

Global Taskforce of Local and Regional Governments

Defining Actions under the Global Action Framework on Localizing Finance

enabling the achievement of the SDGs, Climate Solutions, and New Urban Agenda

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Executive Summary

Defining Actions under the Global Action Framework on Localizing Finance

This position paper is aimed at defining **actionable recommendations** under the *Global Action Framework on Localizing Financing set forth by Local and Regional Governments (LRGs)*, setting forth practical market-based actions that can deliver on the Global Agreements, *cutting across the* Sustainable Development Goals (SDGs), the Paris Climate Agreement, and the New Urban Agenda (NUA).

The actionable recommendations are based on an analysis of critical success factors for the development and financing of local public services, climate goals, and disaster risk response and management, identifying specific actions that can unlock the required financing.

The paper sets forth specific unlocking actionable solutions and implementation venues to empower and provoke new lines of action:

- What: *Identification of critical actions and who can implement them?*
- Where: *Key venues for policy advocacy and partnership-building?*
- How: *Ways to participate in the venues to deliver optimal impact?*

The Executive Summary summarizes: (1) key messages for the LRG political advocacy on how to unlock local finance; (2) details on the imperative for local finance specifying five sets of actions; and (3) the key venues needed for advocacy and partnership-building to operationalize the five sets of actions.

1.0 Key Messages for LRG Political Advocacy on Mobilizing Local Finance

OVERALL APPROACH

The LRG advocacy campaign needs to focus on both the political imperatives as well as the technical means to unlock finance to obtain SDG and climate results. Simply asking for finance results in diplomatic exchanges will not result in meaningful amounts of capital; politically based debates are doomed to failure if the specific technical impediments blocking finance are not addressed.

The opportunities to unlock access to local finance are huge, given the trillions of dollars currently available across the public and private sectors for financing the SDGs and climate actions, as evidenced by transactions to date and the plethora of interested public and private investors today in search of acceptable investments.

- **Historical access to local finance:** Over many decades, many LRGs and their partners worldwide have accessed billions of dollars from global and domestic capital markets for the financing of key local public services, from water and sanitation to energy, transport, street lighting, local markets, internet services, digitalization, and energy efficiency, among other critical local economic interventions.¹

¹ For example, over decades LRGs have accessed billions of dollars through banks (e.g., commercial, state, green), pooled finance, local government funding agencies, Public-Private Partnerships, special purpose vehicles with ring-fenced revenues, revenue and general obligation bonds, stock markets, private equity, etc. See “Creating the Local Financing Framework for Sustainable Development Goals: The Potential Catalytic Role of Subnational Pooled Financing Mechanisms,” sponsored by AFD and FMDV for the 2015 UN Addis Ababa Financing for Development Conference, directed by the author of this paper and “Unlocking infrastructure investment: Innovative funding and financing in regions and cities,” OECD Report for the G20 Infrastructure Working Group, 2021.

- **Available capital today for local SDG and climate actions:** As underlined by leading investors – across the public and private sectors – there are underutilized funds aimed at the SDGs and climate actions that lack adequate pipelines of investments that meet their required investment criterion.²

The proposed messages in this advocacy campaign can unlock access to billions of dollars of public and private capital for the full scaling up of local public services and climate actions, encompassing commercial banks, institutional investors (pension funds, insurance companies, Sovereign Wealth Funds), social impact investors, SDG and climate funds, and the full range of investment modalities (e.g., bonds, stock markets, equity, venture capital, private equity, etc.).

The proposed LRG advocacy campaign is therefore aimed at leveraging the existing proven best practices for mobilizing global and domestic capital markets to dramatically scale up the large-scale mobilization of additional capital from both public and private investors.

This market-driven approach represents a departure from the current focus of many LRG advocacy campaigns that only ask for an increase of municipal finance provided directly to LRGs. It is critical to recognize that municipal finance alone is not the solution given the small number of LRGs considered creditworthy coupled with the universal market requirement for investment bankability.

In short, the *Global Action Framework on Localizing Financing* cannot deliver on the expedient increase in local finance required to achieve the SDGs and climate actions if it is focused only on increasing the direct access of LRGs through municipal finance. Instead, multi-stakeholder partnerships focused on local finance are required, encompassing a range of public and private sector entities based on the specific type of investment and local context.³

Therefore, the actions to unlock local finance require the core political parties – LRGs, national governments, and development partners – to adjust their approaches and mindsets, moving from political messages to results-based technical approaches that integrate universal finance requirements.

As a result, LRGs need to concurrently implement both political advocacy and partnership-building campaigns focused on explaining and implementing the critical actions that can unlock local finance:

- Political advocacy in the key venues of finance and political decisionmakers, from the UN to the other Bretton Woods institutions (World Bank Group, IMF), to development finance institutions and development partners, the G-20, OECD, and regional political organizations, such as the European Union and African Union, to LRGs themselves (LGA associations).

² Insufficient investment-ready pipelines are reported by both development finance institutions and private investors. As stated by the UN, “Financing for sustainable development is available, given the size, scale and level of sophistication of the global financial system with ... global gross financial assets estimated at over US\$ 200 trillion Channeling available finance towards the SDGs and the goals of the Paris Agreement are constrained by a range of challenges including ... a limited pipeline of bankable SDG investment projects....” See “UNITED NATIONS SECRETARY-GENERAL’S Roadmap for Financing the 2030 Agenda for Sustainable Development 2019 – 2021,” pages 1-2.

³ For an explanation of how local governments can access finance through various modalities other than direct municipal finance, see the World Bank’s “Municipal Finance: A Handbook for Local Government,” 2014 and “Financing Roadmaps for Climate Projects: How can local governments in Sub-Saharan Africa facilitate access to finance?”, Global Clearinghouse for Development Finance, supported by the Covenant of Mayors in Sub-Saharan Africa implemented by GIZ, October 2020, <https://comssa.org/new-study-finance-roadmaps-for-climate-projects/>

- Partnership-building through targeted engagement of government officials, development partners, professional finance experts, and the private sector to develop the technical approaches and business models that can unlock local finance and required ecosystem of local finance, leveraging forums such as the Malaga Coalition for Municipal Finance and the Alliance of Subnational Development Banks.

Key messages for political venues on the imperative and approach of unlocking local finance are summarized below.

KEY MESSAGES FOR POLITICAL VENUES

To enable an effective advocacy campaign, the below suggested messages for political venues are formulated on the foundational political rationales for local finance and engaging LRGs, specifying the critical technical actions required to unlock access to local finance. In summary:

- 1) The current approach is not working: The global consensus is that we are falling short of delivering on the SDG and climate actions.⁴
- 2) The SDGs and climate goals cannot be obtained absent the effective engagement of LRGs: As the government officials accountable to citizens at the ground level, local and regional elected and administrative officials are intrinsically involved in the delivery of local public services spanning water and sanitation, renewable energy, transport, climate adaptation, and disaster risk management and response.
 - Virtually all the SDG and climate goals are integrated into LRG accountabilities, from water and sanitation, transport, renewable energy, and social services, to disaster risk management and response (pandemic, flooding, heat, weather).
 - Moreover, local economic development and job creation require LRGs to implement enabling policies and regulations.
 - The import of LRGs in the implementation of the SDGs and climate goals is evidenced by their recognition in global venues and commitments of UN Members States.⁵
 - In fact, elected and administrative LRG officials are increasingly playing leadership roles in delivering on the SDGs and climate actions, serving as advocates and policy innovators as well as providers of local public services that incorporate digitalization, new energy-efficient technologies, and advocacy campaigns that address social inequities and reduce carbon emissions.
- 3) Words and commitments are not enough: To fully employ LRGs in the achievement of the SDGs and climate goals, LRGs need to be fully integrated as development and technical partners in related programs, projects, and financing.

⁴ For example, Secretary General Antonio Guterres stated in the UN *Sustainable Development Goals Report 2020* (page 2): "... before the COVID-19 pandemic, progress remained uneven and we were not on track to meet the Goals by 2030.... [The] number of people suffering from food insecurity was on the rise, the natural environment continued to deteriorate at an alarming rate, and dramatic levels of inequality persisted in all regions. Change was still not happening at the speed or scale required.... Now, due to COVID-19, an unprecedented health, economic and social crisis is threatening lives and livelihoods, making the achievement of Goals even more challenging."

⁵ Examples include the UN Financing for Development Addis Ababa Action Agenda (paragraph 34) and the UN Global Taskforce on Cities.

- The operationalization of SDG and climate programs and projects need to fully engage LRGs as partners in their planning, capital budgeting, procurement, and operation, including project identification, demand assessment and cultivation, risk mitigation, and finance.
 - The SDG and climate programs need to engage LRG functions to achieve results, encompassing LRG roles as providers of local public services and disaster risk management and response. LRGs can contribute through their functions as planners, regulators, facilitators, partners, community advocates, and national government partners in delivering on national development goals.
 - Towards this end, the current coordination failures between national governments, development partners, and LRGs need to be urgently bridged using results-based approaches that engage all accountable authorities around designing and implementing actions that deliver effectively on the SDGs and climate actions.
 - National development plans, capital budgets, development partner programs, and related working groups need to systematically include LRGs, facilitators of LRG and national coordination, aggregators of inputs and projects, and technically informed advocates.
 - A key coordination imperative is the aggregation of local projects into pooled investments that align with investor requirements and the use of climate-smart technologies and processes that enable energy efficiency and the monetization of savings.
- 4) Massive opportunity to mobilize large amounts of underutilized public and private capital: Ironically there is an abundance of capital from the public and private sectors eager to invest in the SDGs and climate actions, but underutilized due to the lack of acceptable investment vehicles. For example, investment impact funds are estimated at US\$ 715 billion, with 73% targeting funds on the SDGs (including SDG 11 Sustainable Cities);⁶ Green, Social, and Sustainability Bonds of US\$ 400 billion in 2020;⁷ and Sustainability-linked Loans of US\$ 133 billion.⁸ Moreover, Moody's Annual Default Study demonstrates the consistently investment-grade performance of project finance loans, facilitating the mobilization of institutional investment into infrastructure projects, from water and sanitation, transport, and housing to other critical local public services.⁹
- 5) Business models are the key to securing finance - from words to business models: Words alone cannot deliver results. Unlocking capital requires business models that meet investor requirements.
- The effective development and implementation of practical business models are required to finance the localization of SDGs and climate goals.
 - Focus needs to be on leveraging limited public resources as a multiplier for the mobilization of private capital, using blended finance, risk mitigation including first loss, project finance techniques, and energy savings.
- 6) National governments and development partners need to **scale and earmark meaningful technical and financial support** that enables the local financing of the SDGs and climate goals: The current system does not deliver local finance at the ground level to implement the SDGs and climate actions. The national level program and funds do not have systematic inclusion of LRGs in their design or

⁶ GIIN "Annual Global Impact Investment Network Survey," June 2020.

⁷ "Green, social and sustainability bond issuance to hit record US\$ 400 billion," Moody's Investor Service, 2020.

⁸ Bloomberg's "Global Sustainability-Linked Loans League Table," 2020.

⁹ Moody's "Annual Project Finance Default Study" (see https://www.moody.com/pages/pfsplashpage.aspx?stop_mobi=yes)

implementation. Even national municipal programs often lack meaningful consultation mechanisms with LRGs. Targeted actions are required:

- National governments and development partners need to earmark national funds for the implementation of local SDGs and climate actions in open consultation with LRGs.
- National governments and development partners need to establish targeted mechanisms that explicitly and directly coordinate with LRGs in scaling up financing approaches and business models.

- 7) “Local Finance Ecosystems” need to be developed to enable the development of investable projects that meet investor requirements: Development experts worldwide agree that the problem in not achieving the SDGs and climate goals is not a lack of finance, but rather the lack of “bankable projects.” Moreover, except for a few large LRGs, most LRGs worldwide do not have the capacity and/or resources to implement the required finance techniques. Therefore, national governments and development partners need to develop a local finance ecosystem that enables the development of projects that meet investment requirements. Global best practices for LRG ecosystems unlocking local finance are evidenced in the United States, Europe, and some developing countries.¹⁰

Key LRG support mechanisms modelled on these global best practices that need to be developed and funded include:

- Local Funds to scale up access to finance for projects and their respective project owners, covering planning, project development funds, finance (e.g., grants, concessionary debt, market debt, equity), and credit enhancement (e.g., first loss, subsidies, guarantees, etc.);
- Advisory Hubs to scale up access to financial expertise required to meet investment requirements (e.g., transaction advisors, project finance lawyers, procurement experts, development impact experts, etc.);
- Local Finance Intermediation Vehicles that enable access to finance such as subnational development banks, on-lending bank facilities, national programs that earmark funds for local projects, etc.;
- Investment Vehicles such as special purpose vehicles, pooled finance facilities, local SDG and climate bonds that are revenue-based, etc.; and
- LRG Coordination Mechanisms to enable LRG to develop collaboration venues for the development of effective collective policy advocacy, pooling of projects and procurement, etc.

- 8) Results tracking and feedback adjustments: Dynamic and public reporting against performance metrics is required to create scale and market momentum, adjusting approaches as needed to ensure high-impact results.

At these advocacy forums, LRG spokespersons can advocate for partnership-building actions with public and private sector leaders committed to the SDGs and climate goals. An open invitation can be made to partner in the development of local finance advisory hubs, funds, financial intermediaries and instruments (e.g., subnational development banks, on-lending bank facilities, etc.), investment vehicles (e.g., special purpose

¹⁰ Examples of the key ecosystem pillars required to unlock access to local finance include advisory hubs providing expert support, Local Government Funding Agencies, State Banks, municipal funds, and pooled finance facilities. For details, see “Creating the Local Financing Framework for Sustainable Development Goals: The Potential Catalytic Role of Subnational Pooled Financing Mechanisms,” sponsored by AFD and FMDV for the 2015 UN Addis Ababa Financing for Development Conference, directed by the author of this paper.

vehicles, pooled finance facilities, local SDG and climate bonds, etc.), and credible systems of performance tracking and reporting.

Again, words will not unlock local finance. For LRGs to serve as leaders in unlocking access to local finance for the SDGs and climate goals, they need to be aware of and fight for the creation of a local finance ecosystem that is integrated into the international financial architecture, as detailed below.

2.0 The Imperative of Mobilizing Local Finance and Required Actions

Worldwide stakeholders across the public and private sectors and civil society have recognized the critical need for local finance solutions and effective actions of LRGs in combatting the pandemic, driving climate goals, and implementing the SDGs.

- *The pandemic* has underscored the urgent need for empowered LRGs and improved local public services, cutting across water and sanitation, energy, transport, and all social services.
- *The climate crisis* has shown how LRGs can drive new approaches towards circular economies and energy efficiency to achieve the urgent requirement to reduce carbon emissions.
- *Global inequities* have underscored the indispensable role of LRGs in achieving the prevailing targeted development missions cutting across the SDGs and the climate crisis such as *leaving no one behind, water and energy for all, finance for the missing middle, local economic development, and job creation*.

The untapped contributions of LRGs are critical to delivering on global goals, given the all-encompassing roles of LRGs as providers of local public services, community leaders and facilitators, consumers with procurement requirements, employers, regulators creating enabling local environments, collectors of taxes and fees, and most recently, as leaders of climate mitigation and adaptation.

Towards this end, a solid global political foundation for empowered LRGs has emerged over the decades as underlined in global resolutions, such as the SDGs, climate goals, and Financing for Development (FfD). Given the pivotal roles of LRGs and the need to activate their many roles, the Secretary General of the United Nations has recently launched the Taskforce of Cities. In short, the global community has recognized a priority mission – optimizing the contributions of LRGs to development and climate goals.

Global political consensus of the pivotal role of LRGs has been established as a strong foundation for implementing a Global Action Framework for Localizing Finance with defined effective actions. LRGs need to be fully activated as global leaders of effective urgent transformation given their array of powerful roles at the frontline of communities worldwide.

Underlying Coordination Failures

Despite the global political consensus, LRGs are not able to fulfil their transformative and powerful roles given the coordination failures dominating the current international and national finance architecture at operational, planning, and finance levels:

- 1) National-LRG disconnects: Oftentimes nation states are cut off from their own LRGs with varying degrees of internal cohesiveness between national public entities and their LRGs.
- 2) National Development Plans – LRG disconnects: National development plans (and related investments in SDGs and climate goals) are often not coordinated with LRGs or integrated with the required actions at the local level.

- 3) Development Partners-LRG disconnects: Development partners channel funds through Ministries of Finance and designated national counterparties that oftentimes do not channel funds or technical support to LRGs.
- 4) Global – LRG disconnects: Global institutions are naturally managed by nation-states, but nation-states oftentimes do not include LRGs in consultation or implementation.

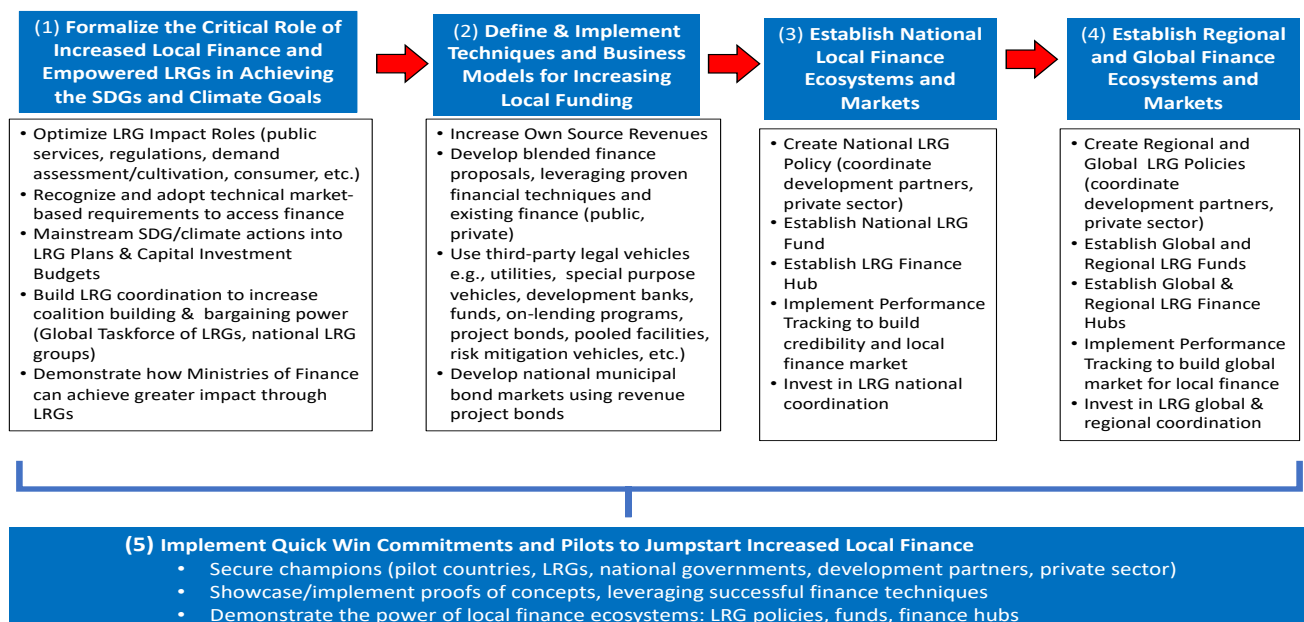
These systematic coordination failures cut LRGs off from the lifelines of funding and technical support from their national governments, development partners, and the private sector required for them to optimally implement the SDGs, climate goals, and crosscutting development missions, including effective pandemic responses.

*The lack of adequate funding from national governments and LRG Own Source Revenues has resulted in many LRGs worldwide asking for finance directly from development partners and the private sector. **But this direct finance option from development partners and the private sectors is doomed to failure for most LRGs due to the internal requirements of public and private funders for creditworthy investments, larger transaction sizes, and the approval of national governments.***

As a result, a new approach equipped with realistic specific actions is required for the implementation of the Global Action Framework on Localizing Finance focussed on increasing fiscal transfers from national governments to LRGs, generating greater LRG Own Source Revenues, and enabling greater access to local finance from development partners and the private sector.

Five Sets of Critical Actions

Five sets of actions are proposed that build on proven market techniques and frameworks for mobilizing public and private finance, aimed at developing a local finance market with defined ecosystems of funds, expertise, and partners. The five action sets are outlined in the below schematic.



A summary of each action is provided below.

ACTION SET ONE: Formalize the Imperative for Greater Local Finance and LRG Empowerment in Achieving the SDGs and Climate Goals - As underlined in the prior section, the import of both local finance and LRGs needs to be formally integrated into the global finance narrative, integrating the pivotal expanding frontline role of LRGs and funding requirements for climate and development impact. LRGs have vast accountabilities and underutilized capacity to deliver on the SDGs and NDCs, undermined by the lack of operational agreements and coordination at international, regional, and national levels.

Political will alone does not achieve results. Current mindsets and approaches are blocking access to local finance. New mindsets with new aligned operational approaches need to be implemented in a *“Local Finance Campaign”* on five levels:

1) All stakeholders optimize LRG impact roles: From LRGs to national governments and development partners and civil society, all stakeholders need to have a deep understanding of the full array of transformative and powerful LRG roles and how to optimize LRG impact in delivering on the SDGs and climate goals. Virtually all public services involve LRGs in some capacity – from water and sanitation to energy and transport. LRGs are critical in assessing demand (including demand cultivation) and adoption – critical to the scaling up of climate-smart public services, including climate adaptation. All parties from national governments and development partners need to systematically include LRGs in the definition and implementation of SDG and climate programs and projects, optimizing the full array of possible LRG contributions.

2) LRGs recognize and adopt local finance requirements: Virtually all debt providers, public and private, do not provide direct finance to LRGs that are not considered creditworthy. LRGs need to understand this market reality and fully integrate investment requirements into their planning and finance strategies, using proven finance techniques such as the following: LRGs can develop and own utilities and special purpose vehicles that are structured as creditworthy entities and can receive funding; LRGs can coordinate with existing third-party entities considered creditworthy that can receive funding and provide the required public services and climate projects (e.g., utilities, special purpose vehicles, small and medium-sized enterprises, Community Service Organizations, Public-Private Partnerships, etc.); LRG projects can also be pooled into a larger investment vehicle, such as a pooled finance facility; LRGs can receive funding from national programs and entities (e.g., national and subnational development banks, national programs, climate funds, etc.). *National governments and their development partners will need to support LRGs in developing these finance strategies and investable legal vehicles, providing the needed finance and technical support.*

3) LRGs mainstream SDG/climate actions into their plans & capital investment budgets: Oftentimes LRGs have separate departments for the environment that are not integrated into mainstream capital investment planning and budgets. Yet in today’s market, virtually all finance is climate finance, with most projects needing to factor in climate-smart technologies, inputs, and processes. If LRGs want to optimize finance from the public and private sectors, SDG and climate goals need to be fully integrated and prioritized into mainstream capital planning and budgeting. *Again, national governments and their development partners will need to support LRGs in this process, providing the needed finance and technical support.*

4) LRGs coordinate to increase coalition building and bargaining power: It is important to recognize that the first imperative action for coordination and changing mindsets is between LRGs themselves and the diffuse LRG associations worldwide, from UCLG and FMDV to ICLEI, and C40, and the many other associations at international, regional, and national levels. LRG unity creates bargaining power with national governments, development partners, and the private sector. Moreover, LRG collaboration enables greater technical capacity and market credibility, through the engagement of finance experts as well as the identification and development of effective knowledge products critical to building the operationalization of local finance strategy and finance. Large LRGs can share successful approaches and lessons learned with smaller LRGs, building approaches to pooling projects, joint procurement, and successful business models.

- *On a national basis, national governments and their development partners will again need to support LRGs in this process, providing the needed finance and technical support.*
- *On a global basis, the Global Taskforce of Local and Regional Governments will need to be strengthened in amplifying its pivotal role as a global coordination and consultation mechanism for the major international*

networks of local governments to formulate global initiatives and undertake joint advocacy in targeted sectoral areas such as finance and climate change.

5) All parties demonstrate how Ministries of Finance can achieve greater impact through LRGs: As the mandated ministry for leveraging the impact of public funding, Ministries of Finance can implement blended finance models to increase local funding for LRGs and local programs, with systematic earmarking of funds and dynamic tracking against performance criteria. *This systematic integration of LRGs into the national financial architecture needs to be reinforced and required by all development partners and the private sector.*

In short, all entities - LRGs, national governments, development partners, and the private sector - need to align in a Local Finance Campaign, adopting new mindsets, solving coordination failures, and implementing market-proven solutions driven by urgent SDG and climate goals. Success will require profound commitments to connect and transform, formalizing the transformative role of local finance and empowered LRGs with new mindsets, realistic operational approaches, and funding.

ACTION SET TWO: Define & Implement Techniques for Increasing Local Funding - Irrespective of country and impediments, there are opportunities to increase local funding in-country, using proven business models and finance techniques as the basis to attract additional funds from development partners and the private sector. *Success in unlocking scaled access to local finance relies on using proven financing techniques and business models, leveraging existing market practices of development partners and private sector entities.* Required actions are summarized in the below table.

Required Actions – Define & Implement Proven Techniques for Increasing Local Finance

| Key Activities | Actions: LRGs/Local Stakeholders | Actions: National Governments | Actions: Development Partners | Actions: Private Sector & Experts |
|----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| 1) Increase national government fiscal transfers to LRGs, including in specific projects | Effective advocacy to national governments and development partners | Increase earmarked amounts in national budgets for LRGs that meet investment requirements | Require national governments to increase earmarked LRG allocations, including in development programs | Require and advocate for National Government fiscal transfers to LRGs, including in specific projects |
| 2) Increase Sources of Own Source Revenues | Explore potential sources, engage experts, implement country-wide advocacy as needed | Provide enabling environment, changing regulations and policies as needed | Provide funding support as needed | Provide ideas and support with national government and development partners |
| 3) Develop Matching Blended Finance Proposals, leveraging intergovernmental fiscal transfers and own source revenues | Earmark use delineating allocations for climate and SDG interventions, integrate into capital investment | Earmark funds for climate and SDG interventions; integrate into capital investment | Provide project development funding and credit enhancements (especially first loss), earmark funds from national programs, create new programs | Provide input on requirements for possible private sector finance and on possible funding |
| 4) Use Third-Party Legal Vehicles to Mobilize Funding | Assess existing options in country partnering with other LRGs, engage experts to assess options | Provide enabling environment, changing regulations and policies as needed | Provide funding support as needed to develop investable entities | Provide ideas and support with national government and development partners |
| 5) Develop a Municipal Market, starting with initial project revenue-based bond issues | Request support for development of bonds to fund local projects | Provide funds for bond support (e.g., debt service account) | Provide funding for required experts and guarantees | Provide input on types of projects, structures, risk mitigation |

The implementation of these financial techniques will demonstrate how local finance and LRGs are imperative for achieving the SDGs and climate goals, jumpstarting the development of the “local finance ecosystem and market” with clarified finance requirements, roles, and solutions.

ACTION SET THREE: Create National Local Finance Ecosystems with Dedicated Funds and Advisory - Witness history – *absent an accountable functional ecosystem providing the critical success inputs of finance, expertise, and performance metrics, success is not achievable.* While countries vary in their operational structures and processes, institutional scaled approaches providing funding and expertise are essential to accessing local finance for local public services and climate goals. Five national instruments and activities are proposed aimed at creating effective national ecosystems:

- 1) Funding- National Green SDG Local Fund/Bank: The breakthrough gamechanger is providing financing with clear funding requirements and governance. In some countries, this is provided through national and subnational development banks.
- 2) Policies - National Urban Policy with support of the Head of State and Finance Ministry: A best practice is the formulation of a *National Urban Policy* that serves to align national sectoral and urban policies clarifying roles and responsibilities horizontally across ministries and vertically between all levels of government.
- 3) Expertise - Local Finance Hub to Develop, Finance, and Operate Scalable Pipeline of Local SDG and Climate Projects: The key impediment today is the *lack of highly skilled professional expertise for LRGs* required for the identification and development of project pipelines that meet development and climate goals while meeting the requirements of public and private funders, as well as in the sustainable operations of such projects.
- 4) National LRG Coordination – National LRG Chamber of Chambers: As noted in action one, a critical foundation is national LRG coordination, providing a consolidated and strong foundation for exchanges with the national government, development partners, the private sector, and experts, increasing LRG bargaining power.
- 5) Performance Tracking to build credibility and local finance market: Virtually all providers of finance, across the public and private sectors, require dynamic reporting against performance metrics.

ACTION SET FOUR: Create Global and Regional Local Finance Ecosystems - National Local Finance Ecosystems need to be tied into regional and global networks of funding instruments and expertise, providing optimal economies of scale, and leveraging lessons learned, business models, and emerging technologies and processes. Key actions to create foundational global and regional ecosystems for local finance include:

- 1) Global and Regional Funds: Public and private funders have a natural bias towards large transactions that enable effective transaction costs, enabling large-scale development impact and financial returns, diversifying risks.
- 2) Global and Regional Policies: Establishing best practices for local finance transactions is critical for scaling up volume. Specific sector models can be presented, showing the array of roles of LRGs in project identification, demand assessment and cultivation, finance, and operation.
- 3) Global and Regional Local Finance Hubs: The lack of financial and climate-smart expertise, a key impediment blocking the development of bankable projects and access to local finance, can be addressed through providing Local Finance Hubs at the regional and global levels. These Hubs can provide systematic support and capacity building for the National Local Finance Hubs.

The immediate establishment of a Global Local Finance Hub could jumpstart the capacity of LRGs and National Hubs, providing easy access to best practices, business models, and networks of funders and experts as well as a global center for sharing business models and lessons learned.

ACTION SET FIVE: Implement Quick Wins with Commitments & Pilots to Jumpstart Increased Local Finance

The risks of inertia and continued failures are great, history providing ample evidence of the monumental challenge of transformation. Yet the threat of climate disaster confronts us all; the risk of failure in obtaining the SDGs looms in front of us. Best practices demonstrate the import of leadership in implementing “proof of concept” pilots that provide demonstration effects, enabling cost-effective rapid replication and scaled impact. Action Set Five is aimed at jumpstarting the required changes through strong political commitments and pilots of champion LRGs, national governments, development partners, and private sector entities.

3.0 Key Venues for Policy Advocacy & Partnership Building

The suggested five sets of actions for implementing the *Global Action Framework on Localizing Financing* need to be mainstreamed into the international finance architecture.

The challenge is daunting and will require policy advocacy across multiple venues and partnerships to develop the required business models and financing approaches. A concurrent two-level approach is required:

- 1) Key political venues for the dissemination of advocacy messages setting forth the imperatives, urgency, and actions; and
- 2) Partnership-building forums to develop technical finance solutions and implementation approaches.

In addition, LRG venues are critical to build cohesion for strengthened advocacy and implementation capacity, coupled with selected high-impact international and regional venues, as set forth in the main report.

Political Venues

The political and technical “asks” outlined in the proposed advocacy campaign would be most effective leveraging the existing recognized finance forums for the SDGs and climate actions. While there is a plethora of political forums, the highest impact ones are those that involve: (1) finance decision makers, such as Ministries of Finance and Development Finance Institutions, and (2) high-level political decision makers who make decisions that affect the use of funds and experts, requirements, and the technical and consultative processes in identifying, developing, and financing interventions.

The table below focuses the advocacy campaign on selected political venues for maximum impact. LRG political leaders recognized finance experts, and respected thought leaders can make compelling interventions and deliver presentations setting forth the political urgency, rationales, and specific required action steps, specifying the roles of each stakeholder.

Key Political Venues for Disseminating Political Messages and Unlocking Actions

| Political Venues | Value of Venue for Reaching Decision-Makers | Targeted Outcomes |
|--------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| 1) Financing for Sustainable Development Office (FSDO) | Accountable UN entity aimed at mobilizing finance for the achievement of the SDGs (e.g., FfD High-Level Forums (ECOSOC, etc.), Taskforce for Cities, Global Investors in Sustainable | <i>Develop understanding and political support of key concepts, urgency, and actions required to unlock local finance</i> |

| Political Venues | Value of Venue for Reaching Decision-Makers | Targeted Outcomes |
|---------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Development (GISD), Annual Taskforce Report, SDG monitoring, etc. ¹¹ | - SDGs and climate goals doomed to failure absent LRG engagement and targeted local finance -Need to formalize and mainstream the role of local finance and LRGs into national planning, capital budgeting, programs, projects -Need to implement techniques and business models for increasing local finance such as blended finance, third-party legal vehicles (subnational development banks, national programs, pooled finance facilities, special purpose vehicles, credit enhancement and first loss, project development support, earmarking of existing funds, etc.), municipal bond markets (using revenue project bonds), etc. -Need to establish national, regional, and global ecosystems with dedicated funds and advisory hubs, performance tracking and reporting -Need for LRGs to collaborate in advocacy, pooling projects, procurement, funding |
| 2) G-20/Urban | Entry point to reach Ministers of Finance as the key finance decisionmakers in countries | |
| 3) World Bank/IMF/COP Meetings | Annual meetings with key decisionmakers that affect global development, finance, and monetary policies and related programs that need to mainstream local finance and the roles of LRGs | |
| 4) DFI Annual Meetings | Entry point for development finance provided by nation states and key public sector entities | |
| 5) OECD (Financing for Sustainable Development Division/FfSD Division), Development Assistance Committee/DAC) | Entry point for development policies of OECD member states: - Policies on blended finance, SDGs, climate, infrastructure, etc (FfSD Division) - Peer reviews with in-depth examinations of development systems and policies (DAC) | |
| 6) Regional Political Venues (African Union, European Union, etc.) | Entry point for key regional decisionmakers and programs, including use of public funds, national and regional policies, roles of national governments and LRGs | |
| 7) Malaga Global Coalition for Municipal Finance | Entry point for leading supporters of LRGs and supporting actions, critical to build support for the five sets of actions | |
| 8) LRG Associations (international, regional, national; Global Taskforce for LRGs) | Entry points for LRGs need to understand and support the proposed advocacy messages and five sets of actions | |

The above political venues do not include private sector venues, as the public sector first needs to implement actions that unlock access to finance and meet investment requirements, such as increasing reliable national fiscal transfers and own source revenues and creating investable investment vehicles. However, once investment requirements are met, private sector finance and partners can potentially be mobilized through advocacy at key venues such as the Long-term Infrastructure Investors Association (LTIIA), Convergence Blending Global Finance, and the Global Impact Investing Network (GIIN), among others.

¹¹ The stated objectives of the FSDO Office are: “The Financing for Sustainable Development Office (FSDO) provides coherent and integrated support to Member States to unlock financing and other means of implementation for the 2030 Agenda and Sustainable Development Goals. We promote financing solutions for a sustainable world by: Serving as a global focal point for coherent, effective, inclusive and fully integrated substantive and organizational support to the financing for development processes overseen by the UN Economic and Social Council (ECOSOC) and General Assembly (GA), such as the follow-up and review of the Addis Ababa Action Agenda; Preparing action-oriented policy analysis and concrete proposals and recommendations on financing for sustainable development and means of implementation, drawing on the strengths of inter-agency expertise and the experience of the United Nations development system; Contributing to the United Nations’ coordinated approaches on global financial issues, including through support to the United Nations engagement with the Group of 20; Serving as the United Nations System’s hub for work on international development cooperation and international cooperation in tax matters, and related capacity development programmes to support developing countries efforts to mobilize resources for the 2030 Agenda.” Source: FSDO website

Partnership modalities: Unlocking local finance requires a new approach that addresses the technical requirements of public and private sector providers of capital, meeting their credit and due diligence criteria, as local finance is currently blocked by the inability to meet technical finance requirements.

As a result, unlocking local finance needs to combine technical, policy, and partnership modalities, creating investment vehicles that meet the requirements of public and private sector investors:

- (1) The development of technical solutions that serve to unlock public and private capital, such as the development of the financial and business model, underlying contracts for equipment, management, finance, and risk mitigation, and legal structuring of the investment vehicles and risk mitigation;
- (2) The adoption of enabling policies and instruments that enable the successful implementation of technical solutions, such as the ability to engage into viable contracts, collect fees, and ring-fence revenues; and
- (3) The adoption of modalities that enable the engagement of the highly skilled finance professionals required to develop and implement the business models that meet the investment requirements of both public and private sector funders.

As these partnerships are technical and political in nature, both UCLG and FMDV could play leadership roles in facilitating the below partnership activities and producing the targeted outcomes.

| Partnership Modalities | Focus | Targeted Outcomes |
|-------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1) Financing for Sustainable Development Office | Setting up of expert working groups aimed at addressing challenges limiting local finance and developing solutions; expert groups would include public and private sector providers of finance and risk mitigation, rating agencies, LRGs, professional finance transaction advisors, other experts | Expert working group meetings: -Development of guidelines ("How to") for pooled finance facilities that enable LRGs to aggregate projects and finance for several projects -Development of technical solutions that address current IMF public debt restrictions that impede access to local finance and therefore undermine localization of SDGs and climate goals |
| 2) UNCDF | Engaging outside finance professionals to increase the impact of UNCDF programs related to local finance | -Success in the effective implementation of the International Municipal Fund and other local finance instruments and programs, identifying investments, trouble-shooting issues, ways to scale and replicate |
| 3) UNDP | Developing local finance proposals for climate funds and development partners | Success in securing finance for local SDG and climate action projects through research and thematic policy papers: -Technical and policy solutions to unlock finance to activate and guide political discussions, leveraging related UNDP work on risk mitigation, climate change, etc. -Localization of existing national solutions to plan, budget, engage, monitor, and evaluate finance and investment aligned with SDGs (these instruments are already available for national governments, but they need to be extended to the local level) |
| 4) UNOPS (providing the needed technical support for local SDG and climate actions) | | -Success in developing one or more Local Finance Hubs with advisory support leveraging UNOPS infrastructure, procurement, and project management services |

| Partnership Modalities | Focus | Targeted Outcomes |
|---------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5) World Bank Group/other development partners | Identifying “proof concept” local SDG and climate goal projects that can be scaled; suggestions and input from local and national government officials, development partners, private sector, experts | -Success in disseminating “local finance projects” for replication that demonstrate how to scale local finance through technical business models and approaches |
| 6) Urban20 partnership with G-20 Infrastructure Hub (created by the G20 to advance its infrastructure agenda) | Developing a business plan for localizing the SDGs, identifying “proof concept” local SDG and climate goal projects that can be scaled; suggestions and input from local and national government officials, development partners, private sector, experts | -Success in disseminating “local finance projects” for replication that demonstrate how to scale local finance through technical business models and approaches, leveraging G20 direct relationships with Ministries of Finance |
| 7) Rating Agencies | Setting forth the generic credit guidelines for local SDG projects to enable access to bank and institutional investment | -Development of guidelines (“How to”) on investment requirements that enable LRGs and other project owners to scale up bankable projects and programs |
| 8) Global Private Sector Association representing private companies committed to implementation of the SDGs | Setting forth business models for local public services (water, sanitation, internet/Wi-Fi, digitalization, renewable energy, etc.) | -Success in identifying business models for SDG and climate projects related to local public services that demonstrate how to scale local finance (including using energy and other savings as source of finance) |

Partnership-building actions are imperative, as political messages will not result in unlocking increased local finance. The political messages must be anchored and activated with concrete actions that show the practical technical finance approaches and business models that can be used to mobilize both public and private sector capital.

The advocacy and partnership actions could be launched through three high-impact interventions:

- 1) ***Local Finance Hubs***: A first deliverable could be the establishment of operational deal-oriented Local Finance Hubs aimed at unlocking finance for localizing SDGs and Climate Goals. As a high-visibility, high-impact outcome, a foundational globally oriented Local Finance Hub could jumpstart action by providing independent technical advisory and setting forth business models (illustrated with case studies) for LRGs and partners to scale up priority local public services, energy efficiency, and disaster response and management leveraging existing financial and risk mitigation instruments.
- 2) ***On-Line Local Finance Platform***: A one-stop-shop on-line “Local Finance 4-Impact Platform” would empower LRGs and their partners by providing user-friendly enabling information such as (a) toolkits for project development and finance (e.g., “how to” guidelines, business models, case studies, templates for contracts, etc.); (b) directories of services that are required to develop, risk mitigate, finance, and operate projects (e.g., transaction advisors, project finance lawyers, project managers,

etc.); and (c) providers of finance and risk mitigation (e.g., banks, funds, social impact investors, development partners, insurers, etc.). The Platform could host webinars and podcasts.

- 3) *Local Finance Champions, Summits, and Awards*: To enable effectiveness, “*Local Finance 4-Impact Champions*” considered as compelling thought leaders could be engaged to explain “why to mainstream local finance and how” at high-level advocacy venues. As being pioneered by FMDV, “*Annual Local Finance 4-Impact Summits*” could also be conducted, also presenting “*Local Finance 4-Impact Awards*” for ground-breaking results, advancing market momentum and high-impact replication.

The Larger Roadmap: Implementing a Local Finance Campaign

Beyond the three targeted interventions noted above, to achieve meaningful results, a strategic and effective *Local Finance 4-Impact Campaign* needs to be implemented with professional political messaging and technical expertise. Below are initial ideas on the roadmap to achieve success.

1) Develop the Mission Statement for the Local Finance Campaign

Best practice is to define a compelling mission and the specific “ASKS” in black and white and human terms. The materials would need to be compelling setting forth synthesized, calibrated “ASKS.” The Mission Statement could include a Brochure and Concept Paper (including Infographic). The branding umbrella could be “*Local Finance 4-Impact*.”

2) Establish an Expert-Based “Local Finance 4-Impact Secretariat” to mobilize and deliver results

UCLG could host one or more virtual dialogue on the Local Finance 4-Impact Mission, asking for input and partnerships. In addition to other LRG associations, possible invitees could include local finance champions from the public and private sectors: development partners; private sector champions (e.g., companies, banks, funds, pension funds, business associations, rating agencies, etc.); and philanthropic organizations. To ensure a strong technical focus, collaboration, and elimination of competitive behaviour impeding results, an independent expert entity could serve as the “*Local Finance 4-Impact Secretariat*,” potentially aligned with the Global Taskforce.

3) Create National LRG Coalitions

After internal UCLG consultations, the proposed approach is to first sell the approach to UCLG members. UCLG opinion leaders could be asked to explain and champion the approach for their peers. (For example, we could employ a “train-the-trainers” approach,” orienting possible champions with a first virtual discussion so they feel empowered to spread the word.

4) Conduct Local Finance Working Groups

Key targeted outputs of working groups could be defining ways to develop and scale up pooled finance, own source revenue sources, Local Finance Hubs, development of new performance metrics, etc.

5) Engage Champions and Develop Incentives

Successful campaigns require the careful orchestration, tapping into existing related functions and vested interests.

- Credible spokespeople will be needed to explain the required changes at the various venues (international, regional, national, local) and inspire the required commitments and actions. UCLG could engage passionate political leaders and finance experts.
- UCLG could engage “Local Finance Ambassadors” to serve on the “Local Finance 4-Impact Advisory Committee” and address political forums.

- Members could include existing recognized leaders from government, DFIs, NGOs, and business (SME, corporate, finance).
- One idea is to approach existing climate and urban leaders such as UN designated envoys (e.g., Mark Carney, UN Special Envoy on Climate Action and Finance; Michael Bloomberg, UN Special Envoy on Climate Ambition and Solutions, etc.).

The above proposed actions in this paper can develop and scale business models and local finance ecosystems, the imperative building blocks required to localize finance and deliver on the SDGs and climate goals.

For details on the above recommendations, please see the attached main report.

MAIN REPORT

Defining Actions under the Global Action Framework on Localizing Finance

1.0 BACKGROUND: Why is this Position Paper Needed?

Virtually all experts and the global politic agree: *We are lacking the needed progress in implementing the global sustainable development and climate goals agreed to by nation states worldwide and increasingly supported by citizens and the private sector.* Immediate urgent actions need to be implemented with more effective results by governments, development partners, business, and citizens.

Authorities worldwide have warned governments and citizens that we are failing to achieve the required carbon emission targets and Sustainable Development Goals (SDG) and that urgent drastic actions are required immediately to avert global disaster.¹² SDG and climate emission statistics are undeniable evidence of the lack of required progress against climate and development metrics.

In short, we lack effective actions that deliver the required achievements against the worldwide political commitments defined in Global Agreements, notably the Agenda 2030 and its Sustainable Development Goals (SDGs), Financing for Development (FfD), the Paris Climate Accord and its Nationally Determined Contributions (NDCs), and the New Urban Agenda (NUA).

Why focus actions on local finance and local governments? Today virtually all stakeholders formally recognize the essential role of Local & Regional Governments (LRGs) in achieving the Global Agreements. The increasingly pivotal functional role of LRGs is evidenced by cross-cutting urgent policy challenges:

- The global pandemic has underscored the importance of LRGs in delivering the SDGs and essential services, ensuring citizens and businesses can access basic local services ranging from water, sanitation, energy, and transport to education and health.
- The climate challenge has magnified the role of LRGs in facilitating the transformation to climate smart sectors using energy efficiency solutions, such as the use of localized renewable energy such as solar for home electricity and the operation of distributed energy for local services cutting across all sectors from water, sanitation, transport, and cell phone towers.
- The increased number of severe climate disasters and dire scientist predictions underscore the critical and pivotal role of LRGs in disaster risk management and reducing risk to urban citizens. Going forward, scientists expect urban centers to suffer greatly from climate change, putting increasing numbers of citizens worldwide at risk.¹³

¹² See the UN Report: “Climate Change 2021 – The Physical Science Basis,” 2021.

¹³ The UN Climate Change Report underlines the magnitude of impact in urban areas: “Cities intensify human-induced warming locally, and further urbanization together with more frequent hot extremes will increase the severity of heatwaves (very high confidence). Urbanization also increases mean and heavy precipitation over and/or downwind of cities (medium confidence) and resulting runoff intensity (high confidence). In coastal cities, the combination of more frequent extreme sea level events (due to sea level rise and storm surge) and extreme rainfall/riverflow events will make flooding more probable (high confidence).” See “Summary for Policymakers: Climate Change 2021 – The Physical Science Basis,” paragraph C.2.6, page 33.

The above policy challenges are exacerbated by the dramatic growth of populations in urban areas worldwide, especially in Asia and Africa, with the resulting imperative for expanded infrastructure and public services.

Moreover, LRGs are uniquely equipped at the designated government authorities to address these all-encompassing policy challenges. Local governments have -- by definition -- the closest contact with citizens, giving them a unique ability to diagnosis issues, develop solutions, and engage stakeholders in ensuring results. For this reason, the pivotal leadership role of LRGs in addressing the impact of the pandemic and implementing the SDGs and climate actions has been widely recognized by the United Nations and member states, development and civil society organizations, and the private sector.

Therefore, LRGs are critical actors in delivering solutions and enabling environments, with expanding urban areas serving as the battleground for delivering essential local public services that deliver on the SDGs and climate mitigation and adaptation.

Why urgent actions to increase local finance? The undeniable failure of the current local finance system

Despite the global agreement on the pivotal role of LRGs, there are gross failures in implementation that are cross-cutting, resulting in the lack of local finance for critical local services and climate solutions. Indicative examples provide undeniable evidence that the current system of local finance is doomed to absolute failure.

The estimated huge funding gaps in urban finance are forbidding, begging for urgent solutions. The 2021 CPI urban climate finance report states that most urban climate finance was mobilized in and for China and in developed economies, while vastly insufficient levels of urban climate finance were invested in many developing economy regions, such as South Asia and Sub-Saharan Africa, which saw annual average investments of just US\$ 4 billion and US\$ 3 billion, respectively.¹⁴ The International Finance Corporation (IFC) estimates that urban sustainable investment needs in six sectors (waste, water, renewable energy, electric vehicles, public transport, green buildings) in developing countries alone amount to US\$ 2.5 trillion annually through 2030.¹⁵

Absent transformation of the local finance system and more effective roles of LRGs, we will fail to deliver on the Global Goals – the SDGs, the Climate Accord, and the New Urban Agenda.

The Finance Reality for LRGs: With the exception of large LRGs considered creditworthy,¹⁶ LRGs do not and will not have direct access to adequate amounts of finance. Current strained fiscal conditions have exacerbated these significant constraints limiting LRG access to the three basic source of LRG funds, as summarized below.

- 1) Inadequate fiscal transfer and lower own source revenues: While LRGs worldwide depend on adequate intergovernmental fiscal transfers and own source revenues, these two core funding sources are inadequate for the dominant share of developing countries. Given the devastating impact of the Covid pandemic on national economies, reducing revenues and increasing expenses, many national governments have reduced the already inadequate amount of intergovernmental fiscal

¹⁴ “The State of Cities Climate Finance,” CPI, 2021.

¹⁵ “Climate Investment Opportunities in Emerging Markets: An IFC Analysis,” IFC, 2018.

¹⁶ Large cities and intermediary governments (e.g., states, provinces, etc.) in developed countries and a select few in developing countries can issue obligation bonds and access commercial loans. The vast majority of LRGs have no market access.

transfers to LRGs. In addition, many LRGs budgets are strained from increased expenses and lower own source revenues.

- 2) Lack of direct funding from development partners: Almost all concessionary finance is dispersed directly to national government entities.¹⁷ Development banks and bilateral governments generally require disbursements of concessionary finance to be made to an acceptable national entity with the approval of the Ministry of Finance. While some LRGs have accessed grant funding, the amounts are grossly insufficient to meet the needs of the localizing the SDGs and climate solutions.
- 3) Ineligibility for private sector finance: The great majority of the world's LRGs cannot access finance from the private sector as they are not considered creditworthy. In fact, the World Bank states that only a small percentage of the 500 largest cities in developing countries are deemed creditworthy – about 4% in international financial markets and 20% in local markets.¹⁸

Therefore, the suggested actions in this paper are geared towards those LRGs that cannot access funding today due to the perceived lack of creditworthiness, lacking adequate national fiscal transfers and own source revenues, direct funding from development partners, and access to private finance.

The Root Causes: For decades the urban literature and experts have underlined the systematic impediments that require solutions but with little progress:

- Difficulty of coordination between national governments and LRGs in implementation of development projects, most recently with the achievement of the Global Goals – How can the coordination failures be addressed?
- Lack of adequate sustainable finance – How can finance be organized and implemented?
- Lack of capacity – How can capacity issues be addressed and resolved?

In blunt terms, we need to face the facts: The current financial system at the local level is dysfunctional and doomed to continued failure, obstructing the achievement of the Global Goals – both SDGs and climate solutions.

OBJECTIVE: RECOMMEND AN ACTIONABLE LOCAL FINANCE FRAMEWORK THAT TRANSFORMS GLOBAL GOALS INTO HIGH-IMPACT ACTIONS

This policy paper is aimed at defining a cohesive set of actionable recommendations under the *Global Action Framework on Localizing Financing*, setting forth practical market-based actions that can deliver on the Global Agreements, *cutting across the SDGs*, Paris Climate Accord, and NUA.

This paper sets forth specific unlocking actionable solutions and implementation venues to empower and provoke new lines of action:

- What: Identification of critical actions and who can implement them?
- Where: Key venues for policy advocacy and partnership-building?
- How: Ways to participate in the venues to deliver optimal impact?

¹⁷ The World Bank, regional development banks, and development partners set up national funds for supporting cities or provide funding to national entities. For example, the World Bank has established the US\$ 160 million Cameroon Municipal Fund; many development institutions provide finance to national agencies, such as national development banks (e.g., Colombia's Findeter) that can then provide funding to local entities.

¹⁸ "Financing Sustainable Cities: How We're Helping Africa's Cities Raise Their Credit Ratings," World Bank, 2013. See: <https://www.worldbank.org/en/news/feature/2013/10/24/financing-sustainable-cities-africa-creditworthy>

The paper is therefore intended to provide the Global Taskforce of Local and Regional Governments and LRG associations worldwide with a key local finance action framework that delineates the actions required to implement and achieve the global sustainable development agendas, including the SDGs, climate goals (NDCs), and the NUA, with the active participation of LRGs, national governments, key international entities, community service organizations, and the private sector.

In short, an effective local finance framework is required that empowers all stakeholders committed to delivering on the Global Goals to coordinate effectively in practical partnerships around high-impact actions to unlock access to local finance.

METHODOLOGY

The paper's actionable recommendations leverage the excellent work done to date by many LRG organizations, development finance institutions, and experts. The actions set forth are based on an analysis of critical success factors for the development and financing of local public services and define specific actions that can unlock the required financing, building on the financing requirements of both the public and private sectors.

The recommended actions leverage success stories, market solutions, and proven techniques such as blended finance, project finance, and credit enhancements. The specific approaches for implementing actions are informed by interviews with market participants, LRG officials, and experts as well as the author's extensive finance experience.¹⁹ The actionable recommendations also address ways to create localized ecosystems of expertise to build *local finance value chains* that ensure the sustainability of public services delivered and climate actions at the local level.

These actionable recommendations are therefore intended to empower local and regional governments (LRGs), national governments, and development partners through the identification of needed actions and collaboration modalities. It is important to recognize that public initiatives in support of local public services also result in economic growth, local job creation, and the growth of micro, small and medium-sized enterprises (MSMEs), addressing inequities across gender and society-at-large. For example, the World Bank states that an investment of US\$1 in climate-smart projects, on average, yields US\$4 in benefits.²⁰

This paper is therefore meant to serve as a practical call to specific actions within a new organizing action framework for local finance, setting out concrete steps that can be undertaken by the spectrum of key actors, including local, regional, and national governments; regional political entities; development partners; community service organizations; and the private sector.

¹⁹ The ANNEX lists the interviews conducted to inform this report. The author has over 30 years of finance and development experience: Vice President, Chase Manhattan Bank managing the US\$ 50 billion country risk portfolio; Managing Director, Moody's Emerging Market Service (joint venture with IFC); senior advisor for key public and private sector entities on local finance and risk mitigation (e.g., UCLG, UN Financing for Development, UN Capital Development Fund, City Climate Finance Leadership Alliance, Covenant of Mayors for Sub-Saharan Africa, World Bank City Creditworthiness Initiative, Urban Division of the Inter-American Development Bank, African Union Development Agency (AUDA-NEPAD), financial guarantors (including Africa Co-Guarantee Platform, monoline insurers), Bill & Melinda Gates Foundation, World Economic Forum, etc.

²⁰ For more information on cited benefits, see UN "Financing Climate Action" at <https://www.un.org/en/climatechange/raising-ambition/climate-finance>

2.0 WHAT: The opportunity, challenges, and actions to mobilize local finance

Success requires a candid analysis of opportunities and challenges, followed by the delineation of specific practical actions that can deliver meaningful results. This section sets forth the opportunities and challenges of increasing local finance, followed by the identification of five sets of actions.

2.1 THE OPPORTUNITY - Why is success in increasing local finance likely provided market-based actions are undertaken?

Now is the moment for LRGs to formulate specific requests for increased access to local finance.

- International organizations and national governments share the heightened recognition of the unique pivotal role of cities as the frontline for citizen welfare and the economy, accountable for essential urban services, climate change, disaster risk management, and the management of the health and economic consequences of the global pandemic.
- Given the impact of the pandemic, many LRGs are in financial distress, with looming deficits resulting from the increased costs from the pandemic coupled with lower intergovernmental fiscal transfers and own source revenues.

Moreover, market fundamentals can drive access to local finance: *There is an oversupply of global funds and underutilized proven financial techniques can be used to mobilize this surplus funding.*

- 1) Ample potential supply of finance: Governments, development finance institutions (DFIs), bilateral development partners, private sector investors and funds, and nonprofit organizations are committed to supporting such developmental and climate projects. Witness the commitments of key finance providers:
 - National governments: With development plans targeting the advancement of the 17 SDGs, commitments for National Determined Contributions (NDCs), and regional initiatives (such as the African Union's Agenda 2063 and the Africa Free Trade Agreement), the world's nation states have in theory signed up for increasing their finance of sustainable local service provision and climate-smart projects.
 - DFIs: The world's many development institutions are under great pressure to show results in providing finance, capacity, and results at the local level across developing countries, and are aggressively developing and implementing SDG and climate initiatives with a commitment to scaling up results.
 - Private sector investors: A massive mindset has transformed a wide array of corporations, banks, funds, family offices, and social impact investors, creating two pillars for investment – both financial return and development impact.
 - Nonprofit organizations: Both large and small nonprofit organizations have integrated the SDGs and climate objectives into their programs and are engaging in local activities in their own countries and worldwide.
- 2) Proven Techniques to Access Finance: Local development projects and programs have been funded successfully worldwide over many decades, providing practical models that can be replicated for high-impact scaled-up results. Proven techniques include both public and private funding sources to LRGs and legal vehicles considered “bankable,” as outlined below:
 - Direct Funding to LRGs
 - LRG Own Source Revenue, including recent innovations related to climate taxes and land value capture

- Intergovernmental fiscal transfers from the national government
- National and Subnational Development Banks and Funds
- Local Government Funding Agencies
- Development Partners
- Private sector debt provided through commercial banks and bonds (if the LRG is considered “creditworthy”)
- National Subnational Programs
 - Funded by development partners with usual co-financing from national government and implementing national agency
- Creation of “bankable legal entity”
 - LRG Revenue Bonds (backed by cashflows of specific projects with ring-fenced revenues)
 - Utilities and companies (ownership can be 100% by one LRG, joint ownership by several LRGs and sometimes with national government, a Public Private Partnership, 100% owned by private sector entity or nonprofit organization)
 - Pooled funding vehicles (can include projects located in one LRG, several LRGs, or across country)
 - Structured finance vehicles such as companies, funds, and Public Private Partnerships using blended finance and risk mitigation

As explained later in this report, these approaches can be used to mobilize funding for local initiatives that advance the SDGs and climate goals.

In short, local development and climate initiatives can access finance if concrete SDG and climate actions are defined and implemented in alignment with proven finance techniques and requirements leveraging the resources and knowledge through effective partnerships.

2.1.1 Unique Front-Line Accountability & Current Funding Gaps

LRGs are the frontlines for meeting both climate goals as well as the SDGs – this is a fact that is often overlooked by policy decision makers in national governments and by development partners. Key compelling data needs to be aggregated and showcased in compelling narratives:

- Cities account for 75% of the global GDP (IFC), their jurisdictions accounting for the dominant share of global jobs and industries.
- Today over 50% of the global population lives in urban areas with expected increase of 150% to 6 billion by 2045, requiring LRG leaders to move quickly to plan for growth and provide the basic services, infrastructure, and affordable housing their expanding populations need.²¹
- Constituencies hold LRGs accountable for insuring the delivery of essential public services from water and sanitation to climate smart energy sources and education, health, housing, and disaster risk management.
- Cities account for 65% of global energy use, giving them a dominant leadership role in energy efficiency and climate-smart approaches.²²
- Cities account for 70% of human-made carbon emissions, so their adoption of climate smart technologies and processes are critical to achieving the required climate remission reductions to avoid the scientist warnings of global disaster.
- Disaster risk management adds to the challenges faced by each LRG: flooding, heat islands, the pandemic – LRG success is a function of adequate funding and expertise.

²¹ See World Bank data and rationale for urban financing at <https://www.worldbank.org/en/topic/urbandevelopment>

²² “Renewable Energy Policies for Cities,” IRENA, 2021.

- Most of the projected urbanization growth is in cities that are not considered creditworthy and cannot access the required level of funding required for delivering on the SDGs and climate goals.

In short, LRGs have a pivotal essential role but are lacking the access to funding and expertise required to ensure the delivery of urban services required to achieve the SDGs and climate goals. Moreover, as noted earlier, given the impact of the pandemic, many LRGs have reduced income, both reduced fiscal transfers and own sources revenues, coupled with high expenses.

The requirement to increase local finance and empower LRGs is an undeniable fundamental political imperative. The current pandemic and resulting increased fiscal deficits also serve as a powerful rallying call for increased local funding and the “ASKS” set forth in this paper.

2.1.2 Leverage Underutilized Capacity and Global Recognition

LRGs have vast underutilized capacity to deliver on the SDGs and NDCs, undermined by the lack of operational agreements at international, regional, and national levels. The leading roles of mega cities as well as smaller cities worldwide demonstrate the imperative of scaling up such initiatives worldwide and certain high impact.

Global stakeholders including UN Member States have recognized the imperative for LRG empowerment and capacity building. The current leadership of cities in climate initiatives and recognition in UN Resolutions²³ can provide the jump-off platform for this larger foundational campaign for greater local finance and optimization of LRGs in delivering scaled high-impact results.

In short, we need to empower LRGs with the required funding and expertise, emboldened by this high-level political support and the certainty that proven models and technologies will guarantee high impact.

2.1.3 LRGs as Leaders in Climate Solutions and Energy Efficiency

Cities have demonstrated their leadership in climate solutions and are recognized worldwide, creating the window for enlarging their roles and access to finance. The reason is self-evident: According to the UN Environmental Program, cities are responsible for 75% of global CO2 emissions, with transport and buildings being among the largest contributors.²⁴

Therefore, cities need to take the lead in achieving energy efficiency, resulting in the need for additional funding and expertise to implement the required measures. Examples of LRG leadership in energy efficiency include deployment of home-based solar systems (Kasese, Uganda); use of electricity from waste to electricity project (Durban, South Africa); promotion of electric mobility (Costa Rican cities); development of geothermal heating (Bogatic, Serbia; Xiong'an, China); and development of wind energy (Zhangjiakou, China).²⁵

In short, LRGs have the ability to massively deliver on reduced carbon emissions and the achievement of the SDGs through their scaled leadership, provided they have funding support and access experts and finance for project development, capital expenditures (CAPEX), and operation and maintenance (O&M).

2.1 CHALLENGES – Why have we failed to date to access adequate local finance?

²³ For example, the UN Financing for Development *Addis Ababa Action Agenda (AAAA)* recognizes the pivotal role of LRGs in paragraph 34.

²⁴ See UNEP website: <https://www.unep.org/explore-topics/resource-efficiency/what-we-do/cities/cities-and-climate-change>

²⁵ See IRENA, op. cit.

For decades LRGs, governments, development partners, and related initiatives have engaged experts and stakeholders in debates around the roles of LRGs, finance, and required actions. The reasons cited by experts and stakeholders are cross-cutting and expansive, including not just the challenges faced by LRGs but very importantly the realities of funding requirements from the public and private sectors.

2.1.1 The Litany of Challenges

Key factors affecting access to local finance abound in policy debates and technical assessments, underlining the wide spectrum of impeding issues. Examples of challenges include:

- The historical centralization of planning and finance at national level, with political and development finance architecture revolving around sovereign states (especially Ministries of Finance);
- Uneven decentralization processes, with LRGs mandates insufficiently funded (e.g., inadequate, unstable and delayed intergovernmental fiscal transfers, lack of own source revenues, poor citizens unable to pay for essential urban services, etc.);
- Lack of enabling national regulatory, legal, and policy environments (e.g., lack of authority to develop own source revenues, commit intergovernmental fiscal transfers to secure debt service payments, issue long-term contracts, borrow, create PPPs, secure equity, etc.);
- Lack of LRG creditworthiness (e.g., no successful track record of debt payments, audited financial statements do not show evidence of debt-service capacity, lack of technical experience in managing capital investment projects and conducting sustainable operations and maintenance, inability to ring-fence revenues, lack of access to guarantees, high political risk, citizens do not have capacity to pay full cost recovery for urban services, etc.);
- Lack of project bankability, given lack of cost recovery, small project sizes with prohibitive transaction costs, and high risks;
- Lack of LRG capacity and funding to conduct planning, identify projects, and develop projects with required legal structures, risk mitigation, and revenue sources to meet funding requirements; and
- Lack of creditworthy private sector companies able and willing to partner with LRGs (e.g., larger creditworthy companies are concerned with high unmitigated risks, high transaction costs, and limited returns; local companies and entrepreneurs are often considered uncreditworthy as they lack successful track records and capital).

The Additional Climate-Smart Challenge: LRG challenges are further compounded by the imperative of accessing new climate-smart technologies and processes that can be effective in addressing the many issues related to water, sanitation, transport, renewable energy, and climate adaptation (including disaster risk management).

Imperative of Creating a Local Finance Ecosystem: The above litany of challenges illustrate why LRGs are not able to access adequate local finance to deliver on the SDGs and climate goals. *While this paper cannot list or assess the myriad challenges limiting access to local finance and the capacity of LRGs, the headline point is that specific actions are imperative to address the impediments, developing simplified solutions for funding, models, and expertise.*

Despite these challenges, given the political, environmental, and financial imperatives to deliver on local climate-smart infrastructure and essential urban services, local finance from both public and private sector sources can be mobilized if properly structured, as set forth in the next section.

2.1.1 The Imperative: Recognizing Market Realities and Aligning Local Finance Strategies

As underlined in the above section, the many challenges can be addressed through specific actions. *However, the first imperative is fully understanding that basic market requirements for creditworthiness are not subject*

to negotiation. Moreover, attaining “creditworthiness” is equally important to public sector and citizens – projects need to be financially sustainable and deliver quality services over the long term. Otherwise, the governments are wasting scarce public funds and failing to meet the needs of their citizens.

The political context of finance discussions often obscure market realities. Political statements often call for direct finance of LRGs from development partners and the private sector, but this expectation is not consistent with market realities: *Given how financial public and private sector markets work, despite the greatest of efforts, under any scenario, the great majority of LRGs will not be able to obtain large amounts of direct finance from development partners or the private sector.*

Compounding this market reality is the fact that these underlying systemic market realities are not often understood or spoken about in political circles, thereby resulting in misunderstandings and unrealistic expectations. *Tragically, given the urgent imperative of delivering on the SDGs and climate goals, these misunderstandings also result in the inefficient use of scarce resources and the inability to deliver the required scaled high-impact results.*

The specific market realities need to be fully understood and accounted for in the formulation of a realistic pragmatic LRG strategy of significantly increasing access to local finance from capital markets and development partners.

Five market realities that stakeholders need to acknowledge are set forth below, with explanations.

Market Reality 1: The truth is that most LRGs lack direct access to finance from capital markets and development partners today (and will continue to lack direct finance going forward), even in best case scenarios.

- 1) Local finance provided directly to LRGs is not and will not be available at scale for most LRGs worldwide.
 - The dominant majority of the world’s LRGs are not considered creditworthy or eligible for direct finance from both public and private sector funding providers.
 - Improved creditworthiness is not a realistic short-term answer, as markets require a long track record of financial fundamental over several years. Therefore, few LRGs will be able to directly access capital markets or concessional debt from public funders in the short and medium term based on their improved creditworthiness.
 - Due to their governance structure and credit requirements, public providers of finance usually are required to channel all finance to LRGs through the national government or to legal entities considered creditworthy such as utilities, Special Purpose Vehicles, and Public-Private Partnerships.
- 2) National counter guarantees and other guarantees are rarely available or effective in helping LRGs directly access capital market borrowing on a general obligation basis. Public and private sector providers of finance usually require a national government counter guarantee. If the national government is not considered creditworthy, a third-party guarantee by a third creditworthy may be required along with other credit enhancements such as first loss provision, debt coverage service accounts, collateral, etc.

While access to small amounts of direct grant funding may be possible, the required significant amounts of funding for delivering essential urban services and climate solutions cannot be accessed directly by LRGs not considered creditworthy.

Therefore, LRGs that are not considered “creditworthy” need to face market realities: direct funding will likely be limited to fiscal transfers from the national government and their own source revenues, as external public and private finance will not be available given their inadequate credit standing.

Market Reality 2: In most cases, separate legal vehicles provide essential local public services, such as water and sanitation, transport, and energy. As such, significant additional finance is available through alternative channels not normally considered by many LRGs, provided the investment are structured to meet funding requirements.

- 1) Best practices even for creditworthy LRGs is to use nonrecourse legal structures for urban service provision such as utilities, Public-Private Partnerships, and Special Purpose Vehicles. Such entities limit contingent liabilities, for LRGs and the national government, protecting taxpayers from unexpected payment obligations. Only revenues from the specific urban services can be used to pay debt service, with no recourse to the LRG or national government.
- 2) Extensive analysis of infrastructure project loans demonstrates the bankability of project companies using Special Purpose Vehicles, ring-fenced revenues, and credit enhancements.²⁶ As a result, the project finance approach is utilized across both developed and developing countries for infrastructure project at both national and subnational levels.
- 3) A wide array of increased funding from multiple sources can be mobilized for delivering urban services: A vast array of public sector entities, private sector climate funds, commercial banks, and social impact investors are actively searching for climate-smart projects, also investing in green, impact, and SDG bonds and funds. The diversity of potential funding sources is illustrated by the analysis of climate finance, showing the primary role of the private sector, especially project developers, followed by the public sector.²⁷

Therefore, LRGs can access funding for critical local projects through third-party entities and instruments considered creditworthy such as utilities, Special Purpose Vehicles, or PPPs as explained below.

If LRGs leverage existing proven mechanisms of accessing local finance and creditworthy vehicles (if needed, creating them), they can mobilize significantly amounts of external finance for essential local public services and climate solutions. It is critical to recognize that the scaling up of this financing approach requires LRGs to have access to extensive specialized expertise and project development funding from national governments and development partners.

²⁶ Moody’s Investors Service annual assessments of project finance loans demonstrates that the risk allocation, structural features, underwriting disciplines and incentive structures that characterize the project finance asset class have proven effective in mitigating risks of default even in developing countries. See “Default Research Default and recovery rates for project finance bank loans, 1983-2017,” Moody’s Investors Service, 2019.

²⁷ The CPI Climate Finance Study underscores the dominant role of the private sector in climate finance, overshadowing that of the public sector. For example, for the years 2017 and 2018, the private sector was the largest source of climate financing accounting for 56% -- US\$ 326 billion—of the total annual average of US\$ 579 billion. Corporate actors (such as project developers) are reported as the largest source of climate finance, contributing an annual average of US\$ 183 billion. The public sector provided less finance - 44% (US\$ 253 billion) of total global climate finance. National institutions provided 67% of public finance (US\$ 169 billion). Multilateral and bilateral financial institutions provided 16% of total climate finance, followed by international climate funds (e.g., Green Climate Fund, Global Environmental Fund, etc.) providing less than 1% of total climate finance. “2019 Global Landscape of Climate Finance Report,” Climate Policy Initiative, 2019

Market Reality 3: Larger transaction sizes (often referred to as “ticket sizes”) are required to scale up access to local finance, as smaller projects are not considered economically effective by both public and private sector finance providers.

LRGs face the challenge of small transactions that are critical for local economic development, the SDGs, and climate actions, as both public and private sector providers of finance require larger size transactions to meet their internal financial and impact targets.

Therefore, LRGs need to change their orientation from single focused funding for one LRG alone to collective funding vehicles for multiple LRGs.

Market Reality 4: LRGs need to understand their core competencies and value creation for climate and SDG goals, and the market realities for undertaking successful project development, ownership, and management.

The facilitation role of LRGs needs to be aligned with their unique and powerful role as engines for climate change and economic development, shaping the local enabling environment and the climate-smart design and structures of essential local projects with optimal modalities for effective and inclusive service delivery.

Unique LRG Accountabilities & Competencies: LRGs are critical in facilitating the development and delivering of urban services and climate solutions given their role as the closest level of government to citizens with direct responsibility for basic service provision, urban planning, transport, environmental protection, and local economic development. As a direct result, LRGs are accountable for planning and ensuring the implementation of a wide range of actions and advocacy, including the facilitation of infrastructure investment.

Therefore, irrespective of country, LRGs are accountable in delivering on the local achievement of the SDGs and climate goals as part of their overall functions:

- Development and enforcement of regulations with incentives and directives that drive achievement of SDGs and climate-smart investments (e.g., municipal buildings, housing developments, energy efficiency in water & sanitation, transport, etc.);
- Coordinated planning in consultation with other LRGs, national government, the private sector, community service organizations, and experts, reflecting latest scientific advances and technologies;
- Overall advocacy and education of public in key public domains, including SDGs and climate change; and
- Advancement of Local Economic Development (LED), leveraging LRG activities (e.g., planning, services, terms of reference in contracts and procurement, employment practices, etc.) with a focus on long term sustainability and inclusiveness, value creation through local assembling and servicing, job creation (gender and youth requirements), and development of MSMEs and local economic sectors.

With regard to urban services and climate solutions, most LRGs do not have the internal expertise to serve as project developers or as direct channels of funding. However, they are critical facilitators that enable and empower the development, finance, and operation of local public services, ensuring quality, inclusiveness, and financial sustainability.

Therefore, irrespective of project ownership and management, LRGs need to ensure the project design reflects the community needs and is financially sustainable. In this process, LRGs need to factor in market realities and ensure the project can secure the required funding, in some cases working in partnership with other LRGs to create the required scale.

Throughout this process, LRGs need to proactively facilitate the project life cycle of planning, project development, construction (capital expenditures - CAPEX), and operation and maintenance (OPEX) for local public services such as water, sanitation, energy, and transport. Core LRG functions for the project life cycle are outlined in the below table.

Table 1: Critical LRG Roles in Ensuring Effective Delivery of Essential Local Public Services

| The Project Life Cycle for Essential Local Public Services |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Ensure Effective Project Identification & Development (ensuring financial close)</i> <ul style="list-style-type: none"> ○ Demand assessment and stakeholder consultation including community service organizations to determine needs, financial sustainability (i.e., ability and willingness to pay fees), ways to create local jobs, quality, inclusive services ○ Coordination with national government, development partners, private sector, and possible coordination with other LRGs to create project large enough to meet funding requirements ○ Definition of bankable entity with sustainable financial structure (large enough project to meet funding requirements, ring-fencing revenues, project management, governance, etc.) ○ Define requirements and ensure regulatory compliance ○ Land provision (if needed) ○ Assess if potential for securing revenue to fund LRG budget and how to execute <i>Ensure Access to Capital (Capital Expenditures - CAPEX)</i> <ul style="list-style-type: none"> ○ Define LRG financial contributions (tariffs, fees, allocations) ○ Negotiate contributions from national government and development partners (funding, risk mitigation) ○ If required, help attract private capital (PPPs, loans, funds, crowd sourcing) <i>Ensure Long-Term Service Delivery (Operation & Maintenance - O&M)</i> <ul style="list-style-type: none"> ○ Monitor service delivery for quality, inclusiveness, financial long-term sustainability, and climate/development impact ○ Address any issues in a timely and effective way |

Implications for “Asks”: This approach has implications for the actions of LRGs themselves and the definition of “asks” to national governments, development partners, community service organizations, and the private sector:

- The LRG global narrative needs to be effective in communicating their unique essential roles and functions essential to delivering on the SDGs and climate goals.
- LRGs need to coordinate in unified specific proposals to mobilize climate and SDG funding, tapping into the significant pool of existing funds and updating decentralization funding models using accepted blended finance and matching practices.
- LRGs need to systemically use business models and creditworthy vehicles that use blended finance and proven financial techniques, combining funds from their own budgets with national government funds, development partners, and in some cases, the private sector and local community organizations.

These approaches are embodied in the five sets of actions presented later in this paper.

Therefore, LRGs need to be proactive in making local finance work through compelling narrative on their unique functional contributions as the frontline accountable public entities coupled with market-based technical definitions of their various roles in delivering on impact (including through project identification, development, finance, and operation).

Market Reality 5: Providers of public and private funds have significant surplus capital that is not dispersed given the lack of projects that meet their criteria (“lack of project pipelines”). LRGs are missing the opportunity to access the expanding amount of concessionary climate finance and commercial finance driven by the urgent global imperative for immediate reductions in carbon emissions.

Climate funds are lacking pipelines of climate-smart projects that meet their funding requirements. In several cases, climate funds are willing to partner with other entities including LRGs to provide 100% of the entire investment required for a climate-smart program and projects (CAPEX).

To access this critical market opportunity, LRGs need to be aware of the requirements and organize accordingly:

- Define projects that meet requirements (including partnerships with designated national entities)²⁸
- Conduct local assessments of needs and impact
- Partner as needed with other LRGs, local community service organizations, national governmental entities, and the private sector

The local finance architecture needs to be clearly defined by market requirements and opportunities, enabling the increase of local finance and optimizing the pivotal roles of LRGs.

Therefore, despite the overwhelming spectrum of impediments to local finance, an assessment of market realities uncovers both the stringent specific market requirements but also the successful proven pathways to access local finance and optimize LRG roles.

2.2 FIVE SETS OF REQUIRED ACTIONS TO INCREASE LOCAL FINANCE AND OPTIMIZE LRG ROLES

As noted in the prior section, these core market realities need to be fully understood by LRGs and all stakeholders and integrated into the Local Finance strategies. The “ASKS” need to be modelled based on what is actionable and effective given market realities that are not subject to negotiation.

The suggested actions reflect practical knowledge of financial markets and account for the requirements of finance providers from both public and private sector entities. The actions will not be successful absent the capacitation of LRGS through scaled up effective use of partnerships and experienced professionals that can execute proven finance techniques to unlock access to funding.

The five sets of actions are defined below, each reflecting proven techniques to access local funding.

2.2.1 ACTION ONE: Formalize the Imperative for Greater Local Finance and LRG Empowerment in Achieving the SDGs and Climate Goals

²⁸ International Climate Funds (e.g., Green Climate Fund, NAMA, Green Environmental Fund, etc.) have designated national and financial partners that need to submit applications for funding.

The foundation of all transformative action is driven by compelling rationales that are clearly and effectively communicated. To be successful, the Global Action Framework on Localizing Finance needs to be communicated effectively with shorthand compelling narrative that is clearly defined, understood, and communicated by LRGs and championed by global thought leaders.

Hence the first set of actions set forth by this paper address what actions are required to create a winning narrative. The required actions are:

- 1) Develop a narrative that explains why the SDGs and climate goals will not be achieved without greater access to local finance and realistic solutions.
- 2) Detail the specific actions that can realistically be implemented, clarifying the requirements to secure finance (public and private) and the menu of business models.
- 3) Detail the roles of all participants – LRGs, national governments, development partners, civil society, and the private sector.
- 4) Determine a short name (“a handle”) that conveys the compelling rationale for Local Finance that can be universally adopted to communicate and implement the required actions, as is best practice for global campaigns (e.g., Energy4all, Water4all).²⁹

In short, the required actions for the implementation of local finance need to be understood, endorsed, branded, and marketed effectively by LRGs and their associations, engaging a wide range of thought leaders to spread the messages and spur the required actions.

The ability to build a convincing and successful *Local Finance Campaign* is imminently achievable given the current priorities of both development parties and private sectors:

- 1) The current leadership of cities in climate initiatives and recognition in UN Resolutions³⁰ can provide the jump-off platform for this larger foundational campaign for greater local finance and optimization of LRGs in delivering scaled high-impact results.
- 2) LRGs are acknowledged as the battlefield governmental entities that can facilitate the achievements of the SDGs, climate goals, and pandemic responses, and the other development missions at the local level.
- 3) The global development community, from international finance institutions to bi-lateral development agencies, have committed to closing the gap in local finance, in alignment with the sister missions of “leaving no one behind,” “financing the last mile,” “financing the missing middle,” etc.
- 4) New financial instruments are successfully raising private and public finance from within countries and internationally for the implementation of the SDGs and climate goals.

Details on the proposed narrative and action sets are set forth below, including a problem statement and the pivotal roles of LRG, national governments, development partners, and private sector.

Problem Statement: The SDGs and climate goals cannot be achieved without local finance and empowered LRGs. Oftentimes the pivotal role of LRGs is not understood by national governments, development partners, or LRGs themselves. In their many roles as providers of public services, regulators, advocates, consumers,

²⁹ For example, the short name of the Local Finance Campaign could be something like “Local Finance 4-Impact (LF4I).”

³⁰ For example, the UN Financing for Development Addis Ababa Action Agenda (AAAA) recognizes the pivotal role of LRGs in paragraph 34.

and leaders in local economy development, LRGs have a vast array of potential ways to deliver on the SDGs and reduced carbon emissions.

However, the capacity of LRGs to deliver depends on access to funding and expertise for planning, project development, partner outreach, capital expenditures (CAPEX), and operation and maintenance (O&M). Hence, formal commitments from international, national, and local actors are required, backed up by a defined ecosystem of actions, funding, business models, and expert support, as detailed in the proposed five sets of actions.

Naturally the current global financial architecture is dominated by nation-states given their sovereign roles and governance as primary stakeholders in global institutions, development finance institutions, bi-lateral national agreements, and nation-state treaties. Over decades experts have analyzed the complexity of national-local government relationships, respective accountabilities, and financial structures, and nation-states vary greatly in the different models used for governance and finance. ***Despite these complexities and variances, given the lack of clear inclusion of LRGs in the global financial and development architecture to deliver on the SDGs and climate goals, LRGs need to be empowered and integrated into the massive ongoing climate and development initiatives.***

This first action is therefore aimed at obtaining formal visibility and prioritization of local finance and the empowerment of the pivotal roles of LRGs, helping stakeholders worldwide to understand that the Global Goals cannot be achieved in the current global system absent urgent significant injections of local finance and empowered LRGs.

Requirement of New Mindsets and Partnerships: The proposed actions are focused on securing foundational agreements and partnerships through the design and operationalization of a branded campaign at international, regional, national, and local levels. **The message needs to underline the imperative of rethinking local finance and its imperative, adopting new mindsets and partnerships.**

- A new mindset is required for all players, including LRGs, in which all parties formally recognize the urgent need to increase local finance and the pivotal underutilized role of LRGs.
- The message needs to be strong and clear: The current fragmented approaches are characterized by massive coordination failures between LRGs themselves, national governments and LRGs, development partners and LRGs, and the private sector and LRGs. In short, the current finance system is not working.
- The lack of scaled progress is evidenced worldwide, and even more dramatically in the developing countries where urbanization is expected to be the most rapid (Africa and Asia).
- A consolidated big push is required with effective coordination and partnerships at all levels: global, regional, and national.

The suggested approach for building this new narrative is outlined in the last section.

The “Push” Starts at Home with LRGs - Build Cohesion and Bargaining Power: *It is important to recognize that the first imperative action for coordination and changing mindsets is between LRGs themselves and the diffuse LRG associations worldwide, from UCLG and FMDV to ICLEI, C40, R20, CCFLA, and the many others at international, regional, and national levels.*

- LRG unity builds bargaining power with national governments, development partners and the private sector.

- LRG collaboration enables greater technical capacity and market credibility, through the engagement of finance experts as well as the identification and development of more effective knowledge products critical to building the operationalization of local finance strategy and finance (e.g., toolkits, templates, podcasts, etc.).

The compelling argument is increased bargaining power and improved local economies, resulting from consolidated advocacy – the critical success factor in negotiations for decades by political parties, labor unions, and businesses.

In terms of sequencing LRG coordination, two approaches could be developed:

- A cost-effective global LRG consolidation approach could be implemented through an existing or a new coordination mechanism. One option is to set up a new coordination mechanism hosted by an independent finance entity focused on formulating policy advocacy related to financial and business models. Once formulated, the global advocacy positions could be presented to the Global Taskforce of Local and Regional Governments (Global Taskforce”) given its current role in bringing together the major international networks of local governments to undertake joint advocacy relating to international processes.
- In each country, a national LRG Coalition could be created using the global advocacy materials developed by the Global Taskforce and its international partners.

An open-door policy with authentic partnership modalities, coupled with credible tangible benefits, would diminish resistance.

Building Linkages between LRGs and Ministries of Finance: This new branding and narrative positions LRGs to legitimately be integrated into to their home country capital investment planning, budgets, and allocated funding as ultimately managed by Ministries of Finance.

- 1) To implement their roles in delivering on the SDGs and climate goals, LRGs need to be part of the national government’s capital investment plans as managed by Ministries of Finance. Therefore, there needs to be an explicit and systematic integration of national and local planning across all key sectors from water and sanitation to transport, energy, and social services.
- 2) Development partners routinely need to channel funding through Ministry of Finance, thereby requiring a professional allocation of funds to the successful localization of SDGs and climate goals.
- 3) As virtually all national governments have limited public funds, the optimal use of blended finance approaches in designing fiscal transfers is critical, enabling the combining of different sources of finance from grants and concessionary loans to commercial bank finance and capital market funds.

To implement effective development at the ground level for both SDGs and climate goals, national governments need to be supported in designing the complicated process of leveraging scarce resources and ensuring fiscal transfers that deliver the required funds at the local levels at the required levels and timing. The other actions in this paper provide examples of business models that can be used towards this objective.

Commitments to Increasing Local Finance mean nothing absent operationalization: This *Local Finance Campaign* would have specific “ASKS” for implementation by LRGs as well as national governments, development partners, and the private sector.

To operationalize commitments, these key actors need to coordinate on several levels:

- 1) Issue commitments (could include MoUs, press releases, podcasts, etc.);
- 2) Openly disclose requirements of funders (public, private);

- 3) Define funding needs, solutions, and business models; and
- 4) Provide funding to execute above activities.

To achieve success, the funders need to be committed and transparent about the requirements and help LRGs define funding needs and solutions, including acceptable business models, as summarized in the below table.

Table 2: ASKS – Formalize the Critical Role of Local Finance and LRGs in Achieving the SDGs & NDCs

| Key Activities | ASK: LRGs/Local Stakeholders | ASK: National Governments & Regional Entities | ASK: Development Partners | ASK: Private Sector/Experts |
|------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| 1) Implement a <i>Local Finance</i> Campaign -Include MOUs, press releases, virtual meetings & podcasts | Coordinate in joint <i>Local Finance Campaigns</i> at national, regional, and international levels | Issue Public Statement committing to advancing access to Local Finance and the role of LRGs | Issue Public Statement committing to advancing access to Local Finance and the role of LRGs | Issue Public Statement committing to advancing access to Local Finance and the role of LRGs |
| 2) Openly disclose requirements of funders (public, private) | Conduct LRG Forums to explain market requirements | Openly disclose requirements, sharing transaction structures and terms | Openly disclose requirements, sharing transaction structures and terms | Openly disclose requirements, sharing transaction structures and terms |
| 3) Define funding needs, solutions, and business models | Engage local stakeholders in needs assessments and determining optimal approaches, technologies, processes, and user fees | Integrate the “Local Finance Imperative” into all national planning and budgeting (Ministry of Finance, line ministries, climate funds, etc.) -Involve LRGs in all planning and capital budgets consultations | -Integrate the “Local Finance Imperative” into all programs and funding -Involve LRGs in all planning and capital budgets consultations - Provide input on ways to meet funding requirements | Provide input on ways to meet investment requirements |
| 4) Fund above activities | Contribute funding | Contribute funding | Contribute funding | Provide expert input |

These actions can be structured sequentially, working with targeted champions in a selective manner. The specific funding approaches and actions are presented in the next sections.

These initial actions would frame how local finance and LRGs are an imperative for achieving the SDGs and climate goals, jumpstarting the development of the “local finance architecture” and “local finance market” with clarified requirements, empowered LRG roles, and effective solutions.

2.2.2 ACTION TWO: Define & Implement Techniques for Increasing Local Funding

Each nation-state has approached decentralization based on their own internal dynamics, history, politics, and capacities. Despite variances across countries, specific actions can be undertaken to increase the ability of LRGs to deliver on the Global Goals from carbon emission reductions to the SDGs.

Again, there is vast analysis of the key financing sources for LRGs from national governments, LRG own source revenues, and private sector sources, with litany of policy suggestions and capacity-building programs. Despite the inherent technical and political complexities impeding immediate actions, we need to challenge ourselves to identify immediate actions that can serve to increase decentralized funding sources.

Quick Win Opportunities for Scaling Local Funding: Irrespective of country and impediments, there are potential opportunities for increasing LRG funding in-country, using existing funds as basis to attract additional funds from development partners and the private sector. *Again, the existing market practices of development partners and private sector entities can be leveraged. The requirement is meeting funding requirements, multiplying existing funding in projects that are designed to provide credible climate and development impact with long-term operational sustainability. Examples of possible quick wins are listed below.*

1) Increase Sources of Own Source Revenues: A vast array of new approaches are being successfully developed to increase own source revenues, such as Land Value Capture, user fees from local energy projects, energy efficiency gains (reducing expenses), and crowdsourcing. Professionals can assist LRGs in developing new techniques and sources for increasing own source revenues.

2) Develop Matching Blended Finance Proposals, leveraging intergovernmental fiscal transfers and own source revenues: Development partners typically engage in matching programs with public sector entities, also providing risk mitigation such as first loss and partial credit guarantees. Funds are sometimes available through existing programs (national, sector, municipal, climate, etc.) as well as on-lending facilities with local commercial banks. Successful local public projects have employed earmarked intergovernmental fiscal transfers for legal vehicles such as utilities and Special Purpose Vehicles and escrow bank accounts.³¹

One approach is LRG(s) proactively develop projects with the assistance of finance experts, committing to SDG/climate goals with co-funding from intergovernmental fiscal transfers and own source revenues. The process could involve the following steps:

- A portion of existing funds could be earmarked for specific SDG and climate interventions.
- Development partners could be asked to match funding and provide risk mitigation (through existing national programs, new urban programs, on-lending facilities, etc.).
- Special projects could be structured per funder requirements and financial sustainability (greater finance can be mobilized if there are user fees or subsidized funding that can be ringfenced).
- Private sector banks and potential PPP partners could be asked to provide input on requirements for finance.
- LRGs and National Governments provide funding details to enable coordinated flows.

3) Use Third-Party Legal Vehicles to Mobilize Local Funding: As noted in the first section, there are a host of successful financing methods that could be replicated if experienced professionals are engaged that can use market-based techniques, customizing as needed. Examples include:

³¹ For details and more examples, see “Creating the Local Financing Framework for Sustainable Development Goals: The Potential Catalytic Role of Subnational Pooled Financing Mechanisms,” the subnational finance policy paper launched at the 2015 Financing for Development Conference in Addis Ababa by FMDV and AFD (written by the author of this paper).

- using intermediaries such as subnational development banks and funds;³²
- accessing commercial bank finance from in-country banks that have on-lending programs and/or credit guarantees, and subsidies provided by development partners (such as the European Investment Bank, AFD, IFC, KfW, etc.);
- creating or scaling up separate legal entities such as utilities and Special Purpose Vehicles (ownership can be 100% by one LRG, joint ownership by several LRGs, national government, a Public Private Partnership, 100% owned by private sector entity or nonprofit organization);
- issuing Project Bonds (backed by cashflows of specific project(s) with ring-fenced revenues);
- creating Pooled Funding Vehicles (can include projects located in one LRG, several LRGs, or across country),³³ and
- developing risk mitigation vehicles (e.g., credit guarantees, monolines, etc.).³⁴

4) Develop a municipal bond market through the issuance of revenue bonds: While municipal bonds can provide the least expensive form of finance for urban services, enabling the municipalization of urban services,³⁵ municipal bond markets based on the local government creditworthiness are not yet developed in many countries, thereby limiting the ability of LRGs to directly access bond finance.³⁶ However, project bonds that are designed to fund local public services have successfully been issued in several developing countries. These kinds of bonds are structured around specific projects with the project as the debtor, ring-fencing revenues to ensure the ability to service debt, often with credit guarantees.³⁷

Therefore, if national government regulations permit, LRGs can issue revenue municipal bonds for specific projects that are secured by the project's revenues and other revenues.³⁸ These approaches can be assessed and adapted for implementation in pilot countries, developing a range of models that could be scaled up across countries.³⁹ Revenue project-based bonds therefore represent a significant opportunity to fund local public services, advancing the SDGs and climate actions. It is important to note that significant funding is required to develop revenue bonds (e.g., project development costs, legal support to develop and negotiate the legal structure, technical studies, transaction advisory, offtake contracts, finance contracts, risk

³² For example, in Cameroon, the subnational agency FEICOM is used to channel funding to local governments. In South Africa, the INCA Municipal Debt Fund project, a R3 billion fund, supported by INCA Portfolio Managers, SECO, and AFD, was established to improve the supply of urban infrastructure in South Africa intermediate cities mobilizing long-term financing from institutional investors.

³³ For example, local water and sanitation projects were financed through the Tamil Nadu Pooled Finance Facility.

³⁴ For example, the Nigerian Infrastructure Credit Enhancement Facility (InfraCredit), was set up to provide local currency guarantees for corporate and project bonds issued across a range of sectors to enable investment from Nigerian pension funds.

³⁵ For example, in the United States, low-cost municipal bonds are used to finance public power utilities owned by local governments in over 2,000 communities to more than 49 million Americans. See <https://www.publicpower.org/public-power>

³⁶ For an in-depth analysis of the issues impeding municipal bond markets in developing countries, see Samir El Daher, "Municipal Bond Markets Prospects for Developing Countries," World Bank, 1997.

³⁷ For example, see the Acorn Housing Green Bond in Kenya which successfully mobilized KES 5 billion in local finance from Kenyan pension funds. As the first project bond in East Africa, it was rated B1 by Moody's, one notch higher than Kenya's sovereign rating of B2. GuarantCo provided investors with a partial credit guarantee to cover 50% of principal and interest due.

³⁸ A revenue bond is a category of municipal bond supported by the revenue from a specific project, such as a toll bridge, highway, or local stadium. Revenue bonds that finance income-producing projects are thus secured by a specified revenue source. Typically, revenue bonds can be issued by any government agency or fund that is managed in the manner of a business, such as entities having both operating revenues and expenses.

³⁹ For example, local water and sanitation projects were financed through the Tamil Nadu Pooled Finance Facility. More recently, bonds have been issued in Kenya for student housing.

mitigation, etc.). In addition, many bond investors, especially pension funds, are likely to require an investment grade credit rating issued by a recognized credit rating agency.

Therefore, there are many concrete ways that effective actions can operationalize local finance strategies and empower LRGs. It is critical to note that these financial engineering and aggregation techniques will unlock access to funding, but all parties need to recognize that they require high-level political support and as noted above, extensive support from experienced professional experts, resulting in the requirement for significant amounts of funding over extended time periods. To realize these funding opportunities, LRGs need to proactively advocate in an effective coalition setting forth specific “asks,” as summarized in the below table.

Table 3: LRG “Asks” – Define & Implement Techniques for Increasing Decentralized Funding

| Key Activities | ASK: LRGs/Local Stakeholders | ASK: National Governments & Regional Entities | ASK: Development Partners | ASK: Private Sector/Experts |
|----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| 1) Increase Sources of Own Source Revenues | -Engage in proactive innovative consultation of potential sources -Implement country-wide advocacy as needed | Provide enabling environment, changing regulations and policies as needed | Provide funding support as needed | Provide ideas and support with national government and development partners |
| 2) Develop Matching Blended Finance Proposals, leveraging intergovernmental fiscal transfers and own source revenues | -Earmark use delineating allocations for climate and SDG interventions -Integrate into capital investment -Report funding information | -Earmark funds for climate and SDG interventions -Integrate into capital investment -Report funding information | -Provide matching funds and credit enhancements -Earmark funds from existing national programs (municipal, climate, sector, on-lending, etc.) -Create new urban programs -Require funding information | -Provide input on requirements for possible private sector finance -Provide information on level of possible funding |
| 3) Use Third-Party Legal Vehicles to Mobilize Funding | -Assess existing options in country partnering with other LRGs -Engage experts to assess options | Provide enabling environment, changing regulations and policies as needed | Provide funding support as needed | Provide ideas and support with national government and development partners |
| 4) Develop a National Municipal Market, starting with revenue-project-based bond issues | -Request support for development of bonds to fund urban projects | -Commit to provide funds for bond support (e.g., debt service account) | -Provide funding for required experts -Provide guarantees and credit enhancements | -Provide input on types of projects, structures, risk mitigation |

These initial actions can frame how local finance and LRGs are an imperative for achieving the SDGs and climate goals, jumpstart the development of the “local finance architecture” with clarified requirements, LRG roles, and solutions.

This action can be structured sequentially, working with targeted flagship champions from LRGs, national governments, development partners, and the private sector to develop national pilots as proofs of concept (as suggested in Action 4).

2.2.3 ACTION THREE: Create National Local Finance Ecosystems with Dedicated Funds and Advisory

Witness the abundant history of failed national objectives and development plans: The realization of national climate and SDG goals cannot be implemented by simply developing plans and securing commitments. *Critical inputs are sufficient dedicated funding, highly skilled expertise, and defined accountabilities and process. National ecosystems with effective funding and expertise instruments are especially critical in the attainment of the required economies of scale for local finance and developmental impact.*

As noted earlier, nation-states have defined ecosystems with accountable entities responsible for the SDGs and NDCs at the national level, while LRGs lack systematic integration into this system. Critical functions include:

- Planning with the resulting identification of high-impact projects and programs
- Development of financially sustainable projects, leveraging concessionary loans, grants, private sector funding, and credit enhancements (blended finance)
- Presentation of project pipelines to prospective funders
- Performance metrics

Compelling Precedents: In each nation-state (and sometimes in regions), the development of an effective local finance system supporting LRGs and local finance is advanced through supporting instruments and activities. Examples demonstrating effective solutions abound:

- European Union: Specific funds and advisory functions have been established to support the needs of its LRGs.
- Canada: The national government has established a National Municipal Fund that has funding of US\$1.7 billion for urban projects that meet its requirements.
- France: Specific funds have been established to support its cities, such as the Paris Green Fund.
- South Africa: Specific national municipal programs have been set up to support its cities (e.g., South Africa Municipal Energy Efficiency Program).

The above examples illustrate that while countries vary in their operational structures and processes, core institutional scaled up approaches providing funding and expertise are essential to accessing local finance for urban services and climate goals.

Proposed Instruments and Activities to Establish Effective Local Finance Ecosystems: Six national instruments and activities are proposed aimed at creating effective national ecosystems to increase local funding, close coordination failures, and empower LRGs:

- 1) **Funding- National LRG Funding Vehicle:** The breakthrough gamechanger is providing funding through a national vehicle for local projects with clear funding requirements and governance. In some countries, this is provided through national and subnational development banks. *Whatever the national context, there needs to be a well-run national funding mechanism that is easily accessible for funding local projects that meet the required criteria.*

2) Policies - National Local Funding and/or Urban Policy with support of the Head of State and Finance

Ministry: A recognized best practice is the formulation of a *National Urban Policy* that serves to align national sectoral and urban policies clarifying roles and responsibilities horizontally across ministries and vertically between all levels of government.⁴⁰ National Urban Policy (NUP) is understood as “a coherent set of decisions through a deliberate government-led process of coordinating and rallying various actors towards a common vision and goal that will promote more transformative, productive, inclusive and resilient urban development for the long term.”⁴¹

3) Expertise - Local Finance Hub to Develop & Finance Scalable Pipeline of Local SDG and Climate Projects:

The key impediment today is the identification and development of project pipelines that meet development and climate goals while meeting the requirements of public and private funders. A Local Finance Hub in a country can streamline access to funders and pool projects into the required larger sizes, enabling multiple providers of funding and risk mitigation to partner in the identification and structuring of suitable local investment vehicles.

- A National Local Finance Hub can be staffed by seasoned highly experienced professionals combining expertise in climate-smart urban planning, development and climate impact, financial and business models (including blended finance, project finance techniques, risk mitigation), sector experts, engineers, and legal support (e.g., contracts and negotiation for Special Purpose Vehicles, management, equipment, services, finance, risk mitigation, etc.).
- The Hub can help LRGs and other actors identify and develop projects that meet climate/development impact and funding requirements.
- The Hub can develop aggregation solutions, such as pooled finance facilities (combining smaller projects that do not meet public and private funding requirements); and help develop a national municipal market (e.g., bonds, loans, etc.).
- The Hub can serve as a clearinghouse for securing and “blending” funding and risk mitigation required to reach financial close. Funding needs cover planning, project identification and development, finance, risk mitigation.
- The Hub can provide the expertise required for securing adequate finance, using blended finance techniques, including project finance, credit enhancements, etc.

4) National LRG Coordination – Set up a National LRG Coalition: Each country has one or more LRG associations. A National LRG Coalition could be established to enable more effective LRG coordination and advocacy, across all country LRG associations and LRGs; national ministries, agencies, banks, and programs; development partners; the private sector; community service organizations; and experts. Key steps include:

- Organizing a National LRG Coalition (i.e., national coalition serve as a chamber of chambers of all LRGs and associations in a country);
- Devising and implementing a working program and trainings to enable joint advocacy, leverage of national municipal fund, local finance hub, etc.; linkages to SDGs and climate goals (NDCs); ways to optimize local economic development, job creation (gender, youth), SME development,

⁴⁰ UNHabitat states: “In order to harness urbanization, mitigate its negative externalities and promote an “urban paradigm shift,” there is need for a coordinated approach and clear policy directions. This is lacking in many countries, where several government departments are in charge of dealing with different aspects of the urbanization challenge. Moreover, urbanization is not considered a national development opportunity. In general, the overall understanding of cities in national development is very limited, and so is the appreciation of the structural transformations represented by the dynamics of growth in urban centres.” Source: <https://unhabitat.org/programme/national-urban-policy>

⁴¹ UN-Habitat/Cities Alliance, 2014

supply chains, etc.; and the identification, development, finance, and operation of local public services and climate adaptation projects (including for pooled finance facilities);

- Developing ways to localize national investment plans, identifying opportunities to address systematic national challenges through local finance and LRGs; and
- Engaging national government and development partners with specific requests that demonstrate (a) understanding of markets and (b) knowledge of how to develop projects that can deliver developmental and climate impact and meet the requirements of targeted finance providers from the public and private sectors.

LRGs can develop direct relationships and partnerships with development partners working through the National LRG Coalition (as proposed in item 4 above). Each country has different constellations to engage. Many developing countries have specific development partner working groups organized by function and sector (e.g., decentralization, climate, energy, water and sanitation, etc.). The National LRG Coalition would be well-positioned to make proposals to development partners through these groups and individually.

Likewise, LRGs can engage the private sector and expert consultants through the National LRG Coalition, enhancing the finance viability of local projects. The National LRG Coalition will be well-positioned to make compelling presentations and proposals, and include the private sector (SMEs, corporates, experts, etc.) in transactions and working groups, asking for input on programs and projects. It is critical to note the value of this outreach: For example, local commercial banks often have subsidized on-lending programs with support from development partners; corporates may be willing to provide cost-effective services and/or engage as PPP partners; pension funds given their commitment to support infrastructure may be willing to provide long-term finance if risk mitigated to meet their fiduciary requirements for retirees.

The above six instruments and activities are summarized in the below table.

Table 4: ASKS – Create Local Finance Ecosystems

| Key Instruments & Activities | ASK: LRGs/Local Stakeholders | ASK: National Governments & Regional Entities | ASK: Development Partners | ASK: Private Sector/Experts |
|-------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| 1) National LRG Fund and Intermediaries (subnational development banks, etc.) | -Coordinate in submitting proposals (pooled approaches) -Align with Fund requirements -Engage Experts and Private Sector | -Provide Core funding -Request contributions from development partners | -Request the national government to proactively support the National Fund -Contribute funding | -Suggest areas for private sector involvement (sectors, business models, criteria) |
| 2) National Local Finance/Urban Policy | -Develop draft market-based proposal with expert input aligned with national plans and detailing potential LRG value-add (SDGs, NDCs) -Present draft to LRGs and private sector for refinement | -Provide national development plans with ideas of optimal LRG support | -Provide suggestions on approaches, opportunities, business models, | -Provide suggestions on approaches, opportunities, business models, |

| Key Instruments & Activities | ASK: LRGs/Local Stakeholders | ASK: National Governments & Regional Entities | ASK: Development Partners | ASK: Private Sector/Experts |
|--------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| | and then to national government and development partners | | | |
| 3) National Local Finance Hub with working groups -Identify and develop bankable projects using concessionary and blended finance | -Lobby for centralized advisory support facility that can help identify and develop projects for SDGs and climate goals | -Support -Align with key decision-makers in Ministry of Finance (MoF), line ministries, etc. | -Provide start-up funding -Assign experts -Share funding criteria and business models | -Provide input on finance criteria, business models |
| 4) National LRG Coalition | -Agree to national coordination of LRGs -Use to aggregate projects | -Require senior participation from MOF, line ministries | -Provide funding to start up group, prioritize discussions and show high-level support | -Provide suggestions on required changes to enable private participation |
| 5) Coordination with Development Partners thru National LRG Coalition | -Assess current objectives and programs of development partners and devise partnerships (MoUs, etc.) | -Ask development partners to help devise practical ways to increase local finance and the contributions of LRGs | -Coordinate with other development partners in transactions (SPVs, pooled finance facilities, etc.) | -Provide suggestions on required inputs from development partners |
| 6) Coordination with Private Sector thru National LRG Coalition | -Assess current objectives and programs of development partners and devise partnerships (MoUs) | -Encourage private sector to prioritize contributions -Provide credit enhancements and guarantees when appropriate | -Encourage private sector to prioritize contributions -Provide credit enhancements and guarantees when appropriate | -Coordinate with other private sector entities in transactions (on-lending, PPPs, SPVs, pooled finance facilities, etc.) |

2.2.4 ACTION FOUR: *Create Global and Regional Local Finance Ecosystems with Dedicated Funds and Advisory*

National Local Finance Ecosystems need to be tied into regional and global networks of funding instruments and expertise, providing optimal economies of scale, and leveraging lessons learned, business models, and emerging technologies and processes.

Key instruments and activities to advance the required global and regional ecosystem for local finance include:

- 1) **Global and Regional Funds:** It is important to advocate for the development of global and regional funds focused on the achievement of urban SDG and climate goals, including Special Purpose Vehicles with pooled projects (e.g., climate-smart urban services, energy efficiency, disaster risk management, etc.).
 - Public and private funders have a natural bias towards large transactions that enable effective transaction costs, enabling large-scale development impact and financial returns and diversified risks.

- Global and regional funds enable access to a new set of global investors who have internal funding requirements in terms of size and also relative percentage of the total transaction. As underlined earlier in the report, ticket size is critical for mobilizing significant amounts of public and private finance from the main providers. For example, an investor may require a minimum investment of \$20 million in a transaction representing less than 10% of the total transaction size, resulting in the ability to only consider investments in transactions greater than US\$ 200 million.
- Global and regional funds can be designed to align with public and private investor investment requirements of significant development impact and credit enhancement (such as first loss). Large transactions also provide diversification of risks and returns (country, credit, sector, currency, etc.), mixing projects from different geographies and profiles.
- LRG National Associations (and individual LRGs) can approach prospective funders with their projects.

2) Global and Regional Policies: Establishing best practices for local finance transactions is critical for scaling up volume.

- Achieving significant scaled increases in local finance requires global and regional policies that can credibly set forth best practices, potential business models, and potential roles of all stakeholders.
- The Global and Regional Policies can set forth how to effectively localize SDG and climate goals, showing ways national governments can integrate LRGs in terms of planning, budgets, and the development of project pipelines.
- Specific sector models can be presented, showing the roles of LRGs in project identification, development, finance, and operation.

3) Global and Regional Local Finance Hubs: The lack of financial and climate-smart expertise, a key impediment blocking the development of bankable projects and access to local finance, can be addressed through providing Global and Regional Local Finance Hubs. These Hubs can provide systematic support and capacity building for the National Local Finance Hubs.

- A Global and Regional Ecosystem for Local Finance needs to be created and maintained for local finance, just as it exists for other types of funding. Mainstream finance is supported by an array of global and regional finance hubs, advisory services, and working groups (e.g., G-20 Infrastructure Hub, African Legal Support Facility, etc.).
- Best practice functions that would fertilize the required coordination and partnerships for increasing local finance include:
 - Support in developing Global and Regional Funds, including development of pipelines of bankable projects using concessionary and blended finance
 - Development of Local Finance Climate-Smart Solutions
 - Expert Reports on Local Finance Solutions
 - Hosting working groups to identify issues and solutions
 - Information on Climate Smart technologies & processes
 - Development of training and how-to-toolkits
 - Development of performance metrics
- LRGs would be empowered through easy access to best practices, business models, and networks of funders and experts.

The three key activities in support of Global and Regional Local Finance Ecosystems are summarized in the below table.

Table 5: ASKS – Implement Global and Regional Local Finance Ecosystems

| Key Activities | ASK: LRGs/Local Stakeholders | ASK: National Governments & Regional Entities | ASK: Development Partners | ASK: Private Sector/Experts |
|--------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| 1) <u>Global and Regional Funds</u> | <ul style="list-style-type: none"> -Coordinate in submitting proposals (pooled approaches) -Align with Fund requirements -Engage Experts and Private Sector | <ul style="list-style-type: none"> -Provide core funding -Request contributions from development partners | <ul style="list-style-type: none"> -Request the national government to proactively support the National Fund -Contribute funding | <ul style="list-style-type: none"> -Suggest areas for private sector involvement (sectors, business models, criteria) |
| 2) <u>Global and Regional Policies</u> | <ul style="list-style-type: none"> -Develop draft market-based proposal with expert input aligned with national plans and detailing potential LRG value-add (SDGs, NDCs) -Present draft to LRGs and private sector for refinement and then to national government and development partners | <ul style="list-style-type: none"> -Provide national development plans with ideas of optimal LRG support | <ul style="list-style-type: none"> -Provide suggestions on approaches, opportunities, business models, etc. | <ul style="list-style-type: none"> -Provide suggestions on approaches, opportunities, business models, etc. |
| 3) <u>Global and Regional Local Finance Hubs</u> | <ul style="list-style-type: none"> -Lobby for centralized advisory support that can support National Hubs, helping to identify and develop projects for SDGs and climate goals | <ul style="list-style-type: none"> -Support -Align with key decision-makers in MOF, line ministries, etc. | <ul style="list-style-type: none"> -Provide start-up funding -Assign experts -Share funding criteria and business models | <ul style="list-style-type: none"> -Provide input on finance criteria, business models |

2.2.5 ACTION FIVE: Implement Quick Win Commitments and Pilots to Jumpstart Increased Local Finance

The risks of inertia and continued failures are great. History has shown conclusively the monumental challenge of transformation, of changing behavior and existing patterns of behavior, of addressing coordination failures and creating partnerships, of incentivizing leadership and the required commitments and stamina to achieve scaled high-impact results. Yet the threat of climate disaster confronts us all, the failure of the obtaining the SDGs looms in front of us, we must act now.

Best practices demonstrate the import of leadership with “proof of concept” pilots that provide demonstration effects. Action Five is aimed at jumpstarting the required changes through strong political commitments and pilots. As noted in the Action 2 section, we already have many successful models of mobilizing local finance for LRGs and other actors critical in delivering urban services and climate solutions. A critical “ASK” is to immediately implement pilots of these approaches to serve as replicable models to enable scaling up worldwide.

The table below highlights possible pilots for each of the preceding four actions and “asks” for the key actors.

Table 6: Implement Quick Win Commitments and Pilots to Jumpstart Increased Local Finance

| ACTIONS | ASK: LRGs/Local Stakeholders | ASK: National Governments & Regional Entities | ASK: Development Partners | ASK: Private Sector/Experts |
|-------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| 1) Formalize the Imperative for Greater Local Finance and LRG Empowerment in Achieving the SDGs and Climate Goals | -Agree to coordinate in specific pilot projects | -Secure commitments from 2-3 national governments and 1-2 regional entities | -Secure stated support from 3-5 development partners | -Secure support from 2-5 business organizations and/or companies |
| 2) Define & Implement Techniques for Increasing Local Funding | -Implement pilots in 2-4 LRGs with strong political and technical support, showing ways to increase decentralization funding | -Commitment of 2-4 national governments to participate in pilots that demonstrate ways to increase decentralization funding through pilots | -Commitment of 2-4 development partners to participate in pilots that demonstrate ways to increase decentralization funding through pilots | -Secure input and possible support from 2-5 business organizations and/or companies/experts |
| 3) Create National Local Finance Ecosystems with Dedicated Funds and Advisory | -Secure support of National LRGs in 2-4 countries to request national urban funds and advisory hub | -Commitment of 2-3 national governments to build national local finance ecosystems (fund and finance hub) | -Commitment of 2-5 development partners to support creation of national local finance ecosystems (fund and finance hub) | -Secure support from 2-5 business organizations and/or companies/experts |
| 4) Create Global and Regional Local Finance Ecosystems | -Secure support of LRGs Associations in defining streamlined access to global and regional urban funds and advisory support | -Commitment of 1-2 regional governmental organizations to propose ways to build global and regional local finance ecosystems (fund and finance hub) | -Commitment of 2-5 development partners to support creation of global and regional local finance ecosystems (fund and finance hub) | -Secure support from 2-5 business organizations and/or companies/experts |

It is critical that these jump-start actions serve as quick win “proofs of concept.” Towards this end, immediate actions could be to develop pilot transactions, such as Pooled Finance Facilities, Special Purpose Vehicles, Utilities, and Revenue Bonds.

It will be important for champions to make public commitments with stated timeframes and activities, to ensure momentum can be built quickly. For scalability, it will be mandatory to develop training supplemented with “how to toolkits,” contractual contracts, and expert support.

3.0 WHERE: Key Venues for Policy Advocacy and Partnership-Building

The suggested five sets of actions for implementing the *Global Action Framework on Localizing Financing* need to be mainstreamed into the international finance architecture.

The challenge is daunting and will require policy advocacy across multiple venues and partnerships to develop the required business models and financing approaches. A concurrent two-level approach is required:

- Key political venues for the dissemination of advocacy messages setting forth the imperatives, urgency, and actions; and
- Partnership-building forums to develop technical finance solutions and implementation approaches.

In addition, LRG venues are critical to build cohesion for strengthened advocacy and implementation capacity, coupled with selected high-impact international and regional venues, as set forth in this section.

3.1 Political Venues

The political and technical “asks” outlined in the proposed advocacy campaign would be most effective leveraging the existing recognized finance forums for the SDGs and climate actions. While there is a plethora of political forums, the highest impact ones are those that involve: (1) finance decision makers, such as Ministries of Finance and Development Finance Institutions, and (2) high-level political decision makers who make decisions that affect the use of funds and experts, requirements, and the technical and consultative processes in identifying, developing, and financing interventions.

The table below focuses the advocacy campaign on selected political venues for maximum impact. LRG political leaders recognized finance experts, and respected thought leaders can make compelling interventions and deliver presentations setting forth the political urgency, rationales, and specific required action steps, specifying the roles of each stakeholder.

Table 7: Key Political Venues for Disseminating Political Messages and Unlocking Actions

| Political Venues | Value of Venue for Reaching Decision-Makers | Targeted Outcomes |
|-----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| Financing for Sustainable Development Office (FSDO) | Accountable UN entity aimed at mobilizing finance for the achievement of the SDGs (e.g., FfD High-Level Forums (ECOSOC, etc.), Taskforce for Cities, Global Investors in Sustainable Development (GISD), Annual Taskforce Report, SDG monitoring, etc. ⁴² | <i>Develop understanding and political support of key concepts, urgency, and actions required to unlock local finance</i> |

⁴² The stated objectives of the FSDO Office are: “The Financing for Sustainable Development Office (FSDO) provides coherent and integrated support to Member States to unlock financing and other means of implementation for the 2030 Agenda and Sustainable Development Goals. We promote financing solutions for a sustainable world by: Serving as a global focal point for coherent, effective, inclusive and fully integrated substantive and organizational support to the financing for development processes overseen by the UN Economic and Social Council (ECOSOC) and General Assembly (GA), such as the follow-up and review of the Addis Ababa Action Agenda; Preparing action-oriented policy analysis and concrete proposals and recommendations on financing for sustainable development and means of implementation, drawing on the strengths of inter-agency expertise and the experience of the United Nations

| Political Venues | Value of Venue for Reaching Decision-Makers | Targeted Outcomes |
|------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| G-20/Urban | Entry point to reach Ministers of Finance as the key finance decisionmakers in countries | <ul style="list-style-type: none"> - SDGs and climate goals doomed to failure absent LRG engagement and targeted local finance -Need to formalize and mainstream the role of local finance and LRGs into national planning, capital budgeting, programs, projects -Need to implement techniques and business models for increasing local finance such as blended finance, third-party legal vehicles (subnational development banks, national programs, pooled finance facilities, special purpose vehicles, credit enhancement and first loss, project development support, earmarking of existing funds, etc.), municipal bond markets (using revenue project bonds), etc. -Need to establish national, regional, and global ecosystems with dedicated funds and advisory hubs, performance tracking and reporting -Need for LRGs to collaborate in advocacy, pooling projects, procurement, funding |
| World Bank/IMF/COP Meetings | Annual meetings with key decisionmakers that affect global development, finance, and monetary policies and related programs that need to mainstream local finance and the roles of LRGs | |
| DFI Annual Meetings | Entry point for development finance provided by nation states and key public sector entities | |
| OECD (Financing for Sustainable Development Division/FfSD Division), Development Assistance Committee/DAC) | Entry point for development policies of OECD member states: <ul style="list-style-type: none"> - Policies on blended finance, SDGs, climate, infrastructure, etc (FfSD Division) - Peer reviews with in-depth examinations of development systems and policies (DAC) | |
| Regional Political Venues (African Union, European Union, etc.) | Entry point for key regional decisionmakers and programs, including use of public funds, national and regional policies, roles of national governments and LRGs | |
| Malaga Global Coalition for Municipal Finance | Entry point for leading supporters of LRGs and supporting actions, critical to build support for the five sets of actions | |
| LRG Associations (international, regional, national; Global Taskforce for LRGs) | Entry points for LRGs need to understand and support the proposed advocacy messages and five sets of actions | |

The above political venues do not include private sector venues, as the public sector first needs to implement actions that unlock access to finance and meet investment requirements, such as increasing reliable national fiscal transfers and own source revenues and creating investable investment vehicles. However, once investment requirements are met, private sector finance and partners can potentially be mobilized through advocacy at key venues such as the Long-term Infrastructure Investors Association (LTIIA), Convergence Blending Global Finance, and the Global Impact Investing Network (GIIN), among others.

3.2 Partnership modalities

Unlocking local finance requires a new approach that addresses the technical requirements of public and private sector providers of capital, meeting their credit and due diligence criteria, as local finance is currently blocked by the inability to meet technical finance requirements.

development system; Contributing to the United Nations' coordinated approaches on global financial issues, including through support to the United Nations engagement with the Group of 20; Serving as the United Nations System's hub for work on international development cooperation and international cooperation in tax matters, and related capacity development programmes to support developing countries efforts to mobilize resources for the 2030 Agenda." Source: FSDO website

As a result, unlocking local finance needs to combine technical, policy, and partnership modalities, creating investment vehicles that meet the requirements of public and private sector investors:

- 1) The development of technical solutions that serve to unlock public and private capital, such as the development of the financial and business model, underlying contracts for equipment, management, finance, and risk mitigation, and legal structuring of the investment vehicles and risk mitigation;
- 2) The adoption of enabling policies and instruments that enable the successful implementation of technical solutions, such as the ability to engage into viable contracts, collect fees, and ring-fence revenues; and
- 3) The adoption of modalities that enable the engagement of the highly skilled finance professionals required to develop and implement the business models that meet the investment requirements of both public and private sector funders.

As these partnerships are technical and political in nature, both UCLG and FMDV could play leadership roles in facilitating the below partnership activities and producing the targeted outcomes.

Table 8: Potential Partnerships: Focus and Outcomes for Unlocking Local Finance

| Partnership Modalities | Focus | Targeted Outcomes |
|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Financing for Sustainable Development Office | Setting up of expert working groups aimed at addressing challenges limiting local finance and developing solutions; expert groups would include public and private sector providers of finance and risk mitigation, rating agencies, LRGs, professional finance transaction advisors, other experts | Expert working group meetings: -Development of guidelines (“How to”) for pooled finance facilities that enable LRGs to aggregate projects and finance for several projects -Development of technical solutions that address current IMF public debt restrictions that impede access to local finance and therefore undermine localization of SDGs and climate goals |
| UNCDF | Engaging outside finance professionals to increase the impact of UNCDF programs related to local finance | -Success in the effective implementation of the International Municipal Fund and other local finance instruments and programs, identifying investments, trouble-shooting issues, ways to scale and replicate |
| UNDP | Developing local finance proposals for climate funds and development partners | Success in securing finance for local SDG and climate action projects through research and thematic policy papers: -Technical and policy solutions to unlock finance to activate and guide political discussions, leveraging related UNDP work on risk mitigation, climate change, etc. -Localization of existing national solutions to plan, budget, engage, monitor, and evaluate finance and investment aligned with SDGs (these instruments are already available for national governments, but they need to be extended to the local level) |
| UNOPS (providing the needed technical support for local SDG and climate actions) | | -Success in developing one or more Local Finance Hubs with advisory support leveraging UNOPS infrastructure, procurement, and project management services |

| Partnership Modalities | Focus | Targeted Outcomes |
|------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| World Bank Group/other development partners | Identifying “proof concept” local SDG and climate goal projects that can be scaled; suggestions and input from local and national government officials, development partners, private sector, experts | -Success in disseminating “local finance projects” for replication that demonstrate how to scale local finance through technical business models and approaches |
| Urban20 partnership with G-20 Infrastructure Hub (created by the G20 to advance its infrastructure agenda) | Developing a business plan for localizing the SDGs, identifying “proof concept” local SDG and climate goal projects that can be scaled; suggestions and input from local and national government officials, development partners, private sector, experts | -Success in disseminating “local finance projects” for replication that demonstrate how to scale local finance through technical business models and approaches, leveraging G20 direct relationships with Ministries of Finance |
| Rating Agencies | Setting forth the generic credit guidelines for local SDG projects to enable access to bank and institutional investment | -Development of guidelines (“How to”) on investment requirements that enable LRGs and other project owners to scale up bankable projects and programs |
| Global Private Sector Association representing private companies committed to implementation of the SDGs | Setting forth business models for local public services (water, sanitation, internet/Wi-Fi, digitalization, renewable energy, etc.) | -Success in identifying business models for SDG and climate projects related to local public services that demonstrate how to scale local finance (including using energy and other savings as source of finance) |

Partnership-building actions are imperative, as political messages will not result in unlocking increased local finance. The political messages must be anchored and activated with concrete actions that show the practical technical finance approaches and business models that can be used to mobilize both public and private sector capital.

To enable actual impact in unlocking urban finance, the key actions, issues, and solutions specified in this report need to be widely featured in high-level forums and disseminated to the wide array of stakeholders critical to developing and implementing local finance ecosystems.

In essence, the actions are geared to developing a local finance market with defined ecosystems of funds, expertise, and partners. Target audiences include LRGs and their associations, national policymakers, development finance institutions and other development partners, and the private sector (banks, funds, transaction advisors, corporates, SMEs, project developers, rating agencies, etc.).

3.3 LRG Venues

As underlined in the prior sections, a key handicap of LRGs in increasing access to local finance is the small ticket sizes of projects, the dispersion of individual LRGs, and large number of LRG associations at all levels (international, regional, national). A basic principle of bargaining power is creating a unified strong voice with clear “ASKS.” To accomplish effective advocacy and achieve the mission, LRGs need to develop cohesive

partnerships on all fronts: international, regional, and national. Therefore it will important to use UCLG and other LGA venues, and create new forums as needed, per the examples provided earlier in this section.

Addressing the Utility Disconnect: A reported urban coordination failure is between LRGs and utilities that provide urban services. A recommendation was for showcasing this LRG initiative to utilities through their associations and events, seeding the development of partnerships and closer coordination, including defining optimal ways to scale up local finance.

3.4 Possible High-Impact International High-Level Forums

Given the current urgent focus on creating solutions for the climate crisis and SDG implementation, climate and SDG events with development partners and governments are the optimal forums for securing support for the needed local finance actions, as listed below.

- Annual COP Conference & Side Events:⁴³ Time permitting, target “local finance solutions” could be presented at the annual COP Conferences, with invitations to governments to support pilot projects and to development partners to provide support. Specific solutions could be featured in all the sessions. A side event could also be conducted, with co-hosting from one or more national government (e.g., France, Germany, Kenya, Rwanda, South Africa, etc.).
- World Bank Meetings (fall, spring): Key policymakers from governments participate in the World Bank meetings.⁴⁴ UCLG participation through a side event would provide an optimal opportunity for engagement, especially if specific local finance transactions are showcased.
- SDG events at United Nations (e.g., ECOSOC, FfD, etc.): The FfD Office provides opportunities to present the five sets of actions through interventions in high-level meetings, side-events (if requirements met), and through working groups.
 - Pooled Finance Working Group: One high-impact option would be to ask the FfD Office to convene an expert working group on pooled finance facilities, identifying issues, solutions, and ways to scale.
- Energy Summits/IRENA: Cities increasingly play a pivotal leadership role in energy efficiency initiatives from decentralized power to climate smart housing, municipal buildings, transport, water and sanitation, etc. UCLG could present its campaign at key events.
 - For example, the upcoming *UN High-Level Dialogue on Energy* on September 16, 2021 had a session: *“The Role of Cities in Delivering A Net-Zero Energy System”* that was intended to *“launch a new Urban Energy Compact to scale-up support to cities and international cooperation and showcase commitments from partners, countries, and cities in the build-up to COP26 and beyond.”*⁴⁵
- SDG Philanthropy Platform: As a convening forum for foundations, a special virtual meeting could be arranged to discuss potential partnerships, perhaps starting in one or two of their pilot countries.

⁴³ COP 26 (November 1 – 12, 2021) had a special session labeled “Cities, Regions, and Build Environment.” However, all COP sessions should have an LRG component, given the facilitating roles of LGs in local consultations, demand assessment, optimal strategies for climate and developmental impact, job creation, etc. Especially pivotal sessions that need to address *Urban Actions* are Finance; Energy; Nature; Adaptation, Loss., and Damage; and Transport.

⁴⁴ For example, the World Bank website states: “Spring Meetings participants typically include approximately 2,800 delegates from our member countries, 350 observer organization representatives, 800 members of the press, and 550 accredited civil society members.”

⁴⁵ The stated aim of the session was to: “Present the crucial role of cities in delivering a net-zero energy transition and explore how support of national governments, private sector, finance and international cooperation can help cities take this lead, including through innovation and investment roadmaps. *Launch a new Urban Energy Compact to scale-up support to cities and international cooperation and showcase commitments from partners, countries, and cities in the build-up to COP26 and beyond.*” <https://www.irena.org/events/2021/Sep/Energy-Action-Day-2021>

This Platform is projecting foundation funding for the SDGs between 2016 and 2030 as totally more than US\$364 billion.⁴⁶

Other international venues that could be explored are the OECD (including the DAC which reviews development partners), also linking to the OECD/UCLG World Observatory on Subnational Government Finance and Investment (SNG-WOFI).

3.5 Possible Regional High-Impact Forums

Regional venues are critical as they are often more valuable for securing partnerships, given the participants often represent decisionmakers at the regional and national level. Examples of potential regional high-impact forums are below:

- Regional Political Venues: An example of a high visibility forum is the African Union and its development agency AUDA-NEPAD (e.g., PIDA Week), potentially linking to the EU-AU Green Deal and the Africa Continental Free Trade Agreement (AfCFTA).
- Regional Development Banks: High visibility events could be arranged around the annual meetings of regional development banks, such as local finance side events.
- Climate Events: As LRGs have pivotal roles in reducing climate emissions, targeted regional climate events could provide opportunities.
- Sector Events: Regional sector events provide opportunities to build networks that are fundamental to ecosystems that enable the development of partnerships that enable successful transactions. For example, the energy event “Enlit Africa,” part of a series of energy events as the new unifying brand for African Utility Week & POWERGEN Africa, is aimed at sharing expert knowledge, innovative solutions, and insights from industry leaders. See <https://www.enlit-africa.com/the-enlit-purpose/supporting-partners>

Hence it is imperative to identify high-impact diverse venues for introducing new ideas, approaches, and finance solutions that can inspire leadership in championing the new policies, actions, and funding required to increase local finance for the SDGs and climate goals. A key focus is affecting policymaking, seeding partnerships, and engaging the professionals needed to scale local finance transactions.

⁴⁶ Source: <https://pndblog.typepad.com/pndblog/2016/05/foundations-will-contribute-364-billion-to-sustainable-development-goals.html> The SDG Philanthropy Platform, a joint initiative of Foundation Center, the [United Nations Development Program](#), and [Rockefeller Philanthropy Advisors](#) is supported by the Hilton, [Ford](#), and [MasterCard](#) foundations. It is dedicated to providing accurate information about the work of foundations while facilitating partnerships between foundations, government, and the private sector in "pilot" countries such as Colombia, Kenya, Indonesia, and Ghana. Recognizing the comparative advantages of each sector will be crucial to making real progress on the SDGs. The information made available through the SDGfunders site is intended to help potential partners find each other, powering existing and future multi-sector partnerships.

4.0 HOW: Ways to Participate to Deliver Optimal Impact

How can this new mindset and actions be advocated and lead to the required urgent changes in behavior across all actors – LRGs, national governments, regional and international governmental organizations, development partners, and the private sector?

*Most importantly, the local finance market is ready for the making: there is ample funding supply and there are transaction structures that could be used to meet local finance requirements. **Therefore, the advocacy approach needs to be geared to developing scalable local financial solutions that can actually result in increased local funding for local projects advancing SDGs and climate goals.***

4.1 Implement Three High-Impact Actions

The advocacy and partnership actions proposed in this paper could be launched through three high-impact interventions:

- 1) *Local Finance Hubs*: A first deliverable could be the establishment of operational deal-oriented Local Finance Hubs aimed at unlocking finance for localizing SDGs and Climate Goals. As a high-visibility, high-impact outcome, a foundational globally oriented Local Finance Hub could jumpstart action by providing independent technical advisory and setting forth business models (illustrated with case studies) for LRGs and partners to scale up priority local public services, energy efficiency, and disaster response and management leveraging existing financial and risk mitigation instruments.
- 2) *On-Line Local Finance Platform*: A one-stop-shop on-line “Local Finance Platform” would empower LRGs and their partners by providing user-friendly enabling information such as (a) toolkits for project development and finance (e.g., “how to” guidelines, business models, case studies, templates for contracts, etc.); (b) directories of services that are required to develop, risk mitigate, finance, and operate projects (e.g., transaction advisors, project finance lawyers, project managers, etc.); and (c) providers of finance and risk mitigation (e.g., banks, funds, social impact investors, development partners, insurers, etc.). The Platform could host webinars and podcasts.
- 3) *Local Finance Champions, Summits, and Awards*: To enable effectiveness, “Local Finance Champions” considered as compelling thought leaders could be engaged to explain “why to mainstream local finance and how” at high-level advocacy venues. As being pioneered by FMDV, “Annual Local Finance Summits” could also be conducted, also presenting “Local Finance Awards” for ground-breaking results, advancing market momentum and high-impact replication.

The three above proposed advocacy and partnership actions will serve to develop and scale business models and local finance ecosystems, the imperative building blocks required to localize finance and deliver on the SDGs and climate goals.

4.2 The Roadmap: Implementing a Local Finance Campaign

Beyond the three targeted interventions noted above, to achieve meaningful results, a strategic and effective *Local Finance 4-Impact Campaign* needs to be implemented with professional political messaging and technical expertise. Below are initial ideas on the key aspects of the campaign to achieve success.

4.2.1 Develop the Mission Statement for the Local Finance Campaign

Best practice is to define a compelling mission and the specific “ASKS” in black and white and human terms. The materials would need to be compelling setting forth synthesized, calibrated “ASKS.”

The Mission Statement could include a Brochure and Concept Paper (including Infographic). Some initial ideas for feedback and improvement are:

- **Branding:** “*Local Finance 4-Impact*”
- **Objective:** “*Delivering on Climate-Smart Local Public Services & Climate Adaptation*”
- **Problem Statement (defining the costs of inaction):** “*Failure to avert climate disasters and achieve the SDGs.*”
- **Solutions - Local Finance Approaches for Scaled High Impact:**
 - “*Scale market-based solutions for unlocking local finance, leveraging proven techniques and developing new approaches.*”
 - It is important to illustrate the value-add of the “*Local Finance 4-Impact*” campaign with selected transaction structures that could be scaled up, showing exactly the supports needed from national governments and development partners.
 - A “*Compendium of Local Finance Solutions*” can be developed, with examples of successful transactions for replication, adapted as needed given local needs and context.

4.2.2 Establish an Expert-Based “Local Finance 4-Impact Secretariat” to mobilize and deliver results

To ensure a strong technical focus, collaboration, and elimination of competitive behaviour impeding results, an independent expert entity could serve as the “*Local Finance 4-Impact Secretariat*,” potentially aligned with the Global Taskforce.

UCLG could host one or more virtual dialogue on the mission, asking for input and partnerships. It would of course also include an initial discussion within the existing forums. UCLG could ask other key targeted partners to participate, citing the advantages to collective advocacy and the specific suggested actions. In addition to other LRG associations, possible invitees could include local finance champions from the public and private sectors:

- Key development partners
- Private sector champions (e.g., companies, banks, funds, pension funds, business associations, rating agencies, etc.)
- Philanthropic Organizations

Given competitiveness between the different LRG Associations, it will be important to build partnering power before approaching other LRG associations by first securing partnerships with key development partners and business organizations.

4.2.3 Create National LRG Coalitions

After internal UCLG consultations, the proposed approach is to first sell the approach to UCLG members. UCLG opinion leaders could be asked to explain and champion the approach for their peers. (For example, we could employ a “train-the-trainers” approach,” orienting possible champions with a first virtual discussion so they feel empowered to spread the word.

A team-building approach is also suggested for other LRG Associations:

- As suggested earlier in the report, a National LRG Coalition can serve as a chamber of chambers to enable LRG cohesion and DIRECT integration with private sector and development partners – *closing the LRG coordination gap through a united urban front!*
- A cost-effective approach could be simply to invite other LRG Associations to provide input and be partners. They could benefit from the visibility and member value-add from the “ASKS.”

Other LRG Associations could also be invited to co-sponsor Local Finance events at key venues and sign the related Local Finance Mission Statement.

4.2.4 Create the definitive unique One-Stop Shop for Local Finance 4-Impact

As noted above, a one-stop-shop on-line “*Local Finance Platform*” would empower LRGs and their partners through disseminating knowledge, enabling partnerships, and building credibility and market momentum. To be credible and effective, UCLG will need to define the specific solutions and required inputs from key actors. Again, supporting materials from other organizations (e.g., UN, Climate organizations, World Bank, etc.) would provide a foundational basis substantiating the mission and the specific “ASKS.”

Advocacy materials could set forth the explanations of proposed actions backed by evidence (e.g., multi-stakeholder endorsements, data, success stories, etc.); coupled with a network of members. The traditional modalities include:

- How-To Toolkits
- Knowledge Products detailing solutions
- Policy papers
- Training
- E-library of supporting technical expert studies
- PowerPoint presentations
- Videos (recordings of virtual presentations, meetings, endorsements, etc.)
- Website (access point for all above) with communication modalities

Again, a cost-effective, a consensus building approach could be implemented:

- Leverage the wide expanse of existing materials;
- Create targeted customized branded materials; and
- Use new social media modalities and compelling spokespersons.

4.2.5 Conduct Local Finance Working Groups

Key targeted outputs of working groups could be defining ways to develop and scale up pooled finance, own source revenue sources, Local Finance Hubs, development of new performance metrics, etc.

4.2.6 Engage Champions and Develop Incentives

Successful campaigns require the careful orchestration, tapping into existing related functions and vested interests.

- Credible spokespeople will be needed to explain the required changes at the various venues (international, regional, national, local) and inspire the required commitments and actions. UCLG could engage passionate political leaders and finance experts.
- UCLG could engage “Local Finance Ambassadors” to serve on the “Local Finance 4-Impact Advisory Committee” and address political forums.

- Members could include existing recognized leaders from government, DFIs, NGOs, and business (SME, corporate, finance).
- One idea is to approach existing climate and urban leaders such as UN designated envoys (e.g., Mark Carney, UN Special Envoy on Climate Action and Finance; Michael Bloomberg, UN Special Envoy on Climate Ambition and Solutions, etc.).

4.2.7 Conduct “Annual Local Finance 4-Impact Summits”

The upcoming 2022 planned Local Finance Summit could be aligned with this “*Local Finance 4-Impact*” campaign in coordination with the Malaga Coalition to showcase compelling value-added local finance solutions and issues that need to be highlighted and solved. To build effective partnerships, related events could also be aligned with other development finance events at international, regional, and national levels, also disseminating the need for and work of *Local Finance* Hubs and the on-line *Local Finance 4-Impact Platform*.

- Specific transactions and programs can be presented by the project owners and technical teams, with “how-to” documentation showing how to replicate them.
- Such success stories can result in follow-up advisory and peer-to-peer learning. For example, the technical team for the Durban Waste-to-Electricity Landfill Project is now advising many other local governments on how to implement similar projects.

4.2.8 Create “Annual Local Finance 4-Impact Awards”

It is important to reward and disseminate success stories. For example, the Annual Summit could give awards with categories such as top project of the year (by sector), top banker of the year for local public services, top project developer of the year for local climate projects, etc.

The provision of awards also incentivizes people to participate in the event and invite others to celebrate their public recognition of excellence.

In conclusion, strategic proactive actions are required to address the funding gap and leverage the significant opportunities for LRGs to deliver effectively on the localization of the SDGs and climate goals. To achieve this goal, UCLG and FMDV leadership is needed to advocate for the actions, policies, and technical solutions required to mobilize funding for achieving the SDGs and climate goals.

ANNEX
Interviews (26 total)

Interviews with UCLG Global Secretariat

- Emilia Saiz, Secretary General
- Serge Allou, Technical Advisors
- Mathilde Penard, International Relations Officer
- Pablo Fernandez Marmissolle Daguerra, Chief of Staff
- Jean-Baptiste Buffte, Head of the Policy Department

Interviews with FMDV

- Jean-Francis Habeau, Executive Director
- Emilie Maehara, Deputy Executive Director

Interviews with Related Institutions

- Frederic Vallier, Secretary General, CEMR, European section
- Octavi de la Varga, Secretary General, Metropolis

Other Interviews

- Elena Pierce, Federation of Canadian Municipalities (FCM)
- Dmitry Pozhidaev, Global Advisor, Local Government Finance, UNCDF
- Christel Alvergne, Senior Technical Advisor, UNCDF
- Frédéric Audras, Head of Urban Development, AFD
- Grzegorz Gajda, Senior Urban Sector Specialist, EIB
- Paulius Kulikauskas, Head of European Representation, UNH
- Stefan Atchia, Manager, Urban Development Division, African Development Bank
- Astrid Haas, Advisor, Urban Development Division, Africa Development Bank
- Daniel Platz, Development Economist and Urban Finance Specialist, UN Financing for Development Office
- Krishnaswamy Rajivan, prior CEO, Tamil Nadu Urban Development Fund and Senior Urban Specialist, World Bank
- Mayor Berry Vrubanovic, Kitchener, Ontario, Canada
- Dražen Kučan, Sector Lead / Senior Urban and Energy Efficiency Specialist, Division Mitigation Adaptation (DMA), Green Climate Fund
- Iain Menzies, Senior Water Supply and Sanitation Specialist, World Bank
- Jan Spit, Adviser, Sustainable Water and Sanitation; Resident Project Manager, WaterworX, Nakuru County, Kenya
- Diana Alarcon Gonzalez, Coordinator, International Advisory, Government of City of Mexico
- Tadeshi Matsumoto, Head of Unit, Sustainable Development and Global Relations; Cities, Urban Policies and Sustainable Development Division, OECD
- Francisco Resnicoff, Subsecretary of International Relations, Government of City of Buenos Aires