LOCAL GOVERNMENTS, AND PROJECTS

### 4.4.1 COUNTRY SELECTION

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The MIF Programme will operate in Least Developed Countries (LDCs) and will be implemented in target countries that meet a set criteria indicating that: (i) the national government is committed to providing access for local governments to private finance to address key urbanization needs, and (ii) institutional and macro-economic conditions that make such access feasible, or potentially feasible in the medium term if supported by a modest set of reforms that both levels of government are willing to make with UNCDF support.

The following are the proposed criteria that will be used to qualify countries for MIF.

Table 4-1: Indicative Country Qualification Criteria

Criteria	Indicator/Source of information
Macroeconomic situation	<i>Interest rate</i> <i>Inflation</i> <i>Volatility of interest rates</i>
Demand and ability to reach scale	<i>Population</i> <i>Urban population (%)</i> <i>Urbanization rate</i> <i>Population distribution across 10 largest cities</i>
Need for investment finance	<i>Provision of local services assigned to LGs by law</i> <i>Evidence of deferred investment in services</i>
Ability of LGs to borrow	<i>Municipal ability to borrow long-term codified in law<sup>1</sup></i>
Ability of LGs to repay credit	<i>2013 GNI per capita, Atlas method (current US\$)</i> <i>2013 GDP per capita (PPP)</i>
Capacity to mobilize taxes and fees	<i>Percentage of revenue from own sources in primary and secondary cities</i>
Financial condition	<i>Net revenue surplus % in primary and secondary cities</i>
National gross fixed capital formation	<i>Gross fixed capital formation (% of GDP)</i>
Ability of financial sector to mobilize resources	<i>Domestic credit provided by banking sector (% of GDP)</i>

These preliminary criteria have been applied to a selected group of Asian and African countries. The results are included in this document as Annex 5 and Annex 6, respectively. These analyses will be refined during the programme inception phase and the list of target countries will be further updated.

#### 4.4.2 LOCAL GOVERNMENT SELECTION

Within the target LDCs, the MIF Programme will select local governments to receive technical assistance to carry out activities leading to a financial transaction. The challenge in selecting local governments is less the definition of criteria, than the lack of information to produce reliable results from applying the criteria. As discussed this may be completed through a joint selection process by government and UNCDF, after asking local governments to demonstrate a specific level of compliance with the qualification criteria, or through an open competition, where the selection is based on the criteria and other factors such as the availability of sustainable and inclusive financeable projects taken into account.

An uncertainty in working with local governments is that operational and political environments can change rapidly. These changes may be for the better, for instance, as the result of the delivery of technical assistance, or for the worse, as the result of exogenous factors such as elections or the impact of a disaster.

To mitigate such risks, the programme owns the option of selecting autonomous or semi-autonomous entities providing local public services, such as development authorities. While their capital needs may be larger, making the financing arrangement more challenging, this may be balanced by the benefit of a more stable structure, and that is less exposed to political interference.

<sup>1</sup> It is important to note that often in LDCs the legal provisions may not provide acceptable conditions for lenders. One of the objectives of the MIF pilot is to address these shortcomings in the respective legal frameworks.

The MIF Programme will also look for opportunities to finance projects or plans in local governments that have been supported and strengthened as a result of other UNCDF programmes, such as LoCAL and other local development finance programmes. Over the years, these programmes have promoted activities such as participatory planning and project preparation, but have only had grant funding for project investment. In some cases, MIF may be able to help well-performing local governments familiar with UNCDF finance larger or more complex projects or investment plans that are beyond the scope or sectorial focus of these other UNCDF initiatives.

The following preliminary MIF selection criteria are to be used for qualifying cities and other local service providers. During programme inception, UNCDF will develop and test the procedures for applying these criteria and evaluating the results.

Table 4-2: MIF Local Government Qualification Criteria

Criteria	Indicator/Source of information
Progressive leadership that supports the purposes of the national MIF Programme	<i>Examples of leadership; evidence of successfully carrying out key development initiatives</i>
Willingness/capacity to compete for support from the national project	<i>Participation in selection process</i>
Sustainable economic base in locality	<i>Regional GNI growth</i>
Successful experience with credit/lending	<i>Borrowing history with public or private sector institutions</i>
Capacity to gain support for municipal financing, including willingness to pay by taxpayers/beneficiaries	<i>Examples of public consultation to reach development decisions;</i>
Indicators of good financial management	<i>Presentation of audited (minimum: standardized and reliable) financial statements that demonstrate multi-year operating surpluses</i>
Presence of a transformative development plan and/or multi-year capital investment plan	<i>Development plan or multi-year capital investment plan in implementation</i>
Timing of municipal election	<i>Municipal election calendar</i>

#### 4.4.3 LOCAL GOVERNMENT PROJECT SELECTION

As discussed in Section 2.3.3, the financing mobilized for local government investments in the MIF Programme may be used to finance either a specific investment (*such as a sewage treatment plant or commercial centre*), or an investment plan, or a programme of investments. With the former, local governments would often repay the transactions from revenues associated with the investment itself (sewerage fees or commercial rents); while in the latter, repayment would be from all municipal taxes, fees, tariffs, or other sources.

The selection process will vary somewhat depending on whether a specific project or programme of investments is to be financed. However, the criteria that should be applied by UNCDF in collaboration with the national and local government will be relatively consistent. The proposed criteria are listed in the table below. The most important criterion is the marketability of the project or program; however, this will be greatly affected by the status of other criteria.

During programme inception, UNCDF will develop and test the procedures for applying these criteria and evaluating the results. Alliances and networks of local authorities specialized in municipal finance, such as FMDV, could play a role in facilitating the identification of pertinent local governments and/or their eligible projects.

Table 4-3: MIF Project (Local Capital Investment) Selection Criteria

Criteria	Indicator/Source of information
Demand for project or programme investments by users and fee/rate payers	<i>Results of adequate public/user consultation process</i>
Technical feasibility of project or programme	<i>Technical feasibility study</i>
Financial/Economic feasibility of project or programme	<i>Financial/Economic feasibility study</i>
Manageable level of social impacts	<i>Safeguards study and mitigation measures</i>
Quality of guarantee, security, or other credit risk management mechanism	<i>Credit rating; investor acceptance</i>
Marketability of project or programme to investors	<i>Consultation with investors and intermediaries</i>

## 4.5 PROJECT PHASING

The MIF Programme will be implemented in three phases over a five-year time period. The phases will allow for project inception, project implementation, and project consolidation and sustainability. The phases are not completely sequential; certain activities within the phases continue while activities in other phases are taking place. Also, as other countries will join at different times, the country projects will be at different points within the implementation cycle over the duration of the programme. The overall types of activities to be undertaken in various target countries will depend on their level of decentralization, and are indicated in Annex 7.

The phases and the principal activities in each phase are described below.

### 4.5.1 PHASE I: INCEPTION

Project level. The inception for the programme includes activities and actions such as: (i) finalizing technical tools and methodologies such as for methodologies for investment planning, creditworthiness analysis, financial forecasting, and programme structuring and design of the financial support mechanisms; (ii) establishing the monitoring system for the programme; and (iii) engaging partner entities and stakeholders, including partners for the programme as a whole and for one or more countries. Mobilization of resources for the programme and individual country based projects, including fundraising for core and ancillary activities will also begin at this point, and will likely continue throughout the term of the project.

Country-level. Project inception at the country level includes activities such as (i) identification of Group 1 and Group 2 countries, (ii) conducting country feasibility studies, and (iii) negotiating country-level agreements for Group 1 and Group 2 countries.

### 4.5.2 PHASE II: PROJECT IMPLEMENTATION

Country based activities will provide an immediate start up opportunity in the two pilot countries, Bangladesh and Uganda.<sup>2</sup> Once these country-level projects are underway, it is assumed that the programme will identify and begin start-up activities in additional countries. Group 1 will include Bangladesh and Uganda plus two other countries to be chosen in the second year of the project. An additional two to three countries will be selected as Group 2 countries in Year 3 of the project.

Start-up activities in each country will include (i) establishing government and private working groups; (ii) assessing financial intermediation options (municipal funds, financial markets, bond markets, etc.), (iii) agreeing on policy and legal reforms that will be required, (iv) evaluating and selecting the initial cities in each country, (v) implementing policy and legal reforms (medium- to long-term activity), (vi) conducting training and institutional strengthening interventions, (vii)

<sup>2</sup> The interest of the Government of Uganda in receiving support from UNCDF to develop a municipal finance programme is evidenced in Annex 10 by a letter from the Ministry of Housing and Urban Affairs.

### Proposal to Develop a Municipal Market Support Facility

The MIF will have as its primary strategy matching funding available from one or more local sources with capital investment projects in LDC cities. In terms of sustainability, mobilizing and growing local funding sources is the best approach in most countries. Local currency funding is not only locally available but using it to fund municipal projects eliminates exchange rate fluctuations that can create repayment risks. However, local sources may not be sufficient, and even when they are, local investors may have a limited appetite for local government investments. At the same time, there may be investors outside the country (regional and international) that are willing to invest when local investors are not.

Output 3 of MIF provides an activity to investigate the feasibility of creating an investment vehicle that can channel additional financing from various international sources for local investments in LDC cities, even beyond the term of the project. This activity is called the "*Municipal Market Support Facility*" (MMSF). With MMSF, UNCDF hopes to match the demand for capital finance generated by LDC cities with a supply of funding raised for sustainable bankable projects from multiple funders, including sources based outside the country.

The funding mobilized through MMSF could be from international private investors, "impact investors," IFIs, or sovereign funds. Other investors could include banks, institutional investors such as pension funds, insurance companies, mutual funds, and the diaspora. Depending on the preferences of these sources, including their risk tolerance, funding could be provided in the form of credit, equity, or commitments to buy bonds. Funds could also be provided for credit enhancements (such as guarantees, hedges against exchange risks, or reserves, among others) that reduce the risk for other less risk-tolerant investors.

MMSF may also help improve the marketability of investment projects by standardizing project designs and loan or bond structures. MIF could design financing arrangements and test them, while MMSF could raise (post programme) the funds that will allow them to be scaled up.

The MMSF concept is based on the assumption that certain investors may have greater tolerance for the uncertainty associated with emerging municipal markets than others, and that diversification and a larger pool of projects lower risk. The degree to which these benefits can be realized will depend on; (i) MMSF's design, (ii) the return requirements of investors, and (iii) the form of their contributions.

Structural options and investor groups for MMSF will be analysed upon successful implementation of MIF's pilot in Africa and Southeast Asia. Not all the options discussed here are likely to be included in the initial design; some approaches could be phased in as investor demand, available resources, and implementation capacities grow.\*\*

preparing or updating municipal investment plans, and (viii) preparing and carrying out financing transactions.

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### 4.5.3 PHASE III: PROJECT CONSOLIDATION AND SUSTAINABILITY

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The consolidation phase in each country, at project level, allows for the completion of reforms, and the expansion of MIF process, tools, and practices to additional cities in each country. Activities include: (i) completing policy and legal reforms; (ii) evaluating and selecting additional cities, (iii) preparing or updating transformative investment plans in these additional cities, (iv) analysing whether there are additional intermediaries with which the project should work, and engaging these entities, (v) continued training and institutional strengthening in government and the private sector, (iv) preparing and carrying out additional financing transactions.

The final phase will permit lessons learned during programme and project implementation through the testing of new methodologies and associated results to be documented. This will provide an evidence base that can be capitalized in each country and globally as a whole. In addition, mid-term and final evaluations are included. An important aspect will be that the consolidation allows UNCDF to hand off to local governments with the implementation firmly in place and MIF components have been mainstreamed into government practices. UNCDF will remain in a consultative and advisory capacity but the goal is for a transition to local governments to be taking the lead in the process at this stage.

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## 4.6 MIF PROGRAMME BUDGET

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The MIF Programme budget is based on the key assumptions in the Results Framework, including the implementation of the project across at least four countries and twelve local governments over a period of five years. Although there is a comprehensive summary worksheet, the other sections more fully describe the mathematical calculations and the underlying assumptions. Some non-traditional items to note are the fact that: 1) the planning, in certain early phases, accommodates more than twelve cities in total to allow for attrition for inappropriate cities; and, 2) the budget itself can be lowered in instances where activities from different outputs occur simultaneously and are conducted by the same team.

MIF will work to support the programme budget through a resource mobilization strategy that will cooperate with development partners in pilot countries, demonstrating the applicability of UNCDF's MIF approach, the forthcoming SDGs and the ability of development partners to enter into this new area, while minimizing liability to UNCDF.

As illustrated in the accompanying budget, the following indicative figures by output are:

- Output 1: LGs and other sub-sovereign entities have transformative capital investment plans, demonstrated debt-carrying capacity, and enabling conditions for financing (US\$3,872,000);
- Output 2: Local fiscal space increased with debt financing transactions closed and repayments initiated (US\$15,488,750);
- Output 3: Sustainable development of municipal financing mechanisms to contribute to the country level realisation of SDG11 (US\$2,000,000).

Operations Management: The project effectively, efficiently and transparently implemented in line with UNCDF project management regulations (US\$3,325,000).

The first output is centred on building municipal capacity and enhancing each country's enabling framework for municipal finance. It is assumed that there is already a degree of commitment and willingness from the country's leaders to support decentralization and the development of the municipal finance system.

The second output is aimed at mobilizing and channelling private and public resources for municipal finance, and ensuring that local governments, and other parties to financial transactions, are equipped with the information and standards to prepare and repay financing arrangements. This amount does not include resources to fund the transactions, but could include the cost of credit enhancements required for the transaction, such as a debt reserve fund or an external credit guarantee.

The third output is designed to guarantee that the programme is aligned to and contributes to SDG 11. Its main thrusts will be to develop a post project municipal financing mechanism (MMSF), develop and disseminate evidence informed knowledge products that will be web based, and provide programme focused SDG11 reports that also will nuance new trends and debate points as SDG 11 evolves through the post 2015 development cycle.

A specific budget allocation to support the effective and efficient global and in-country management of the MIF Programme will ensure that all programme in country projects and supportive global activities are properly planned and are implemented effectively, efficiently, and transparently in line with development partners and beneficiaries' expectations, and UNCDF project management regulations.

The budget will allow for the successful realization of all programme outputs contained within the Pro-Doc and subsequent in-country project action plans that will implement various activities including but not limited to: (i) establishing baselines in all target countries; (ii) setting up and carrying out the monitoring, evaluation, reporting and knowledge management system; (iii) establishing project management structures and hiring staff and consultants; (iv) overseeing the effective expenditure of project funds; and (v) conducting assessments and audits. The responsibility for the execution of this output rests with UNCDF and other UN agencies.

General management services (GMS) fee of 8% will be collected where applicable under the total project budget of USD 24,685,750 for the indirect cost incurred by the UNCDF to support the project.

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#### 4.7 MIF PROGRAMME AND PROJECT SAFEGUARDS

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UNCDF uses an Integrated Results and Resources Matrix (IRRM) that translates UNCDF's Strategic Framework 2014-2017 into results and allows UNCDF and its stakeholders to monitor and evaluate achievements, learn lessons, and hold the organization accountable for the funds given to it.

The IRRM is backed up by a results-focused monitoring and evaluation system which will enable regular internal assessment and external evaluation of progress towards results and allow informed, evidence-based management of the full range of UNCDF's interventions. It consists of a detailed planning matrix covering two distinct categories of results:

- *Planned development results, starting with the programme outcomes that UNCDF aims to contribute to, and the outputs that will lead to their achievement;*
- *Improvements in institutional effectiveness within UNCDF, which will support the achievement of the programme outcomes.*

These are all measured with indicators, which in turn will guide the development of activities to deliver the outputs. Both sets of results are also accompanied by a series of indicative budgets disaggregated by the programme outcome.

Table 4-4: UNCDF Strategic Framework Integrated Results and Resources Matrix Architecture

<b>Impact</b>	<b>Positive changes in the lives of people living in LDCs thanks to UNCDF and its partner organizations</b>
<b>UNCDF Contribution to broader Development Outcomes</b>	Increased financing for basic services and sustainable inclusive growth
	Financing mechanisms established to increase resilience to economic and environmental shocks
	Policy environment that is conducive to sustainable financing for sustainable development
<b>Immediate outcomes</b>	(LDF) Effective local institutions for public and private finance of local development (measured via the mobilizing, allocating, investing, accounting for framework)
	(FIPA) Sustainable, healthy FSPs leveraging UNCDF funds
<b>Outputs</b>	Completed technical assistance and provision of grants and loans to UNCDF's partner organisations in both the public and private sectors in the Least Developed Countries
<b>Institutional Effectiveness</b>	UNCDF is a more effective and efficient organization, with improved systems and business practices and processes, well-managed resources and engaged personnel

The IRRM is organized according to three levels of intended development results: i) UNCDF's outputs in terms of completed technical assistance and grants and credits to UNCDF's partner organisations in the least developed countries; ii) the immediate results of this assistance in terms of more effectively-functioning local institutions for local and public private finance as well as sustainable financial service providers leveraging UNCDF funds; and, iii) UNCDF's contribution together with relevant partner organisations to three broader development objectives: i) increased financing for basic services and sustainable inclusive growth; ii) new financing mechanisms to increase resilience to economic and environmental shocks and iii) an improved policy environment which is conducive to sustainable financing for sustainable development.

The IRRM will assist UNCDF in monitoring and evaluating the results of its interventions at different points in the results chain, allowing partners to understand the breadth, scope and resource requirements of the work of the organization. In turn, it enables Member States and other partners to see what outcomes and impact the organization is ultimately contributing to.

The performance indicators capture to the extent possible data points that are already collected and are based on years of good development practice and/or best available knowledge.

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#### 4.7.1 GENDER

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The MIF Programme is particularly designed to pro-actively mainstream gender into key sectors of local development associated with on-going urbanisation. The approach to such gender focused planning and implementation is linked to the following rationale and methodology:

1. *MIF will generate supplementary sub-sovereign funding sources available to local governments for financing of their capital investment programmes. Such extra funds will influence and enable effective planning of local capital transformative investment programmes by the local administrations and in direct response to the local governments needs in some of the most vulnerable fields of urbanisation (e.g. environment, water and sanitation, climate resilience, energy, health) and other pertinent sectors where gender issues are recognised as a priority and as such, will be incorporated into a prioritized capital investment planning systems;*
2. *Specific criteria and methodology will be set up in the guidelines for MIF funds utilization ensuring that such a prioritization system adopted for selection of transformative capital investment programme projects be implemented in the following budget year cycle placing adequate and significant emphasis on gender equality, and will practically result in giving high ratings for such investment projects that will have the potential for supporting the largest number of female beneficiaries;*
3. *Selection and prioritization of city investment projects will require the involvement and direct consultation with representatives of beneficiaries as well as approval by city councils. The project planning guidelines will require that such consultations and approvals will be carried out with increased numbers of women members of urban communities and respective city council committees;*
4. *A monitoring and evaluation system for assessment of project results will include specific indicators reflecting the effectiveness of project planning prioritization criteria in achieving an increased percentage of women benefiting from the MIF approach to local development investment finance.*

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#### 4.7.2 SUSTAINABLE DEVELOPMENT

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The starting point for the MIF Programme is to demonstrate the catalytic effect local institutions can play in mobilizing external capital resources for investing in sustainable transformative development and building local resilience. The specific role for MIF is in providing initial capital and/or credit enhancements to allow for these investments to take place.

Beyond the sustainable financial aspects already mentioned, MIF fund proceeds will enable local governments to directly target investments in climate resilient infrastructure, economic development, and water and sanitation – these forms of investments traditionally have difficulty in attracting domestic private finance. MIF is therefore a facility, which links sustainable finance with sustainable transformative and inclusive development.

The success of the MIF approach is therefore heavily dependent on implementation and increased awareness and understanding of the sustainability components of both the finance and development focus of local partners. This effort is supported at the international level, reflected in the SDGs recently adopted. Notable for MIF are the proposed goals on Sustainable and Resilient Cities (SDG 11), along with Revitalizing Sustainable Development (SDG 17), which mentions mobilizing financial resources and debt sustainability.<sup>3</sup>

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<sup>3</sup> See the Open Working Group's Outcome Document at: <http://sustainabledevelopment.un.org/focussdgs.html>

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#### 4.7.3 ENVIRONMENTAL AND SOCIAL SAFEGUARDS

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The MIF Programme will demonstrate and promote clear environmental benefits, including effective and prudent management of local natural resources, and, whenever possible, positively contribute to improvement of the local environment.

UNCDF shares with UNDP a common policy on environmental and social safeguards, a process of environmental and social categorization to reflect the magnitude of risks and impacts.

UNDP is currently updating the Social and Environmental Standards for programme and project management. The objectives of the standards are to: (i) strengthen the social and environmental outcomes of UNDP/UNCDF's programmes and projects; (ii) avoid adverse impacts to people and the environment; (iii) minimize, mitigate, and manage adverse impacts where avoidance is not possible; and (iv) strengthen capacities for managing social and environmental risks. UNDP/UNCDF's Environmental and Social Screening Procedure, which supports application of the standards, is being finalized to align with the new standards and to respond to lessons learned.

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## 5 MIF PARTNERSHIP STRATEGY

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Collaboration with a wide range of international and national partners is essential to maximizing the impact of the MIF programme.

At the global level, a key partner who has already committed specific funding for programme planning and implementation is the Swedish International Development Cooperation Agency (Sida). This partnership has a strong base in effective collaboration with past innovative local development finance project initiatives successfully designed and implemented by UNCDF such as the Local Climate Adaptive Living Facility (LoCAL) and Local Finance Initiative (LFI).

There are myriad potential partnership opportunities in the MIF Programme. MIF activities are numerous, and they vary in terms of their complexity, implementation period, expertise required, government counterparts involved, and cost, making MIF ideal for collaboration with a range of partners.

UNCDF will align its approach with partners based upon geographical location and sector policy focus. This will involve the development within the framework of the MIF programme a standard set of partnership modalities that can be replicated and refined to initiate country level projects, such as:

- *Reinforcing partner policy initiatives with government through additional analysis and technical assistance:*
- *Filling technical assistance funding gaps or helping to accelerate the launch of donor activities related to MIF outcomes:*
- *Serving as the facilitator of the private sector engagement in contexts where donors are principally focused on public financing options:*
- *Providing assistance to specific local governments with the preparation of transactions where donor activities are providing other types of financial training;*
- *Developing financial investment opportunities for partners based on pre-agreed criteria.*

A number of partnership opportunities related to donor urban development/resilient cities initiatives are discussed in Annex 4. Agencies mentioned in the Annex and other potential partners include: (i) The World Bank, particularly its urban financing activities in LDCs, and its “*Low Carbon Liveable Cities Initiative*,” and “*City Creditworthiness Academy*” (CCA). The CCA trains municipal officials on financial strengthening and creditworthiness, but provides no follow up to prepare financial transactions or address financing constraints; (ii) The Asian Development Bank has no less than six major policy documents that address various aspects of urban development, and has classified at least 10% of its lending as urban; it also works extensively with countries on financial sector reform, but has not emphasized the overlap between these sectors; that is, market-based local government finance; (iii) The European Union recognizes the importance of cities and urbanization through its global engagement in support of sustainable urban development and environmental management initiatives, including support for municipal financing, with a focus on urban planning and governance, solid waste management, sanitation and public infrastructure investments.

In addition, a number of bilateral agencies are working on issues related to the MIF, including (a) DFID, which has expressed interest in collaborating in Bangladesh; (b) USAID (and its Development Credit Authority), which recently issued a strategy to support improved urban services, but which was launched with limited additional funding;<sup>4</sup> (c) GIZ/KfW; and (d) Agence Française de Développement (AFD), which is particularly active in francophone Africa, and recently issued an updated local government strategy that puts new emphasis on local financing systems, although the agency has limited experience in this field. UNCDF will also look to capitalize on existing relationships with international agencies such as Cities Alliance and UCLG.

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## 5.1 PROGRAMMATIC PARTNERSHIPS

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Programmatic partners are partners at the individual country level working on complementary programmatic initiatives that can benefit from UNCDF's support under MIF, or from which MIF can attract funding. Depending on the programme and in-country project outputs, they could include private sector and academic institutions; national, bi-lateral, and international development agencies, including NGOs; and IFIs. These partnerships will enable the acceleration of results, the institutionalization of mechanisms developed in the programme, and/or the scaling up of the overall MIF programme.

UNCDF will associate with partner agencies already implementing related activities, first to agree on coordination mechanisms, while simultaneously seeking new opportunities to expand either the geographical coverage of these activities, the scope of these activities with existing client local governments, or both. Depending on the country, these partners will include agencies working on integrated municipal development projects, such as the World Bank or the Global Fund for Cities Development (FMDV), the international alliance of cities dedicated to promote solutions for municipal finance, or agencies with a more targeted engagement where investment may be needed, such as climate adaptation or local public services. In these cases, UNCDF may be able to build on progress already attained by these partners and help by rewarding good local government performance.

At global level, the program will be implemented with FMDV. The two entities will work together in resources mobilization efforts and engage jointly to organize events and specific initiative to increase their visibility in the international agenda.

UNCDF is also candidate as Observer Member to Cities Alliance Board and engage with the Alliance on resources mobilization and partnership with specific cities and intervention of common interest

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## 5.2 FINANCING PARTNERSHIPS

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The MIF Programme is in line with the overall consensus on development financing of the post-2015 agenda, which stresses leveraging of limited public finance both domestic and international by mobilizing private capital. UNCDF will emphasize this aspect in targeting key donors to support MIF at the programmatic level.

UNCDF will reach out to other UN agencies and the donor community during the inception phase to identify partners who can help build and expand MIF by mobilizing resources for investment in local government projects, as discussed under Outputs 2 and 3. Beginning during the Inception Phase, UNCDF will work to identify partners with the means and policy interest to invest in local infrastructure either indirectly by contributing to a pool of funds such as the proposed Municipal Market Support Facility (MMSF) at the Programme level, or directly through municipal financing instruments, MUNIFs, or other financing channel at the national level.

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<sup>4</sup> U.S. Agency for International Development, 2013, Sustainable Service Delivery in an Increasingly Urbanized World, USAID Policy. <http://www.usaid.gov/sites/default/files/documents/1870/USAIDSustainableUrbanServicesPolicy.pdf>

Partnerships with potential investors such as the diaspora, domestic and private institutional investors, and foundations will also be instrumental to raising capital funds for MIF, and creating MMSF or other mechanisms to augment market financing. This could include developing a variety of financing mechanisms, after ascertaining the needs and priorities of different classes of investors.

Because MIF is in line with the consensus on development financing of the post-2015 agenda, which stresses leveraging of limited domestic and international public finance by mobilizing private capital, MIF should appeal to key donors and relevant in the context of the international focus on sustainable urbanization and the role cities. The program will also engage in a partnership with UN Habitat through the Uraia platform and use the platform to further identify needs and possible interventions using an evidence informed approach based upon programme developed and wider UNCDF knowledge products. This partnership aims also to position UNCDF in the Urban agenda and identify UNCDF contribution to Habitat III. The program will be launched jointly with UN Habitat and FMDV.

## 6 SUSTAINABILITY OF RESULTS

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One critical measure of success for the MIF Programme will be whether its key features are sustained over time. In carrying out MIF, effort will be made to in-build four dimensions of sustainability from programme launch.

### 6.1 TECHNICAL CAPACITY

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Sustaining technical capacity requires building and maintaining expertise at the national and sub-national level to support all aspects of the municipal financing system. To accomplish this, it is important that the expertise and lessons learned not reside solely in the MIF Programme Secretariat or in the country-level organization established to carry out programme implementation but it should be also disseminated through publications and during workshops and international events. MIF will facilitate from the outset on establishing relevant national and sub national technical capacities in a way that it is sustained and understood to be a primary goal.

Sustaining technical capacity is a priority. Approaches to ensuring sustainability will include introducing methodologies for strategic and financial planning, preparation of transformative capital improvement plans, consultation with stakeholders regarding these plans, and evaluation of creditworthiness, among others. Adapting these methodologies for local use, and codifying them in policies and rules will additionally reinforce programme sustainability. In addition, sustainability will be strengthened through engagement: Training local officials and consultants in these methodologies, involving stakeholders such as financial institutions in substantive project activities, and engaging local academic institutions in research to resolve unique country policy and operational impediments to local finance.

### 6.2 FINANCIAL SUSTAINABILITY

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Financial sustainability means that the models used in the MIF Programme for providing long-term financing for capital investments at the municipal level will continue to be used to mobilize capital, or, better, will evolve to mobilize more funding or to do so in a more suitable manner for the recipient countries. Building technical capacity, as mentioned in the previous section, will contribute to ensuring financial sustainability, as will involving financial market actors in MIF. Focusing on the use of local resources will also contribute to financial sustainability, since these resources are always available.

The MIF Programme will also avoid using financial structures that establish unrealistic investor expectations. This can result, for instance, from using guarantees that render investors completely harmless to market and economic fluctuations and therefore make it unnecessary for them to acquire in-depth knowledge of the municipal market.

### 6.3 POLICY SUSTAINABILITY

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The MIF Programme will make sure that systems and methodologies developed under the programme are carefully documented, incorporated into national policies, legal, regulatory, and operational frameworks, and made available to peers in other programme countries. MIF will also involve local policy consultants, academic institutions, and think-tanks in the development and implementation of policy and legal reforms, so that local experts become conversant with municipal finance policy issues, and will be in a position to advocate for and implement reforms during and following the programme.

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## 6.4 MUNICIPAL PROJECTS

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To the average citizen, the credibility of MIF will depend on the sustainability of the investments financed by the programme. This will be promoted by careful selection of local governments and projects for financing. The preparation of projects will also help ensure this aspect of sustainability, so the development and application of standards for project preparation, maintenance and operation, and cost recovery will be important tools to address risks associated with the financing.

Agreements made at the time of project preparation may show that the municipal project carries limited risks, but these tend to increase and / or new risks emerge during the period of loan repayment. MIF will work with governments to design, and codify in municipal regulations, sanctions for non-compliance with financing agreements, and other measures to ensure full compliance with loan covenants by local governments, particularly with respect to loan repayment.

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## 7 KNOWLEDGE MANAGEMENT, MONITORING AND EVALUATION, REPORTING AND RESULTS

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### 7.1 KNOWLEDGE MANAGEMENT AND DISSEMINATION

The Programme Implementation Unit (PIU) will take steps to capture the knowledge arising from different phases of the program and develop a variety of knowledge products including briefs, reports, presentations, case studies, videos and other material to highlight both lessons learnt and results. It will put in place a dissemination strategy for sharing these with key stakeholders and audiences using multiple media including UNCDF website, social media, workshops, conferences etc.

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### 7.2 MONITORING AND EVALUATION

The PIU will be responsible for the effective and efficient implementation the MIF Programme and work to successfully deliver its outputs and results. Each participating country will develop a results framework with outputs and activities, together with corresponding indicators and targets, which link to the global RRF.

The PIU will monitor activities in each country using indicators agreed in the country's results framework, using the respective country baseline and performance tracking tools. UNCDF is party to United Nations Development Program's (UNDP) Evaluation Policy which sets out the guiding principles, norms and key concepts for evaluation in UNDP, UNCDF and UN Volunteers (UNV).<sup>5</sup> The policy in turn draws upon the Norms and Standards of the United Nations Evaluation Group—a professional network of forty-six UN evaluation offices— whose objective is to strengthen the objectivity, effectiveness and visibility of the evaluation function across the UN system and to advocate the importance of evaluation for learning, decision making and accountability.

Moreover, as mentioned in Section 4.6, the Strategic Framework Integrated Results and Resources Matrix (IRRM) translates the UNCDF Strategic Framework into results that allow UNCDF and stakeholders to monitor and evaluate achievements and lessons learned, and to hold the UNCDF and governments accountable for funds expended.

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### 7.3 REPORTING

The PIU will issue semi-annual country-level monitoring reports as well as annual progress reports. The reports will include information on progress on accomplishing MIF outcomes such as sustainability improvements in governance, and programme and project outputs, such as plans prepared, investments completed, and training delivered.

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### 7.4 AUDIT

The Project will be audited in line with the rules and regulations of UNCDF at the global level.

UNCDF will implement the following financial control processes:

- *Periodic spot check reviews of the financial records. These will be conducted and documented on a routine basis, or when warranted due to concerns over the functioning of internal controls;*
- *Programmatic monitoring of activities supported by grants—following UNCDF standards and guidance for site visits and field monitoring;*
- *Scheduled Audit: UNCDF projects are audited regularly and the audit findings are reported*

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<sup>5</sup> <http://web.undp.org/evaluation/policy.htm>

*to the UNCDF Executive Board. The audit of projects provides UNCDF with assurance that resources are used to achieve the results described in the Project Document and that UNCDF resources are adequately safeguarded. As required by UNCDF guidelines, all project outputs will be subject to audit on expenditures made by the National Partner.*

The scope of UNCDF audits involves:

- *Compliance with policies, procedures, laws, and regulation of national partners. The audit will examine the system established to ensure compliance with policies, procedures, laws, and regulations of participating countries that could have a significant impact on projects and report. The audit should determine whether the organization is in compliance;*
- *Safe guarding of assets. The auditor will examine means of safeguarding assets and as appropriate, verify the existence of such asset.*

## 8 MANAGEMENT ARRANGEMENTS

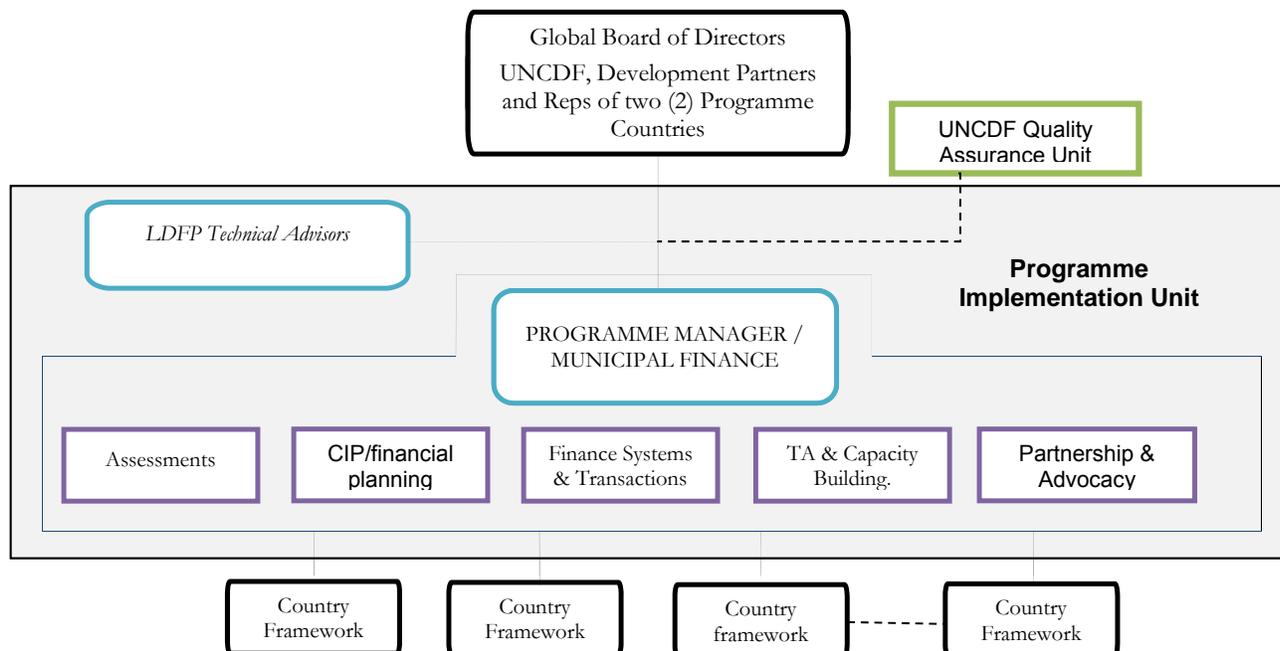
The MIF Programme will be implemented in phases. In the inception phase, the programme will be initiated in at least one country in Africa and one country in Asia on a pilot basis.

The LDFP is charged with monitoring progress and ensuring the quality of the delivery of MIF activities and the reporting on them.

The PIU (see Section 6.1) will work to ensure that the human resources and instruments needed to deliver on the programme components are in place. The PIU will be headed by the Programme Manager/Municipal Finance reporting to the LDFP Director. The PIU will include other technical staff as needed including a knowledge management (KM) specialist, finance specialists, a research specialist and other support staff. The PIU will have the potential to expand as the programme expands but a light structure to optimise efficiently will be retained.

The Programme Manager will work closely with the Regional Technical Advisors (RTA) based in the three regions in which UNCDF operates (Asia-Pacific, Southern and Eastern Africa, Western and Central Africa) in managing the programme. He/she will be responsible for coordinating all global programme activities and for reporting to the directorate at UNCDF headquarters. He/she will develop, and implement systems and methodologies for country selection, project identification and analysis, and project management. Human resources and partnerships will be established using Requests for Proposal (RFPs), Memoranda of Understanding<sup>6</sup> (MOUs), and Programme Based Approach (PBA).

The specific programme management budget of US\$ 3,325,000 will be used to support the functioning of the provided management arrangement.



<sup>6</sup> See Annex 8 for a sample MOU.

## 9 FINANCING ARRANGEMENTS

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### 9.1 IMPLEMENTATION MODALITY

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Due to its innovative nature, which requires specialized expertise and rigorous programme assurance, MIF will be implemented under a Direct Execution Modality (DEX). UNCDF will serve as the Implementing Partner for MIF, under the management of the Local Development Finance Practice area. The modality is explained below.

Direct Execution/Implementation (DEX/DIM) gives full responsibility to UNCDF for project implementation. UNCDF will programme the funds and manage the activities specified in the Resources and Result Framework (RRF) of each global programme document in line with its established rules and regulations. The administration of this programme shall be governed by UNCDF's policies, rules and regulations, as stated in UNCDF's Operations Manual (OM). However, it will be critical that UNCDF ensure full integration of all processes into both government and private sector processes. At the country level, the DEX/DIM modality will be according to the country project framework documents agreed with the country governments and partners.

In the MIF Programme, implementation will be on a country specific framework linked to the global MIF project document. At the country level, the project will be implemented on a similar modality according to country project framework documents agreed with the country governments and partners.

The MIF Programme will conform to the Standard Basic Assistance Agreement (SBAA) between the host governments and participating UN organizations. The host country implementing agencies shall, for the purpose of the SBAA, refer to the government co-operating agency described in the agreement. In countries that have not yet signed an SBAA with UNCDF, the UNDP SBAA shall apply. The administration of MIF shall be governed by UNCDF's rules and procedures. UNCDF will obtain a minimum of two LDC government signatures to this programme document to ensure government buy-in. This will cover the countries where MFI is to be piloted in the inception phase.

### 9.2 FUND MANAGEMENT ARRANGEMENTS

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The MIF Programme will be financed in the inception phase through the core resources of UNCDF and non-core resources mobilized by UNCDF from Country One UN Funds, bilateral donor agencies, multilateral organisations as well as private foundations and investors.

For current secured non-core resources, the MIF Programme is utilizing a cost sharing modality. For future non-core resources, a variety of options can be used including receiving donor resources through parallel modality.

All efforts will be made to mobilize resources proposed in the project document. In case where the resources are not mobilized up to the proposed budget of USD 24,685,750, the result and resource framework along with the corresponding annual work plan of MIF will be adjusted to the actual contribution amount of core and non-core resources made available for the MIF.

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## 10 LEGAL CONTEXT

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This project forms part of an overall programmatic framework under which several separate associated country level activities will be implemented. When assistance and support services are provided from this programme to the associated country level activities, this document shall be the "Project Document" instrument referred to in: (i) the respective signed SBAs for the specific countries; or (ii) in the Supplemental Provisions, attached to the Project Document, in cases where the recipient country has not signed an SBA with UNCDF, attached hereto and forming an integral part hereof.

This project will be managed under DEX/DIM modality as mentioned in 9.1 above. As such, UNCDF assumes the role of "Implementing Partner" while it may select a "responsible party" as an entity to act on behalf of the implementing partner on the basis of a written agreement or contract to purchase goods or provides services using the project budget. The responsible party may manage the use of these goods and services to carry out project activities and produce outputs. All responsible parties are directly accountable to the implementing partner in accordance with the terms of their agreement or contract with the implementing partner.

The responsibility for the safety and security of the UNCDF's property rests with UNCDF. UNCDF shall: (a) put in place an appropriate security plan and maintain the security plan, taking into account the security situation in the country where the project is being carried; (b) assume all risks and liabilities related to the Implementing Partner's security, and the full implementation of the security plan. UNCDF reserves the right to verify whether such a plan is in place, and to suggest modifications to the plan when necessary. Failure to maintain and implement an appropriate security plan as required hereunder shall be deemed a breach of this agreement.

The Implementing Partner "UNCDF" agrees to undertake all reasonable efforts to ensure that none of the UNCDF funds received pursuant to the Project Document are used to provide support to individuals or entities associated with terrorism and that the recipients of any amounts provided by UNCDF hereunder do not appear on the list maintained by the Security Council Committee established pursuant to resolution 1267 (1999). The list can be accessed via [http://www.un.org/sc/committees/1267/aq\\_sanctions\\_list.shtml](http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml). This provision must be included in all sub-contracts or sub-agreements entered into under this Project Document.

## ANNEXES

Annex 1: Results and Resources Framework

Annex 2: Annual Work Plan

Annex 3: Programme Risks and Mitigation Measures

Annex 4: Urban Initiatives Complementary to the MIF

Annex 5: Analysis of MIF Programme Candidate Countries in Africa

Annex 6: Analysis of MIF Programme Candidate Countries in Asia

Annex 7: Type of Activities in Target Countries - MIF Programme

Annex 8: Example of Memorandum of Understanding (MOU)

Annex 9: Example of Letter of Agreement (LOA)

Annex 10: Letter of Interest in MIF Programme from Government of Uganda

Annex 11: Executive Summary

Annex 12: EcoBONDS (Energy, Environment and Climate Resilience Bonds)

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ANNEX 1: MUNICIPAL INVESTMENT FINANCING PROGRAMME RESULTS AND RESOURCES FRAMEWORK

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**Programme Outcome** - Increased ability of local governments (LGs) and other sub-sovereign entities to address key urbanization challenges through access to sustainable sources of capital financing.

**Intended Outcome:**

Outcome 1. Increase financing for basic services and inclusive growth/local economic development

Outcome 2. Foster policy environment conducive to enabling sustainable financing for development

**Outcome indicators :**

Outcome 1.

Net increase in local fiscal space available for local development in sub-national territorial jurisdictions supported by UNCDF

Gross increase in fixed capital formation comprised of individual projects/ investments

Baseline gross fixed capital formation:

Bangladesh: 27% of GDP in 2012

Uganda: 24% of GDP in 2012

Target gross fixed capital formation:

Bangladesh: 45% of GDP in 2020

Uganda: 40% of GDP in 2020

Outcome 2.

Policy environment fostered that enables increased financing for local development (public and private) as a result of UNCDF support

Baseline ability of financial sector to mobilize resources:

Bangladesh: 69% of GDP in 2004-2008

Uganda: 16.3% of GDP in 2012

Target ability of financial sector to mobilize resources:

Bangladesh: 75% of GDP in 2020

Uganda: 25% of GDP in 2020

**Outputs:**

Output 1: LGs and other sub-sovereign entities have transformative capital investment plans, demonstrated debt-carrying capacity, and enabling conditions for financing

Output 2: Local fiscal space increased with debt financing transactions closed and repayments initiated

Output 3: Sustainable development of municipal financing mechanisms to contribute to the realisation of SDG11

<p><b>Indicators:</b></p> <p><i>Demand-side:</i></p> <ol style="list-style-type: none"> <li>1. Decrease in number of agreed critical legal and policy impediments to use of long-term credit</li> <li>2. Increase in number of LGs with demonstrated debt-carrying capacity</li> <li>3. Increase in number of LGs with multi-year capital investment plans that address critical urbanization needs (social, environmental, and economic) and investment sustainability</li> <li>4. Increase in number of LG credit transactions completed and repaid</li> </ol> <p><i>Supply-side:</i></p> <ol style="list-style-type: none"> <li>5. Decrease in number of agreed critical legal and policy impediments to provision of long-term credit to LGs</li> <li>6. Increase in capital available to LGs on market-like conditions, including through municipal investment funds</li> <li>7. Increase in number of key private sector partners and investors knowledgeable about municipal creditworthiness and involved in LG transactions</li> <li>8. Increase in commitments by key actors to improve LG access to long-term private financing</li> </ol> <p><b>Baselines:</b> TBD</p> <ol style="list-style-type: none"> <li>1.</li> <li>2.</li> <li>3.</li> </ol> <p><b>Targets:</b> [TBD]</p> <ol style="list-style-type: none"> <li>1.</li> <li>2.</li> <li>3.</li> </ol>
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INTENDED OUTPUTS	OUTPUT TARGET (YEAR 1-5) <sup>[1]</sup>	INDICATIVE ACTIVITIES	RESPONSIBLE PARTIES	INPUTS and BUDGET	
<b>Output 1: LGs and other sub-sovereign entities have transformative capital investment plans, demonstrated debt-carrying capacity, and enabling conditions for financing</b>					
<p><u>Baseline:</u></p> <p><u>Indicators:</u></p> <p><b>Adequate policy and legal framework for LG credit in place</b></p> <p># of countries with plan to address market impediments agreed</p> <p># of reforms easing market impediments in each target country approved</p> <p># of strategic framework and plan for municipal finance capital investment developed</p>	<p><b>Adequate policy and legal framework for LG credit in place (1.1-1.5)</b></p> <ul style="list-style-type: none"> <li>• <i>At least 2 reforms per each of the 4 target countries are approved easing market impediments</i></li> </ul> <p><b>LG financial planning and reporting improved (1.6-1.7)</b></p> <ul style="list-style-type: none"> <li>• <i>12 participatory gender-sensitive multi-year strategic</i></li> </ul>	<p>1.1 <i>To complete assessments of frameworks in 4 target countries</i></p> <p>1.2 <i>Identify impediments and programme reforms with government and partners in 4 target countries</i></p> <p>1.3 <i>Deliver technical support activities on reforms in 4 target countries</i></p>	<p>UNCDF UNDP Central government Local governments National Government Partners (WB, ADB, AfDB, AFD, etc.) FMDV Associations of chartered accountants</p>	<p>Communications Consultants DSA Other Direct Costs Study Tours/ Knowledge Exchange Travel Workshops</p>	<p><b>Total Cost</b></p> <p><b>US\$3,872,000.00</b></p>

INTENDED OUTPUTS	OUTPUT TARGET (YEAR 1-5) <sup>[1]</sup>	INDICATIVE ACTIVITIES	RESPONSIBLE PARTIES	INPUTS and BUDGET	
<p><b>LG financial planning and reporting standards improved</b></p> <p># of participatory gender-sensitive multi-year strategic and capital investment plans completed</p> <p># of participatory gender-sensitive multi-year strategic and capital investment plans approved <b>LGs selected and assisted</b></p> <p># of baselines established</p> <p>% of LGs formalizing procedures for gender-sensitive strategic and capital planning processes</p> <p># of participatory gender-sensitive multi-year strategic and capital investment plans completed</p> <p># of participatory gender-sensitive multi-year strategic and capital investment plans approved</p> <p><b>Coordination with government and partners established</b></p> <p># of intergovernmental working groups on LG finance established</p>	<p><i>and capital investment plans are completed and approved</i></p> <ul style="list-style-type: none"> <li>• <b>LGs selected and assisted (1.8-1.13)</b> Baselines data established in at least each of the target country</li> <li>• Gender sensitive capital investment plans established in at least 80% of the target LGs</li> <li>• 12 participatory multi-year strategic and capital investment plans are completed and approved</li> </ul> <p><b>Coordination with government and partners established (1.14-1.15)</b></p> <ul style="list-style-type: none"> <li>• At least 4 intergovernmental working groups on LG finance established</li> </ul>	<p>1.4 Develop and agree on plan to address market impediments in 4 target countries</p> <p>1.5 Supports and technical assistance to LGs in LDCs are provide in drafting of strategic vision on municipal finance and/or action plan,</p> <p>1.6 Assess LG financial reporting in 4 target countries</p> <p>1.7 Provide TA to improve planning and reporting standards and practices in 4 target countries</p> <p>1.8 Select target LGs in all 4 target countries</p> <p>1.9 To establish baselines on a timely basis in each target country</p> <p>1.10 Assess fiscal capacity and capital planning capacity in 12 target LGs</p> <p>1.11 Negotiate with governments and LGs in 4 target countries to agree on procedures for preparation of gender-sensitive capital investment plans</p> <p>1.12 Provide TA to 12 target LGs</p> <p>1.13 Ensure that participatory multi-year strategic and capital investment plans are completed and approved and quality financial statements prepared by 12 target LGs</p> <p>1.14 Form intergovernmental working groups on LG</p>	<p>Credit rating agencies</p>		

INTENDED OUTPUTS	OUTPUT TARGET (YEAR 1-5) <sup>[1]</sup>	INDICATIVE ACTIVITIES	RESPONSIBLE PARTIES	INPUTS and BUDGET	
		<p><i>finance in 4 target countries</i></p> <p>1.15 Identify partners working in LG sector and actively participate in coordination mechanisms in 4 target countries (national associations of LG, national municipal investment funds)</p>			
<p><b>Output 2: Local fiscal space increased with debt financing transactions closed and repayments initiated</b></p>					
<p><u>Baseline:</u></p> <p><u>Indicators:</u></p> <ul style="list-style-type: none"> <li># of country assessment carried on</li> </ul> <p><b>Design financing mechanisms</b></p> <p># of countries with plan to establish Municipal Investment Fund (MUNIF) and/or other financing mechanism to increase LG access to financing</p> <p><b>Private sector engagement</b></p> <ul style="list-style-type: none"> <li># of public/private workshops on municipal financing and markets</li> </ul> <p><b>Standards and procedures for municipal finance</b></p> <p>process</p> <ul style="list-style-type: none"> <li>#of LGs with completed credit ratings</li> </ul> <p><b>Complete financial transactions</b></p> <ul style="list-style-type: none"> <li>#of LG financing transactions completed</li> </ul>	<p><i>Financing options assessed</i></p> <p>at least 1 full assessment of public and private LG municipal financing options, market actors, demand for domestic investment opportunities, and market impediments completed in each of the 4 target countries</p> <p><b>Financing mechanisms designed</b></p> <p>at least 4 countries establish MUNIF and/or other financing mechanism</p> <p><b>Private sector engagement increased</b></p> <ul style="list-style-type: none"> <li>at least 3 public/private workshops and/or training sessions on municipal market development organized in each of the 4 target countries</li> </ul> <p><b>Standards and procedures for municipal finance developed</b></p> <p>standards and procedures for private transactions established in each of the 4 target countries</p> <p>12credit evaluations completed in target LGs</p> <p><b>financial transactions completed</b></p>	<p>2.1 Carry out assessments of public and private LG municipal financing options, market actors, demand for domestic investment opportunities, and market impediments in 4 target countries</p> <p>2.2 Develop action plan and responsibility matrix to establish MUNIF and/or other financing mechanism in 4 target countries</p> <p>2.3 To adopt MUNIF and/or other financing mechanism in 4 target countries</p> <p>2.4 Engage private sector actors in development of municipal market in 4 target countries</p> <p>2.5 Facilitate the holding of public/private workshops and/or training sessions on municipal market development in 4 target countries</p>	<p>UNCDF</p> <p>Central governments</p> <p>Local governments</p> <p>Municipal Development Funds and its African network "RIAFCO"</p> <p>Financial/ capital market entities</p> <p>Private sector investors</p> <p>Other private market participants</p>	<p>Communications</p> <p>Consultant fees</p> <p>DSA</p> <p>Grants or guarantees</p> <p>Operations</p> <p>Other Direct Costs</p> <p>Ratings</p> <p>Travel</p> <p>Workshops</p> <p><b>Total Cost</b></p>	<p><b>US\$15,488,750</b></p>

INTENDED OUTPUTS	OUTPUT TARGET (YEAR 1-5) <sup>[1]</sup>	INDICATIVE ACTIVITIES	RESPONSIBLE PARTIES	INPUTS and BUDGET	
	At least one LG financing transaction completed in each of the selected target countries	2.6 <i>With government and private market actors, develop standards and procedures for private transactions in 4 target countries</i> 2.7 <i>Agree on and/or establish credit evaluation process in 4 target countries</i> 2.8 <i>Support completion of credit evaluations in 12 target LGs</i> 2.9 <i>Improve financing transactions in each of the selected target countries</i> 2.10 <i>Financing transactions in good standing in selected target countries</i>			
<b>Output 3: Sustainable Development Finance Mechanisms to Support the Realization of SDG11</b>					
<u>Baseline:</u>  <u>Indicators:</u> # of baseline data available # of lessons learned disseminated # of new donors supporting the project # of projects funded through the Municipal Market Support Facility # of knowledge products, information for dissemination on municipal finance capital investment # of study tours/ knowledge exchanges	<ul style="list-style-type: none"> <li>• <i>SDG 11 Baselines established on a timely basis in each target country;</i></li> <li>• <i>SDG 11 monitoring system is implemented and specific country indicators and sources of verification are identified;</i></li> <li>• <i>MIFP specific SDG 11 progress report formulated indicating progress of contribution from the MIF programme;</i></li> <li>• <i>2 Study tours/ knowledge exchanges completed with delegations from 4 target countries.</i></li> </ul>	3.1 To establish SDG 11 baselines on a timely basis 3.2 To elaborate and implement SDG 11 monitoring system 3.3 To report on lessons learned disseminated through events, web and publications 3.4 To develop a financing strategy 3.5 Collaborate with traditional and non-traditional donors to mobilize financial resources 3.6 To formulate the Municipal Market Support Facility	UNCDF Donors Non-traditional funders	Board expenses CO Programme implementation support Staffing Consultants DSA <b>Total Cost</b>	<b>US\$2,000,000</b>

INTENDED OUTPUTS	OUTPUT TARGET (YEAR 1-5) <sup>[1]</sup>	INDICATIVE ACTIVITIES	RESPONSIBLE PARTIES	INPUTS and BUDGET	
	<ul style="list-style-type: none"> <li>• <i>Lessons learned and compiled into knowledge management products using evidence generated by MIF country level projects;</i></li> <li>• <i>Develop strategy to mobilize external financing for MIF Programme for co-financing, guarantees, Municipal Market Support Facility or other purpose;</i></li> <li>• <i>Collaborate with at least 3 traditional and non-traditional donors to mobilize financial resources;</i></li> <li>• <i>Municipal Market Support Facility operations manual and internal rules of business formulated;</i></li> <li>• <i>Municipal Market Support Facility is established and funded</i></li> </ul>	<p>operations manual</p> <p>3.7 To establish the Municipal Market Support Facility</p> <p>3.8 Review and develop knowledge tools and experiences in municipal finance</p> <p>3.9 Organize study tours/ knowledge exchanges with delegations from 4 target countries</p>			
<p>The project effectively, efficiently and transparently implemented in line with UNCDF project management regulations</p>					
<p><u>Baseline:</u></p> <p><u>Indicators:</u></p> <p><u># of reports from Project Board Meetings</u></p> <p><u># of evaluation and audits</u></p> <p><u># of events organized to disseminate the findings of the evaluations</u></p> <p><u># of new staff joining the MIF Secretariat</u></p>	<p>At least two Project Board Meetings a year organized</p> <p>At least 2 Evaluations and 1 Audit organized</p> <p>At least 2 events organized to disseminate the findings of the evaluations</p> <p>MIF Secretariat fully staffed and implementing the project in accordance with the Project Management Implementation Guidelines; the Project Board</p>	<ol style="list-style-type: none"> <li>1. To establish a monitoring and reporting system;</li> <li>2. To organize Project Board Meetings</li> <li>3. To prepare for evaluations and Audits</li> <li>4. Findings disseminated through events, web and publications To ensure MIF Secretariat fully staffed</li> </ol>	<p>UNCDF</p>	<p>Salaries</p> <p>Office expenses</p> <p>Travel</p>	<p>US\$3,325,000</p>

INTENDED OUTPUTS	OUTPUT TARGET (YEAR 1-5) <sup>[1]</sup>	INDICATIVE ACTIVITIES	RESPONSIBLE PARTIES	INPUTS and BUDGET	
	meets on a regular basis				
				Total Programme	US\$24,685,750

**ANNEX 2: ANNUAL WORK PLAN (1 JUNE 2015-31 MAY 2016)**

Expected Outputs	Planned Activities	Time Frame				Planned Budget		
		Q2	Q3	Q4	Q1	Institution responsible	Funding Source	Amount
Output 1: LGs and other sub-sovereign entities have capital investment plans, demonstrated debt-carrying capacity, and enabling conditions for financing	1.1 To complete assessments of frameworks in 2 target countries (one in Asia and one in Africa)	X	X			UNCDF UNDP Cities Alliance National Government Partners (WB, ADB, AfDB, AFD, etc.) FMDV	SIDA	US\$ 497,000
	1.2 Identify impediments and programme reforms with government and partners in 2 target countries (one in Asia and one in Africa)	X	X					
	1.3 Deliver technical support activities on reforms in 2 target countries (one in Asia and one in Africa)		X	X				
	1.4 Develop and agree on plan to address market impediments in 2 target countries (one in Asia and one in Africa)		X	X				
	1.5 Supports and technical assistance to LGs in LDCs are provide in drafting of strategic vision on municipal finance and/or action plan,		X	X	X			
	1.6 Assess LG financial reporting in 2 target countries (one in Asia and one in Africa)		X	X	X			
	1.7 Provide TA to improve planning and reporting standards and practices in 2 target countries (one in Asia and one in Africa)		X	X	X			
	1.8 Select target LGs in 2 target countries (one in Asia and one in Africa)		X	X	X			
	1.9 Establish baselines on a timely basis in 2 target countries (one in Asia and one in Africa)		X	X	X			
	1.10 Assess fiscal capacity and capital planning capacity in 6 target LGs at 2 target countries			X	X			
	1.11 Negotiate with governments and LGs in 2 target countries to agree on procedures for preparation of gender-sensitive capital investment plans			X	X			
	1.12 Provide TA to 6 target LGs			X	X			
	1.13 Ensure that participatory multi-year strategic and capital investment plans are completed and approved and quality financial statements prepared by 6 target LGs			X	X			
	1.14 Form intergovernmental working groups on LG finance in 2 target countries			X	X			
	1.15 Identify partners working in LG sector and actively participate in coordination mechanisms in 2 target countries (national associations of LG, national municipal investment funds)			X	X			

Expected Outputs	Planned Activities	Time Frame				Planned Budget		
		Q2	Q3	Q4	Q1	Institution responsible	Funding Source	Amount
Output 2: Local fiscal space increased with debt financing transactions closed and repayments initiated	2.1. Carry out assessments of public and private LG municipal financing options, market actors, demand for domestic investment opportunities, and market impediments in 2 target countries (one in Asia and one in Africa) 2.2. Develop action plan and responsibility matrix to establish MUNIF and/or other financing mechanism in 2 target countries (one in Asia and one in Africa) 2.3. To adopt MUNIF and/or other financing mechanism in 2 target countries (one in Asia and one in Africa) 2.4. Engage private sector actors in development of municipal market in 2 target countries (one in Asia and one in Africa) 2.5. Facilitate the holding of public/private workshops and/or training sessions on municipal market development in 2 target countries (one in Asia and one in Africa) 2.6. With government and private market actors, develop standards and procedures for private transactions in 2 target countries (one in Asia and one in Africa) 2.7. Agree on and/or establish credit evaluation process in 4 target countries 2.8. Support completion of credit evaluations in 6 target LGs 2.9. Improve financing transactions in each of the selected target countries 2.10. Financing transactions in good standing in selected target countries		X	X	X	UNCDF Central government Local governments Associations of chartered accountants Credit rating agencies	SIDA	US\$153,000

Expected Outputs	Planned Activities	Time Frame				Planned Budget		
		Q2	Q3	Q4	Q1	Institution responsible	Funding Source	Amount
Output 3: Sustainable Development Finance Mechanisms to Support the Realization of SDG11	3.1 Establish SDG 11 baselines on a timely basis				X		SIDA, WORLD BANK, FMDV UNCDF	US\$ 200,000
	3.2 Elaborate and implement SDG 11 monitoring system				X			
	3.3 Report on lessons learned disseminated through events, web and publications							
	3.4 Develop a financing strategy				X			
	3.5 Collaborate with traditional and non-traditional donors to mobilize financial resources			X	X			
	3.6 Formulate the Municipal Market Support Facility operations manual							
	3.7 Establish the Municipal Market Support Facility							
	3.8 Review and develop knowledge tools and experiences in municipal finance			X	X			
	3.9 Organize study tours/ knowledge exchanges with delegations from 4 target countries				X			
The project effectively, efficiently and transparently implemented in line with UNCDF project management regulations	1. Establish a monitoring and reporting system;			X	X	UNCDF Local government Private sector investors	SIDA UNCDF	US\$150,000
	2. Organize Project Board Meetings				X			
	3. Prepare for evaluations and Audits				X			
	4. Disseminate findings through events, web and publications; initiate staffing of MIF Secretariat				X			
<b>TOTAL</b>								US\$ 1,000,000

## ANNEX 3: PROGRAMME RISKS AND MITIGATION MEASURES

<b>Risk/Assumption</b>	<b>Level of Risk</b>	<b>Mitigation Measures</b>
<b>Programme-level risks</b>		
Misjudging the number of governments with the interest in participating in MIF and the political will to make necessary reforms.	Medium	- Early and careful pre-screening of countries and consultation with national stakeholders and other donors to accurately assess political commitment and capacity.
Mobilizing enough financial and human resources to respond promptly to interest in the programme.	High	- Raise programme-level funds or pledges before making commitments to governments. - Engage governments in developing and carrying out country-level fundraising strategy for country project.
Difficulty of estimating the cost of project in each country, and therefore overall programme size.	Medium	- Difficult to mitigate this risk until experience is gained. - Use pilot projects to standardize approach to costing programme activities. - Engage governments in deciding how available funds are spent.
<b>Country-level risks</b>		
Inability of governments to make needed reforms to make project viable.	Medium	- Early and careful assessment of governments, including consultation with national stakeholders and other donors to accurately assess political commitment and capacity. - Include legislators in consultation and assessment process.
Lack of local governments that qualify and are willing to make needed reforms.	Low	- Select countries based partially on initial assessment of interest of local governments.
Low capacity of local governments to prepare plans and make necessary reforms, even with technical assistance.	Medium	- Piggyback project on other municipal strengthening projects including those of UNCDF and other donors, so the reforms needed are more limited. - Assess reforms previously carried out by local governments to evaluate commitment to goals of project. Include city council in consultation and assessment process.
Delays in delivery of partner activities or other commitments under partnership arrangements	Medium	- Assess capacity of donors to complete activities on time, in selecting partners. - Avoid situations where project activities are strongly dependent on partner commitment.
Presence of major development agencies (IFIs or others) whose policy advice conflicts with MIF approach.	Low	- This is a difficult risk to mitigate and may require consultation between organizations, if it arises. - Work with other partners in-country to overcome policy differences.
<b>Financial sector risks</b>		
Necessary institutions are not in place in financial sector.	High	- Carry out institutional reforms in the financial sector if they can be accomplished in the short term, and there is political commitment (e.g. minor regulatory changes). - Where it is realistic, identify strategies to “work around” institutional gaps. - Select countries based on the adequacy of the institutional framework.
Policy and macroeconomic environment not conducive to market expansion or innovation.	Medium	- Ensure government and legislatures have commitment to policy reforms. - Critically assess macroeconomic conditions when selecting countries.

<b>Risk/Assumption</b>	<b>Level of Risk</b>	<b>Mitigation Measures</b>
Lack of credibility or capability in government intermediary (municipal development fund or other).	Low	- Assist intermediary with messaging and communications with clients to improve perceptions. - Rather than working with the MDF directly, create an independent Municipal Investment Fund within the agency.
Availability of concessionary finance that undermines interest of local governments in market financing.	Medium	- It may be necessary to convince government to stratify its municipal financing strategy so that the MIF programme targets specific local governments and concessionary financing is reserved others. Alternatively, concessionary financing may be able to co-finance market financing.
<b>Financial transaction risks</b>		
Local government (or other entity) does not make payments as promised and defaults on loan	Medium	- Loan or bond structure can lower this risk (e.g. use of reserves), as can technical assistance and accompaniment of local government during loan repayment. - Incorporate "activist" role for trustee or municipal investment fund.
Investors are not able to trade the security and risk losing investment value, which limits investor demand.	Medium	- Create a market-like mechanism that facilitates sale of securities, such as contract with trader and a fund to cover losses. Sell securities with various terms.
Difficulty of setting interest rates or agreeing on other structures that are attractive to both investors and borrowers.	High	- Investment bankers should be able to structure securities that overcome this problem and find a marketable way to share the risk. - If interest rates are variable, incorporate upper and lower limits (collars) that allow the borrower and investor to share the risk.
Investment projects are not adequately operated or maintained during loan repayment, putting associated revenues and asset value at risk.	Medium	- Facilitating local governments to budget for the operations and maintenance costs. - Incorporating rate covenants in loan/bond agreements.

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**ANNEX 4: URBAN INITIATIVES COMPLEMENTARY TO THE MIF PROGRAMME**

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Nearly all development agencies and International Financial Institutions (IFIs) have, in the past few years, launched programs that promote urban resilience, green cities, sustainable cities, etc. Most of these programs acknowledge the importance of improving cities' access to financing. The IFIs can provide financing, but only the French bilateral development bank, Agence Française de Développement (AFD), can provide non-sovereign loans to cities, and no agency can provide all the resources that are needed by cities in practically any developing country in a sustainable manner.

As a result of an apparent confluence of visions in the sector, there appear to be numerous partnership opportunities for UNCDF among these organizations. This section describes some of the relevant activities of key agencies with which UNCDF might consider partnering.

**The World Bank.** The World Bank has supported municipal development for decades through grant and technical assistance operations in many countries, as well as research and training. Each year, urban development makes up about ten percent of the Bank's lending activity (lending totalled US\$31.5 billion in 2013), although the institution still cannot lend directly to subnational governments without a sovereign guarantee.

The ongoing reorganization of the World Bank has put a heavy emphasis on climate change mitigation and adaption as areas for Bank support to policy making and investment in client countries. In this context, urban development has gained new traction in the institution. Under the umbrella of the Bank's Task Force to Catalyze Climate Action, the Public-Private Infrastructure Advisory Facility (PPIAF) and the Bank's Urban Team have launched the "Low Carbon Liveable Cities Initiative," (LC2)<sup>7</sup> and the "City Creditworthiness Academy."<sup>8</sup> LC2 was launched in September 2013, and aims to assist 300 cities in the developing world over the next four years through improved planning and financing for low-carbon investments.

LC2 has two components, first, "Getting Cities Ready," which includes three subcomponents: (1) Building The Evidence Base (GHG Inventories and Climate Change Professional Accreditation Program), (2) Planning For Low-Carbon Development (Climate Action Planning Tool), and (3) From Plans To Investments (Climate Smart Capital Investment Planning); and, second, "Getting Financing Flowing," which has two components: (1) Getting To Investment Grade (City Creditworthiness Training Program), and (2) Innovative Financing Mechanisms (Pooled Financing Solutions to Access Financing at Better Terms).

The City Creditworthiness Academy is intended to assist senior financial officials from sub-national governments and public enterprises to master creditworthiness and to develop action plans to improve their creditworthiness and access to finance for climate-related infrastructure. Creditworthiness Academies have been held in Korea and Tanzania to date.<sup>9</sup> Other sessions are planned for Colombia, Ethiopia, Senegal, Uganda, and Rwanda through the end of 2015.

To support this initiative, the Bank is developing guidelines for Climate Smart Capital Investment Planning, which are supposed to be launched in the fall of 2014. Other tools being used include a self-scoring tool that cities apply during the Creditworthiness Academy.

It is not explained in publicly available information how the Bank will provide follow-up to the cities that participate in the Academy, nor what efforts are contemplated to develop the "Getting Finance Flowing" component. In addition, since LC2 apparently grew out of a larger set of Bank activities having to do with greenhouse gas reduction and energy efficiency, the primary focus appears to be on mitigation, with adaptation a secondary concern.

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<sup>7</sup> <http://www.worldbank.org/en/topic/urbandevelopment/brief/low-carbon-livable-cities>

<sup>8</sup> <http://www.ppiaf.org/page/sub-national-technical-assistance/creditworthiness-academy>

<sup>9</sup> <http://www.worldbank.org/en/news/feature/2013/10/24/financing-sustainable-cities-africa-creditworthy>

PPIAF additionally is supporting the Dakar (Senegal) Municipal Finance Program by covering the costs for an issuance-specific rating and providing external technical review. The Task Team Leader has indicated an interest in supplying additional support for other sub-sovereign activities where it aligns with their interests.

Besides these global initiatives, which are important, but relatively small, the Bank has operations that support municipal development in all regions, such as the Bangladesh Municipal Governance and Services Project<sup>10</sup> and the Tanzania Urban Local Government Strengthening Program.<sup>11</sup>

For example, in 2013, the World Bank suggested that two meaningful interventions in Vietnam would be: 1) the establishment of a municipal development fund that supports secondary city financial growth and empowerment and 2) the strengthening of the enabling environment for municipal bond issuance through institutional improvements (including enhancing the overall regulatory framework, piloting credit ratings, and introducing financial management assessments for sub-national governments).<sup>12</sup> While Vietnam is not an LDC country, this analysis and its conclusions are relevant for the MIF Programme and possible collaboration with the World Bank

Collaborating with the Bank on the implementation of these operations could at times require coordination with both the Bank's Country Offices, as well as the Task Team Leader in the region, who may be based in Washington, DC.

**Asian Development Bank.** As a major financing partner in many Asian countries, the Asian Development Bank (ADB) carries out about 10 percent of its operational activity in the urban sector. The ADB identifies the following as the principal challenges in the urban sector in his developing member countries.

- *Sustaining urban areas as engines of growth*
- *Managing urban growth*
- *Bridging supply and demand gap on infrastructure services*
- *Strengthening urban management capacity*
- *Decentralizing urban administration*
- *Responding to globalization*

The ADB identifies three key documents that guide its approach to urban development:

- **Long Term Strategic Framework, Strategy 2020**, which indicates ADB's focus on urban infrastructure, such as water supply, sanitation, waste management, and urban transport, with operational emphasis on private sector participation and sound environmental management promoting liveable cities.
- **Enhanced Poverty Reduction Strategy (2004)** which states that "ADB is committed to poverty reduction and will lend its weight and influence to achieve it."
- **Urban Sector Strategy (1999)** that called for ADB to strengthen its leadership role in urban development by expanding the level and impact of development assistance provided to DMCs to improve the plight of urban areas. In 2005, ADB reviewed the strategy to determine how effective it has been in guiding the urban development agenda, but has not yet updated the strategy.

In addition to the strategies and plans that support its extensive involvement in climate change issues,<sup>13</sup> other ADB strategic documents are highly relevant to urban development, although not identified by the Bank as key documents. These are:

- **Urban Operational Plan 2012–2020**, which sets out the future direction and approach for

<sup>10</sup> <http://www.worldbank.org/projects/P133653/municipal-governance-services-project?lang=en>

<sup>11</sup> <http://www.worldbank.org/projects/P118152/tanzania-second-local-government-support-project?lang=en>

<sup>12</sup> World Bank, *Assessment of Financing Framework for Municipal Infrastructure*, 2013. <http://documents.worldbank.org/curated/en/2013/09/18934091/assessment-financing-framework-municipal-infrastructure-vietnam-final-report-danh-gia-khung-tai-tro-cho-co-so-ha-tang-dia-phuong-o-viet-nam-bao-cao-cuoi-cung>.

<sup>13</sup> <http://www.adb.org/themes/climate-change/programs-and-initiatives>

*the urban sector operations of the Bank.*<sup>14</sup>

- *Operational Plan for Integrated Disaster Risk Management, 2014-2020 (2014).*<sup>15</sup>
- *Financing Low-Carbon Urban Development in South Asia: A Post-2012 Context (2013).*<sup>16</sup>

The ADB has also formed a number of partnerships to work with cities. These include:

- *The Cities Development Initiative for Asia*, supported by ADB and the governments of Germany, Sweden, the People's Republic of China, and Austria, which help cities shape prioritizing their infrastructure development plans and assess priority projects at a pre-feasibility stage. Through June 2011, 31 cities in 13 countries had participated in the initiative and approximately \$11.3 million of core resources generated an investment pipeline of approximately US\$5 billion.
- *Urban Financing Partnership Facility* with the Government of Sweden also supports innovative urban environmental, pro-poor projects and provides investment co-financing, technical assistance and guarantee support to urban infrastructure.

In addition to these global projects, each borrower country's operational programme offers opportunities for collaboration, as is the case with the World Bank. For example, in Bangladesh, the ADB has in implementation the Third Urban Governance and Infrastructure Improvement (Sector) Project,<sup>17</sup> and in preparation, the Third Capital Market Development Program.<sup>18</sup>

**US Agency for International Development.** The Development Credit Authority (DCA) of the US Agency for International Development (USAID) has facilitated pioneering capital markets transactions; in 2011, DCA's partial credit guarantee<sup>19</sup> enabled the city of Novi Sad (Serbia) to issue a US\$48 million bond for infrastructure projects for road construction and a new wastewater management facility and in, 2014, the same programme allowed the city of Dakar (Senegal) to issue a US\$42 million bond for land acquisition and subsequent construction and development of a centralized marketplace to improve the quality of life for the urban poor. Both projects were viewed as being of central importance to USAID's strategy of capital markets development in the world's LDCs and developing economies.

Typically, DCA's involvement occurs after a city determines to pursue a long-term debt obligation (bond or loan) for a capital-intensive project; the pricing for a city can be prohibitively expensive, especially in instances where a city is a novice borrower/issuer, and a guarantee from the United States government via DCA can significantly reduce costs based on the credit enhancement and lowered risk exposure.

However, there are often a number of ancillary elements where representatives from DCA can get involved; in the case of Senegal, DCA additionally:

- *Assisted the City of Dakar in performing a robust analysis of the financial feasibility of its capital-intensive investment project*
- *Strengthened the capacity of the common market's regulator through assistance in the review and approval procedures for issuers and accredited guarantors*
- *Provided international exposure for the bond issuance, further ensuring that the transaction is likely to be replicated elsewhere in sub-Saharan Africa*

USAID may be interested in supporting additional guarantees as part of its overall strategy supporting the growth of domestic capital markets as part of its medium-term strategy.

<sup>14</sup> <http://www.adb.org/documents/urban-operational-plan-2012-2020>

<sup>15</sup> <http://www.adb.org/documents/operational-plan-integrated-disaster-risk-management-2014-2020?ref=themes/climate-change/publications>

<sup>16</sup> <http://www.adb.org/publications/financing-low-carbon-urban-development-south-asia-post-2012-context?ref=themes/climate-change/publications>

<sup>17</sup> <http://www.adb.org/projects/39295-013/main>

<sup>18</sup> <http://www.adb.org/projects/45253-002/main>

<sup>19</sup> While the DCA guarantee is administered by the United States Agency for International Development, it is backed by the full faith and credit of the United States Treasury.

**European Union.** Between 2006 and 2012, EuropeAid committed over €1.7 billion for projects in six key sectors of urban development: Urban planning and governance, basic infrastructure, slum rehabilitation, disaster risk reduction and prevention, and rehabilitation and reconstruction of basic infrastructure. This funding is tied to a cross-cutting, and long-term approach to urban management with a focus on enabling local authorities to have the necessary human and financial resources when requesting technical assistance. The general objective is for cities to develop in a way that is economically viable, socially equitable and environmentally bearable, characteristics which constitute the three pillars of sustainable development.

Relevant to UNCDF among the wide range of engagements is The Municipal Infrastructure Support Programme (MISP) in Serbia. Initiated in 2010, this €6 billion programme provided technical assistance to municipalities in order to develop the planning and rollout of municipal infrastructure projects while also contributing to the decentralization process and providing technical support to encourage the concession of certain municipal services through public-private partnerships.

More recently, the EU is supporting infrastructure development through a ground-breaking €100 million Infrastructure Investment Programme for South Africa, which will be used to leverage investments from development finance institutions in areas identified by the country which are in deep need of financing. EU grants will support a range of activities including technical assistance and preparation, management and implementation of projects, as well as direct grants to co-finance capital expenditure of infrastructure projects.

**African Development Bank.** In 2011, the Board of Directors of the African Development Bank (AfDB) approved a new Urban Development Strategy centred on three pillars: (1) infrastructure delivery, (2) governance and (3) private sector development.<sup>20</sup> The AfDB has, since the 1960s, regularly allocated approximately 15-20% of its operations financing either directly or indirectly to urban-based projects, although its Board has recognized that the overall impact of these investments have not been well-realized due to the AfDB's lack of coordination on project execution and delivery. The 2011 plan seeks to "boost the Bank's engagement in Africa's urban sector by promoting country-specific urban development initiatives."

In the context of UNCDF's strategy, it is important to note that the AfDB prioritizes the establishment of "African cities and towns as engines of sustainable economic growth and social development" as its first goal, and lists partners as: The World Bank, the IFC, UN-Habitat, Cities Alliance, bilateral institutions, African organizations such as the Municipal Development Partnerships and Shelter-Afrique, the Islamic Development Bank and UCLGA. To date, there has been very limited success in the delivery of the goals put forward as part of the 2011 new Urban Development Strategy, and cities in the target African LDCs mentioned elsewhere in this report have not directly benefited from AfDB policies or resources.

The African Development Bank has expressed interest in working with cities in sub-Saharan Africa and will be a key participant in a conference scheduled for Marrakesh, Morocco, in December 2014. However, earlier attempts to engage the Bank for investment in the City of Dakar, either as a direct lender or as a guarantor, have not been fruitful, as the bank's interest rates are not competitive.

**West African Development Bank.** The West African Development Bank has proven its interest in working with sub-sovereign entities in the region; in 2012, it approved a loan to Dakar for approximately US\$13 million for much-needed road infrastructure projects. It continues to explore ways in which it may work with sub-sovereign entities, and may be an excellent candidate to serve as a nominal lender to secondary cities in Senegal as a preliminary indicator of creditworthiness.

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<http://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/Urban-Development%20Strategy-Rev%201.pdf>

**Cities Alliance.** Cities Alliance (CA), a global partnership for urban poverty reduction and the promotion of the role of cities in sustainable development, has incorporated municipal finance into its recently-launched medium-term strategy. Through its involvement in the Dakar Municipal Finance Programme as well as other pioneering initiatives, CA has shifted its focus from solely looking at the “demand side” of issues dealing with the urban poor and is now also considering “supply side” concerns. CA sponsored a mission to Southeast Asia involving representatives from UNCDF and the City of Dakar specifically examining similarities and differences among approaches to municipal finance in the Global South.

**The Global Fund for Cities Development (FMDV),** is an international alliance of local governments created by UCLG and Metropolis and dedicated to municipal finance solutions for a sustainable urban development. FMDV operates by creating the adapted mechanisms and conditions at regional, national and local level to allow LG to access to the necessary financial resources by linking the stakeholders together and mobilizing the adapted technical and financial expertise. FMDV also participate to the animation of the debate and the dissemination of knowledge on municipal finance through the organization of conferences, workshops, publications and study tours.

Relevant to UNCDF among the different range of engagements of FMDV are the following activities:

- *The animation of the African network of municipal investment funds (RIAFCO) that provides technical assistance and disseminate inspiring knowledge to Municipal Investment Funds to diversify their services to the municipalities, including the preparation to access to capital market. For UNCDF, working with this program will allow to identify actions to be taken through the Municipal investment funds with LG (training, investment planning, promoting good practices) and testing innovating approach with some of them (like the Local Development Fund in Madagascar or the FADEC in Benin);*
- *The Subnational Pooled Financing Program (SPFM): FMDV develops in partnership with AFD, USAID and IFC the SPFM that identifies the options, conditions and impacts of gathering LG of a same country or of a region to access to the bond market. Based on the experiences of some other countries (France, Mexico and the on going action in South Africa), this program could provide inspiring mechanisms for LDCs LG. A first pilot action could be explored within the ASEAN or the West African Economic and Monetary Union (UEMOA);*
- *The integration and the participation in many international events where the MIF program activities could be promoted at international level with FMDV and through UNCDF's representatives or partners that benefits from the program.*

Through its global network of LG and stakeholders working on municipal finance on the ground, its capacity of mobilizing LG and partners on programs and events (workshops, study tours, publications) and its experiences in coordinating programs and actions with LG, FMDV appears to be a strategic partner for the development of the MIF program.

**100 Resilient Cities Initiative** (originally started up by Rockefeller Foundation). 100 Resilient Cities (100RC) is dedicated to helping cities around the world become more resilient to the physical, social and economic challenges that are a growing part of the 21st century.<sup>21</sup> 100RC supports the adoption and incorporation of a view of resilience that includes not just the shocks – earthquakes, fires, floods, etc. – but also the stresses that weaken the fabric of a city on a day to day or cyclical basis. Examples of these stresses include high unemployment; an overtaxed or inefficient public transportation system; endemic violence; or chronic food and water shortages. By addressing both the shocks and the stresses, a city becomes more able to respond to adverse events, and is overall better able to deliver basic functions in both good times and bad, to all populations.

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<sup>21</sup> Text taken directly from "100 Resilient Cities, About Us," <http://www.100resilientcities.org/pages/about-us>

Cities in the 100RC network are provided with the resources necessary to develop a roadmap to resilience along four main pathways:

- *Financial and logistical guidance for establishing an innovative new position in city government, a Chief Resilience Officer, who will lead the city's resilience efforts;*
- *Expert support for development of a robust resilience strategy;*
- *Access to solutions, service providers, and partners from the private, public and NGO sectors who can help them develop and implement their resilience strategies; and*
- *Membership of a global network of member cities who can learn from and help each other.*

Through these actions, 100RC aims not only to help individual cities become more resilient, but will facilitate the building of a global practice of resilience among governments, NGOs, the private sector, and individual citizens.

100 Resilient Cities is financially supported by The Rockefeller Foundation and managed as a sponsored project by Rockefeller Philanthropy Advisors (RPA), an independent 501(c)(3) non-profit organization that provides governance and operational infrastructure to its sponsored projects.

Thirty-two cities have been selected to date. Among them, there are two LDC cities: Dakar, Senegal and Mandalay, Myanmar.

## ANNEX 5. ANALYSIS OF MIF PROGRAMME CANDIDATE COUNTRIES IN AFRICA

		Cameroon	Ethiopia	Mozambique	Rwanda	Senegal	Tanzania	Uganda	Average
1. Macroeconomic situation	Interest rate (2013) (Lending rate from World Bank)	14.00%	14.5%	15.3%	17.5%	14.3%	15.8%	23.3%	16.4%
	Inflation (CPI 2012, 2005=100)	124	364.74	177.2	173.9	120.1	169.81	203	190.4
2. Demand and ability to reach scale	Population (millions, 2013)	22.25	94.1	25.83	11.78	14.13	49.25	37.58	36.42
	Urban population (%)	52.1	17	31.2	19.1	42.5	26.7	15.6	29.17
	Urbanization rate	3.23	3.57	3.05	4.5	3.32	4.77	5.74	4.1
	Population distribution across 10 largest cities	Population almost evenly divided between urban and rural dwellers; three largest cities are Douala (2.45 million), Yaounde (2.5 million) and Garoua (236k)	Addis Ababa – 3.04 million; Mek'ele – 286k; Dire Dawa – 273k; Adama – 263k; Gondar – 254k; Awasa – 213k; Bahir Dar – 191k; Jimma – 149k; Dessie – 148k; Jijiga – 148k	Maputo – 1.178 million; Matola – 672k; Beira – 432k; Nampula – 389k; Chimoio – 257k; Nacala – 225k; Quelimane – 189k; Mocuba – 136k; Tete – 129k; Xai-xai – 127k	Kigali – 1.04 million; Gitarama (100k), Butare (100k), Gisenya (100k)	Dakar – 2.15 million; Touba – 476k; Thies – 240k; Kaolack – 181k; M'bour – 171k; Saint-Louis – 165k; Rufisque – 155k; Ziguinchor – 154k	70% rural – largest cities are Dar es Salaam (4.63 million); Mwanza (710,000), Arusha (420,000), Mbeya (390,000), Morogoro (320,000)	Kampala – 1.35 million; Gulu – 147k; Lira – 119k; Mbarara – 98k; Jinja – 93k; Bwizbweera – 79k; Mbale – 76k; Mukono – 67k; Kasese – 67k; Masaka – 65k	
3. Need for investment finance	Provision of local services assigned to LGs by law	Yes, but central government controls the more lucrative agencies	Yes	Yes	Yes, 10-yr transition of provinces to local governments in process	Yes, but central government controls the more lucrative agencies	Yes	Yes	

		Cameroon	Ethiopia	Mozambique	Rwanda	Senegal	Tanzania	Uganda	Average
	Evidence of deferred investment in services	Yes, through the issuance of a bond by the city of Douala (mid-2000s); interest in re-issuing in Douala as well as other major cities	TBD.	Preliminary exploration (explored and supported by Water and Sanitation for the Urban Poor)	None successful	Yes, through as shown through long-term capital planning, which used concessionary financing from IFIs and bilateral agencies	None successful, but under review	None successful, but under review	
4. Ability of local governments to borrow	[Develop scale to evaluate Municipal law]	Yes, but all municipal officers are appointed by central government	Limited, but with potential for programme with increased decentralization		Under consideration in summer 2012 by Gates Foundation	Yes	Yes, and currently in exploration	Yes, and currently in exploration	
5. Ability to repay credit	2013 GNI per capita, Atlas method (current US\$)	1,270	470	590	620	1,070	630	510	737.14
	2013 GDP per capita, at PPP	2,711	1,354	1,045	1,452	2,269	1,775	1,410	1,716.57
	Urban GNI per capita								
Capacity to mobilize taxes and fees	Percentage of revenue from own sources in primary and secondary cities	Information on this criteria is scarce because most cities do not publish their financials; these financials are further typically not audited by verifiable third-party agencies; the only exception is in the case of the City of Dakar (Senegal), which will annually be sharing its financial information pursuant to the terms of bond issuance based on local market regulations,							
Financial condition	Net revenue surplus % in primary and secondary cities	Information on this criteria is scarce because most cities do not publish their financials; these financials are further typically not audited by verifiable third-party agencies; the only exception is in the case of the City of Dakar (Senegal), which will annually be sharing its financial information pursuant to the terms of bond issuance based on local market regulations,							
6. Gross fixed capital formation (versus consumption) of value-added	Gross fixed capital formation (% of GDP, 2012, WB Data)	18.0 (as of 2012)	33.0 (as of 2012)	49.0	24.0	23.0 (as of 2012)	38.0	24.0	29.9
7. Ability of financial sector to mobilize resources	Domestic credit provided by banking sector (% of GDP, 2012, WB Data)	14.4	37.6 (last recorded in 2008)	28.9	8.0 (last recorded in 2005)	31.3	24.7	16.3	23.12 (using recent data)

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8. Government structure	
Cameroon	Decentralized unitary state/multiparty presidential republic structured on French model
Ethiopia	Federal parliamentary republic
Mozambique	Decentralized unitary state/presidential representative democratic republic.
Rwanda	Decentralized unitary state/multiparty presidential republic structured on French model
Senegal	Decentralized unitary state/multiparty presidential republic structured on French model
Tanzania	Decentralized unitary state/multiparty presidential republic
Uganda	Decentralized unitary state/multiparty presidential republic

## ANNEX 6. ANALYSIS OF MIF PROGRAMME CANDIDATE COUNTRIES IN ASIA

		Bangladesh	Bhutan	Cambodia	East Timor	Lao PDR	Myanmar	Nepal	Average
1. Macroeconomic situation	Interest rate (2013) (Lending rate from IMF IFS)	13.0%	14.0%	13.0%	12.4%	22.6%	13.0%	8.0%	
	Inflation (CPI 2012, 2005=100)	174	161	160	143	239	186	171	176.3
	Volatility 2013	20.3	28.2	101.3	25.9		35.1		42.2
2. Demand and ability to reach scale	Population (millions, 2011)	150.49	0.74	14.14	1.15	6.29	48.34	30.49	35.9
	Urban population (%)	28.4	35.6	32.6	20	34.3	28.3	18.0	28.2
	Urbanization rate	3.5	4.9	2.9	4.6	5.6	5.0	2.0	4.1
	Population distribution across 10 largest cities	Dhaka 10,356,500 Chittagong 3,920,222 Khulna 1,342,339 Rājshāhi 700,133 Comilla 389,411 Rangpur 343,122 Tungi 337,579 Narsingdi 281,080 Cox's Bāzār 253,788 Jessore 243,987	Thimphu 98,676 Punakha 21,500 Tsirang 18,667 Phuntsholing 17,043 Pemagatshel 13,864 Sarpang 10,416 Wangdue 7,507 Phodrang 7,507 Samdrup 7,507 Jongkhar 5,479 Samtse 5,479 Jakar 4,829	Phnom Penh 1,573,544 Takeo 843,931 Kampong Saom 156,691 Battambang 150,444 Siem Reap 139,458 Paōy Pēt 79,000 Kampong Chhnang 75,244 Kampong Cham 61,750 Pursat 52,476 Ta Khmau 52,066	Dili 150,000 Sam Maliana 25,000 Suai 21,539 Liquica 19,000 Aileu 17,356 Lospalos 17,186 Maubara 16,300 Baucau 16,000 Venilale 16,000	Vientiane 196,731 Pakxe 88,332 Savannakhét 1,208,099 Luang Prabang 925,000 Xam Nua 47,378 Muang 38,992 Phônssavan 37,507 Phonsavan 37,507 Thakhek 26,200 Muang Xay 25,000 Vang Vieng 25,000	Yangon 4,477,638 Mandalay 1,208,099 Naypyidaw 925,000 Mawlamyine 438,861 Bago 244,376 Patheingyi 237,089 Monywa 182,011 Sittwe 177,743 Meiktila 177,442 Myeik 173,298	Kathmandu 1,442,271 Pokhara 200,000 Patan 183,310 Birātnagar 182,324 Birgunj 133,238 Dharān Bāzār 108,600 Bharatpur 107,157 Janakpur 93,767 Dhangadhi 92,294 Butwāl 91,733	
3. Need for investment finance	Provision of local services assigned to LGs by law	Yes	Yes, but incipient	Yes. Various laws govern de-centralization/deconcentration inconsistently. Implementation and policy rationalization in early stages.	Yes, 10-yr transition of provinces to local governments in process	Legally, a deconcentrated fiscal system, but in practice is highly decentralized	Incipient decentralization process to implement 2008 law. Expenditure and revenue responsibility limited and unclear.	Yes, being provided via transfers through non-elected local officers. In process of federalization.	
	Evidence of deferred investment in services								

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		Bangladesh	Bhutan	Cambodia	East Timor	Lao PDR	Myanmar	Nepal	Average
4. Ability of local governments to borrow	[Develop scale to evaluate Municipal law]	Yes with significant legal restrictions		No local jurisdiction is permitted to borrow.		Provinces not permitted to borrow.	TBD. Central government can "lend" to local government.	Yes	
5. Ability to repay credit	2013 GNI per capita, Atlas method (current US\$)	900	2,460	950	3,580	1,460		730	1,680.0
	2013 GDP per capita, at PPP	1,311	6,962	1,818	4,770	2,054	1,040	3,397	3,050.3
	[Urban GNI per capita]								
Capacity to mobilize taxes and fees	Percentage of revenue from own sources in primary and secondary cities								
Financial condition	Net revenue surplus % in primary and secondary cities								
6. Gross fixed capital formation (versus consumption) of value-added	Gross fixed capital formation (% of GDP, 2012, WB Data)	27.0	64.0	17.0	65.0	32.0	19.0	34.0	36.9
7. Ability of financial sector to mobilize resources	Domestic credit provided by banking sector (% of GDP, 2004-2008, WB Data)	69.2	48.2	33.8	-50.3	26.5		68.3	32.6

8. Government structure	
Bangladesh	Unitary state and parliamentary democracy
Bhutan	Unitary constitutional monarchy.
Cambodia	Unitary constitutional monarchy operated as a parliamentary representative democracy. Divisions include provinces, municipalities, sroks, khans, khums, and sangkats
East Timor	Unitary parliamentary democratic republic.
Lao PDR	Unitary single party socialist government. 16 provinces, 1 special zone, and Vientiane municipality. Provinces subdivided into districts, townships, and villages. President appoints Provincial governors and municipal mayors.
Myanmar	Unitary parliamentary republic. Seven regions (divisions) and 7 States. States and divisions are divided into districts. Districts consist of townships that include towns, wards and village-tracts (groups of adjacent villages). There is also one Union territory, 5 self-administered zones, and 1 self-administered division. Significant legislative power for military and Union ministries at local level...
Nepal	Federal multiparty representative democratic republic. Jurisdictions include regions, zones, districts, municipalities, and village development committees.

ANNEX 7. TYPE OF ACTIVITIES IN TARGET COUNTRIES - MIF PROGRAMME

	<b>Activity</b>	<b>Highly centralized country</b>	<b>Country in the process of decentralization</b>	<b>Highly decentralized country</b>
Enabling Framework	Explore opportunities for constitutional change that would foster decentralization	<input type="checkbox"/>		
	Encourage municipalities to clarify and subsequently demonstrate competency in execution of mandates	<input type="checkbox"/>		
	Develop and promote legislation, with other partners, to create platform for sub-sovereign investment	<input type="checkbox"/>	<input type="checkbox"/>	
Municipal Capacity Building	Improve financial reporting standards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Conduct external and self-assessments of financial planning capacity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Complete and validate participatory strategic plans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Complete and validate long-term capital investment plans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Conduct credit ratings by third party ratings agencies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial Sector Enhancement	Work with financial intermediaries to supplement existing systems to absorb supply of municipal financial instruments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Work with government and private market actors to develop standard operating procedures and benchmarks for private transactions (information requirements; financial analysis procedures, debt service coverage, project structures, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Implementation and Ongoing Support	Execute a financial transaction, through the use of industry best practices, credit enhancements (where appropriate) and other elements to ensure sustainability and replicability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Remain in good standing with investors/lenders through use of financial management tools	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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## ANNEX 8. EXAMPLE OF MEMORANDUM OF UNDERSTANDING (MOU)

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### MEMORANDUM OF UNDERSTANDING

#### BETWEEN

[OFFICIAL NAME(S) OF NATIONAL/LOCAL PARTNER(S)],

[OFFICIAL NAME(S) OF OTHER RELEVANT PARTNERS, IF ANY],

#### AND THE UN CAPITAL DEVELOPMENT FUND

ON THE ESTABLISHMENT, FINANCING AND MANAGEMENT OF

[IDENTIFY THE NAME OF THE FUND – (E.G. ANSEBA'S LOCAL DEVELOPMENT FUND)]

This Memorandum of Understanding ("MOU") is entered into by the UN Capital Development Fund ("UNCDF"), a subsidiary organ of the United Nations, an intergovernmental organization established by its Member States with its headquarters in New York, NY (USA), and the [Name of Partner] (hereinafter "[Abbreviated Name]"), headquartered in [location]. UNCDF and [Name of Partner] are hereinafter jointly referred to as the "Parties".

WHEREAS, the Government of \_\_\_\_\_ and UNCDF have entered into a Basic Agreement that sets the general conditions and terms under which UNCDF could provide assistance to the government for its development activities;

WHEREAS, the purpose of UNCDF is to assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of flexible financial mechanisms such as but not limited to grants, loans and guarantees will be disbursed to local authorities/ local governments for the purpose of capital investments in accordance with articles 2 and 8 of this MOU;

WHEREAS the establishment and financing of a Local Development Fund is part of the [indicate the name of the project under which the fund is being established]'s planned activities, as per project document signed by [the government of \_\_\_\_\_] and UNCDF;

WHEREAS the [official name of the partner] is committed to transfer the funds received to designated local authorities / local governments \_\_\_\_\_, as per [identify relevant law/regulation] [Add other partners as required];

WHEREAS the implementation of the MOU is linked to an signed protocol between the local authorities and the project

NOW, THEREFORE, the Parties of this Memorandum of Understanding agree as follows:

#### Article I

This MOU is subject to definition and conditions for the establishment of a LDF including, inter alia, conditions pertaining to financial control, reporting and auditing arrangements.

1.1. The purpose of the Local Development Fund [or specific denomination of the Fund, if any] is to provide supplementary capital to finance local public/private investments in [Options a) the following (districts/ provinces/ communes/ any other relevant jurisdiction) ] [b)(districts/ provinces/ communes/ any other relevant jurisdiction) that the parties have identified, of mutual accord and in writing, in line with the objectives of the [name of the project], and that are specified in the project's work plans (hereby referred to as 'participating districts/municipalities/or relevant jurisdictions'); such assistance will be governed by the terms and conditions defined in Articles II to IX of this MoU;

1.2.. [If the Fund has secondary purposes] In concomitance with the purpose referred to under 1.1., the Fund will also seek to [List any other objective of the Fund – e.g. to promote the adoption of sound Public Expenditure Management practices in recipient Local Authorities; to pilot innovations in the system of inter-governmental fiscal transfers; etc.]

## Article II.

### Establishment of the Local Development Fund

#### 2.1. [Option A: Account at central level is to be established]

The [relevant national partner, indicate office/unit therein if relevant] shall open an Account/Special Account under the name [name of the account – e.g. Anseba Local Development Fund] in the Central Bank of \_\_\_\_\_ .

[Option B: Account at local level is to be established, if option A is not available] The [Local partner, indicate office/unit therein if relevant] shall open an Account/Special Account under the name [name of the account]. The [Local partner, indicate office/unit therein if relevant] will notify the [relevant central authority, e.g. Ministry of Finance] and UNCDF if and when such account has been established.

2.2. [For Option A] The account will be part of the National Budget-Treasury system and funds transferred by UNCDF [and any other relevant external partner] to this account will be duly and timely recorded in the government's official financial records [or general ledger, or relevant name of the record as per nomenclature of relevant national regulations] as [indicate relevant income nomenclature as per national regulations, e.g. 'overseas development assistance'], in line with relevant regulations.

[For Option B] Funds transferred by UNCDF [and any other relevant external partners] into the account, will be duly and timely recorded in the local authority [or relevant official denomination of local partner]'s official financial records [or general ledger, or relevant name of the record as per nomenclature of relevant regulations] as [indicate relevant income nomenclature as per national regulations, e.g. 'overseas development assistance'], in line with relevant regulations.

2.3. The [National/, indicate office/unit therein if relevant] shall be the owner of the LDF [Special] account [or name of the account as per 3.1.]. As such, it shall be responsible for the management and operation of the [Special] Account, including the accounting and reporting on transactions, and the preparation and submission of quarterly statements the format of which will be mutually agreed between the parties on the Account's position to UNCDF [and any other relevant partner].

## Article III

### Funding Arrangements

3.1. UNCDF shall transfer its contribution to the LDF account in accordance with the disbursement schedule and conditions set out in this MoU, under article VI. In turn the government will transfer the funds to the designed local authorities in accordance with the disbursement schedule and condition set up in article 6 of this MOU

3.2. Subject to receipt of funds from (name relevant donor/source), if applicable], and in compliance with the Minimum Conditions (defined in Article IV), reporting requirements by the local authorities/governments [or any other legal jurisdiction] (defined in Art. VII) and other relevant terms of this MoU, the maximum contribution of UNCDF to the LDF [or relevant fund denomination] will be up to USD \_\_\_\_\_ per year for \_\_\_\_ years.

3.3. [If applicable] The [national/ local partner] commits to co-fund the LDF [or relevant denomination] with \_\_\_\_\_ per year for \_\_\_\_\_ years, through transfers to the LDF [or relevant denomination] [Special] Account.

3.4. Such allocation will be made effective in parts as per conditions set out in this MoU.

*[This section indicates how the LDF will be funded, i.e. funding sources, level of funding commitment per source, per year; and period of commitment]*

## Article IV

### Eligibility and Minimum Conditions of Access

4.1. Districts/Municipalities/Communes [or any other relevant jurisdiction] access to their LDF allocations shall be dependent upon compliance with the following Minimum Conditions of Access (MCAs):

- a. The [relevant *elected*, deliberative, body of local authority – e.g. District Council] had approved the Annual Investment Plan [or other relevant denomination – e.g. District Development Plan] for the coming FY, in compliance with national and local laws and regulations
- b. The Local Authority [or relevant denomination of local institutional partner – e.g. Local Government; District Authority; etc.] has complied with the following conditions [or conditions set out in the [Name of Project's Public Expenditure Management manual, or any other relevant manual/formal guideline]:

[Examples:

- i. Public disclosure requirements;
- ii. Consultation with local communities concerning development priorities;
- iii. Appraisal of proposed investment projects [including, inter alia, gender appraisals]
- iv. Results of performance evaluation including but not limited to:
  - a. Investments plan and budgets elaborated;
  - b. Budget disbursed in line with the priorities of the plans;
  - c. Use of national public procurement standards and regular external audits while managing resources;
  - d. Expenditures against budget published;
  - e. Gender perspective to planning and budgeting;
  - f. Genderized budgets and investments implemented;
- c. [The Local Authority has disbursed at least X% of the prior tranche in conformity with the scope of work and as certified by the project coordinator (for the second tranche and all subsequent tranches) ]and endorsed by the Steering Committee

The National/Local Authority agrees to institutionalize in its yearly budgeting and planning cycles, the recurrent expenditures or operational costs related to the capital investments financed and identified in the project. The National/Local Authority to recognize the sustainability of the capital investments through factoring the needed maintenance and management costs within the government's own budgeting cycle

- d. The [national honors it engagements mentioned in the article III  
[d. Other relevant conditions as per project's objectives/ LDF objectives]

4.2 The National/Local Authority agrees to inform UNCDF in a timely fashion about any problems it may face or any anticipated failure to complete the project. The National authority also agrees to immediately report any incidence of fraud, theft, or significant operational loss that negatively impacts its ability to fulfill the terms of this Agreement or threatens or has a relevant impact on its ability to continue as a going concern

4.3. Failure to comply with these MCAs will automatically lead to disqualification of the municipalities/districts/communes [or any other relevant jurisdiction] to get access to the grants for the fiscal year, for which the assessment applies.

## **Article V**

### **Allocation Criteria**

5.1. The funds will be divided across the eligible LG/LA \ according to a transparent allocation formula as described in the project document or the approved operation manual of the project or approved by the two parties as specified in the allocation matrix in Appendix X.

[Option A: add "namely" and then *describe formula*. e.g. X% of the funds will be divided equally among the provinces/districts/any other relevant jurisdiction; the X% remaining will be allocated on a per

capita basis; or any other relevant formula, including performance-based formulae]; [Option B: add “agreed to by the parties, in writing”]; [Option C: “as defined in the Operations Manual of the Fund”, [if any]]

5.2. Indicative allocation figures (potential amounts provided that all conditions are fulfilled), will be notified to the District/Provinces /Commune’s Authorities [or relevant official denomination] no later than \_\_\_\_ each year.

## **Article VI**

### **Funding Flow and Reporting**

6.1. UNCDF will release the initial amount not exceeding 30% of the annual committed funding to the LDF account at the Bank of \_\_\_\_\_, provided that [relevant requesting partner – e.g. Ministry of Local Administration] submits a request in writing to UNCDF [project] [and relevant financial authority/ authorizing partner – e.g. Ministry of Finance and Treasury]] to release the funds, in due compliance with sub-article 7.2, and supported by

- i. Copy of approved [district/municipality/relevant jurisdiction] plan and budget for the following FY, formulated in accordance with the provisions of [the [Project name]’s Public Expenditure Management guidelines/ relevant guidelines],
  - ii. Investment programme indicating share of costs expected to be borne by the LDF funds and by other sources (to be certified by the district/municipality/relevant jurisdiction’s financial department and/or planning department; or relevant department);
  - iii. Official financial records of local authority of prior fiscal period;
  - iv. LDF Special Account details
- [Include other relevant conditions if any]

Following the adoption of the annual allocation, the local authorities send a request to the Ministry of Finance to supply their bank account. This request must be accompanied by documentation relating thereto (resolution of the Council, annual budget and annual investment plan). Based on this documentation, the Ministry sends a request to UNCDF to supply the account at national level. Related documentation must accompany this request to provide the account at the national level. Transfers between UNCDF and the Ministry of Finance are scheduled as follows:

1st installment: 30% of the total LDF

2nd installment: 30% of the total LDF

3rd and last installment: 40% of the total LDF

Upon the utilization of 75% of the installment, the municipality may request the Ministry of Finance for the next installment.

6.2. The request from the [central requesting partner – e.g. Ministry of Local Administration] will only be submitted if the reports from the [provinces/districts/relevant jurisdictions] are satisfactory and if the participating [provinces/districts/relevant jurisdictions] for which funding is being requested have complied with all minimum access conditions specified in Article V of this agreement.

6.3. The [central requesting partner – e.g. Ministry of Local Administration] shall request the Treasury department [or relevant authority] to release the first installment, as per allocation criteria specified in Art. VI, to eligible [provinces/district/relevant jurisdictions]’ bank accounts.

6.4. The [districts/municipalities/relevant jurisdiction(s)] are required to report to the [central requesting authority- e.g. Ministry of Local Administration] and [relevant financial authority], on the use of the LDF funds (for the first and all subsequent installments) on a [indicate frequency- e.g. quarterly basis/half-yearly], and the reports should be submitted no later than \_\_\_\_ weeks after the end of every [quarter/semester or relevant frequency], including:

- i. Financial and narrative report [as per reporting format agreed with [project name]]; including status of local investment programme (to be certified by the district/municipality/relevant jurisdiction's financial department and/or planning department; or relevant department);
  - ii. Local Authority's account statement and bank account reconciliation;
- 6.5. Once the [districts/municipalities/relevant jurisdiction] have fully spent at least X% per cent of the first installment, they shall have to request the [central requesting authority] to release the second installment with the supporting documents specified in sub-article 7.5.
- 6.6. If the supporting documentation from the [provinces/districts/relevant jurisdictions] are satisfactory and if the participating [provinces/districts/relevant jurisdictions], [the central requesting partner – e.g. Ministry of Local Administration] shall request UNCDF to release the second [final] installment of the annual committed funding to the [Special] LDF [or relevant fund denomination] account at the Bank of \_\_\_\_\_, with the corresponding supporting documentation.
- 6.6. Upon UNCDF's release of funds to the [Special] LDF [or relevant fund denomination] account at the Bank of \_\_\_\_\_, the [central requesting partner – e.g. Ministry of Local Administration] shall request to the [relevant financial authority – e.g. Ministry of Finance and Treasury] to release the second installment, as per allocation criteria specified in Art. VI, to eligible [provinces/district/relevant jurisdictions]' bank accounts.
- 6.7. The [relevant national authority] shall provide UNCDF/Project with a copy of the request and supporting documents sent to the [relevant financial authority – e.g. Ministry of Finance and Treasury], and with an updated account statement of the LDF [or relevant denomination] [Special] Account no later than \_\_\_ days after the latest installment has been made effective.
- 6.8. Subsequent transfers for the following \_\_\_ fiscal years, will be made in two installments per year, as per conditions specified in sub-articles 6.4 to 6.7, with 'first' replaced by 'prior', and 'second' replaced by 'subsequent'.
- 6.9.[UNCDF/The project] reserves the right to assess participating [municipalities/districts/ relevant jurisdiction's] compliance with minimum access conditions (specified in Art. V of this agreement), and to inspect, in situ, the status and progress of local investment projects being financed by the LDF [or relevant denomination], and shall inform the [central authority] of reservations it might have (if any) on eligibility and/or grant utilization, with a view to agree on appropriate measures to address such concerns.
- 6.10.[UNCDF/The project] reserves the right to withhold UNCDF-managed funds from being transferred to the LDF account, at any point of time during the course of the current agreement, if it deems that minimum access conditions and/or grant utilization criteria have not been fully or appropriately met. Such right is reserved whether or not the [national counterpart] concurs with [the project/UNCDF's] assessment. Transfers will be initiated or resume only if and when [UNCDF/the project] deems that its reservations or concerns concerning eligibility/grant utilization have been fully and appropriately addressed by [name Ministry/national counterpart] and/or other relevant parties.
- 6.11. Quarterly [or relevant frequency] bank statements and bank reconciliations of the LDF [special] account, and consolidated annual reports on the use of funds, will be provided by the [relevant partner – Ministry of Local Administration] to [UNCDF/ project] and to [relevant national authority (if any), such as the Ministry of Finance and Treasury], until all LDF funds are disbursed and utilized by participating [municipalities/ districts/relevant jurisdictions].

*[This section defines the way in which funding will flow - to the LDF account, and from the LDF account to the recipient local authorities – and requirements to authorize the transfers; it also describes whether the funds will be disbursed in tranches, and with what periodicity/under what conditions; the specific conditions will vary according to national systems and regulations, signatory parties, objectives of the project/ LDF, etc.]*

## **Article VII**

**Use of the LDF funds**

7.1. The LDF funds can only be used on capital investment expenditures and others as described in the project document, such as investments in new structures, buildings, facilities and rehabilitation and/or upgrading of existing infrastructures- including social service and economic infrastructure.

7.2. Up to x% as negotiated between the partner can be used for investment servicing costs (e.g. such as preparation, planning, appraisal, monitoring and supervision of development projects). Eligible areas include [or are outlined in the Operations Manual of the Fund]

**Article VIII**

**Audit**

8.1. All funds disbursed from the LDF [name of fund] shall undergo an annual audit for the Office of the Auditor General [or relevant audit authority] as agreed upon by the two parties and the results should be made available to the involved parties of this MoU. The LDF [or relevant denomination of the fund] may also be subject to an independent external audit, covering the concerned central as well as local government institutions. The independent auditor, identified through [the project] should be approved by the Auditor General prior to this audit.

**Article IX**

**Term, Termination, Amendment**

9.1. The proposed cooperation under this MOU is non-exclusive and shall have an initial term of X years from the Effective Date, as defined in Article XII [or commencing on \_\_\_\_\_ and ending on \_\_\_\_\_], unless terminated is requested earlier by either party upon two months' notice in writing to the other party. The Parties may agree to extend this MOU in writing for subsequent periods of [\_\_\_\_] years. TO BE Checked

9.2. In the event of a party requesting the termination of the MOU, the Parties shall take the necessary steps to ensure that any funds remaining in the LDF account, will be disbursed in a prompt and orderly manner, as per terms of the MoU, and that the due reports will be submitted in a timely manner, as per condition XX of this MoU. The termination will also be accompanied by a final audit, which shall be expedited.

9.3. This MOU may be amended only by mutual written agreement of the Parties.

**Article X**

**Notices and Addresses**

10.1. All official documents, written requests and other notices required or permitted to be given or made under this MOU shall be deemed to have been duly given or made when it shall have been delivered by hand, certified mail, overnight courier, telex, or cable to the party to which it is required to be given or made at the address specified below or such other address as shall be hereafter notified.

For [Name of Partner]:

[Name]

[Address]

[Address]

[Address]

For [UNCDF/Name of Project]:

[Name]

[Address]

[Address]

[Address]

## **Article XI**

### **Settlement of Disputes**

11.1 The Parties shall use good faith efforts to settle amicably any dispute, controversy or claim arising out of this MoU. Where the Parties wish to seek such an amicable settlement through conciliation, the conciliation shall take place in accordance with procedures as may be agreed between the Parties.

11.2 Any disputes between the Parties arising out of or relating to this MOU which is not settled amicably or other agreed mode of settlement shall be submitted to arbitration at the request of either Party. Each Party shall appoint one arbitrator, and the two arbitrators so appointed should appoint a third, who shall be the chairman. If within thirty days of the request for arbitration either Party has not appointed an arbitrator or if within fifteen days of the appointment of two arbitrators the third arbitrator has not been appointed, either Party may request the President of the International Court of Justice to appoint an arbitrator. The procedure of the arbitration shall be fixed by the arbitrators, and the expenses of the arbitration shall be borne by the Parties as assessed by the arbitrators. The arbitral award shall contain a statement of the reasons on which it is based and shall be accepted by the Parties as the final adjudication of the dispute.

Or to be advised by UNDP legal

11.2 Any controversy or claim arising out of, or in accordance with this Agreement or any breach thereof, shall unless it is settled by direct negotiation, be settled in accordance with the UNCITRAL Arbitration Rules as at present in force. Where, in the course of such direct negotiation referred to above, the parties wish to seek an amicable settlement of such dispute, controversy or claim by conciliation, the conciliation shall take place in accordance with the UNCITRAL Conciliation Rules as at present in force.

The parties shall be bound by any arbitration award rendered as a result of such arbitration as the final adjudication of any such controversy or claim.

## **Article XII**

### **Privileges and Immunities**

12.1. Nothing in or relating to this MOU shall be deemed a waiver, express, or implied, of any of the privileges and immunities of the United Nations, including its subsidiary organs.

## **Article XIII**

### **Miscellaneous**

13.1. This MOU and any related manuals, sub-agreements and project document comprise the complete understanding of the Parties in respect of the subject matter in this MOU and supersede all prior agreements relating to the same subject matter. Failure by either Party to enforce a provision of this MOU shall not constitute a waiver of that or any other provision of this MOU. The invalidity or unenforceability of any provision of this MOU shall not affect the validity or enforceability of any other provision of the MOU.

## **Article XIV**

### **Entry into Force**

14.1. This MOU may be signed in counterparts, each of which shall be deemed an original and both of which duly executed shall constitute one entire document, and shall enter into force and effect on the date ("Effective Date") in which it is duly signed by both parties.

IN WITNESS WHEREOF, the duly authorized representatives of the Parties affix their signatures below.

*FOR UNCDF:*

*FOR* [Name of Partner – add partners as required]

\_\_\_\_\_  
Name

\_\_\_\_\_  
Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

**STANDARD LETTER OF AGREEMENT BETWEEN  
THE UNITED NATIONS DEVELOPMENT PROGRAMME AND  
[A GOVERNMENT MINISTRY/INSTITUTION/IGO]  
ON THE IMPLEMENTATION OF [NAME OF UNCDF PROJECT]  
WHEN UNCDF SERVES AS IMPLEMENTING PARTNER**

**HOW TO USE THIS LETTER**

- This Letter is used when a Government ministry/institution or an International Governmental Organization (IGO) cooperates with UNCDF to carry out activities as a Responsible Party when UNCDF serves as an implementing partner.
- This Letter can be used as a guideline and tailored to different situations where UNCDF enters into an agreement with the different Government ministries/institutions/IGOs. Therefore, not every clause would necessarily be applicable. However, any deviation from this standard Letter should be cleared by HQ.

**TERMINOLOGY**

1. This Agreement utilizes the harmonized terminology in line with the revised financial regulations and rules (FRR) which have introduced new/redefined terms as follows:
  - a. 'Execution' is the overall ownership and responsibility for UNCDF programme results at the country level which is exercised by the government, through the Government Coordinating Agency by approving and signing the Country Programme Action Plan (CPAP) with UNCDF. Therefore, all activities falling within the CPAP are nationally executed.
  - b. 'Implementation' is the management and delivery of programme activities to achieve specified results, specifically the mobilization of UNCDF programme inputs and their use in producing outputs that will contribute to development outcomes, as set forth in the Annual Work Plans (AWPs).

These two terms are elaborated under the Legal Framework section of the Programme and Project Management Section of the POPP.
2. It is important to note that at the level of project management, the terms "execution" under the non-harmonized operational modalities, including global and regional projects and "implementation" under the harmonized operational modalities have the same meaning, i.e. management and delivery of project activities to produce specified outputs and efficient use of resources. Therefore, this Agreement uses the term "implementation" in line with the "harmonized operational modalities" to cover also at the project level the term "execution" under the non-harmonized operational modalities. More specifically, all references to "Executing Agency" have been replaced with "Implementing Partner".
3. When using this Letter of Agreement in non-harmonized or non-CPAP countries, change the following terms as follows:
  - a. Execution instead of Implementation
  - b. Executing Entity instead of Implementing Partner

Your Excellency,

1. Reference is made to the consultations between officials of the United Nations Development Programme (hereinafter referred to as "UNCDF") in [*the name of programme country*] and officials of [*name of the Government ministry/institution/IGO*] with respect to the realization of activities by *the Government ministry/institution/IGO* in the implementation of the project [*number and title of project*], as specified in Attachment 1: Project Document, to which UNCDF has been selected as implementing partner.

2. In accordance with the Project Document and with the following terms and conditions, we confirm our acceptance of the activities to be provided by *[the Government ministry/institution/IGO]* towards the project, as specified in Attachment 2: Description of Activities (hereinafter referred to as "Activities"). Close consultations will be held between *[the Government ministry/institution/IGO]* and UNCDF on all aspects of the Activities.
3. *[The Government ministry/institution/IGO]* shall be fully responsible for carrying out, with due diligence and efficiency, all Activities in accordance with its Financial Regulations and Rules.
4. In carrying out the activities under this Letter, the personnel and sub-contractors of *[the Government ministry/institution/IGO]* shall not be considered in any respect as being the employees or agents of UNCDF. UNCDF does not accept any liability for claims arising out of acts or omission of *[the Government ministry/institution/IGO]* or its personnel, or of its contractors or their personnel, in performing the Activities or any claims for death, bodily injury, disability, damage to property or other hazards that may be suffered by *[the Government ministry/institution/IGO]*, and its personnel as a result of their work pertaining to the Activities.
5. Any subcontractors, including NGOs under contract with *[the Government ministry/institution/IGO]*, shall work under the supervision of the designated official of *[the Government ministry/institution/IGO]*. These subcontractors shall remain accountable to *[the Government ministry/institution/IGO]* for the manner in which assigned functions are discharged.
6. Upon signature of this Letter, UNCDF will make payments to *[the Government ministry/institution/IGO]*, according to the schedule of payments specified in Attachment 3: Schedule of Activities, Facilities and Payments.
7. *[The Government ministry/institution/IGO]* shall not make any financial commitments or incur any expenses which would exceed the budget for the Activities as set forth in Attachment 3. *[The Government ministry/institution/IGO]* shall regularly consult with UNCDF concerning the status and use of funds and shall promptly advise UNCDF any time when *[the Government ministry/institution/IGO]* is aware that the budget to carry out these Activities is insufficient to fully implement the project in the manner set out in the Attachment 2. UNCDF shall have no obligation to provide *[the Government ministry/institution/IGO]* with any funds or to make any reimbursement for expenses incurred by *[the Government ministry/institution/IGO]* in excess of the total budget as set forth in Attachment 3.
8. *[The Government ministry/institution/IGO]* shall submit a cumulative financial report each quarter (31 March, 30 June, 30 September and 31 December). The report will be submitted to UNCDF through the UNCDF Country Director or UNCDF Resident Representative within 30 days following those dates. The format will follow the standard UNCDF expenditure report [a model copy of which is provided as Attachment 4]. UNCDF will include the financial report by *[the Government ministry/institution/IGO]* in the financial report for *[number and title of project]*.
9. *[The Government ministry/institution/IGO]* shall submit such progress reports relating to the Activities as may reasonably be required by the project manager in the exercise of his or her duties.
10. *[the Government ministry/institution/IGO]* shall furnish a final report within 12 months after the completion or termination of the Activities, including a list of non-expendable equipment purchased by *[the Government ministry/institution/IGO]* and all relevant audited or certified financial statements and records related to such Activities, as appropriate, pursuant to its Financial Regulations and Rules.
11. Equipment and supplies that may be furnished by UNCDF or procured through UNCDF funds will be disposed as agreed, in writing, between UNCDF and *[the Government ministry/institution/IGO]*.

12. Any changes to the Project Document which would affect the work being performed by *[the Government ministry/institution/IGO]* in accordance with Attachment 2 shall be recommended only after consultation between the parties.

13. For any matters not specifically covered by this Letter, the Parties would ensure that those matters shall be resolved in accordance with the appropriate provisions of the Project Document and any revisions thereof and in accordance with the respective provisions of the Financial Regulations and Rules of the *[Government ministry/institution/IGO]* and UNCDF.

14. The arrangements described in this Letter will remain in effect until the end of the project, or the completion of activities of *[the Government ministry/institution/IGO]* according to Attachment 2, or until terminated in writing (with 30 days' notice) by either party. The schedule of payments specified in Attachment 3 remains in effect based on continued performance by *[the Government ministry/institution/IGO]* unless it receives written indication to the contrary from UNCDF.

15. Any balance of funds that is undispersed and uncommitted after the conclusion of the Activities shall be returned within 90 days to UNCDF.

16. Any amendment to this Letter shall be effected by mutual agreement, in writing,

17. All further correspondence regarding this Letter, other than signed letters of agreement or amendments thereto should be addressed to *[name and address of Country Director/Resident Representative, UNCDF]*.

18. *[The Government ministry/institution/IGO]* shall keep the UNCDF Country Director/Resident Representative fully informed of all actions undertaken by them in carrying out this Letter.

19. UNCDF may suspend this Agreement, in whole or in part, upon written notice, should circumstances arise which jeopardize successful completion of the Activities.

20. Any dispute between the UNCDF and *[the Government ministry/institution/IGO]* arising out of or relating to this Letter which is not settled by negotiation or other agreed mode of settlement, shall, at the request of either party, be submitted to a Tribunal of three arbitrators. Each party shall appoint one arbitrator, and the two arbitrators so appointed shall appoint a third arbitrator, who shall be the chairperson of the Tribunal. If, within 15 days of the appointment of two arbitrators, the third arbitrator has not been appointed, either party may request the President of the International Court of Justice to appoint the arbitrator referred to. The Tribunal shall determine its own procedures, provided that any two arbitrators shall constitute a quorum for all purposes, and all decisions shall require the agreement of any two arbitrators. The expenses of the Tribunal shall be borne by the parties as assessed by the Tribunal. The arbitral award shall contain a statement of the reasons on which it is based and shall be final and binding on the parties.

21. If you are in agreement with the provisions set forth above, please sign and return to this office two copies of this Letter. Your acceptance shall thereby constitute the basis for your *[Government ministry's/institution's/IGO's]* participation in the implementation of the project.

Yours sincerely,  
Signed on behalf of UNCDF

*[Name and title]*  
*[Date]*

Signed on behalf of *[the Government ministry/institution/IGO]*  
*[Name and title]*  
*[Date]*

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**Attachment 1**

DESCRIPTION OF ACTIVITIES

Project number:

Project title:

Results to be achieved by [the Government ministry/institution/IGO]

Provide a summary of the results to be achieved by [the Government ministry/institution/IGO], particularly the outputs they are expected to produce.

Work to be performed by [the Government ministry/institution/IGO]

Explain the activities to be carried out by [the Government ministry/institution/IGO].

Description of inputs:

Provide a detailed description of the project inputs by activity. This may include personnel, contracts, training, equipment, miscellaneous and micro-capital grants.

Annexes:

Attach, as appropriate, job descriptions for consultants, terms of reference for contracts, technical specifications for equipment items, training nomination forms, etc.

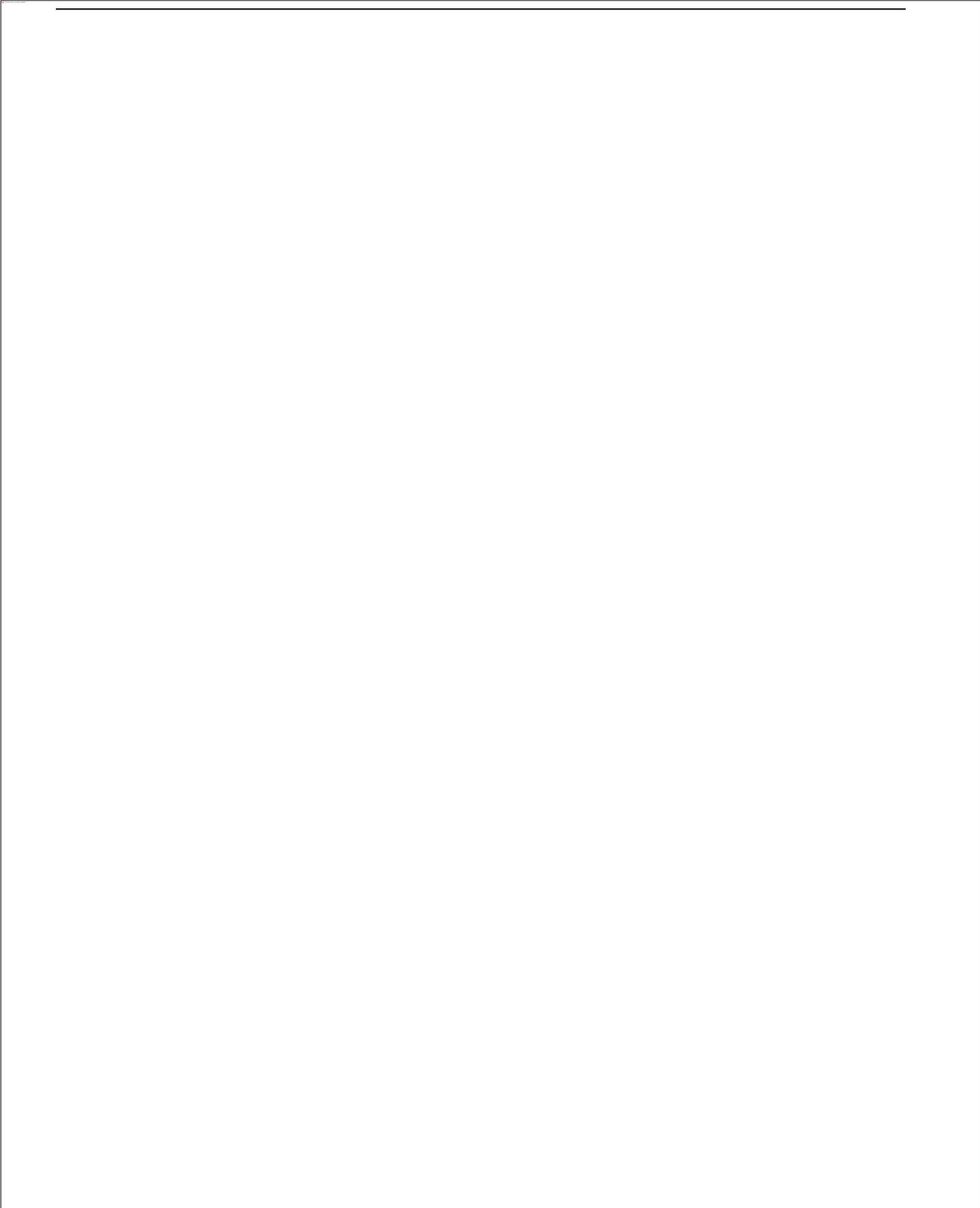




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ANNEX 10: LETTER OF INTEREST IN MIF PROGRAMME FROM GOVERNMENT OF UGANDA

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## ANNEX 11: EXECUTIVE SUMMARY

### CONTEXT

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#### **INTERNATIONAL AND NATIONAL CHALLENGES**

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The demographic transformation caused by urbanization is likely to be one of the principal drivers of economic growth in the 21<sup>st</sup> century. One-half of the world's population now lives in cities and those cities generate more than 80 percent of global GDP.<sup>22</sup> While only about one-tenth of the world's largest urban areas are in Least Developed Countries (LDCs), thirty of the thirty-five most rapidly-growing large cities worldwide are located in LDCs. In other words, the world's fastest-expanding urban agglomerations are now in the global South.

Urban growth is not limited to capital cities; it is having a profound impact on secondary cities and towns. UN DESA reports that close to half of the world's urban dwellers reside in settlements of less than 500,000 inhabitants.

Managing cities and urban growth has become one of the pressing development challenges of the 21st century, and will be a major influence on the post-2015 UN development agenda. The future economic development of the LDCs now depends significantly on how well urbanization is managed. However, the correlation between urbanization and economic growth is weaker in LDCs than in developed countries.

The economic potential of cities will be fully realized only if city governments have both the tools to manage urbanization and the resources to improve economic, environmental, and social conditions. The growth of cities and towns makes decentralization more viable and more necessary, and many governments are helping to build the capacity of local officials to improve urban resilience and quality of life. In addition, LDC cities around the world are increasingly interconnected and aware of the growing competition among them.

Yet developing countries are struggling to face the challenges of urban growth. Urbanization in LDC cities often happens without adequate land use controls or public services; traffic congestion wastes time and pollutes the air; and disparities between what the city provides to rich and poor create social tensions.

The aspirations of LDC local governments may have grown, but their financial options have not kept pace. Cities are rarely able to finance major infrastructure improvements from government transfers, even when they are available. Mobilizing resources to improve services is one of the most challenging aspects of local development, especially resources provided from sustainable sources such as loans or bonds.

As a result, cities are stuck in a vicious cycle of limited resources leading to a constrained response, while the demand for services grows. The critical challenge is bringing borrowers and lenders together in a market relationship, and managing the risks inherent in this type of arrangement.

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#### **SECTOR CHALLENGES AND GAPS**

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Municipal financial markets are needed that: (i) mobilize resources for investment projects; (ii) create an agreeable risk/return trade-offs for investors and borrowers, (iii) provide information

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<sup>22</sup> Data sources are footnoted in the Project Document.

that allows securities and lending to be priced, (iv) allow for trading of securities to broaden the investor base; (v) supply intermediaries, analysts, and trustees; and (vi) provide stability in these dimensions. LDC financial markets rarely satisfy all these conditions.

Weak economic conditions and underdeveloped institutions in LDCs constrain municipal financing activity. These constraints also create risks that must be addressed if the supply of and the demand for financing are to be strengthened. Some of the common gaps are the following:

**Lack of enabling environment for investment.** Local governments must be permitted to borrow under sound conditions, and investors must be allowed to invest in municipal projects.

**Inadequate municipal legal and regulatory framework.** A framework is needed that (i) allows local governments and other local entities to raise private funds; (ii) provides the means to repay the funds; (iii) sets standards for financial information, and (iv) provides adequate stability over time.

**Weak capital/financial markets legal and regulatory framework.** The policy and legal framework of the financial sector and/or capital market establishes rules regarding the origination, sale (securities), and structuring of financial transactions including PPPs, and recourse in the event of default.

**Mismatch between investment needs and available finance.** In developed countries, credit rating agencies and investment banks help to match up investor and borrower requirements. In developing countries, these sorts of institutions often do not exist or do not work with municipal governments.

**Lack of creditworthy local governments and bankable plans and projects.** Identifying bankable projects from creditworthy local governments' means first building local capacity to prepare capital investment plans and feasible projects, and to evaluate municipal creditworthiness.

A critical assumption behind MIF is that domestic private capital is available in the majority of LDCs that could be filling the critical demand for financing of local investments with high social and economic return. Another key assumption is that the market failures and institutional weaknesses that keep this private finance from being mobilized for this purpose can be addressed through technical assistance and institutional reforms.

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## MIF PROGRAMME STRATEGY

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The Municipal Investment Financing (MIF) Programme proposed in this project document will provide a platform for UNCDF, and the UN, to make the case that the time has come to understand and address the myriad restrictions that keep an adequate flow of sustainable capital financing, including private financing, from being invested in urban infrastructure and other urgent needs of cities and towns in the developing world. The Programme design reflects a municipal financing strategy with four pillars.

*1. Advance the municipal financing agenda nationally and internationally*

Current policy debates create a supportive atmosphere for reinvigorating efforts to improve financing systems for local government investment. These debates include the Post-2015 development agenda currently being deliberated and discussions about sustainable urbanization as a determinate of LDC growth and transition to middle-income status.

*2. Support complementary efforts to make cities more resilient*

Nearly all development agencies and International Financial Institutions (IFIs) have recently launched programmes that promote urban resilience, green cities, or sustainable cities, and address urban climate change mitigation and adaptation. The World Bank, the ADB and the "100 Resilient Cities Initiative" are only a few examples. These initiatives, which are described

in Annex 4: Urban Initiatives Complementary to the MIF Programme create important partnership opportunities for UNCDF in carrying out MIF.

3. *Supplement and leverage local government grant funding with sub-sovereign credit*

There is woefully inadequate grant funding available worldwide to address investment needs related to key development challenges, including urbanization in LDCs. LDC governments and major donors have significant financial constraints. The best approach is to use limited public funds to leverage private financing specific to each country's context, and to provide technical assistance to develop replicable, scalable approaches. MIF, in partnership with other agencies, will make new efforts in LDCs to develop practical tools and approaches that unlock sustainable capital funding for local governments increasing their net local fiscal space for development.

4. *Mitigate risks that thwart private financing*

New capital will flow to local governments if the risks associated with these activities can be adequately mitigated. The challenge is to find the right mix of risk mitigation tools that incurs a reasonable cost, and to work with key actors to apply and adapt them to produce real and predictable results. The MIF Programme will focus on risk mitigation as one of the primary means whereby lenders and borrowers can work together to develop sustainable private municipal financing mechanisms.

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## PROGRAMME DESCRIPTION

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The MIF Programme is a five-year initiative with a budget estimated at US\$24.7 million. The programme will provide assistance to at least four countries and support financing transactions for at least twelve local governments. Because the country and city capacity levels, requirements, and constraints will vary, the amount of assistance will also vary. The assistance will reflect the nature of the MIF engagement and the specific support programme agreed to (see Local Government Qualification Criteria, pg. 26).

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## PROGRAMME OUTCOME

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The Programme Outcome of the Municipal Investment Financing (MIF) Programme is to increase the capacity of local governments and other sub-sovereign entities to address key urbanization challenges through access to sustainable sources of capital financing.

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## PROGRAMME BENEFICIARIES

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The ultimate beneficiaries of the MIF are citizens of the target cities in the LDC countries that elect to participate in the Programme, whose quality of life will be improved by the investments made with the financial resources raised by the Programme. Intermediate beneficiaries include the local governments who participate in the program, whose creditworthiness and access to financial resources will be enhanced. Indirect beneficiaries include other local governments in the target countries, who will benefit from the financing mechanisms developed, and other countries in the region, which can learn from the financing models established in the target countries.

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## PROGRAMME OUTPUTS

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The anticipated programme outputs are related to the legal and policy framework for private finance; the capacity of local governments and other key actors, including financial market actors; the availability of financing options for sub-sovereign transactions; and project management. These outputs will be accomplished by carrying out a range of specific activities at the project, country, and local government levels. Each output, and its corresponding activities, is described in the following sections:

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OUTPUT 1: LOCAL GOVERNMENTS AND OTHER SUB-SOVEREIGN ENTITIES HAVE INVESTMENT PLANS, DEMONSTRATED DEBT-CARRYING CAPACITY, AND ENABLING CONDITIONS FOR FINANCING

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This output is intended to support the “demand side” of the financing equation. It will help target countries create the enabling conditions for private financing of local government investments, and identify and address key policy and legal constraints that impede the development of appropriate financing vehicles.

It also focuses on strengthening the demand for local government financing, and on making local government demands more effective and attractive to investors through improving information on capital investment requirements (capital investment planning) and creditworthiness.

Assessments will be conducted in each country to identify legal and policy weaknesses that make it difficult for local governments to borrow. The project will assist government in identifying how these weaknesses can be addressed and provide technical assistance to carry out these reforms over time. This could include, for example, more in-depth legal analysis or assistance to draft policies, legislation, or regulations.

Assessments will also be carried out of municipal planning and financial capacities and of municipal financial reporting practices, the latter, due to the importance of having quality, standardized financial information to aid in the prioritization of investments, preparation of financial transactions, and analysis of creditworthiness.

Local governments to be assisted will also be selected in consultation with government, by an agreed and transparent selection method. Depending on the outcome of the assessments of these local governments, technical assistance may be needed: (i) to update municipal planning procedures, and assist local governments to prepare capital investment plans, (ii) to expand fiscal space and improve the presentation of financial statements; and (iii) to develop and carry out municipal credit evaluations.

This Output also supports knowledge management activities including south-south exchanges with cities and countries that are successfully advancing the municipal financing agenda, and separate coordination mechanisms within government and among donor and non-government agencies working in the local government sector.

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OUTPUT 2: FINANCIAL RESOURCES AVAILABLE TO FUND SUB-SOVEREIGN PROJECTS AND FINANCIAL TRANSACTIONS CLOSED AND REPAYED

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This output supports the "supply side" of municipal financing by mobilizing both public and private funds, addressing market impediments, and preparing and closing financial transactions.

Because local government transactions are likely to be financed with more than one source of funding, UNCDF will work on increasing access to both public and private funding sources and will work to raise third-party funds to contribute as well.

Output 2 will provide resources to: (i) identify market actors and their investment preferences, and major market impediments (which will be addressed under the prior output); (ii) engage private market actors; (iii) assess public municipal financing sources; (iii) design mechanisms to channel public funds and reduce risk; and (iv) define standards for structuring and evaluating municipal transactions. It will also (v) encourage exchanges between public sector and private entities, and (vi) support the preparation and funding of financial transactions.

Based on the results of a market assessment, the private financing sources that might participate in the project could include: (i) commercial banks, (ii) pension funds, (iii) bond market, (iv) private placements, or (v) public-private partnerships (PPPs). Public financing sources could include: (i) Municipal Investment Funds (MUNIF); (ii) budgetary resources, (iii) public contributions to PPPs; or (iv) non-traditional international investors from diverse sources, which UNCDF will help mobilize under Output 3.

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### OUTPUT 3. THE PROGRAMME EFFECTIVELY, EFFICIENTLY AND TRANSPARENTLY IMPLEMENTED IN LINE WITH UNCDF PROJECT MANAGEMENT REGULATIONS

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Output 3 is designed to ensure alignment and contribution of the programme to the global and individual countries commitments to SDG 11. As previously indicated (Section 1.1) the programme will help countries mitigate the effects of urban migration in the context of city and peri-urban service provision, infrastructure, and economic opportunity. Through such alignment and contributions sustainability of the programme will be in-built from its initiation and through the entire implementation cycle and beyond.

Output 3 also support the effort of the MIF Secretariat to mobilize external funding for the Programme from outside sources, including non-traditional investors. This funding may take various forms, and can be used to lower the risk of traditional investors, expand the number of investment projects, or expand the number of target countries.

To further institutionalize planned intervention activities and to ensure the establishment of strong learning links between developing countries, the MIF Programme includes knowledge management activities including south-south exchanges with cities and countries that are successfully advancing the municipal financing agenda.

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## PROJECT PHASING

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The MIF Programme will be carried out in three phases over a five-year time period. The phases are generally sequential; but may run in parallel at certain points. Also, countries will join at different times, so the countries will be at different points in implementation over the course of the project. The phases and the principal activities in each phase are described below.

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### PHASE I: PROJECT INCEPTION

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**Project level.** Project inception for the project includes (i) finalizing project tools and methodologies such as for methodologies for investment planning, creditworthiness analysis, financial forecasting, and project structuring and design of the financial support mechanisms; (ii) establishing the monitoring system for the project; and (iii) engaging partner entities, including partners for the project as a whole and for one or more countries. Mobilization of resources for the project will also begin at this point, and is likely to continue throughout the term of the project.

**Country-level.** Inception at the country level includes activities such as (i) identification of Group 1 and Group 2 countries, (ii) conducting country feasibility studies, and (iii) negotiating country-level agreements for Group 1 and Group 2 countries.

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### PHASE II: PROJECT IMPLEMENTATION

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Country activities can start up almost immediately in the two pilot countries, Bangladesh and Uganda. Once those country-level projects are underway, the Programme will identify and

begin start-up activities in additional countries. Group 1 will include two initial pilot countries (one per region) plus at least two other countries to be chosen at a later stage of the project. Additional countries will be selected as Group 2 countries in a subsequent year of the project contingent on the level of implementation in Group 1 initial pilot countries.

Start-up activities in each country will include (i) establishing government and private working groups; (ii) assessing financial intermediation options (municipal funds, financial markets, bond markets, etc.), (iii) agreeing on policy and legal reforms that will be required, (iv) selection of local governments in each country, (v) implementing policy and legal reforms (medium- to long-term activity), (vi) conducting training and institutional strengthening interventions, (vii) preparing or updating municipal investment plans, and (viii) preparing and carrying out financing transactions.

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### **PHASE III: PROJECT CONSOLIDATION AND SUSTAINABILITY**

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The consolidation and transition phases allow for the completion of reforms and the expansion of the project to additional cities in each country. Activities include: (i) completing policy and legal reforms; (ii) evaluating and selecting additional cities, (iii) preparing or updating investment plans in these additional cities, (iv) analyzing whether there are additional intermediaries with which the project should work, and engaging these entities, (v) continued training and institutional strengthening in government and the private sector, (iv) preparing and carrying out additional financing transactions.

This phase will also permit lessons learned in carrying out the project methodologies and results to be documented and capitalized in each country and for the project as a whole. In addition, mid-term and final evaluations are included. An important aspect will be that the consolidation allows UNCDF to hand off to local governments with the implementation firmly in place and MIF components have been mainstreamed into government practices. UNCDF will remain in a consultative and advisory capacity but the goal is for a transition to local governments and pertinent national institutions to be taking the lead in the process at this stage.

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### **SUSTAINABILITY OF RESULTS**

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One critical measure of success for the MIF Programme will be whether the key features of the Programme are sustained over time. In carrying out the programme, an effort will be made to build four dimensions of sustainability, as shown in the following table.

<b>Dimension of sustainability</b>	<b>Measures to be taken</b>
<b>Technical capacity</b>	
<b>Building and maintaining expertise at the national and municipal level to support all aspects of the municipal financing system</b>	<ul style="list-style-type: none"> <li>▪ <i>Introduce methodologies for municipal planning and project analysis</i></li> <li>▪ <i>Adapt methodologies for local use and codify them in policies and rules</i></li> <li>▪ <i>Train local officials and consultants in methodologies</i></li> <li>▪ <i>Involve stakeholders such as financial institutions in substantive project activities</i></li> <li>▪ <i>Engage local academic institutions in research to resolve country impediments to local finance</i></li> </ul>
<b>Financial sustainability</b>	
<b>Models used to provide long-term financing for municipal capital investments will continue to be used, or will</b>	<ul style="list-style-type: none"> <li>▪ <i>Build technical capacity in banks, intermediaries, and consulting firms</i></li> <li>▪ <i>Involving financial market actors in programme activities focus</i></li> </ul>

<b>Dimension of sustainability</b>	<b>Measures to be taken</b>
<b>evolve to stay relevant for the country</b>	<ul style="list-style-type: none"> <li><i>on mobilizing local resources</i></li> <li>▪ <i>Avoid financial structures that establish unrealistic investor expectations</i></li> <li>▪ <i>Orient investors to municipal market</i></li> </ul>
<b>Policy sustainability</b>	
<b>Systems and methodologies developed are documented and incorporated into national policies, legal, regulatory, and operational frameworks</b>	<ul style="list-style-type: none"> <li>▪ <i>Make programme outputs from each country available to peers in all programme countries</i></li> <li>▪ <i>Involve local policy consultants, academic institutions, and think-tanks in the development and implementation of policy and legal reforms</i></li> <li>▪ <i>Train stakeholders to advocate for reforms that will support the objectives of the programme</i></li> </ul>
<b>Municipal investment projects</b>	
<b>Investments financed by the Programme are maintained and properly operated during their useful life</b>	<ul style="list-style-type: none"> <li>▪ <i>Develop and apply standards for project preparation, maintenance and operation, and cost recovery</i></li> <li>▪ <i>Design and codify in municipal regulations, sanctions for non-compliance by local governments with financing agreements and loan covenants, particularly with respect to loan repayment</i></li> </ul>

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## MANAGEMENT AND FINANCING ARRANGEMENTS

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The Programme will be implemented in Phases. In the Project Inception phase, the programme will be started up in at least one country in Africa and one country in Asia on a pilot basis. The LDFP team and the Regional Office will monitor progress and ensure the delivery of programme activities.

A Programme Implementation Unit (PIU) will be established, headed by the Programme Manager/Municipal Finance reporting to the LDFP Practice Director. The PIU will include other technical staff, and will expand as needed as the programme expands.

The MIF Programme will be implemented under a Direct Execution Modality (DEX). The administration shall be governed by UNCDF's policies, rules and regulations, as stated in the UNCDF's Operations Manual (OM). UNCDF will obtain a minimum of two LDC government signatures to this programme document (from countries to be piloted in the inception phase) to ensure government buy-in for the programme. .

MIF will be financed in the inception phase through the core resources of UNCDF and non-core resources mobilized by UNCDF from Country One UN Funds, bilateral donor agencies, multilateral organisations as well as private foundations and investors. UNCDF will serve as the Implementing Partner for MIF, under the management of the Local Development Finance Practice, and will programme the funds and manage the activities specified in the Resources and Result Framework (RRF).

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## SELECTION OF COUNTRIES, LOCAL GOVERNMENTS, AND PROJECTS

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### COUNTRY SELECTION

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The MIF Programme will operate in Least Developed Countries (LDCs) and will be carried out in various local governments in each country. The target countries are those that have a commitment to providing local governments with access to private finance, and whose institutional and economic conditions, including institutional conditions in the municipal sector

and financial sector, make such access feasible with a moderate amount of technical assistance. A preliminary set of criteria have been applied to a selected group of Asian and African countries. The results are included in Annex 5 and Annex 6.

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### **LOCAL GOVERNMENT SELECTION**

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Within the target LDCs, the MIF Programme will select local governments (primary or secondary cities) to receive technical assistance for planning, capacity building, and project preparation activities leading to the closing and repayment of a financing transaction. Local governments will need to demonstrate compliance with criteria and factors such as financial conditions, economic base, and the availability of financeable projects.

MIF may also work with autonomous or semi-autonomous entities providing local public services, such as development authorities. Local governments that have been strengthened through other UNCDF programmes such as LoCAL will also be considered, allowing them to carry out projects or investment plans than might not be feasible under these other UNCDF initiatives.

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### **LOCAL GOVERNMENT PROJECT SELECTION**

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The financing mobilized in the MIF Programme may be used to finance either a specific investment (such as a sewage treatment plant or commercial centre), or a capital investment plan or programme of investments. With the former, local governments would often repay the transactions from revenues associated with the investment itself (sewerage fees or commercial rents); while in the latter, repayment would more likely be from all municipal taxes, fees, tariffs, or other sources.

The selection criteria for financing transactions include the marketability of the project or programme to investors. During the programme inception, UNCDF will develop and test the procedures for applying these and other selection criteria and evaluating the results.

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### **MIF PARTNERSHIP STRATEGY**

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Collaboration with a wide range of international and national partners is essential to maximizing the impact of the Programme. UNCDF will seek to establish partnerships that support both the programmatic and financial aspects of the Programme.

Country-level and local-level programmatic partners include private and academic institutions; national, bi-lateral, and international development agencies, including NGOs; and IFIs. These partnerships will enable the institutionalization of the mechanisms developed and scaling up of the programme.

Financing partnerships will also be invaluable for the Programme, in order to mobilize non-traditional resources for investment in local government projects. Beginning during the Inception Phase, UNCDF will seek partners with the means and policy interest to invest in local infrastructure either indirectly by contributing to a pool of funds such as the proposed Municipal Market Support Facility (MMSF) at the Programme level, or directly through municipal financing instruments, MUNIFs, or other financing channels at the national level.

MIF is in line with the consensus on development financing of the post-2015 agenda, which stresses leveraging of limited domestic and international public finance by mobilizing private capital. This aspect should make MIF appealing to key donors and relevant in the context of the international focus on sustainable urbanization and the role of cities.

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ANNEX 12: ECOBOND (ENERGY, ENVIRONMENT AND CLIMATE RESILIENCE BONDS)

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In developing and least developed countries, public funds generation is limited and does not provide the sufficient levels of investment for truly resilient livelihoods at the local level. Sub-national governments are trapped in a vicious cycle having to contend with neglected economic and social infrastructure but with anemic funding. Linkage of domestic private sector funds to public sector investments is necessary to ensure sustainable growth and development, yet is either inadequate or completely absent.

EcoBOND addresses this gap and offers practical solutions by:

- i) *Providing an enabling environment for the private sector and individual investors to invest.* This would entail significant regulatory and capital market reform where needed, increased transparency and accountability on the part of local governments to both investors and the citizenry leading to increased confidence in political leaders and governance institutions. It will leverage the outcomes of donor sponsored assistance and thereby increase sustainability of local development strategies.
- ii) *Freeing-up previously allocated public funds for application to priority needs.* By adopting an alternate option for investment, the fiscal burden on the central and local governments are reduced allowing for budgetary redistribution, a more sustainable decentralized framework with increased financial responsibilities for local governments, and more effective service delivery focused on increasing of climate resilience.
- iii) *Proactively managing long-term urban management issues for municipalities;* Sustainable urbanization must no longer be viewed in terms of insurmountable challenges but key opportunities, and as a robust engine for economic growth that incorporates balanced development in strategic planning, lowering the risk of disruption to businesses, reducing pollution levels, and reducing income inequality by creating a range of low to high skilled occupations.

While EcoBOND's primary aim is innovative municipal finance focused on sustainability and resilience, the solution for the problems of local governments goes beyond strictly direct debt issuance and includes improving governance, the efficiency of income collection, and building new and more meaningful sources of tax revenue. When properly managed, there is the strong potential for multiple spin-off effects to local jurisdictions as described above. UNCDF, through EcoBOND, aims to incorporate this multi-level holistic approach, having the experience in focus countries and the requisite technical expertise to provide required support.

UNCDF has identified Bangladesh as a launch country given that significant domestic private sector capital supply is available but its connection to public sector demand does not exist and is yet to be established making the country an ideal candidate with significant potential for benefiting from the application of the EcoBOND mechanism. Based on a comprehensive Feasibility Study conducted in 2012, UNCDF has recently reached agreement with the Government of Bangladesh to pilot the introduction of municipal bonds as an alternative and complementary urban development co-financing instrument capable of leveraging private capital for public sector investments and off-setting required donors and central government funding. Once undertaken, the pilot shall open an opportunity for an effective design of a global EcoBOND project building on UNCDF's experience of working with local government finance

in developing countries and in particular with public financial management, procurement and performance-based financing systems. UNCDF is presently in the process of building a necessary partnership with interested donor organizations to enter a joint municipal bonds pilot implementation followed by a broader EcoBOND project rollout.

**I. Position Information**

Position Title: Global Project Manager (MIF) Position Number: Department: Local Development Finance Reports to: Director for Local Development Finance Practice Area (New York) Reports: Position Status: <i>Non-Rotational</i> , Project Funded	Current Grade: Proposed Grade: P4 Approved Grade: Position Classified by: Classification Approved by:
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**II. Organizational Context**

UNCDF is the UN’s capital investment agency for the world’s 48 least developed countries. UNCDF focuses on Africa and the poorest countries of Asia, with a special commitment to countries emerging from conflict or crisis. UNCDF programmes are designed to catalyze larger capital flows from the development partners, national governments and the private sector, for maximum impact toward the Millennium Development Goals.

Municipal Investment Financing (MIF) Programme is designed to increase the ability of local governments and other sub-sovereign entities to address key urbanization challenges through access to sustainable sources of capital financing. The Programme will improve resilience and quality of life in LDC cities in Africa and Asia, especially for the poor. Specific objectives include (i) improving access to capital for investment in critical urban infrastructure and services in LDC cities targeted by the program, (ii) creating or strengthening financial markets and market intermediaries so that they can facilitate capital access for cities, and (iii) establishing policies, standards, and practices that improve the efficiency and effectiveness of the capital financing process in beneficiary countries.

Development Outcome: MIF aims to increase financing for and investment in local infrastructure of municipalities in least developed countries, it thereby contributes to the achievement of the specific Sustainable Development Goals and specifically to: “make cities and human settlements inclusive, safe, resilient and sustainable (SDG11).

Intended Outcome: The project aims to increase financing of municipal investments in a minimum of 2 countries and 6 cities per region beginning in the Asia-Pacific Region, moving to Africa and possibly expanding into the Arab States. MIF may also be implemented in non-LDCs, expanding the breadth of UNCDF global programming.

MIF (2015 – 2020), will be delivered through three outputs:

1. *LGs and other sub-sovereign entities have transformative capital investment plans, demonstrated debt-carrying capacity, and enabling conditions for infrastructure financin*
2. *Local fiscal space increased with debt financing transactions closed and repayments initiated*
3. *Sustainable development of municipal financing mechanisms to contribute to the partner country realization of SDG11 targets*

MIF will establish a Project Implementation Unit (PIU) based in New York with representation in other UNCDF regions as appropriate. The PIU will be managed by the Project Manager working under the direct supervision of the UNCDF Municipal Investment Finance Advisor in New York and in cooperation with LDFP Regional Technical Advisors and other MIF Project staff based in Asia, Africa, the Arab States and potentially other regions TBC.

### **III. Functions / Key Results Expected**

#### **Summary of key functions:**

The key result of the Project Manager (PM) will be to successfully implement the programme by undertaking the following responsibilities:

#### **Responsibilities**

##### **Supervise the formulation of MIF programmes in new countries.**

- Plan and launch expert design missions for country level assessments and design of planning, financing, implementation, monitoring and evaluation
- Ensure institutional and operational support and cooperation at the country level
- Coordinate project country level start-ups and ensure provision of adequate oversight from MIF Project Implementation Unit

##### **Coordinate with Regional Technical Advisors (RTAs), Chief Technical Advisors (CTAs) and affiliated staff**

- Coordinate across UNCDF regions with MIF focal points and with the head of Local Development Finance practice in each region.
- When necessary, the PM will also provide managerial oversight and support to active CTAs / RTAs who may be responsible for the incorporation of MIF into ongoing programmes. In case of CTA absence, the PM will provide managerial oversight and support to active UNCDF staff including programme officers (PO), programme assistants (PA) and other pertinent UNCDF staff;

##### **Facilitate the award and management of MIF financing via grants and debt financing instruments:**

- Oversee and facilitate Request for Proposals (RFPs) in countries and oversee the selection process by conducting due diligence, short-listing and presenting recommended proposals to the Project Board concurrently with local implementation partners;
- Oversee the execution of agreed milestones in the MoU and ensure disbursements are made on time if/when conditions are met;
- Review quarterly performance reports, analyze performance and work with country and/or regional advisors to ensure timely intervention to keep operations on track;

##### **Conduct overall coordination of effective project management and implementation:**

- Manage the delivery of programme objective and outputs to ensure it is implemented on-time and on-budget;
- Provide direction and guidance to PIU staff;
- Ensure research outcomes to inform project design;

- Apply research outcomes to further refine project launches, operations and implementation;
- Liaise closely with the Regional Technical Advisors and the Board to keep the members abreast on programme progress and assure the overall direction and integrity of the project;
- Prepare and implement quarterly and annual work plans;
- Prepare quarterly and annual progress reports and submit the report to the Investment Committee;
- Facilitate annual reviews;
- Convene Project Board meeting(s);
- Convene annual event to disseminate initial pilot results and experiences (e.g. Annual MIF Mini-Summit).

**Adopt and apply methodology for assessment of impacts achieved through MIF at the countries and municipalities level and for effective knowledge management:**

- Refine assessment methodology from initial pilot country (Bangladesh);
- Ensure practical adoption of a standard and if necessary, a locally specific methodology for assessments Provide for field validation of assessments with the support of the PIU staff;
- Cite and apply lessons learned from initial pilots; to new MIF interventions to be launched throughout the project implementation cycle;
- Explore partnerships with professional and academic institutions for effective extrapolation of knowledge and experience generated through practical application of MIF and for leveraging of the programme, scope and potential impacts.

**Select and manage a network of technical service providers to assist municipalities and implementation partners:**

- Develop detailed strategies for technical assistance;
- Prepare, negotiate and manage framework contracts with International and Local Technical Service Providers;
- Manage technical service providers and oversee delivery of high-quality outputs;
- Ensure sustainability and quality of the network through a system of training and certification of local technical service providers.

**Explore partnerships with relevant programmes and initiatives:**

- Liaise closely with the internal UN system initiatives to explore operational and implementation synergies.
- Contribute through evidence and experience to the various UN frameworks and conventions including UNFCCC, COP among others.
- Represent MIF in relevant events.
- Liaise closely with potential local implementation partners for MIF including local focal points for international development actors, local governmental ministries, local governmental affiliates, among others.

### **Resource mobilization and corporate support:**

- Develop strategies to mobilize additional resources based on programme resource requirements and new opportunities;
- Monitor country level and regional level opportunities for donor funds mobilization.
- Support the efforts of the supervising Regional Technical Advisors, LDFP Director and Deputy Director, UNCDF Partnerships and Communications Unit to mobilize additional resources for the programme.

## **IV. Impact of Results**

### **Results of the work will have a significant impact on:**

- Establishing the lead position of UNCDF among development partners involved in financing of municipal investments
- Strengthening the capabilities of municipalities to access private sector funding sources and domestic capital markets;
- Ensuring programme outputs and good human and financial resources management are directed at achieving the intended results of the programme

## **V. Competencies**

### **a. Corporate responsibility and teamwork:**

- Serves and promotes the vision, mission, values and strategic goals of UNCDF and implanting partners;
- Serves and promotes the vision, mission, values, and strategic goals of the Programme;
- Plans, prioritizes and deliver tasks on time;
- Participates effectively in a team-based, information-sharing environment, collaborating and cooperating with others;
- Responds flexibly and positively to change through active involvement;
- Establishes clear performance goals, standards and responsibilities, and manages them accordingly;
- Promotes a learning environment, and facilitates the development of individual and team competencies

### **b. Results-orientation:**

- Plans and produces quality results to meet established goals;
- Generate innovative, practical solutions to challenging situations

### **c. Partnering and networking:**

- Seeks and applies knowledge, information, and best practices from within and outside the programme;
- Strong networking capabilities and ability to associate him/herself with a range of actors with a view to building relations and facilitating links;
- Ability to manage multi-partner, multi-country projects in complex environments that use state-of-the-art innovation and practice;
- Experience in organizing and coordination of a wide variety of meetings, conferences, events and other activities in professional contexts

### **d. Innovation and judgment:**

- Conceptualizes and analyzes problems to identify key issues and how they relate;
- Contributes creative, practical ideas and demonstrates sense of entrepreneurial initiative to deal with challenging situations;

- Strives for quality client-oriented services (internal and external) when making decisions and taking action
- e. Communication:**
  - Demonstrates effective written and oral communication skills
- f. Job knowledge and expertise:**
  - Demonstrated strong technical and practical leadership and knowledge in climate change adaptation, climate resilience and development finance;
  - Uses ICT and web-based management systems effectively as a tool and resource;
  - Is highly motivated and demonstrates capacity to pursue personal development and learning;
- g. Nature of interactions:**
  - Active and continuous engagement with local governments and implementation partners for programme support.
  - Frequent travel to countries to meet with municipal officials, policy makers, regulators, capital market experts, private sector finance actors , and development partners to promote MIF, identify partnerships and to conduct monitoring of the programme;
  - Build strong working relationships, supported by an effective communications strategy, with donors contributing to the programme;
  - Build strong networks with international and regional institutions and programmes involved in promoting building local fiscal space
- h. Demonstrates integrity and fairness by modeling UN values and ethical standards**
- i. Displays cultural and gender sensitivity and adaptability**
- j. Treats all people fairly and without favoritism**

## VI. Recruitment Qualifications

Education:	<ul style="list-style-type: none"> <li>▪ Advanced degree in economics, business, operations management, public administration, public finance, urban planning or related field;</li> <li>▪ Concentration on urban development, local governments planning and/or public financial management is advantageous.</li> </ul>
Experience:	<ul style="list-style-type: none"> <li>▪ A minimum of 7 years relevant, practical working experience in the field of international development working on local development and finance, preferably in least developed countries (LDCs) both at field level as well at senior management positions and across more than one country.</li> <li>▪ At least 3 years of demonstrated experience in managing development project teams preferably in the fields of municipal investments and/or public financial management.</li> <li>▪ Deep technical knowledge of local government development planning and capital investment programs implementation and financing .</li> <li>▪ Experiences with similar assignments in LDCs and developing countries in Asia and Africa.</li> </ul>

	<ul style="list-style-type: none"> <li>▪ Experience undertaking related assessments;</li> <li>▪ Experience with new product development, testing, roll-out;</li> <li>▪ Resource mobilization experience and record of success in reporting to and managing donor grants and reporting mechanisms;</li> <li>▪ Strong programme management experience with emphasis on monitoring, evaluation and incorporating lessons learned into local development projects and programmes;</li> <li>▪ Excellent organizational, inter-personal, communication and administrative skills, including solid experience in financial management;</li> <li>▪ Strong financial analysis and business project appraisal skills;</li> <li>▪ Familiarity with UNCDF/UNDP rules and procedures is an advantage</li> </ul>
Language Requirements:	<ul style="list-style-type: none"> <li>▪ Excellent command of the English language, with outstanding written and oral communication skills.</li> </ul>