



FEASIBILITY FUND PROSPECTUS



Cities Investment Facility Feasibility Fund Prospectus

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Glossary of terms

Cities Investment Facility (CIF) - A multi-stakeholder initiative providing project preparation assistance to cities from concept stage through feasibility to financial close.

Investor - Individuals/organizations who provide financial funding to facilitate late stage project development, typically construction financing, and expecting a surplus return on their capital investment.

Donor - Individuals/organizations/foundations who provide financial support to support CIF's core mandate without expecting a financial return but an impact return, that is, donations made generate a positive and measurable impact.

Feasibility Fund - The Feasibility Fund will be evergreen fund supporting project preparation funded by success fees from successful projects prepared by CIF.

Feasibility Funding Facility - Is a funding mechanism for CIF to fund project preparation from pre-feasibility stage to feasibility stage through seed grants from donors.

Environmental and Social Safeguards System (ESSS) - This describes UN-Habitat's commitments, roles, and responsibilities towards environmental and social (E&S) risks and impacts associated with UN-Habitat's projects and programmes.

Financeable - A project that demonstrates an excellent business case/model, hence attractive to private investors.

Environmental Social Governance (ESG) framework - This framework assesses the environmental, social and governance dimensions of a project to ensure they maximize on their positive impact especially in relation to ethical concerns.

Promoters - They are traditionally the development proponents. In CIF's case this refers to the entity that wishes to get the project developed and constructed (Cities during development and Project Equity Providers once the project has been tendered).

Sustainable Development Goals (SDGs) - These are a collection of shared goals that serve as a blueprint for peace and prosperity for the entire planet.

SDG Cities - Cities that are accelerating sustainable development to achieve the SDGs.

UN-Habitat - The United Nations (UN) focal point for all urbanization and human settlement elements.

Cities Investment Advisory Partners (CIAP)- Implementing partners who provide advisory services and initial to mid-stage project preparation.

Cities Investment Portal (CIP) - Implementing partners responsible for hosting and tracking the progress of projects in CIF's pipeline through an online portal.

Cities Investment Vehicles (CI Vehicles) - Implementing partners responsible for late-stage project preparation to bring projects to financial close.

Resilient Cities Catalyst (RCC) - An independent non-profit organisation with a mission of helping cities and communities create catalytic change.

Smart Cities Network (SCN) - A global platform aiming to build inclusive, sustainable and smart cities.

Emerging Markets Investment Fund (EMIF) Group -

Implementing partners supporting the preparation, financing, construction, and operation of sustainable infrastructure assets via both public-private partnerships and fully-private investment structures.

Capital Advisory Platform (CAP) - a proposed partnership between UN Habitat and the Global Development Incubator that aims to mobilise significant private capital towards sustainable urban development through translating the urban planning needs of governments into a pipeline of investable projects for private asset allocators

Terms of Reference (ToR) - A framework that describes the scope, context and expected outputs for each urban project.

New Urban Agenda (NUA) - A framework of universal actions for housing and sustainable urban development.

Bus Mass Transit (BMT) - The use of high capacity buses to provide road-based mass transit services

Project Selection Committee (PSC) - An committee responsible for assessing and selecting projects that enter the CIF pipeline.

Bus Rapid Transit (BRT) - A public transport system with dedicated roadways and priority at intersections.

100 Resilient Cities (100RC) - A joint initiative helping cities globally enhance their resilience to social, economic and physical challenges that are part of the modern world.

Proof of Concept (PoC) - The realization of the feasibility of an idea.

Gross Domestic Product (GDP) - The measure of the market value of all the final goods and services produced in a specific time period by a country.

Public-Private Partnership (PPP) - A mechanism for government to procure and implement public infrastructure and/or services using the resources and expertise of the private sector.

Rapid Own Source Revenue Analysis tool (ROSRA) - A tool that identifies revenue leakages and known bottlenecks for reform in local revenue administration systems.

Abu Dhabi National Exhibition Center (ADNEC) - An exhibition venue in Abu Dhabi.

Executive Summary

The Cities Investment Facility (CIF) feasibility fund prospectus introduces a groundbreaking fund facility created to support project preparation for urban Infrastructure Projects.

This prospectus is intended primarily for potential donors, foundations, and organisations interested in sustainable urban development and the opportunity to positively impact. It also aims to attract individuals and organisations interested in raising private funds for urban development projects. The prospectus provides a full knowledge of CIF's work, the feasibility fund, and the role of global partners in achieving the sustainable development goals (SDGs).

The prospectus first introduces the United Nations Human Settlements Program (UN-Habitat), CIF and the feasibility fund. The subsequent section details the role of the two entities and the fund in unlocking private capital. This is followed by an in-depth exploration of CIF's background, methodology, current pipeline status and how it sources projects. The next section explores the feasibility fund, how it works, how donors can participate, overhead expenses, financial targets and the fund's governance structure. This closely relates to the subsequent section, CIF and Feasibility Fund, which analyses the roles foundations have to play in assisting the achievement of the set SDGs, why they should partner with CIF and UN-Habitat, and the benefits of this partnership.

Lastly, the prospectus gives a detailed overview of the implementing partners within CIF, including the portal partners, Think City, its advisory partners, RCC, Gensler, Reall, South Pole,

Smart Cities Network, and its vehicle partner, EMIF. Thus, this prospectus will give a clear overview of why CIF is instrumental in facilitating sustainable urban development through unlocking private capital and why this mandate requires the input of donors and organisations to impact urban cities positively.



Figure 1: Relationship Diagram

Introducing UN-Habitat

UN-Habitat is the focal point of all urbanisation and human settlement elements within the UN. It aims to work with partners to build sustainable, resilient, inclusive, and safe communities and cities.

UN-Habitat works in over 90 countries to promote transformative change in cities and human settlements through knowledge, policy advice, technical assistance and collaborative action.

Further, UN-Habitat's mission is summarised into four primary roles: Think, Do, Share and Partner. This means:

- **Think:** The normative work of UN-Habitat includes breakthrough research and capacity-building that establishes standards, proposes norms and principles, discusses best practises, monitors worldwide progress, and aids in designing policies relevant to sustainable cities and human settlements. Through UN-Habitat's capacity building and research, it can conduct market research to identify potential projects according to the needs of cities and assess the level of funding available to meet these needs.
- **Do:** The operational work of UN-Habitat takes various forms of technical aid, relying on the organisation's unique expertise in sustainable urbanisation. This operational work is enabled by the development and existence of several tools, such as the SDG assessment tool, which guides cities

in submitting inclusive and sustainable urban projects, and the Environmental and Social Governance (ESG) tool, which analyses the risk and impact of potential projects. Using these tools by cities and municipalities enables UN-Habitat to source potential projects that can undergo development and financing.

- **Share:** Through advocacy, communication and outreach, UN-Habitat mobilizes public, political and financial support and collaborative action to inspire qualitative change in national development plans, policy frameworks, development practice and investment choices for sustainable urban development at the local, national and global level.
- **Partner:** UN-Habitat collaborates with governments, intergovernmental, UN agencies, civil society organizations, foundations, academic institutions and the private sector to achieve enduring results in addressing the challenges of urbanization.

UN-Habitat's presence globally creates a global framework through which it can source projects for introduction into CIF's pipeline through its regional offices.

Introducing Cities Investment Facility

The Cities Investment Facility (CIF) Programme is a public/private, multi-stakeholder, multi-stage initiative established by UN-Habitat to address the Urban infrastructure development gap while ensuring and certifying the furtherance of the 17 Sustainable Development Goals (SDGs). The programme unlocks private investment in urban infrastructure projects within low- and middle-income markets.

The operations of CIF are structured through three main instruments:

I. Cities Investment Portal (CI Portal): provides an online platform that hosts and tracks the progress of the sustainable urban infrastructure projects that have been admitted into CIF as they make their way through project preparation towards financeable, construction-ready status; funding for this work is provided through a small portion of the donor-supported Feasibility Fund.

II. Cities Investment Advisory Platform (CIAP): provides advisory services regarding ideation, initial feasibility, and project preparation; funding for this work is provided through a donor-supported Feasibility Fund.

III. Cities Investment Vehicles (CI Vehicles): provides first-risk capital and advisory oversight of the preparation activities to ensure the project is fully and adequately developed in a manner that ensures it is attractive to external commercial project construction capital investors; funding for this work is supplied through a blended finance approach .

UN-Habitat has designed CIF as a funded programme of advisory, resources & support to cities. The programme is funded both through donations and grants and through private capital.



Introducing the CIF Feasibility Fund

CIF seeks to establish a Feasibility Fund and a Funding Facility. The Feasibility Fund will be an evergreen fund supporting project preparation funded by success fees from successful projects prepared by CIF. The Feasibility Funding Facility is a funding mechanism for CIF to fund project preparation from pre-feasibility stage to feasibility stage through seed grants from donors and setting up the Feasibility Fund. Project sourcing and preparation will be aligned to the donor's thematic and geographical area of interest.



With an initial funding of \$20 million, CIF projects support allocated to 28 projects over 36 months sparking a pipeline of 18 mature projects ready for development at a financial close of \$1.8 billion. The success fees from the projects that reach financial close will then be channelled to an evergreen feasibility fund that can sustain itself to continue providing funding for project preparation without the receipt of seed grants.

The CIAP will be the primary beneficiary of the Feasibility Fund Facility, with the average project preparation cost estimated at \$700,000 per project. Aside from financing project preparation by CIAP, the Feasibility Fund Facility will fund earmarked and non-earmarked expenses ranging from supporting expenses related to the portal's management, capacity building of local governments and other related administration expenses by CIF.



UN-Habitat, CIF, and the Feasibility Fund are all working towards a common objective, financing sustainable urban development by unlocking private capital.

Thus, the next segment will explore how they unlock private capital.

Unlocking Private Capital

The Cities Investment Facility's mission is *"To support local governments to develop financeable and sustainable infrastructure projects and enable the flow of capital into urban projects by guiding them through the project preparation process of pre-feasibility, feasibility, development, and financial close"*.

A key obstacle to this mission is the financing infrastructure gap that exists due to the lack of well-prepared projects according to international standards. The gap is currently estimated at \$15 trillion. To attain its mission, CIF brings together multiple stakeholders through its established pillars, CIP, CIAP, and CI Vehicles. The project preparation process is extensive requiring significant investment hence a need for UN-Habitat, CIF and Feasibility Fund to unlock private capital.

UN-Habitat

Regional and local governments require intensive financial resources to support the growth of their urban economies. UN-Habitat estimates that in the next three decades, continents such as Asia and Africa will require an investment of 5% of their gross domestic product (GDP) to support infrastructure and other public services for their rapidly growing populations. Despite these estimates, these governments face challenges in securing financing for infrastructure investments that affect the most vulnerable urban populations. Also, these governments face challenges in unlocking debt as most lack the revenue autonomy and capacity to enable creditworthy projects. UN-Habitat estimates that only 20% of the largest 500 cities globally meet creditworthy standards, which undermines the ability of the rest to finance their urban infrastructure investments.

Recognising these challenges, UN-Habitat plays a key role in unlocking private capital in various ways. First, UN-Habitat aimed to unlock private capital by establishing the CIF Initiative

to address the existing municipal financing infrastructure gap. Through CIF, UN-Habitat creates a mechanism that can provide cities and municipalities with services to ensure their projects are de-risked and financeable, enabling them to attract private investment.

Secondly, UN-Habitat unlocks private capital through the development of tools such as the Rapid Own Source Revenue Analysis (ROSRA) tool. The ROSRA tool aims to identify revenue leakages and known bottlenecks for reform in local revenue administration systems. This tool is significant given the overreliance by cities and municipalities on internally generated revenue to fund infrastructure projects. This reliance is threatened by weaknesses in their revenue collection and administration systems. Using the ROSRA tool, cities and municipalities can strengthen their revenue systems to enhance their creditworthiness and leverage their resources to secure private capital investment to fund infrastructure developments.

Cities Investment Facility

The Cities Investment Facility (CIF), established by UN-Habitat, is crucial to unlocking private capital for urban infrastructure projects in low- and middle-income markets while advancing the Sustainable Development Goals (SDGs). It does so in the following processes:

- **Project Sourcing:** CIF assists in identifying urban infrastructure projects with potentially viable business models.

- **Project Preparation:** CIF's project preparation process assesses projects' financial viability and sustainability, conducts due diligence, and develops innovative financing mechanisms. This helps mitigate investment risks and enhances the prospects for private capital participation.
- **Private sector implementing partners:** CIF's private sector implementing partners bring a wealth of experience in public-private partnership (PPP) financing, an instrumental element in unlocking private capital for financing sustainable urban development. The implementing partners have a proven track record in PPP financing, an expert understanding of the complexities of navigating the regulatory frameworks and financial instruments required for PPP financing.

Feasibility Fund

The Feasibility Fund CIF seeks to establish is also significant in unlocking private capital. The fund contributes to mobilising private investment through the following general and operational principles:

General Principles of the Feasibility Fund

- **Inclusivity and Diversity:** The Feasibility Fund shall be global in reach and thus, any country can contribute and receive from the fund.
- **Accountability and Transparency:** The Feasibility Fund shall be externally audited annually, with reports published to the public. The promoters will need to sign a cooperation agreement that will ensure that they will align with international best practices (e.g. OECD principles) throughout the entire procurement process.

- **Maximum impact:** A minimum of 90% of the Feasibility Fund shall be used for Project Preparation purposes.

Operational Principles of the Feasibility Fund:

- **Evergreen Nature:** The Feasibility Fund's evergreen nature is crucial in securing private funding since it assures the fund's long-term viability. The fund can sustain itself and continue supporting future urban development initiatives by obtaining success fees from supported projects. This approach gives donors confidence that their donations will have a long-term impact and support ongoing sustainable projects.
- **Jurisdiction Optimization:** The Feasibility Fund will be located in regions with UN-friendly tax considerations and a favourable legal and regulatory framework for private capital development to appeal to donors. Ideally, these jurisdictions will provide incentives and tax benefits that enhance private sector involvement.
- **Easy fund receipt and deployment:** The Feasibility Fund will be set up to ease fund receipt and deployment. This simplified and streamlined process for receiving and deploying funds will enable an efficient flow of capital, allowing for donors' participation and timely preparation of projects which ultimately attract private capital investment. Thus, having looked at how UN-Habitat, CIF, and the Feasibility Fund unlock private capital, the next segment will explore CIF's origin, its offering, methodology, pipeline and sourcing in detail.

In-Depth: UN-Habitat / Cities Investment Facility (CIF)

UN-Habitat's strategic plan 2020-2023 adopts a more strategic and integrated approach to solving the challenges and opportunities of twenty-first century cities and other human settlements.

In achieving these goals, UN-Habitat aims to drive sustainable urbanisation as a development and peace driver to improve living conditions. This aligns with its second domain of change, "enhanced shared prosperity of cities and regions." More specifically, this domain of change aims to:

- Improve spatial connectivity and productivity of cities and regions
- Increased and equitably distributed locally generated revenues
- Expanded deployment of frontier technologies and innovations for urban development

The prosperity of cities and regions is especially important, given their contribution to the global economy. Currently, urbanisation levels are a crucial factor in gross domestic product (GDP) levels, and enhancing the shared prosperity of cities and regions can generate wealth and maximise economies of scale, leading to inclusive cities that promote the well-being of everyone.

The achievement of UN-Habitat's second domain of change is closely linked to the development of SDG cities. The SDG Cities initiative aims to recognise cities' efforts in accelerating sustainable development by addressing key challenges and setting development priorities in an approach that incorporates social, economic, and environmental dimensions. The appendix

will in-depth explore the SDG Cities initiative. The achievement of SDG cities relies on the need for strategic planning, the institutional capacity of cities, and, most significantly, investment in impact, hence the need for CIF.

Background: CIF's Origin Story

The CIF Program was conceived in 2018 after a Global Strategic Dialogue Series convened by UN-Habitat. The first, in Mannheim, held in April 2018, explored how the UN can shift its activities to add value to businesses with an ethical approach to sustainable urbanisation in their work. The second-UN-led Roundtable on Sustainable Floating Cities in New York - explored the same question in the context of a particular emerging thematic area of sustainable urban development. Finally, during the first UN-Habitat Assembly Business Leaders Dialogue in May 2019, businesses were given centre stage in exploring how cities can become better clients for business and how businesses can become more effective long-term partners to city authorities.

At this session of the UN-Habitat Assembly, a concept for a Capital Advisory Platform (CAP) was presented. This concept was set in motion at the Cities Investment Platform held at the Tenth World Urban Forum, Abu Dhabi, in 2020, with pilot projects presented to prospective partners of the initiative. The outcome of CIP was the official launch of CIF on 10 February 2020 at the Abu Dhabi National Exhibition Center (ADNEC).

What Do We Offer?

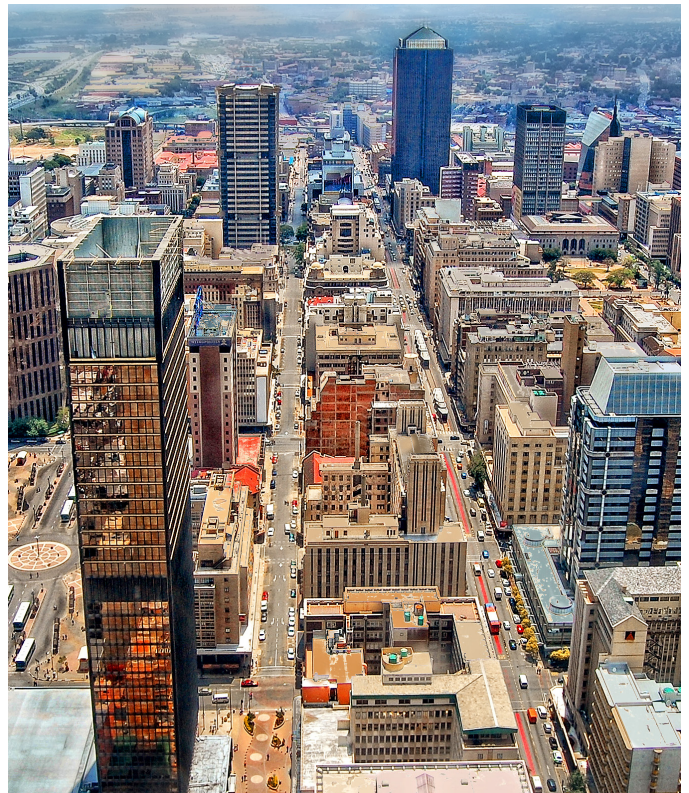
CIF is a programme of funded advisory, resources and support to cities, that cannot attract development and investment interest for the aforementioned highlighted challenges. CIF's mission is to ensure projects are viable for private investment and thereby catalyse international commercial capital and blended finance interest for late-stage project preparation and, ultimately, construction once the preparation phase is complete. CIF supports projects spanning affordable housing, transportation, renewable energy, water treatment, sanitation, and roads. CIF assists promoters within multiple regions and supports almost all cities within countries with a demonstrable need for project preparation support, including Asia and the Pacific, Arab States, Latin America, the Caribbean and parts of Eastern Europe. With perhaps the exception of renewable energy and transmission infrastructure, projects with budgets in the low- to middle-market (<\$200M), normally not pursued by private developers, are de-risked during the development phase so that private commercial construction capital can be realised in non-traditional investment geographies.

UN-Habitat serves the 193 Member States of the United Nations and provides a framework through which CIF can source and develop projects in through the existing UN-Habitat regional offices.

CIF embodies the following five goals for projects we support.

- Overcome subnational project preparation challenges to ensure that cities in developing nations have improved access to cost-efficient resources;
- CIF is a programme of funded advisory, resources and support to cities;

- Contribute to the realisation of the Addis Ababa Action Agenda 2030 SDG goals;
- Enhance the overall resilience of communities;
- Prepare the projects to ensure they are developed to international project finance standards and are sufficiently attractive for commercial capital at the PPP tendering phase.



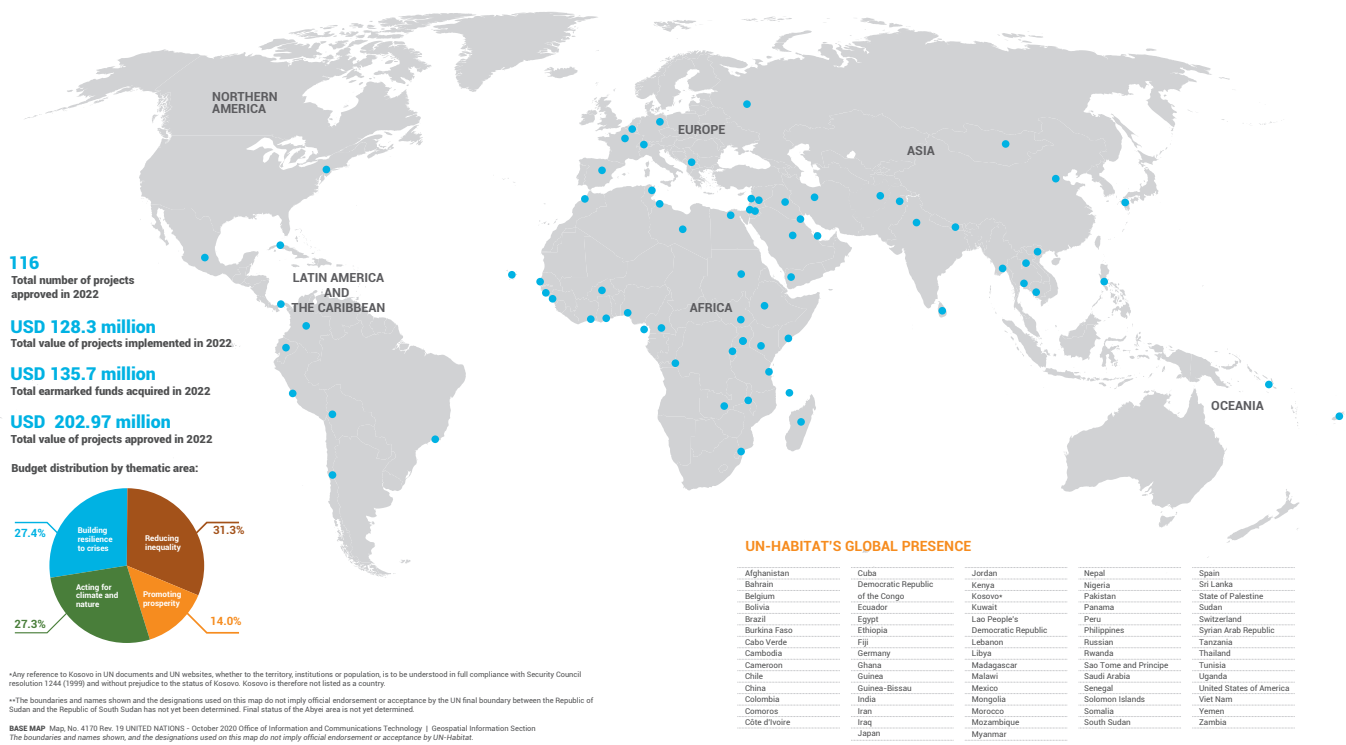


Figure 2: UN-Habitat Geographical Footprint

*Any reference to Kosovo in UN documents and UN websites, whether to the territory, institutions or population, is to be understood in full compliance with Security Council resolution 1244 (1999) and without prejudice to the status of Kosovo. Kosovo is therefore not listed as a country.

**The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the UN final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined. Final status of the Abyei area is not yet determined.

BASE MAP: Map No. 41170 Rev. 19 UNITED NATIONS - October 2020 Office of Information and Communications Technology | Geospatial Information Section
The boundaries and names shown, and the designations used on this map do not imply official endorsement or acceptance by UN-Habitat.

CIF Methodology

To undertake its mandate, CIF has adopted a methodology of supporting cities and project promoters with an integrated, interdisciplinary and impact-oriented approach. In this context, CIF's Advisory Program is divided into two phases: an initial Strategic Development Phase to inform and shape the subsequent Implementation Phase.

The Strategic Development Phase considers the identification and definition of the projects to be supported by CIF through the guidance of UN-Habitat and a Project Selection Committee composed of UN-Habitat's Private Sector Partners, hereinafter refer to as Implementing Partners. The ultimate goal of the Strategic Development Phase is to agree on Terms of Reference (ToRs) to define the framework for the delivery of the main services to be provided during the Implementation Phase to the city authorities and project promoters. During the Implementation Phase, UN-Habitat and its Implementing Partners provide technical assistance to city authorities regarding the implementation of their urban infrastructure projects that have been selected within the portfolio.

Strategic Development Phase

Project Assessment Report

The Project Assessment Report is prepared by the CIF Secretariat, with the support of the Project Selection Committee in charge of the Screening Process of the projects applying to the Open Call. This report describes the project in detail, provides an analysis of its current situation in terms of technical, financial and legal factors relevant to the implementation of the intervention, and analyses the potential contribution of the project to the achievement of the SDGs, the New Urban Agenda (NUA) and the objectives of CIF. Its ultimate goal is to inform the decision-making process of the Project Selection Committee and provide recommendations on how the proposed interventions could achieve maximum impact.

Training & Dialogue

CIF hosts a week of Training & Dialogue, which brings representatives from each onboarded city to present a 5-minute pitch on their project to their peers. This is an opportunity to engage with a group of subject matter experts and share experiences. The ultimate goal is to clarify each proposal and assign one Implementing Partner per project, allocated according to their thematic and geographical relevance.

Stakeholder Mapping

CIF recognises that it is vital to identify the main stakeholders (public and private sectors, civil society, and donor organisations) that influence the scope of the proposed interventions. This helps to understand the local institutional structures and existing organisations, as well as who should be the key stakeholders to steer the Implementation Phase and the subsequent construction, operation and maintenance of the interventions. This phase is carried out under the direct guidance of our Implementing Partners.

Validation Workshops

These are used to consolidate the final definitions of the interventions and Terms of Reference in committees led by key city authorities and supported by the assigned Implementing Partner. By doing so, it is expected to result in key stakeholders and main partners reaching a consensus, paving the way for the Implementation Phase.

ToR Development

The Terms of Reference (ToRs) define the framework for delivering the main services to be provided during the Implementation Phase. The ToRs describe the scope, context and expected outputs for each urban project and explain how the interventions link to specific SDGs, the NUA and the goals of CIF. The ToRs are developed based on the outcomes of the aforementioned tools used in the Strategic Development Phase through a participatory process with all relevant stakeholders, taking into account the project needs as identified in the Project Assessment Report. The development of the ToR is led by the Implementing Partner assigned to each project, supported by the CIF Secretariat and UN-Habitat’s Internal Community of Practice.

Implementation Phase

CIFs implementation is structured around its entities, Cities Investment Portal (CI Portal), Cities Investment Advisory Platform (CIAP), and Cities Investment Vehicles (CI Vehicles). The intervention of these entities is intended to prepare projects for private commercial investors who engage in the construction phase.

CI Portal

The CI Portal is an online platform that hosts and tracks the progress of the sustainable urban infrastructure projects that have been admitted into CIF as they make their way through development towards financeable, construction-ready status. It seeks to facilitate the matchmaking between projects and investors by offering users access to an interactive database of financeable city and country-level projects, along with potential investors with clear areas of interest, types of investment, and credentials that align with sustainability and inclusion principles.

It is the first entry point into CIF, comprising a digital platform that enables cities to better promote their urban development projects to an audience of construction/long-term investors and third-party experts who can provide financing, technical and advisory support.

CI Advisory Platform

The CI Advisory Platform is the element of CIF that is responsible for supporting successful projects that pass the assessment filters. The two elements of the CI Advisory Platform – bankability advisory and SDG assessment – provide

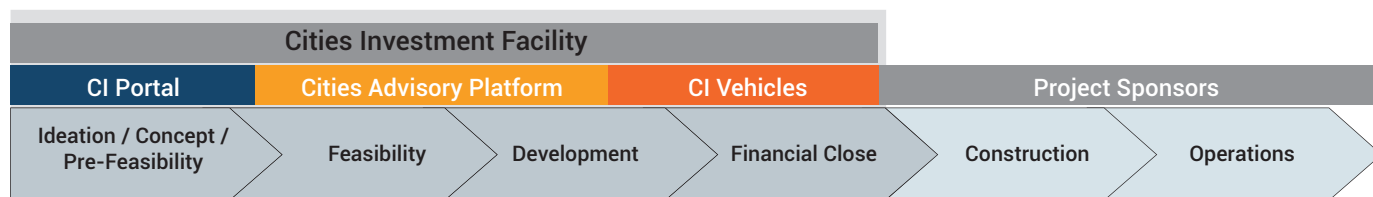


Figure 3: CIF Stakeholders’ Process Flow

technical assistance to selected projects, including project structuring, financial and technical due diligence, deployment of technical assistance capital (grants, reimbursable financing, loans, guarantees), getting projects to investment readiness, identification of blended finance scenarios and investment pathways (domestic and international exposures), and SDG impact assessment using an SDG Project Assessment Tool.

CI Vehicles

The CI Vehicles finance the bulk of the project preparation expense and provide bankability guidance for projects that have reached the mid-stage of development. Projects at the mid-

stage have been prepared and de-risked with the assistance of the Program’s CIAP partners and now require the typically more significant investment needed to complete development. Through blended financed structures (typically private equity funds), the CI Vehicles’ mission is to drive projects to financial close with other third-party lenders and investors. This process includes assisting project promoters in securing the appropriate equity sponsors and lending institutions. The figure below details the extensive project preparation process.

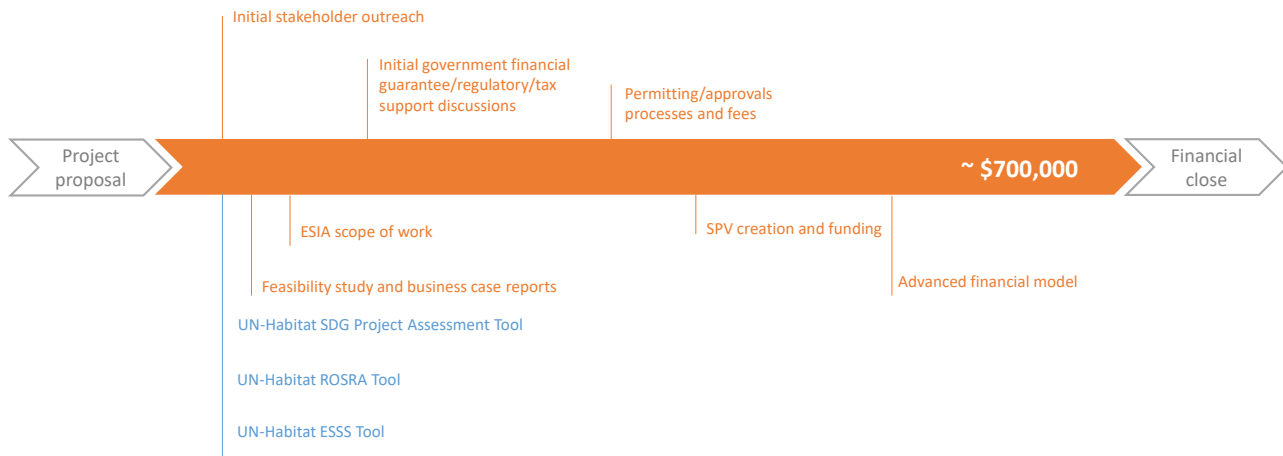


Figure 4: Cities Investment Facility Project Preparation process

Eligible CIF Projects

UN-Habitat and CIF support urban infrastructure projects that demonstrate a net positive benefit to a region and its populace, as measured through an SDG lens. CIF does not assist projects considered harmful to our climate, do not adhere to a “Do No Significant Harm” philosophy, or do not comply with minimum social safeguards (see the UN Global Compact’s Guiding Principles on Business and Human Rights).

While CIF’s regional support is general by nature, CIF can only support projects in OECD member countries if such projects can demonstrate a substantial benefit to indigenous peoples and cannot attract local support and funding. Projects that cannot define a direct net benefit to a Country’s cities are unlikely to receive CIF support.

CIF Operationalization Phase

CIF has committed to actively support at least 100 projects over 2028 to orient its actions toward mobilising finance from all sources, as envisaged in the Addis Ababa Action Agenda, to support local governments in achieving the SDGs by catalysing the investment needed in critical infrastructure and expanding economic opportunities to an ever-growing urban population. The objective is to demonstrate the impact that CIF has had in each of the regions of the UN geographical footprint by 2028 through the preparation of case studies that demonstrate the support of the Facility in the local context.

After the detailed outline of CIF’s background, methodology, pipeline sourcing and project action plan, it is crucial to explore the workings of the feasibility funding facility in support of the operationalization period for CIF.



Feasibility Funding Facility- In Support of Project Preparation During the Operationalization Phase (2024-2028)

How It Works

CIF is seeking philanthropic and public grants and donations totalling \$20 million to support projects within the pre-existing and future pipeline in 2024-2028 subject to donor thematic and geographical preferences. Specifically, donations are utilised by CIF's CI Portal and CIAP partners for the Portal's continued improved developments and operation; and the early development works of the projects admitted into the CIF pipeline from concept to feasibility.

With this prospectus, CIF is introducing the Feasibility Funding Facility concept. The Feasibility Funding Facility is the third-party managed vehicle that provides the technical assistance funding earmarked for expenses related to the continued development, maintenance, and operation of the Portal by the CI Portal's implementing partners; and the initial technical, environmental & social, financial, and legal advisory workstreams performed during the CIAP intervention. Furthermore, the Feasibility Funding Facility provides financial assistance to support capacity building amongst local and national stakeholders to ensure alignment between private funders and the government.

Our CI Portal implementing partners (Think City) are operating on a non-profit (cost-recovery) basis to develop, maintain, and operate the CI Portal to ensure project profiles are continually refreshed as more detailed information becomes available and to ensure the quality and reliability of information presented on the platform.

The CI Portal work is essential given the high volume of projects received and to be received through CIF Open Calls, UN-Habitat Flagship programmes, UN-Habitat projects, and the SDG Cities Global initiative. Based on the diversity of

projects and the expectations of CIF regarding its portfolio, the projects submitted to CIF need to be categorised based on the submission quality to ensure that projects showing the highest potential to reach the stage of implementation will achieve a Proof of Concept (PoC) to be presented in high-level interactive environments to private and commercial investors at World/ Regional Urban Forums.

Our CIAP implementing partners (RCC, Gensler, Smart Cities Network, South Pole and Reall) operate on a non-profit basis to significantly de-risk and take projects to a mid-stage level of project preparation readiness (Concept and Initial Feasibility workstreams). The remaining development work, as described earlier, is funded by CIF's Cities Investment Vehicles to prepare the projects for commercial funding. Given that our CI Vehicles operate on a for-profit basis, they do not receive direct funding from the Feasibility Funding Facility.

The CIAP work is critical given the inherent high-risk nature of early development. It is often unknown whether a project is financially and socially viable for all stakeholders until much of the conceptual and feasibility work has been completed. Capacity building is critical to ensure governments understand what is required of them and what they must facilitate (permits/ land control/guarantees) to ensure that project preparation is timely and that the projects, once fully developed, are considered investible for commercial capital providers.

Furthermore, CIF interns are currently placed via an uncompensated 6-month internship. Given the economic and social hardships that this might cause many qualified intern candidates, the Feasibility Fund facility will be tapped to provide financial support to our interns so that the program may attract a broader swath of candidates that may otherwise be unable to make a commitment to the program.

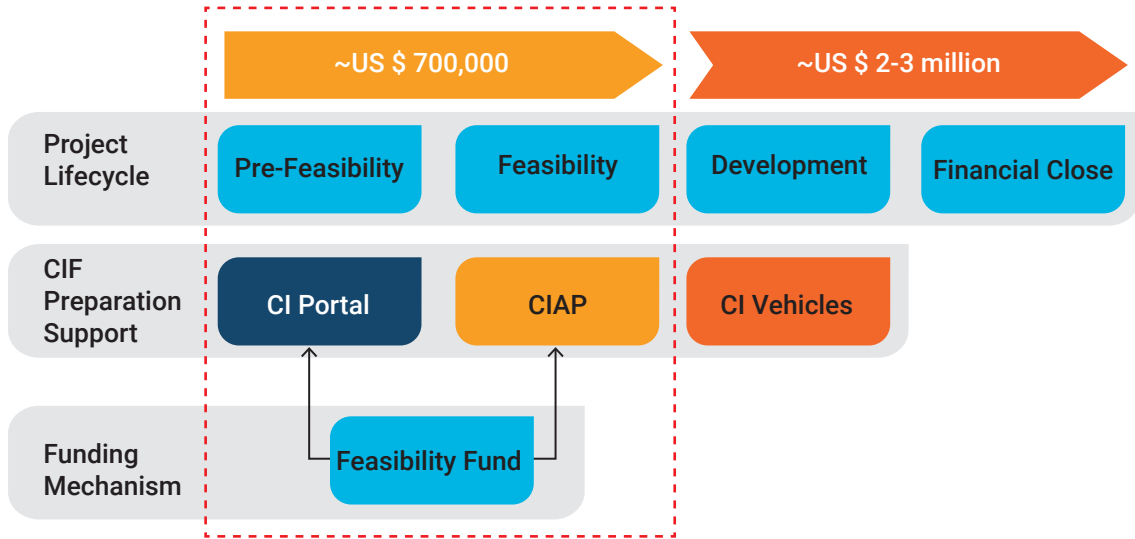


Figure 6: Cities Investment Facility process flow, powered by the Feasibility Fund

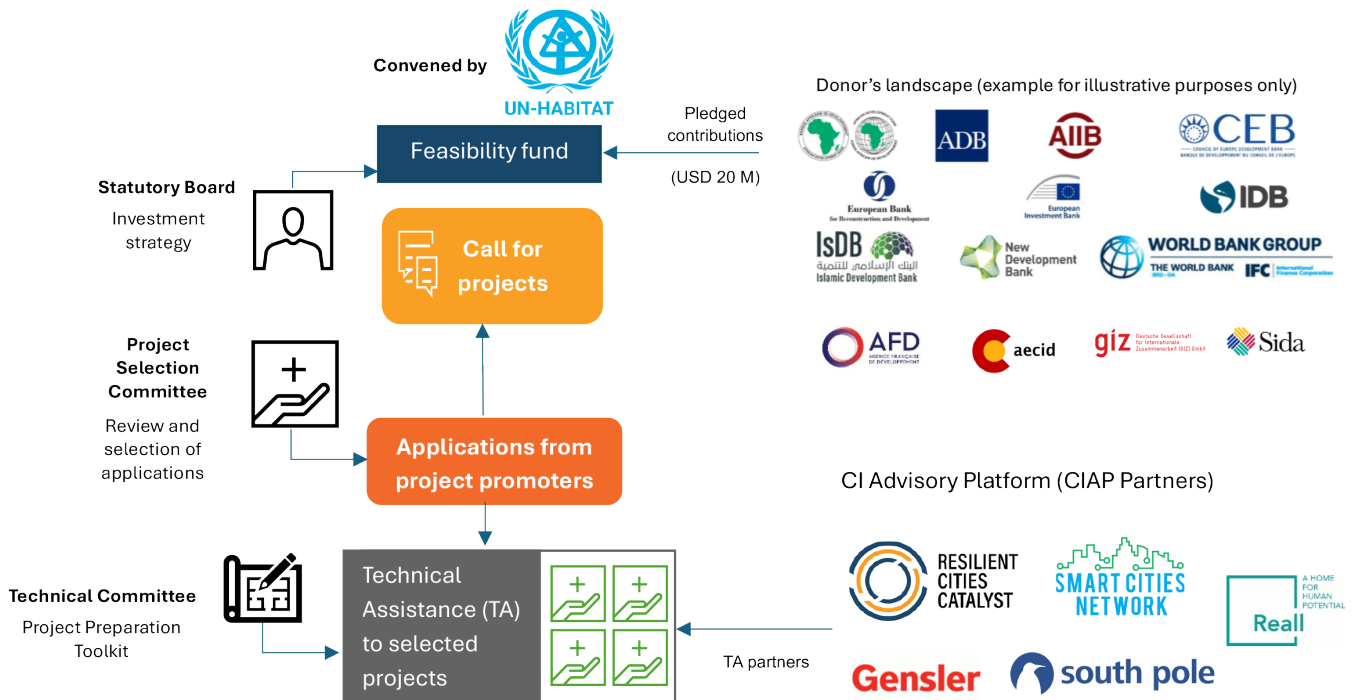


Figure 7: Proposed Governance Structure CIF Feasibility Fund

Statutory Board

The statutory board will be composed of three external experts with a proven track record in infrastructure finance and sustainable urban development in developing and emerging markets. UN-Habitat shall have observer status on this board. Their responsibilities will include:

- Oversight of the funding facility operations in line with the agreed investment strategy of the fund.
- Participation in the annual meeting and review of the annual report.

Project Selection Committee

The project selection committee will be composed of five members, as follows:

- 2 representatives of UN-Habitat
- 1 representative of a cornerstone donor.
- 2 external advisors.

Their responsibilities will include:

- Review and selection of suitable projects in line with the eligibility criteria defined.
- Drafting of the annual report.

Technical Committee on Project Preparation

The committee will be composed of five members as follows:

- 1 representative from UN-Habitat.
- 1 representative from each CIF founding partner.

Their responsibilities will include:

- Crafting the CIF Project Preparation Toolkit.

How is it operationalised?

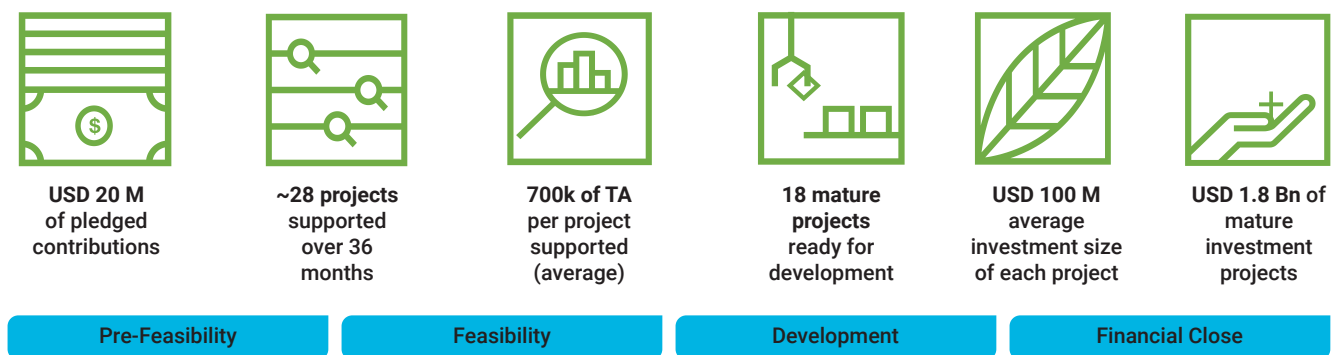


Figure 8: Catalytic impact of projects prepared through the Cities Investment Facility

This funding mechanism would be operationalized in two phases during the next five years:

Phase One (2025-2027)

The main fundraising approach will be seed granting from international development finance organisations e.g. multilateral development banks, charitable/philanthropic organisations, development agencies (SIDA, AfD etc), High Net Worth Individuals, and Family Offices.

The received funding will be deployed to cater for – facility set up costs, direct technical assistance and capacity building.

- Targeted number of supported projects – 25 projects.
- Targeted number of successfully prepared projects – 22 projects.
- Targeted contributions to be received – USD 20m.

Phase Two (2028-2029)

Primary funding typology will be success fees from phase one projects that have reached financial close.

Rationale for the Proposed Funding Structure

- Tested model – Donors are familiar with this type of structures.
- Value for Money – Low cost / maximum impact.
- Viability – No major legal / regulatory hurdles, easy to launch and low set-up costs
- Evergreen potential – If the funding facility proves to be a success, the structure can evolve to accommodate private investors and success fees from projects that reach financial close, reducing the dependency on public support.
- Transparency – Clear methodology or the selection of projects.

Setting up the Feasibility Fund Facility

| Item | Proposal | Considerations |
|----------------------------|--|--|
| Entity | Third Party Entity (not under UN-Habitat) | |
| | (Charitable) Foundation/Trust | |
| | Convened by UN-Habitat | |
| Types of Donations | Financial Contributions in cash only | Contingent upon donors preferences and constraints |
| | Pledged first, then disbursed once beneficiaries identified | |
| Jurisdiction | One Global | |
| | One in each region: | |
| | Arab States | |
| | Africa | |
| | Asia and the Pacific | |
| | Latin America and the Caribbean | |
| Transparency | The Fund Facility shall abide by the highest of the three sets of rules | Proposing quarterly reports to donors and annual public reporting of operations and accounts |
| | Consistent with the UN-Habitat Guidelines on Engaging with the Private Sector | |
| | Donor's requirements | |
| | Jurisdiction regulatory requirements | |
| Taxation/Relief Structures | Fund should be a tax-efficient 'pass-through' that is not subjected to tax, and should be tax efficient for donors | Contingent upon donors preferences and constraints |
| Fund Flow | As streamlined as possible: | Contingent upon donors preferences and constraints |
| | 1. Cash pledged by donors | |
| | 2. Projects selected by fund | |
| | 3. Cash transferred from donors to fund | |
| | 4. Cash disbursed to selected projects | |

Typical Funding Provided Per Project

As previously noted, the typical budget for CIF’s CI Portal or CIAP partners can total, and in certain circumstances exceed, up to \$700,000 per supported project. Typical outputs from the CI Portal’s operations support interactive city projects and investor databases to facilitate matchmaking and progress tracking, and outputs from CIAP intervention typically support initial desktop research and capacity-building efforts with local and national governments (see Figure 6).

Fund Operating Overhead Expenses

The Feasibility Funding Facility will also have an allotment for administrative and coordination costs related to its management and the Cities Investment Facility.

Financial Details and Performance Targets

UN-Habitat estimates that every \$700,000 of donor funding invested into the Feasibility Fund will unlock additional private preparation investment worth \$2 million through CIF’s

implementing CI Vehicles. In turn, it is estimated that an average of \$100 million+ of private construction financing will follow.

In all, our \$20 million targeted funding for the Feasibility Funding Facility is capable of catalysing an estimated \$1.8 billion in construction financing. However, CIF intends for the Feasibility Fund to remain evergreen by recovering disbursements through revenue-sharing mechanisms with our CI Vehicles and direct contributions from the project construction capital providers. As part of the PPP tendering package, the latter will be required to price their tender submissions with a prescribed fee payable to the Fund. This income is to be redeployed into additional project development.

Feasibility Funding Facility Roadmap

The feasibility fund roadmap details all the activities in preparation of the Fund’s establishment.

| Phase | Date | Milestone |
|---|---------------|--|
| Completion of Fund Prospectus & Materials | June 2024 | Prospectus, materials and communications packages created |
| Update project catalogue | July 2024 | Updated project catalogue (20 projects across diverse sectors and geographies) |
| Donor Identification and Engagement | November 2024 | Intensive targeted fundraising and donor engagement |

Figure 9: Feasibility fund roadmap

CIF & Feasibility Funding Facility - Donors and Partners

Foundations and Philanthropy

Important Role of Foundations and Philanthropy in Achieving SDGs Through UN-Habitat and CIF

The important role of philanthropy and foundations as catalysts for sustainable urbanisation is undeniable at the local, regional, and global levels. Foundations have unique flexibility and access to resources to invest in innovative technology, processes, and financing and can take risks related to developing innovative solutions. Partnering with UN-Habitat & CIF provides opportunities to test these innovative solutions on the ground and to scale them to deliver transformational change and impact for urban beneficiaries globally. Foundations contribute over 5% of UN-Habitat's ODA, of which 97% is channelled through intermediary organisations. UN-Habitat is committed to collaboration with foundations and philanthropy to leverage knowledge further, thought leadership, influence and strategic investments to make cities and human settlements inclusive, safe, resilient and sustainable for SDG 11 and all other SDGs which will be realised in urban areas where most of the world's population lives.

Why Engage with UN-Habitat & CIF?

Foundations now play an increasing role in sustainable development to bring about innovative and systemic change. UN-Habitat is the only UN organisation working specifically with local government leaders in addition to the UN Member States, so it is well positioned to ensure that solutions are sustainable by influencing policy for systemic change at multiple levels, from local to regional to national and international.

UN-Habitat & CIF can help foundations to achieve their objectives and reduce time barriers to entry for impact investments because it provides foundations with opportunities to engage in international fora like the World Urban Forum with other leading authorities and experts to influence policy and practice to address urban challenges. UN-Habitat offers foundations access to its extensive thematic and peer networks and its coalitions of partners in countries, including national and local governments, other UN agencies, communities, professionals and other urban stakeholders to facilitate the implementation of programs.

What is the Benefit for UN-Habitat & CIF?

UN-Habitat plays a lead role in supporting the achievement of the global urban development agenda and would greatly benefit from the involvement of foundations because, through their networks, foundations have the potential to raise awareness and secure financial support for urban priorities to their influential constituents. Foundations bring innovative approaches to development challenges, and their capacity to invest enables UN-Habitat & CIF to present foundations with viable investment opportunities in target countries aligned to the city and national development plans to achieve inclusive and lasting impact at scale.

How Donors May Participate

The allocation of funds from partners may be non-earmarked or earmarked as follows:

- Donors shall be encouraged to make non-earmarked multi-year contributions to the Feasibility Funding

Facility. This maximises the flexibility for the Statutory Board to define the use of funds based on the principles of the Fund and the likelihood of success.

- Donors that prefer to make earmarked contributions may earmark their contributions to specific SDG outcomes, geographies, and infrastructure classes.
- Funds can also be channelled directly from the source to implementing partners to undertake CI Portal's continued developments, maintenance, and operation work; or CIAP's project feasibility advisory work – where so, separate contribution to cover any Secretariat / Service Provider costs is encouraged.

UN-Habitat prefers donors to provide non-earmarked funding, but we understand certain Donors may have a thematic geographic or asset class in mind. To this end, we welcome direct earmarked contributions for individual project preparation initiatives. The Fund can also receive directed funding and ensure earmarked donations are channelled to a Donor's preferred project(s).

What is the value proposition to donors?

- Ability to source projects globally and in niche sectors of sustainable urban development. These are ESG impact projects that would otherwise not be prepared because they are not yet attractive to private capital.

- Leverage the extensive UN-Habitat network amongst sub-national project promoters to build institutional capacity to sourcing and preparing projects.
- Already established agreements with technical assistance providers that understand early-stage project preparation and that can be mobilised very quickly.
- Significant de-risking potential and leverage effect – For every 1 dollar received in seed grant funding, at least 125 dollars is invested in sustainable impact.
- Overall, the Private Sector-driven approach offers an incentive for projects to be prepared within a shorter timeframe and at an efficient cost.

The following section will highlight the existing implementing partners in CIF.

CIF Partners



Figure 10: CIF Partners

CI Portal: Think City

Think City is an impact organisation with the mission of making cities more people-friendly, resilient and liveable. As a regional city-making organisation, Think City provides policy thinking, management and implementation of place-based solutions while acting as a catalyst for change in how cities are planned, curated, developed, and celebrated.

Think City is a special-purpose subsidiary of Khazanah Nasional Berhad, Malaysia's strategic investment arm, formed to work on urban rejuvenation to create more resilient and people-friendly cities.

CIAP: Resilient Cities Catalyst (RCC)

Building on a legacy, Resilient Cities Catalyst is an independent non-profit organisation formed by members of the 100 Resilient Cities (100RC) leadership team, created to empower change in how cities plan and act.

CIAP: Gensler

Gensler is a global architecture, design, and planning firm with 53 locations across Asia, Europe, Australia, the Middle East, and the Americas. Founded in 1965, the firm is a trusted advisor to 4,000 active clients across more than 29 practice areas spanning the work, lifestyle, community, and health sectors. Guided by determined optimism, we believe the power of design can spark positive change and create a future that promotes equity, resilience, and well-being for everyone.

CIAP: Smart Cities Network

Smart Cities Network (SCN) exists to serve its global community and membership base. We believe in sustainable living and closely align our activities with the United Nation's Sustainable Development Goals (SDG). Smart City technology can benefit all of us when implemented thoughtfully - with consideration for the needs of people living in Smart Cities, as well as our fragile natural environment.

CIAP: Reall

Reall innovates and invests in climate-smart affordable homes in urban Africa and Asia. Green homes are a doorway to answering 16 of the 17 Sustainable Development Goals – transforming the lives of low-income people and responding to Covid-19 by driving inclusive clean green growth, job creation, gender equality, urban resilience, and pathways to net zero.

CIAP: South Pole

South Pole is a leading climate solutions provider and carbon project developer. With its Sustainable Infrastructure Practice, South Pole supports cities, regions and countries in their transition towards a climate-resilient and low-carbon economy, providing project preparation for

CI Vehicle: EMIF Group

EMIF Group is an asset management platform focusing on non-OECD infrastructure investment. With over 100 years of combined experience, EMIF Group's investment team has extensive direct experience developing and financing infrastructure projects within these regions. EMIF has mobilised over \$20 billion in equity capital through advisory, active development, construction equity, and M&A activities.

After familiarization with CIF's partners, it is crucial to detail a case study of an existing project in CIF's pipeline.

Case Study

Lagos: Shagamu to Mile 12 Bus Mass Transit and Terminal (“Shagamu”):

The \$265M Shagamu to Mile 12 project will establish a Bus Mass Transit (BMT) route on a selected corridor in Ogun state in Nigeria, terminating at the Waterways Terminal at Mile 12 in Lagos.

Ogun State is under pressure from rapid urbanisation, particularly in the South, where unplanned urban development is being experienced as a result of the spill-over of the Lagos Mega City, with the greater part of Ogun’s urban population now concentrated in this region, leading to growing deficiencies in service provision, infrastructure and lack of efficient transportation systems for the sprawling and scattered population.

Ogun and Lagos State Governments intend to work together to establish a Bus Mass Transit (BMT) route, including Bus Rapid Transit (BRT), connecting with a new Ferry Terminal at Mile 12 and the existing Lagos BRT network.

Initial Project Selection Committee Review:

The Project Selection Committee (PSC) analysed the Shagamu project for its alignment with the SDGs, the quality of the initially prepared project scoping, and the preparation works submitted. Further, an analysis of the business case was assessed.

The PSC is comprised of representatives from various CIF stakeholders and Implementing Partners. Each representative scored the project submission utilising a standard form assessment template, and these scores were aggregated. The

Shagamu project score exceeded the Track 1 threshold and was recommended by the PSC to move into the next CIF stage along with a Project Selection Report.

Through the “Training and Dialogue” process, a request for additional information and clarification was made to the project promoter, and based on the additional supporting information supplied, the PSC completed its evaluation process and determined that Shagamu would be considered for CIF preparation support.

Uploading and progress tracking on the CI Portal database:

Upon further engagement to verifying the information and address data gaps, Shagamu’s project was uploaded onto CI Portal’s interactive database of financeable city and country-level projects. The platform will host and track the progress of Shagamu’s project preparation journey as it progresses towards financeable, construction-ready status. Its display on the Portal opens opportunities for Shagamu to connect, network, and communicate with a global audience of interested stakeholders.

Shagamu’s project profile on the portal will be continually refreshed as more detailed information becomes available. To ensure the quality and reliability of the information, the Portal’s management team includes subject matter advisors that review incoming materials and project documents. Interested investors can elect to be regularly updated on project progress and notified when (in the opinion of CIF) it has reached a financeable, construction-finance-ready status.

Onboarding

In 2023 Shagamu was pitched to CIF's CIAPs to gauge their interest in providing preparation support. All submitted information and supporting documentation will be validated through direct engagement with the project's promoter and the interested CIAP.

Before any funding is committed, a budget will be prepared, and a Terms of Reference commitment from the project promoter that obligates and ensures their continued engagement/facilitation throughout the entire CIF process will be secured. Further, a scoping document is to be prepared by the CIAP partner highlighting the specific workstreams and associated costs that justify the overall assigned budget.

Upon the completion of the onboarding phase, the project, its promoter, and assigned CIAP partner undertake the agreed upon early to mid-stage project preparation workings, and the Feasibility Fund earmarks an amount for disbursement equivalent to the prepared budget.

CIAP Intervention - Early Preparation Activity:

The CIAP will prepare an initial feasibility analysis for assessment by potential interested CIV parties. Subject to CIV interest and engagement, all parties will meet regularly to assess and adjust workstreams according to the CI Vehicles and project requirements. Early CI Vehicles engagement throughout the CIAP intervention enhances the preparation process and helps to ensure CI Vehicles interest post-CIAP involvement.

Upon completion of the scope of work that was prepared at the onset of the CIAP intervention, a CIAP draft report is to be submitted to the interested CI Vehicles party and provided that the CI Vehicles is satisfied with the early preparation activities, the project is to be officially handed over for the remaining development work sometime in 2024.

Mid To Late-Stage Preparation Activity:

The CI Vehicles and project promoter will establish agreements outlining the required commitments of both parties through the remaining development work prior to the project's tendering. In consultation with the promoter, the CI Vehicles will create and directly fund a budget for the preparation activities and, in most cases, embed a project manager from the region or surrounding area to liaise and guide the overall development process. Funding for the budget will be facilitated through a Special Purpose Vehicle domiciled from outside the project's country of origin, and expenses/payments will flow through this vehicle. The CI Vehicles continues to advise and provide overall guidance to the development process through to financial close to ensure the project is turnkey for construction funding.

Post CIF Direct Intervention:

Provided that the CI Vehicles intervention results in a socially & environmentally sustainable and financially viable project in accordance with the work plan and expected outcomes, Shagamu will then be transferred to a third party for the tendering process to attract the commercial equity required for construction and operations.

It is at this point that CIF's direct development involvement ceases. However, the project and Cities will be required to utilise and report impact annually via a supplied SDG data reporting tool for at least 5 years post-construction.

Provided that the project has been prepared attractively to commercial capital providers and development risk has been substantially reduced, a tender should ultimately result in an efficient bidding process whereby the ultimate costs borne by the project's beneficiaries (the transit riders) and Cities are reduced.

Appendix A: Impact Assessment & Reporting

UN-Habitat and CIF are committed to reporting SDG and ESG impact annually. Several tools are to be implemented to measure progress and impact:

SDG Project Assessment Tool

The SDG Project Assessment Tool, hereinafter referred to as the SDG Tool, is a guide for project development that allows the private and public sectors, civil society, academia, and international organisations to implement more effective urban projects.

The SDG Project Assessment Tool (referred to as the SDG Tool) has been developed by UN-Habitat as an offline, digital, and user-friendly instrument to guide City Authorities and

Implementing Partners in the development of more inclusive, sustainable, and effective urban projects. The SDG Tool's main purpose is to further align selected urban projects with the SDGs and each of their city's contexts.

The SDG Tool is applied periodically throughout the various phases of project implementation as an iterative assessment, triggering a discussion among key stakeholders to improve the projects further. Application of the SDG Tool will generate recommendations to identify weaknesses that could be improved for projects and strengths, which could contribute to a greater sharing of best practices among cities in the programme.

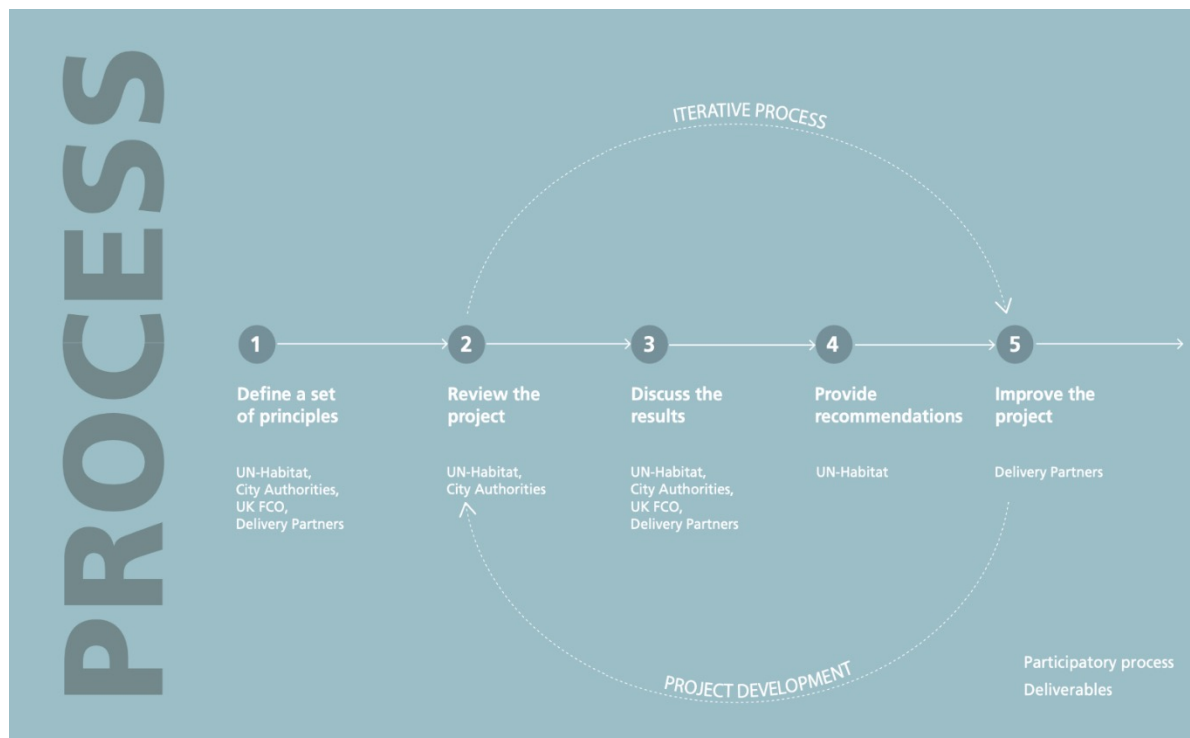


Figure 11: Process Steps for the Implementation of the SDG Tool

ESG Framework

The Environment, Social, and Governance (ESG) Framework is a standardised risk assessment tool for CIF projects across all regions and sectors. It ensures that the projects do no harm while contributing to the SDGs and showcases their impact to partners and future investors. The ESG Framework is based on quantitative indicators. It works alongside the Environmental and Social Safeguards System (ESSS), which describes UN-Habitat's commitments, roles, and responsibilities towards environmental and social (E&S) risks and impacts associated with UN-Habitat's projects and programmes.

It is a data-driven assessment tool integrated into the project preparation, monitoring, and evaluation stages to test sustainability throughout the lifecycle, aiming to screen the projects' activities.

Overall objectives are to effectively identify, assess, manage, and monitor environmental and social risks and impacts of CIF's projects and programmes while maximising positive environmental and social impacts. The ESG Policy aims to provide a globally applicable framework to quantify and assess environmental, social, and governance-related risks and impacts of projects by monitoring their performance throughout the different phases of the projects. The respective baseline standards per criterion must be met to be approved in the CIF portfolio, but they also give the opportunity to demonstrate positive contributions. Furthermore, it aims to engage affected communities and stakeholders in the project design through transparent disclosure of project-related information. The sustainability strategy of the ESG Framework itself will also be improved in line with the stakeholders' feedback.

As displayed in the table below, each Environmental, Social and Governance dimension has several sub-categories assessed with a tailored questionnaire. Three criteria thresholds are present. The baseline represents the minimum standards

to be met to fulfil the requirements for each sub-category. Positive contribution factors are measurable contributions to a sustainable objective significantly above the baseline. Lastly, factors outside the ESG affecting the wider society, either directly or indirectly, that are not captured within these specific criteria can also be considered.

The Environmental Dimension notes that infrastructure projects produce large, irreversible, immobile capital assets and typically occupy valuable land areas. They thus impact all aspects of the stock of natural capital: biodiversity, water, land, atmosphere, and climate. Most of them also support the consumption of energy by economic agents largely supported by fossil fuels, so they contribute to a degree to greenhouse gas emissions. Criteria indicators aiming to quantify this environmental risk are, for instance, varying numbers of vulnerable species, CO2 emissions per year, % of renewable materials, and PM25 and PM10 emissions.

The Social Dimension covers gender inclusivity, health and safety, and human and labour rights enhancement. Some examples of indicators are the number of women represented in decision-making bodies, the occurrence of fatal and non-fatal injuries, and the national employment of labour laws and human rights. Following the EBRD Resettlement Guidance and Good Practice Plan, this dimension includes resettlement mitigation aspects. To promote stakeholder engagement, guidelines for free, prior, and informed consent by the UNDP and UN-REDD and several others, like the Stakeholder Engagement Standards and the Environmental and Social Impact Assessment Standards,

The Governance Dimension includes topics like corruption, policy, and fiscal transparency. Anti-corruption and anti-bribery policies must be embedded in the associated framework and support ethics, accountability, integrity, and transparency policies.

| Broad dimensions and respective sub-categories | | |
|--|---|---|
| Environmental Dimension | Social Dimension | Governance Dimension |
| <ul style="list-style-type: none"> ➤ Protection and Enhancement of Biodiversity and the Natural Environment ➤ Climate Change Mitigation / GHG Emissions Reduction ➤ Promotion of the Efficient Use of Natural Resources/Waste Reduction & Supporting the Transition to a Circular Economy ➤ Embedding Pollution Prevention and Control | <ul style="list-style-type: none"> ➤ Promoting Gender and Ability Inclusivity ➤ Promoting Health and Safety ➤ Protection and Enhancement of Human and Labour Rights ➤ Land Acquisition and Resettlement Migration ➤ Promoting Stakeholder Engagement | <ul style="list-style-type: none"> ➤ Embedding Anti-corruption Policies and Procedures ➤ Embedding Transparency and Accountability Policies and Procedures ➤ Embedding Government Policies for Project Fiscal Transparency and Procedures ➤ Embedding Sustainability and Compliance Policies and Procedures |

Figure12 : Environmental, social and governance dimensions with respective sub-categories

The above-displayed services will be adapted depending on the project stage and type, reflected on the Terms of Reference to be developed at the Strategic Development Phase, which should consider the project’s advancements achieved so far.

Concept Stage projects are at an early-stage development with several opportunities to elaborate further on details, with low project complexity. At the Concept Stage, little specialised technical or strategic expertise is required. Projects at a Mid-level Development Stage still have room for further detailing but already have high complexity. Therefore, specialised technical and UN-Habitat experts are required. The third project stage represents the Advanced and Technically detailed level. The project is already developed with a detailed technical plan with a mid-to-high-level complexity. This type of project and complexity can include the required assistance of External Experts not present within UN-Habitat, thus relying on the expertise of UN-Habitat’s Implementing Partners.

Local Finance Framework

Urbanisation is a key driving force for global and national economies. Currently, cities contribute more than 80 percent of the global GDP. Despite this, cities in developing countries often have insufficient revenue to meet the growing need for public infrastructure and services. Failure to attract these resources will inevitably lead to congested, polluted, and expensive cities which deter investment and hamper urban economic growth. Accordingly, past conventions and treaties on Local Government Finance, the Addis Ababa Action Agenda or the New Urban Agenda have called for additional resources to be invested in urban development, via improved leveraging of a variety of private and public funding and financing options (including improved transfers, own source revenues, land-value capture, debt, bonds, private investment, etc.).

While the full range of funding/financing sources should be leveraged to attract additional resources to urban development, not all sources are suitable for all cities nor for all types of investments. Each funding/financing source has its own unique

strengths, weaknesses and applicability. Failure to recognize this leads to poor prioritization of capacity building interventions of local governments and ultimately inefficient usage of public resources. Failure to heed the unique suitability of the different instruments has brought about a situation where 90% of bankable project initiatives in Africa have not reached financial close. Could we not have better gauged the financiability of some of those project from the get-go and instead invested those funds in other more applicable funding or finance mechanisms?

To provide answers to this question and increase the overall usage of public resources in the local finance space, UN-Habitat is developing the Local Finance Framework (LFF). The LFF is still in development but already some initial/tentative hypotheses to guide public decision making around the types of funding and financing mechanisms which local governments should leverage to deliver public infrastructure.

A High-level Local Finance Framework (to be validated)

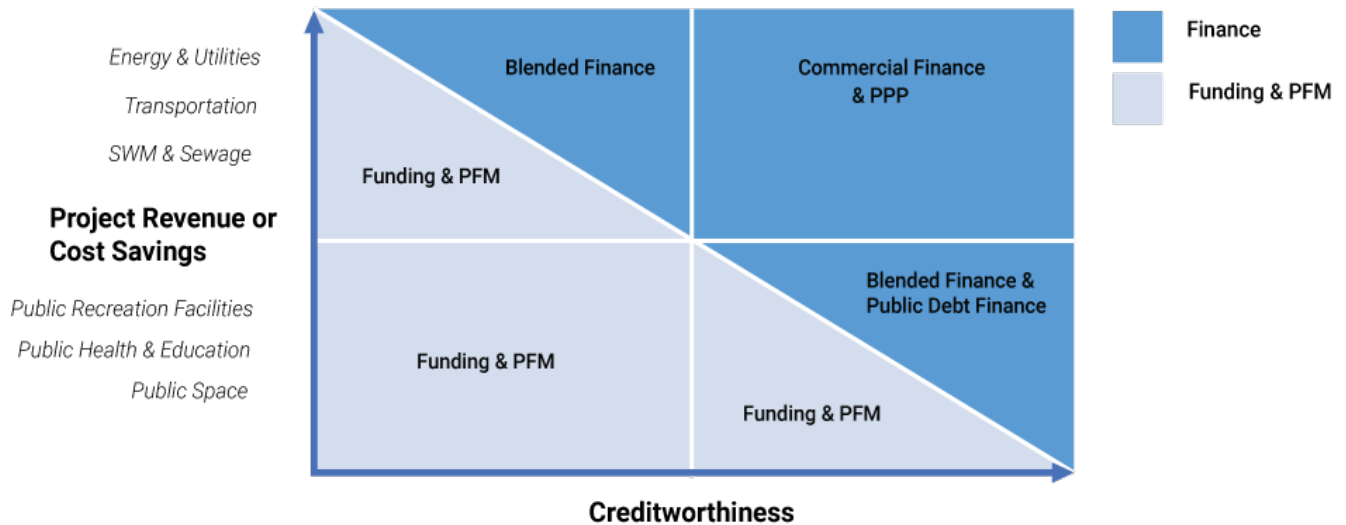


Figure 13: A Tentative Local Finance Framework

Implications of the LFF

The Local Finance is premised on the principle - Finance follows Funding. It argues that financing mechanisms only become feasible and affordable where cities have the means to pay back debt or equity investments via their own funding streams (intergovernmental transfers, grants and or Own Source Revenues) or project revenues (user-fees and/or cost savings). When cities are not creditworthy nor in possession of projects that can generate significant revenues, local governments will have to prioritize Public Financial Management (PFM) Reform and/or funding instruments. Only once cities have developed these foundations can they access finance and accelerate infrastructure delivery.

In a nutshell, the LFF recommends a shift from finance to funding. It argues that the key reason why cities in developing countries do not access finance is because they do not have sufficient funding sources to guarantee adequate return on investment to private financiers. There is not a shortage of finance but rather of funding. While financial engineering can theoretically make almost any city or project financeable these initiatives risk greatly increasing the overall cost of projects to a point where they are unlikely to deliver value for money. The goal should not be to attract private finance at any cost, potentially encouraging cities to offer their most valuable assets (e.g. publicly owned land) as collateral at heavily discounted rates to the point where the cost of capital exceeds economic impact.

In addition to its impact on the local finance norms, the LFF also has several practical applications. It has the potential to support cities in the development of Financing Strategies which build on the cities' financial situation and unique expenditure plans to increase the delivery of value-for-money infrastructure at the local level. It also has the potential to enhance the impact of the City Investment Facility and other Project Preparation facilities.

The LFF provides a clear formula for identifying the types of projects and cities that are most likely to reach financial close and increase the impact of project preparation efforts. It thereby provides a mechanism for up-stream project preparation facilities like the CIF to optimize its sourcing and project filtering mechanisms.

Key Terms

- **Finance:** refers to money which needs to be repaid and generate returns. It includes instruments such as loans, bonds, or equity investments.
- **Funding:** refers to money which does not need to be repaid. It is usually provided based on non-financial expectations. It includes Intergovernmental transfers, Own Source Revenues and or other grants.
- **Intergovernmental transfers:** grants that local governments receive from higher levels of governments.
- **Own Source Revenues:** taxes, licenses, fees and other charges that local governments control themselves
- **PFM:** refers to the systems, processes, policies, and practices that governments use to manage public funds effectively and efficiently
- **Creditworthiness:** refers to an entity's ability and reliability to repay borrowed funds. It is assessed based on factors such as the political environment, macro-economic developments, credit history, revenue, and/or debt levels. It determines the likelihood of defaulting on a loan or credit obligation.

- **Public Debt:** refers to any debt finance that a government entity raises from public or private sources.
- **Blended Finance:** refers to the strategic use of concessional finance to attract and leverage private sector investment for public service delivery
- **Concessional Finance:** refers to finance that is provided at below-market (discounted/subsidized) rates
- **PPPs:** refers to a contractual arrangement between government and private sector entities to provide public services. There are many different variations based on the roles and responsibilities taken on by the private sector from financing, planning, building, and/or operating the public services. The greater the role of the private sector specifically also in providing finance the greater the need for the project to generate revenues.



For Additional Information

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