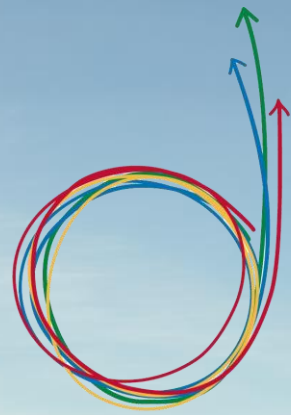




Subnational Financing & Localizing INFF

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Comments and feedback: Carlos de Freitas cdefreitas@fmdv.net



FMDV

Supporting local authorities
to access funding

A Global Alliance of Cities & Regions to Finance Sustainable Urban Transitions

Background: a market failure in municipal finance

USD 90 trillion

global funding gap in cities in the next 15 years

- A **backlog of infrastructure needs in most cities & provinces** in both developed and developing countries, to build and/or retrofit urban infrastructure that are compatible with climate-neutral and nature-positive pathways.
- **Strong interest from financial stakeholders to invest in urban development, but largely underspent.** Nearly USD 29 trillion of investment opportunities in climate-related investment across 6 urban sectors by 2030 (IFC, 2018).



FMDV's mission lies in fixing this "market failure"



FMDV's mission lies in fixing this "market failure" through

DEMAND SIDE

SUPPLY SIDE

#1 Improving the quantity and quality of **BANKABLE PROJECTS** in urban areas



#2 Better **CONNECTING** the supply & the demand



#3 Help **LOCALIZING** financing instruments & mechanisms

Technical assistance & financial engineering at local/regional/central levels of action

Matchmaking & organisation of local "marketplaces"

Global advocacy to financiers and enabling institutions

FMDV in a nutshell

FMDV is a **global alliance of regional and local governments** co-chaired by the City of Paris (France) and the district of Abidjan (Ivory Coast), the unique international city network dedicated **to the development of solutions to finance a just urban transition.**

Acting both as **a hub of expertise** and an **incubator for operational strategies**, FMDV supports national & local public authorities to organize the conditions to better invest in local actions that are aligned with the Paris Agreement and the Sustainable Development Goals (SDG11), **through the provision of technical assistance and financial engineering.**



Our impact in numbers

**A worldwide network
of trusted partners ...**

1 500 Local & Regional
governments in **100** countries

500 private companies

150 Public Development Banks

EUR 1 billion

in funding and financing already mobilized
for a just urban transition

EUR 35 million

worth of on-going
programs supported by FMDV

**... able to create sizeable
impact in urban areas**

Impactful outreach at +1,500 local governments



An alliance of Cities for Cities

Co-Presidents

- **District of Abidjan, Côte d'Ivoire, Co-President, represented by Mr Robert Beugré Mambré, Minister-Governor**
- **City of Paris, France, Co-President, represented by Mr Paul Simondon, Deputy Mayor of Paris in charge of Finances, Budget and Green Finance**

Vice-Presidents

- **Brussels-Capital Region, Belgium, represented by Mr Pascal Smet, Secretary of State**
- **City of Dakar, Senegal, represented by Mr Barthélémy Dias, Mayor**
- **Region of Nouakchott, Mauritania, represented by Ms Fatimetou Abdel Malick, President**
- **City of Ouagadougou, Burkina Faso, represented by Mr Armand Béouindé, Mayor**
- **Lome Golfe 3, Togo, Kamala Adjayi, Mayor**
- **Santiago de Chile Metropolitan Region, Chile, represented by Claudio Orrego Larrain, Governor of the Government of Santiago, Chile**

Multi-level interventions for sustainable and viable impact

INTERNATIONAL

Transformative financing solutions and instruments

(e.g. International Municipal Investment Fund = EUR 500M in equity with UNCDF & Meridiam)

REGIONAL

Programs in cooperation with regional institutions

(e.g. WAEMU in Africa, ASEAN Secretariat in Asia, CAF in LatAM)

NATIONAL

National or subnational strategies, instruments & programs to enable local development financing

(e.g. Morocco, South Africa, Ivory Coast, Togo, Uganda, Cameroun)

SUBNATIONAL

Tailor-made capacity building, technical assistance, financial engineering and connection with potential investors (e.g. coaching & living lab)

Strategic Advisory, Financial Engineering & Tailor-made Technical Assistance

- ❑ **Financing sustainable reconstruction in Salah Al Din and Erbil (Iraq)** developing the feasibility of a plastic recycling industry and solar-based solutions - *funded by the EU and UNDP*
- ❑ **Assisting local & regional governments in project preparation and access to funding & financing in Morocco :** establishment of a FinHub - a National Climate Finance Engineering Expertise Unit, the National Moroccan Program for Climate Action and Finance for Cities and Regions (SISTIF)
- ❑ **Supporting sector-specific investment planning in Kampala (Uganda) :** smart water solutions - *co-funded by the French Ministry of Economy and Finance and the French company Altereo*
- ❑ *Others include Subnational Pooled Financing Mechanisms (South Africa), International Municipal Investment Fund-IMIF (Global South)..*



FMDV

activities



Strategic advisory & tailor-made technical assistance



Multi-stakeholder dialogues & partnerships



International and National Advocacy



Production & sharing of expert knowledge

Multi-stakeholder dialogues & partnerships

- ❑ **Alliance of Subnational Development Banks (SDBs) in Latin America:** regional network of 22 members to advance knowledge exchange and develop city-specific financing tools & intermediations (the African Alliance will be launched this year during the Finance in Common Summit)
- ❑ **Finance in Common Summit (FICS) Coalition for Resilient Cities:** an interest group of Public Development Banks (PDBs) to build a community of practice and foster PDB-led solutions to address the market failure in the urban resilience finance
- ❑ **Policy Action Labs:** high-level exchange sessions with global stakeholders (e.g. Green Climate Fund) or at country level to create joint action programmes and implement urban finance strategies



International and National Advocacy

- ❑ **Climate Action Agenda:** Inclusion of the proposals of FMDV on the financing of cities (UNFCCC Marrakech Partnership for Global Climate Action, New Urban Agenda)
- ❑ **National Policy Dialogues:** Advocacy sessions towards a better integration of local government financing in national policies. Eg Uganda, South Africa, Mexico and Morocco.
- ❑ **Localization of the SDGs:** Development of a strategy on financing the implementation of the SDGs at the local level with UCLG, accompanied by the creation of a Practical Guide.



FMDV

activities



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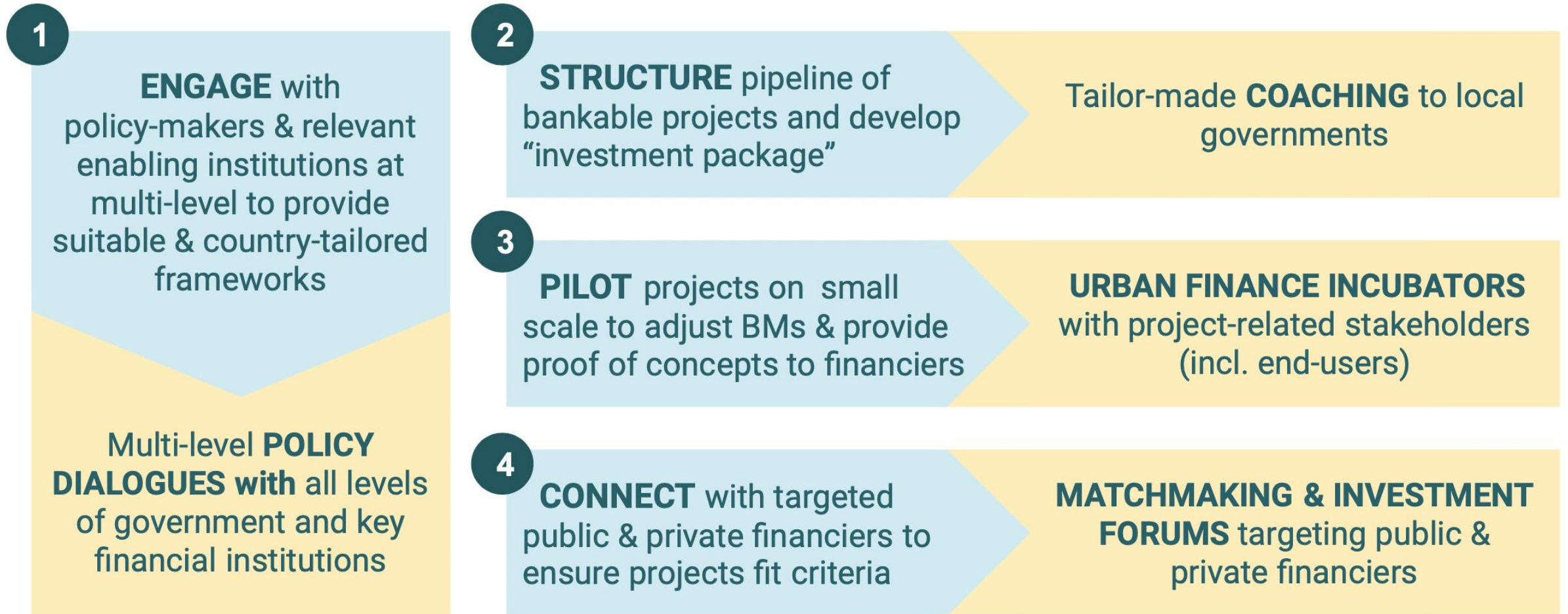
- ❑ **Online [Local Finance Knowledge Hub](#):** video interviews, reports and publications etc. developed with UCLG & AFD
- ❑ **Community of Practice on Local Finance:** 1,500 local stakeholders, regular thematic webinars and short video capsules developed with the AFD Campus
- ❑ **Annual report, studies on state-of-the-art instruments, and thematic factsheets:** covering innovative approaches (e.g. [participatory finance](#)), solutions to localize financial instruments (e.g. [subnational climate finance](#)), or sector-specific technical & financial models (e.g. [public lighting](#), to be released soon)





Bespoke support to local, regional and central governments for tailor-made solutions

FMDV's four-step methodology to develop technical & financial solutions



FMDV & INFF: Localizing Financing & Integrating the Subnational Opportunity Market

- Interest in exploring new type of partnership and supports

- **“Finance Your Cities” Platform**

A new multi-stakeholder facility focused on investing in Resilient, Just and Sustainable Urban Development with:

- 1) **In-country programs** to develop the enabling environments, bring access to subnational financial engineering, prepare pipeline of sustainable & resilient urban projects, create the matchmaking platform with investors
- 2) **An annual Conference and Publication** on accelerating the mobilization of Subnational Financing,
- 3) **An annual award** to support innovative solutions and liaise with governments for integration, adaptation and replication

- **Action-oriented multi-stakeholder dialogues**

FMDV is coordinating several *Finance in Common* Initiatives based on its experience:

- The Subnational Development Banks - SDBs Alliances in Latin America and Africa
- The Resilient cities & Regions Coalition.

Sub-National First-Time Recognition in Financing for Development (Addis Ababa Action Agenda – para. 34)

- **Sub-National Breakthrough Recognition - capacity, financing, support:** *“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.”*
- **International Cooperation/Capacity-Building/Expanding Sectors to Transport/Energy:** *“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.”*
- **Recognition of Revenues:** *“We will strive to support local governments in their efforts to mobilize revenues as appropriate.”*
- **Connecting National Sustainable Development Plans to Local Planning:** *“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.”*

Sub-National First-Time Recognition in Financing for Development (Addis Ababa Action Agenda – para. 34) - Continued

- **Recognition of Debt:** *“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.”*
- **Recognition of DFI lending/risk mitigation:** *“We will also promote lending from financial institutions and development banks, along with risk mitigation mechanisms, such as the Multilateral Investment Guarantee Agency, while managing currency risk.”*
- **Recognition of Local Stakeholder Engagement:** *“In these efforts, we will encourage the participation of local communities in decisions affecting their communities....”*
- **2020 Commitment - Increase Capacity and Implementation:** *“By 2020, we will increase the number of cities and human settlements adopting and implementing integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change, and resilience to disasters. We will develop and implement holistic disaster risk management at all levels in line with the Sendai Framework. In this regard, we will increase the number of cities and human settlements adopting and implementing integrated policies and support national and local capacity for prevention, adaptation and mitigation of external shocks and risk management.”*

What renewed multistakeholder partnerships to mobilize funding to finance the climate transition in African subnational development ?

1. Large-scale Opportunities: Financing climate resiliency in African cities and territories
2. The Challenges: Why do African cities & territories lack adequate finance today?
3. Best Practices using Multistakeholder Solutions to Implement today:
 - Mindset Change - Meet Funding & Financing Requirements
 - Mindset Change - Build the African Urban Financing Ecosystem Together

Large-Scale Opportunities for Resilient Finance in African Cities and Territories

- 1) Climate impact is NOW- felt by governments, citizens, business worldwide - set forth by UN Report ***now or disaster - no going back***
- 2) Worldwide recognition of the pivotal role of Local and Regional Governments (LRGs)
 - UN Cities Taskforce championed by UN Secretary General, localization of SDGs, NDCs, etc.
- 3) Expanding sources of climate finance - US\$ 579 billion annual average (2017/2018)*
 - **The private sector is the largest source of climate finance - 56% = US\$ 326 billion**
 - Corporate actors annual average US\$ 183 billion (56% of private climate finance)
 - Commercial banks US\$ 73 billion (22%)
 - **The public sector provided 44% - US\$ 253 billion**
 - National institutions of the host country 67% of public finance (US\$ 169 billion)
 - Multilateral and bilateral financial institutions 31% of public finance (US\$ 80 billion)
 - International climate funds (e.g., Green Climate Fund, GEF, etc.) 1.2% of public finance (US\$ 3 billion)
- 4) Africa at top of the development agenda
 - Fastest urbanization - high climate impact
 - Development failures (e.g., lack of jobs and security) create civil strife, migration, terrorism, threatening rest of world
- 5) Africa is the frontier business market: Unmet demand - emerging middle class
- 7) Expanding instruments and intermediaries for climate finance
 - National: Municipal Programs, National and Subnational Development Banks, Climate Funds, etc.
 - Commercial bank on-lending programs
 - Social Impact Investors
 - Foundations, Community Organizations, Crowdsourcing
 - Regional and International Funds (e.g., GCF, GEF, NAMA, International Municipal Investment Fund, City Finance Gap Fund, etc.)
- 8) Opportunity for LEAPFROGGING - Explosion of innovative climate smart technologies and processes - Smart cities, digitalization, etc.

*SOURCE: "2019 Global Landscape of Climate Finance Report," Climate Policy Initiative, 2019 (figures represent average annual for 2017/2018)

Challenges: Why do African Local & Regional Governments (LRGs) lack adequate finance for transitioning ?

1) Limited Access of African LRGs to direct “on balance sheet” funding (funds provided directly to local government entities)

- Inadequate fiscal transfer and lower own source revenues (and reduced from COVID expenses and lower tax revenues)
- Lack of direct funding from development partners: Almost all concessionary finance is dispersed directly to national government entities; direct grant funding grossly insufficient to meet needs
- Lack of African LRG “creditworthiness” - ineligible for direct private sector finance

2) Limited availability of acceptable legal entities

- Limited to “creditworthy” LRGs, utilities, project developers, Special Purpose Vehicles, PPPs, etc.

3) Limited availability of acceptable intermediaries

- Channeled to “investable” large funds, bonds, national programs, sovereign loans (funding of ministries, development, subnational banks, tec.), African regional banks, commercial banks, funds

4) Sizes of one-off LRG transactions are usually too small & need for liquidity

- Most investors require an investment size greater than US\$ 25 million (to justify transaction costs) and defined exit options

5) Perceived risks as seen by investors are too high (public and private)

- Investors require business models and credit enhancements that meet their requirements

6) Lack of capacity across Africa in addressing above requirements to access finance

- Need climate resiliency planning and mainstreaming into capital investment plans
- Daunting technical challenge: creating “bankable investments” using climate-smart approaches & technologies, blended finance, credit enhancements
- Lack of coordination between African LRGs and their National Governments in creating investment vehicles
- Lack of funding for planning, project development, experts, risk mitigation

 **SOLUTION: Multistakeholder Partnerships!**



Best Practice Solutions to Implement Today: Mindset Change - Meet Funding Requirements

Actions	Implementation	Examples
1. Leverage existing "LRG & National Investment Vehicles"	<ul style="list-style-type: none"> Identify entities (utilities, Special Purpose Vehicles, PPPs, SMEs, national and subnational development banks, etc.) Develop proposals with experts (climate, sector, finance, legal) Mobilize support from national government and development partners 	<ul style="list-style-type: none"> Mitigation: Kenya County Utilities mobilized +US\$25 million from Kenyan banks with support of World Bank subsidies and USAID partial credit guarantees Adaptation: Dodoma, Tanzania secured funding from Vodaphone Foundation to plant 100,000 trees and create 3 gardens
2. Create new "LRG & National Investment Vehicles"	<ul style="list-style-type: none"> Create investment vehicles (including pooled projects and procurement tenders), collaborating with other LRGs, national government, private sector, community organizations Use blended finance & credit enhancement to ensure "sustainability" - OPEX is covered Create economies of scale (transaction size that meets investor requirements; greater climate and development impact) 	<ul style="list-style-type: none"> Scaled LRG Tender: Senegal MOF secured 50,000 solar-powered streetlights for +33 municipalities funded by French export credit agency PPP: South Africa's eThekweni municipality entered into a 20-year PPP Agreement with Veolia for the upgrade of a waste water treatment plant in which the private sector contributed to 20% of the costs (equity).
3. Leverage existing regional and international programs	<p>LRGs coordinate with national governments as needed in proactively proposing their projects to regional and international programs:</p> <ul style="list-style-type: none"> Climate Funds (GCF, GEF, NAMA, International Municipal Investment Fund, etc.) Project Preparation Facilities 	<ul style="list-style-type: none"> South Africa's Waste Diversion and Energy Efficiency in Public Building Program mobilized funding from two climate facilities (i.e., GCF, NAMA Facility).



All the above Actions Require Multistakeholder Partnerships!



Best Practice Solutions to Implement Today: Mindset Change

Build the African Urban Financing Ecosystem Together to Unlock Finance

Ecosystem Actors

- LRGs & LRG Groups
- National Governments
- Development Partners (in-country, regional, international)
- Private Sector (SMEs, corporates, PPP partners, banks, funds, service & equipment providers, pension funds, etc.)
- Community Service Organizations & Foundations (in-country and worldwide)
- Expert Services (transaction advisors, engineers, climate and development impact consultants, lawyers, rating agencies, etc.)

All Actors Need to Unite in Implement Unlocking Actions

- LRG Leadership & Advocacy - build bargaining power through coalition-building
- LG & LRGs mainstream urban/local climate actions into Planning & Capital Investment Budgets (e.g., earmark SDGs and NDCs allocations to LRGs)
- Multistakeholder partnerships to:
 - Identify and implement proven business and climate models
 - Identify and push for needed changes to the enabling environment (regulations, laws, policies)
 - Aggregate projects, finance, risk mitigation, suppliers to create scale (impact & finance)
 - Create investable vehicles

Critical Success Factors

- 1) Meet funding requirements (climate, development, financial, size)
- 2) Demonstrate "Sustainability" and "Creditworthiness" (e.g., full coverage of operating costs)
- 3) Demonstrate political support (LRG, community, national government)
- 4) Ensure acceptable investment vehicle (track record of implementing entity, professional experienced management)
- 5) Create acceptable Monitoring & Evaluation System (data metrics)

FOUNDATIONAL REQUIREMENTS

- Establish National Urban Supports: (1) LRG National Commissions/Networking (2) National Urban Funds & Connecting Platforms (3) Urban Finance Hub

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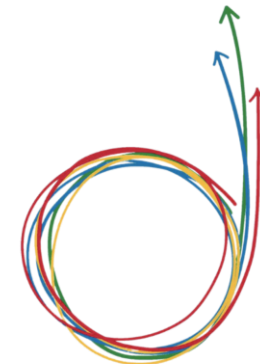
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Localizing Sustainable Finance
for Local & Regional Governments