

# CITIES INVESTMENT FACILITY



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# FOREWORD

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From ideation, concept, institutionalization and now to hands-on implementation, the Cities Investment Facility has now come of age!

The call for a middleman to link sustainable urban development project with the investors has been heard. From its conceptualization in April 2018, CIF now has 4 partners – UN-Habitat, Emerging Markets Infrastructure Fund, and the Global Development Incubator with new partners being onboarded.

We also currently have over 55 projects in the Facility pipeline from diverse thematic areas of Sustainable Urban Development. From an Affordable Eco-friendly Housing Project in Uganda to a Solar Energy for Water Sanitation in the City of Acapulco in Mexico to a Waste Management project in India, to an Urban Development Project for the Village of Sidi Alaya, Tunisia.

This maiden edition of the Cities Investment Facility charts our journey from inception to present time CIF currently in motion, towards the Eleventh Session of the World Urban Forum.

We're well and truly open for business. Join Us!

**Ms. Maimunah Mohd Sharif**

Executive Director, UN-Habitat

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The Cities Investment Facility (CIF) is a multi-stakeholder initiative that strives to unlock significant capital flows to inclusive, sustainable urbanisation projects. Through the three pillars – Cities Investment Portal, Cities Investment Advisory Platform and Cities Investment Vehicles – CIF helps prepare upstream infrastructure projects at the (pre)feasibility stage to become “bankable” and connect them with investors. By convening and preparing a pipeline of SDG compliant bankable infrastructure projects, this new facility makes a significant contribution to achieving the UN's Agenda 2030.

<https://citiesinvestmentfacility.org>

Twitter: @unhabitat\_cif

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# INTRODUCTION OF CIF AND ITS COMPONENTS

The Cities Investment Facility (CIF) is a multi-stakeholder, partner-driven initiative of UN-Habitat. The Facility enables the flow of capital into urban development by supporting projects through the process of ideation, design, feasibility, and financial close. CIF aims to meet the immediate infrastructure needs resulting from rapid urban growth by providing technical assistance to up to 100 urban projects by 2023. It complements existing investment facilities and market-making services by looking at enhancing early-stage design and origination, particularly in low and middle-income countries and secondary cities.

A series of three instruments work to engage city

authorities, investors and other stakeholders in CIF: The Cities Investment Portal (CIP), Cities Investment Advisory Platform (CIAP) and Cities Investment Vehicles (CI Vehicles). The CIP enables cities to better promote their urban development projects to an audience of investors and third-party experts who can provide financing, technical and advisory support through an online portal. The CIAP then focuses on the upstream stages of project development, providing cities with in-depth project preparation, bankability advisory and technical assistance. Finally, the CI Vehicles works to improve the ability of cities to access financing and reach implementation stage of their urban development projects.

## CIF IMPLEMENTING PARTNERS

In conjunction with the consolidation process of CIF, the team undertook a formal procurement process to identify and onboard Implementing Partners. During the fourth quarter of 2020, nineteen expressions of interest were received for the three streams of CIF. Of these nineteen, CIF has proceeded in discussions and the construction of MoUs with five.



Of the seven EOI submissions received for the CI Portal, CIF selected Think City and South Pole-CDP- Teri conglomerate (to be engaged at a later stage) to be the Implementing Partners.

Think City Sdn. Bhd.

is a company incorporated in Malaysia and a subsidiary of Khazanah Nasional Malaysia (a strategic investment vehicle of the Government of Malaysia). It is dedicated to improving the wellbeing of communities by creating more sustainable, liveable and resilient cities. Think City focuses on four main communities of practice: Placemaking, Resilience, Analytics, and Conservation.

Think City will take on the role of CI Portal Project Content Manager and Web Portal Manager, working to actively recruit, curate, and evaluate of projects that enter the CI Portal. It manages the overall CIF digital platform, as well as undertakes the CIF's marketing, promoting the CI Portal to a global audience of investors, donors, and governments.

South Pole Carbon Asset Management Limited enables cities, public sector corporates and the capital markets to reduce their impacts on climate change through high impact projects, platforms and funds.

CDP is a global environmental non-profit working to secure a thriving economy that works for people and planet in the long term. It aims to make environmental reporting mainstream and provide detailed insights to drive action for a climate safe, water secure, deforestation free world.

The Energy and Resources Institute - TERI is one of the world's pre-eminent think tanks and research institutions in the field of energy, climate change and sustainability, with its research and outreach activities spread over 50 countries.

South Pole, TERI and CDP together are positioned to develop a project information sharing platform, support fundraising activities, build capacity of client governments to prepare projects and expand the platform clients (investors, donors, and cities/ governments) to advance the development of a project pipeline that supports SDG-aligned infrastructure in Asia, Africa, the Middle East, and Latin America.





In 2018, a competitive procurement process was carried out resulting in the selection of Global Development Incubator as the CIAP Implementing Partner. Since 2018, GDI has worked closely with CIF to build the CIAP.

Global Development Incubator (GDI) is a non-profit organization established to launch start-ups focused on social impact, incubate partnerships to spark collective change and lay the foundations for promising organizations to reach their potential. GDI uses a “Design, Operate, Transfer” model, which has successfully incubated multi-stakeholder initiatives across sectors to drive game-changing impact at scale.

GDI partners with UN-Habitat on the co-designing, operationalising, incubating, marketing and promoting the Cities Investment Advisory Platform (CIAP), and engaging investors globally. It provides technical assistance to selected projects, including advice on project preparation, financial design, early stage investor linkages, blended finance and risk mitigation arrangements.

## CIF OPERATIONS COMMITTEE

Since its inception, CIF has been coordinated by an Operations Committee, composed of representatives from across UN-Habitat who have provided advice and expertise in a number of relevant thematic areas. The following are the former/**current** members of the CIF Operations Committee who have contributed to the development of this initiative.

**Neil Khor**  
**Dyfed Aubrey**  
**Erastus Njuki**  
 Aini Aini  
 Damaris Kabetu  
 Aman Gupta  
 Jacob Kalmakoff  
 Yahorina Tench  
 Cheryl Carvalho  
 Peixin Li  
 Tammy Tan  
 Ilina Sia  
 Nguyen Vo

Manucheher Shafee  
 Sophie Street  
 Rui Zhang  
 Parsa Shani  
 Janus Leonhardt  
 Jia Lun Li  
 Soham Punjabi  
 Rebecca Johns  
 Eunice Njeri  
**Krishna Neupane**  
 Van Luc Dinh  
**Mark Gallagher**



A total of eight submissions for the CI Vehicles were received in the 2020 procurement process, of which three entities were selected: EMIF Group, Reall and BlendLab.

EMIF Group Ltd. (EMIF) is a limited company with expertise in the development of emerging market infrastructure spanning financial analysis, legal, and development financing. Its team has a demonstrable history of successfully deploying capital in Africa, Latin America, the Middle East and South East Asia.

Reall is an innovator and investor in affordable housing for people in the bottom 40% of the income pyramid in urban Africa and Asia. Through targeted investments, Reall demonstrate the commercial viability of climate-smart urban homes for people in the bottom 40% of the income pyramid, including pioneering the \$10k house. Headquartered in the UK and with over 30 years' experience in the sector, Reall has an impressive track record as a market leader in the affordable housing space.

BlendLab consortium has been operating since March 2020, structuring blended finance operations for investments in social housing and urban infrastructure in 04 territories in different regions of Brazil. The organizations and people who founded the initiative have a solid background in sustainable territorial development and structuring of financial operations integrating multiple stakeholders and layers of capital - philanthropic resources, development finance and capital investment.

Each CI Vehicle will invest in development projects from both the CIF pipeline and independently sourced projects that meet the agreed upon criteria. Implementing partners provide deal structuring, help projects reach financial close, aggregate projects into investor-friendly financial products and match investors with opportunities based on risk appetites and investment criteria. The goal is to showcase profitability and opportunity in the sustainable urbanization projects market and catalyze capital towards the development of cities in developing and emerging economies.



# CIF INTERNAL CALL FOR PROPOSALS

For the purpose of incorporating investable urban development projects into its pipeline, CIF launched an Internal Call for Proposals between 17 February and 15 March 2021, inviting its Focal Points to participate. Between the CIF Secretariat and the CIF Project Selection Committee, a project assessment scheme was developed to select the most promising proposals to be supported, subject to

availability of funds and related resources, by conducting pre-feasibility and feasibility assessments, providing SDG alignment and non-financial impact verification for projects, de-risking projects and getting them over the hurdle from concept to investable stage and connecting projects with aligned investors, in the framework of the 11th Session of the World Urban Forum in June 2022.

## TRACKS DEFINITION

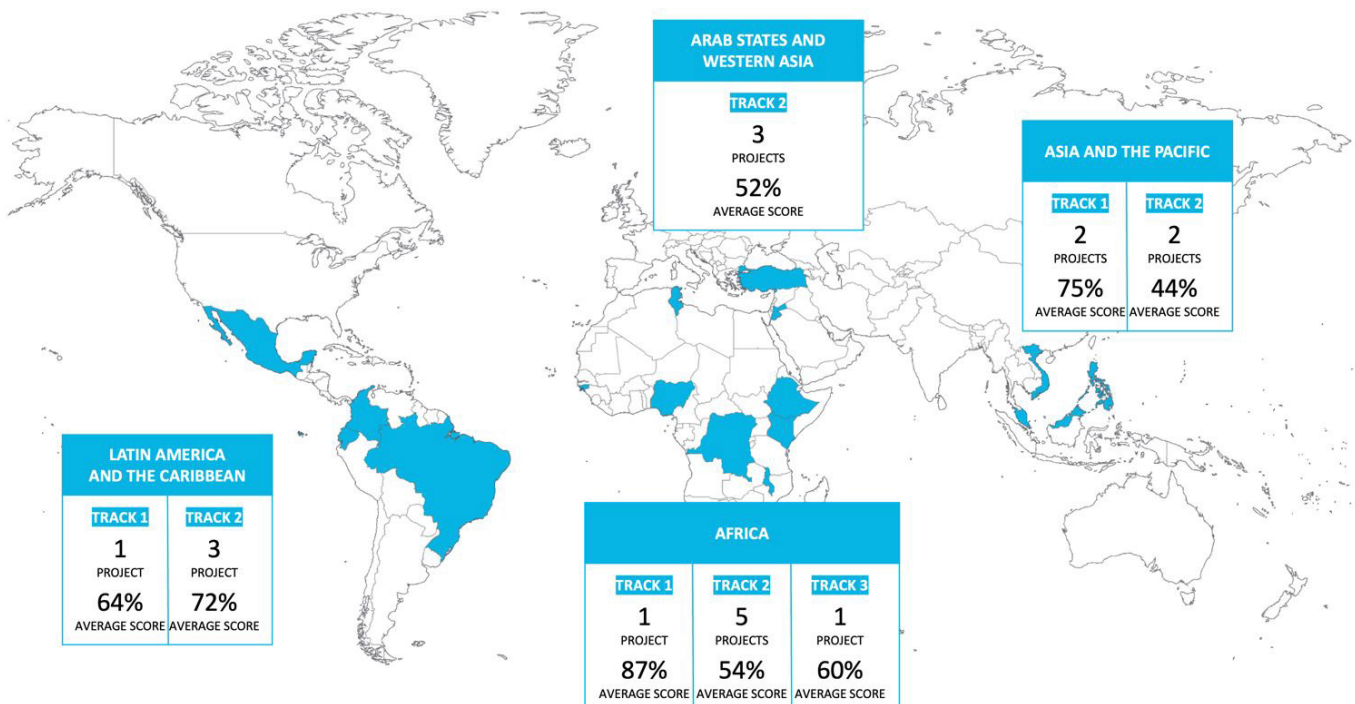
Based on the diversity of projects submitted to the Internal Call for Proposals and the expectations of CIF regarding its project portfolio, the following three tracks were established.

**Track 1:** Includes those projects that show potential to reach the stage of implementation and achieve a Proof of Concept (PoC) to be presented in a high-level interactive environment to private and commercial investors at the World Urban Forum (WUF11) in June 2022.

**Track 2:** Includes those projects in early stages of development, but with a promising profile to pitch at a City Investment Fair at the World Urban Forum (WUF11) in June 2022.

**Track 3:** Includes those projects with a promising impact, which given their programmatic relevance could be supported by UN-Habitat and CIF to ensure their viability and execution beyond WUF11, subject to availability of funds and related resources.

The Project Selection Process developed by the CIF Secretariat in conjunction with the CIF Project Selection Committee succeeded in expanding the CIF Pipeline with projects in different regions and stages of development. These projects have already been published on the CI Portal. In the upcoming months, CIF will work together with project promoters and local authorities to support them in the preparation of their proposals towards WUF11 and beyond, with the support of CIF Implementing Partners.



# A CIF JOURNEY: A PROJECT PROMOTER'S PERSPECTIVE

The Cities Investment Facility (CIF) offers a host of opportunities for project owners to take their projects to the next level and unlock their full potential. Think City has been an active part of the CIF's pipeline process, both as a project promoter together with the Penang State Government, and now as the Cities Investment Portal manager. We share our first-hand experience in how the CIF has played an integral part in the creation and promotion of the Penang Bay project, which was pitched at the World Urban Forum 10 (WUF10) in Abu Dhabi. It serves as a case study to demonstrate the value of the CIF in shaping the development of a catalytic, SDG-aligned new economic zone in northern Malaysia.

Over the past five decades, rural to urban migration and industrialisation have resulted in a major uplift in the wellbeing and income levels of Malaysian households. As one of the most developed economies in Southeast Asia, Malaysia has advanced services and manufacturing sectors, and an urbanisation rate of over 76%. However, the nation's cities still suffer the growing pains of rapid growth including urban sprawl, inequality and environmental issues. In parallel, the economy is exposed to regional competition, particularly in manufacturing, as it seeks to transition out of lower-skilled mass production, to higher tech and higher-skilled activities. Recognising these issues, governments at all levels are seeking to build urban resilience by embracing the Sustainable Development Goals (SDGs) as a key driver for future growth.

Penang is a state in northern Peninsular Malaysia with a population of 1.8 million that is roughly divided equally between Penang Island and the mainland. The state's stellar growth and transformation since the 1970s mirrors the national experience. Its economy is underpinned by the twin engines of tourism and high-tech manufacturing. However, Penang has reached a tipping point, with changing global technological needs, ageing port infrastructure, sprawl, and industrial land constraints with firms often dispersed across several sites. Working with the Penang state government we conceived a plan to create a new economic zone built on the renewal of the state's 'natural urban core' and disused waterfronts. Tagged as Penang Bay, the programme comprises 30 kilometres of waterfront renewal, including creating public coastal parklands, reimagining heritage assets, developing an innovation hub, reconfiguring water-based transport, rehabilitating a landfill site and regenerating 1970s-era industrial parks. Combined, they represent a development opportunity of over 3000 acres. However, having conceived the idea, we needed support to package the opportunities and test its viability with investors and other technical specialists.

In 2019 UN-Habitat put out a call for projects to be featured at WUF10 with the opportunity to pitch to investors and link to specialists within the CIF ecosystem. As one of nine projects selected globally, we went through a process with UN-Habitat and Global Development Incubator to refine our proposal and pitch to investors. Follow-up sessions at WUF10 with a range of investors validated the project's potential. We also announced an international competition to crowd-in fresh community ideas and socialise our project with the public.

Although Covid-19 posed some disruption, we successfully launched the Penang Bay International Ideas Competition in August 2020. Open to all, it called for project ideas that would help Penang Bay accelerate the State's achievement of the SDGs. It attracted 79 submissions from 20 countries which were assessed by an international jury of local officials, leading experts, and UN-Habitat. Many of the ideas were centered around the environment, social inclusivity, innovation, and mobility.

The competition's accomplishments motivated us to expand our project into UN-Habitat's SDG Cities Programme, of which the CIF is a central component. Penang Bay aims to become the first city to achieve SDG City certification and serve as a case study for other cities. We are taking several other steps to push our project further downstream and hope to announce investable packages by WUF11. This includes preparing a strategic master plan and launching the George Town Creative and Digital District as the centrepiece of Penang Bay. As a pilot, we have implemented an innovation hub in the heart of the capital city of George Town with key tenants, such as Facebook, TS Cloud a Google Suite Service Provider, and University of Science Malaysia, which we hope will spur growth in the city's cultural, creative, and digital economy.

Our organisation's involvement in the CIF over the past two years has not only strengthened our Penang Bay project, but also offered us a global stage to develop new networks, build our citymaking knowledge, and gain new perspectives. As we progress our project in the CIF, we continue to look for its support to realise our project and accelerate Penang's achievement of the SDGs. Based on our experience, we encourage other cities to join the CIF and benefit from the tools, expertise and opportunities for finance it provides.

CIF KNOWLEDGE HUB – BY SOPHIE STREET

# PROMOTING THE PIPELINE: THE CITIES INVESTMENT ADVISORY PLATFORM

Infrastructure investment is critical to society's ability to absorb shocks, boost economic growth and maintain a high quality of life. However, the absence of investible project pipelines acts as the primary barrier to growth of this investment sector, contributing to an annual infrastructure investment gap of US\$3.7 trillion<sup>1</sup>.

As cities sit on the frontline of the global health crisis, the need for equitable and sustainable urban development projects has never been clearer. Urban areas face reduced economic growth, high infection rates and a lack of adequate resources, disrupting global efforts to achieve the Sustainable Development Goals (SDGs) by 2030.

By July 2020, urban areas accounted for 90% of COVID-19 cases<sup>2</sup>. The high proportion of case numbers in cities lays bare inadequate and fragile city infrastructure and demonstrates the need for resilient and sustainable urban design.

The Cities Investment Facility (CIF) brings together sources of public and private capital to close the infrastructure investment gap, contribute to the achievement of the SDGs and aid recovery from the pandemic. CIF engages city authorities, investors and other stakeholders through a series of three instruments: The Cities Investment Portal (CIP), Cities Investment Advisory Platform (CIAP) and Cities Investment Vehicles (CI Vehicles).

Projects enter the CIF pipeline through the CIP, where they are filtered according to their alignment with CIF goals and the SDGs. The projects then progress through to the CIAP where they undergo SDG profile assessment by the Urban Lab and pre-feasibility studies and advisory by implementing partners. Finally, the CI Vehicles lead projects towards a blended financing structure through funds and brokerages.

In February 2020 CIF showcased nine projects at the 10th Session of the World Urban Forum (WUF10) in Abu Dhabi. Of these nine CIF facilitated feasibility studies and investor discussions for six, three of which are now close to finalising investment deals. CIF recently acquired a further thirty-eight project submissions through an internal open call which are currently undergoing evaluation before prior to being onboarded to the CIF pipeline.



Figure 1: The Structure of CIF

<sup>1</sup> World Bank, "Infrastructure Investment Demands in Emerging Markets and Developing Economies", September 2015, <http://documents.worldbank.org/curated/en/141021468190774181/pdf/WPS7414.pdf>  
<sup>2</sup> UN Secretary General's Policy Brief, July 2020



## FROM CONCEPTUALISATION TO IMPLEMENTATION: HOW THE CIAP WORKS

Project development involves several stages of progression prior to reaching financial close and implementation. At each stage, involvement from different actors is required to bring specialist skills and expertise.

The CIAP acts as the unifying body for upstream project development, coordinating between different actors and providing advisory and technical assistance. It addresses the key bottlenecks to infrastructure project financing, namely: lack of technical capacity, competing priorities for public finances, shallow pools of intermediaries working upstream and limited engagement with investors. The platform complements existing market making services by enhancing early-stage design, deal origination and advancing projects beyond pre-feasibility studies.

The CIAP ensures that all projects within the CIF pipeline have been rigorously assessed for their SDG alignment. The SDG Project Assessment tool, developed in partnership with the Global Future Cities Programme (GFCP), undertakes a detailed evaluation of SDG alignment and provides technical recommendations to improve projects. In addition to improving their quality and investment potential, these methods increase cross-departmental ownership of projects within municipalities thereby improving their long-term viability.

## NEXT STEPS: WHAT IS A PIPELINE WITHOUT AN INVESTOR?

The G20 Roadmap for Infrastructure as an Asset Class published in 2018 noted that while private long-term savings of institutional investors totalled a record high of US\$80 trillion, gaps in the infrastructure market acted as a barrier to its development as an asset class<sup>1</sup>.

The CIAP has started to address this barrier by providing up-stream project preparation guidance, conducting pre-feasibility assessments and standardising project preparation processes. As the final element of CIF, the CI Vehicles will pick up projects from the CIAP and work to blend private sector capital with public capital in order to 'build back better' in a post-COVID world.

<sup>1</sup> [https://www.oecd.org/g20/roadmap\\_to\\_infrastructure\\_as\\_an\\_asset\\_class\\_argentina\\_presidency\\_1\\_0.pdf](https://www.oecd.org/g20/roadmap_to_infrastructure_as_an_asset_class_argentina_presidency_1_0.pdf)

## THE CIAP IN ACTION: A CASE STUDY IN BAHIR DAR



### The first water-wise resilient forest city of Ethiopia and Africa, Bahir Dar, illustrates the role of the CIAP in project development.

The Ethiopian country office for UN-Habitat developed an urban masterplan for Bahir Dar. They planned resilient infrastructure to capitalise on the city's waterfront location, providing affordable housing and transport, while also improving sanitation, upgrading slums and providing energy sources.

The CIAP attracted private sector investment by supporting city planners and national government counterparts in developing a comprehensive and feasible business case alongside an investment memorandum for the Bahir Dar project. Following this, the CIAP reached out to investors with pre-feasibility funds as well as sources of grant funding such as ICLEI's 'TAP'.

The Asian Infrastructure Investment Bank (AIIB), a development finance institution based in Beijing with an investment mandate across over thirty countries, recently established its own Urban Feasibility Fund. Through the CIAP's involvement, Bahir Dar received an Urban Feasibility Fund grant to conduct feasibility studies and engaged AIIB as a potential project investor.

Following feasibility assessment, CIAP sourced co-investors for the Bahir Dar project at global investor platforms including the Sustainable Development Investment Partnership (SDIP) and Convergence. It supported the development of pitching materials and curated investor engagements with a goal to leading the project through to investment uptake.

CIF KNOWLEDGE HUB – BY JANUS LEONHARDT

# PROJECT PREPARATION AND SUSTAINABLE INFRASTRUCTURE INVESTMENT



Cities act as economic hubs, providing numerous opportunities for education and employment. However, cities globally struggle to manage issues such as population growth, traffic congestion, housing affordability and air quality. Rapid urbanization increasingly constrains the provision of basic services, imposing intense pressure on urban infrastructure.

The infrastructure investment gap totaled an estimated \$38 trillion from 2020 to 2030<sup>1</sup>. This shortfall has been termed the “Global Infrastructure Financing Crisis” and has particularly affected emerging and developing markets.

On the supply side, investors are under increasing pressure

<sup>1</sup> UN-Habitat, “The Sustainable Investment Gap and How to Close It. Cities, Infrastructure and SDG Investment Gap”, February 2020, [https://unhabitat.org/sites/default/files/2020/02/the\\_sustainable\\_investment\\_gap\\_and\\_how\\_to\\_close\\_it\\_february\\_2020.pdf](https://unhabitat.org/sites/default/files/2020/02/the_sustainable_investment_gap_and_how_to_close_it_february_2020.pdf)

to demonstrate their portfolios alignment to improved environmental, social and governance (ESG) outcomes and the Sustainable Development Goals (SDGs). Investment in infrastructure is critical not only to achieving SDG 9 relating to Industry, Innovation, and Infrastructure, but also to the wider goals. Sustainable infrastructure solutions often address a combination of different SDGs, and as such are attractive investment opportunities.

A 2015 ShareAction study revealed that, of the 52 institutional investors surveyed, 95% plan to engage with investee companies about issues covered by the SDGs; 84% will allocate capital to investments supporting the SDGs; and 89% will support regulatory reforms that promote the SDGs<sup>2</sup>.

However, there is broad consensus within the international financial community regarding a lack of investment ready projects being the main barrier to infrastructure investment. This highlights the importance of ensuring that infrastructure planning and project pipelines developed by national and local governments around the world are sufficiently aligned with the SDGs, thereby providing viable investment opportunities. Project preparation is set as a key issue that must be aligned with the implementation of SDGs. The project objective should be defined in order to guide national and local governments in the design of more inclusive, sustainable and SDG-aligned urban projects. This will promote an enabling environment and ensure the likelihood of implementation and the viability of projects in the medium and long term.

Project preparation involves several stages and involves various actors. The upstream activities include establishing an enabling environment, engaging in stakeholder consultations, project conceptualization and identification, and assessing project feasibility. Downstream project preparation involving financial structuring, determining 'bankability', and providing transaction support in order to reach financial closure. A significant challenge facing project preparation involves obtaining technical advice and sufficient funding for each of the previously mentioned stages, considering that all those upstream preparation tasks tend to absorb between 2% and 5% of the total project costs, depending on the complexity of the project<sup>3</sup>. While some countries have managed to include sustainability factors in their project preparation process, few have successfully integrated a comprehensive SDG assessment framework despite SDGs being a shared language in investment strategies.

This is precisely where the Cities Investment Facility (CIF) comes in. Through the Cities Investment Advisory Platform (CIAP) projects will evolve and become sustainable, bankable, de-risked, and impactful through the provision of upstream project preparation and portfolio planning services. Thus, one of its main pillars is the evaluation of the SDG Project Profiling and Assessment. CIF proposes to introduce a standardized profiling and assessment framework using UN-Habitat's SDG Project Profile and the SDG Project Assessment Tool. Through these two instruments, the CIAP will be able to: (1) provide an SDG profile for projects, assessing their potential contribution to the

SDGs based on the project scope; (2) assess the extent to which the SDGs are addressed in each stage of the project; (3) provide technical recommendations to ensure the project addresses the SDGs and is feasible; (4) facilitate a participatory process during project design in order to build governmental ownership of the project and thereby ensure its long-term sustainability.

The application of UN-Habitat's tools is dependent on the stage of project development and the level of support required. The SDG Project Profile and the SDG Project Assessment Tool apply to projects that are at a pre-feasibility stage. Depending on the scope of a project, an SDG Profile may be developed. The project is then presented in a participatory workshop for validation and assessment by city authorities, project partners and UN-Habitat experts. Finally, based on the findings of this workshop the CIAP produce an SDG Project Assessment Report indicating the extent to which the SDGs are incorporated into the project design. This report would also include technical recommendations on how to address the SDGs in the next phase of project feasibility. For projects in the early stages of development, it is more difficult to develop an SDG Project Profile. This is due to a lack of technical detail relating to which SDGs the project addresses. For these projects, additional technical assistance is provided for project development. Firstly, a workshop is held in which a project profile of addressing the SDGs will be developed in coordination with local authorities. Following this, the CIAP works with local authorities to refine the technical aspects of the project. Once the project has developed a Terms of Reference (ToR) indicating that it has reached an advanced stage of development, it is able to undergo the SDG Project Profiling process.

In the coming months, the projects selected by the CIF Project Selection Committee under Track 2 will be supported by CIAP in the preparation of their proposals and specifically in the assessment of their impact on the SDGs, following the methodology explained above. By doing so, UN-Habitat and CIF will contribute to the development of well-prepared and investment-ready projects, thereby enabling cities to achieve the SDGs and reduce the investment gap from a sustainable perspective.

<sup>2</sup> UNPRI, "Micro opportunities: A capital allocation guide", October, 2017, <https://www.unpri.org/sustainable-development-goals/the-sdgs-as-a-capital-allocation-guide/309.article>  
<sup>3</sup> Overseas Development Institute, "Finding the pipeline. Project preparation for sustainable infrastructure", November 2016, <https://cdn.odi.org/media/documents/11075.pdf>



CIF KNOWLEDGE HUB – BY JOHN SAFRANCE (EMIF)

# FRONTIER MARKET INVESTING: WHAT IS BANKABILITY?

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Bankability is an oft utilized term to describe the level of attractiveness of a construction/finance ready project. Through an ESG lens, establishing bankability requires that the project provide significant net benefits to the community through detailed Environmental & Social Impact Assessments. Within the CIF Programme we define this through a project's impact to further the Action Agenda's SDGs.

Beyond ESG is the financial and economic perspective. Whether it be located in a well-established OECD jurisdiction, or in a Frontier Market, the end-game is the same: both the equity and debt providers must feel comfortable that the economic return is balanced against the risk, with the expected revenues generated

during operations specifically insulated against political risks.

Cities/States/Countries with established track records of consistent payment, rule of law, and appropriate legal and tax frameworks enjoy significantly lower costs normally defined as the levered Internal Rate of Return for equity and the interest that lenders charge over the project's operating lifetime. In many Frontier Markets, it is challenging to demonstrate a consistent track record, established legal frameworks do not exist, and it is unfortunately far more common for the off-take buyer of the services to have credit ratings far below what is needed to instill confidence within the project capital providers.



The good news is that these challenges are addressable, though it requires a coordinated effort amongst all stakeholders to ensure a project is developed successfully to achieve financial bankability. If governments and project buyers/off-takers take the appropriate measures to reduce the perceived risk, then capital costs, and the need for these risk-mitigation instruments, will decline. The following instruments are ways to significantly reduce financial risk in Frontier Market infrastructure initiatives:

## **LIQUIDITY GUARANTEES / CREDIT ENHANCEMENT**

A typical Frontier Market project must demonstrate to lenders that it has the liquidity required to back debt service in periods where payments beyond the contractual grace period are delayed. Typically, this credit enhancement comes in the form of an LC (Letter of Credit) issued by a reputable bank. However, off-takers are often asked to post up to 100% cash collateral to back the LC and may have difficulty in doing so. Many Multilateral and Bilateral development banks provide instruments for credit enhancement such as Liquidity Guarantees which cover against the risk of delayed payments. These instruments will protect the issuing LC bank when draws on the LC are made by the project beneficiary. In essence, the LC risk and cash collateralization to the issuing bank is transferred from the off-taker to an "A", or greater, rated agency and will cover 6 months of revenue, or more.

## **SOVEREIGN GUARANTEES**

Inherent in Frontier Market investing are the various non-commercial political force majeure risks that present significant risk for equity sponsors and lenders. Such risks include war, terrorism, expropriation, civil disturbance, change in law, inability to convert and transfer currency, and breach of contract by the buyer. These risks are entirely outside the control of the project capital providers. National Governments can support a Sub-National project by providing a guarantee that, should these risks arise during the course of operations which results in the abandonment or inability to operate the project, the project sponsor and lenders are able to recover their contributed capital and unearned economic return at the National level should the Sub-National entity fail to honour its contractual obligation.

## **POLITICAL RISK INSURANCE**

While Sovereign Guarantees work to mitigate Sub-National / buyer default and political force majeure risks, an additional layer of insurance that protects against the failure of the National Government to honour its contractual obligations

is available through the procurement of PRI (Political Risk Insurance) available from Multilateral, Bilateral, Export Agencies, and private insurance markets. Specifically, these insurances back the contractual guarantee obligations of the National Government should it not follow through on making payments once an arbitral award has been established in favour of the policy beneficiary. In the case of the public agencies that underwrite PRI, they enjoy Preferred Creditor Status amongst their member countries which allows them to directly pursue the recovery of any payments made as a result of the National Governments unwillingness to honour its obligations.

## **CURRENCY CHALLENGES**

Most global private investors prefer to denominate the payment obligation of the off-take / buyer in hard-currency such as EUR or USD, thereby matching their own sources of funding and project procurement costing. When a contract is paid in local-currency, unless there is an ability to demonstrate low-historic exchange rate volatility, a project's ability to service debt and earn a sufficient return on the equity sponsor's investment may be jeopardized in the presence of a significant devaluation event. To mitigate currency risk and given traditional long-term forward foreign exchange instruments can be prohibitively expensive or unavailable, project equity providers will thereby either require a significantly higher risk-adjusted return, pricing/payment to be denominated in USD/EUR, or the payment in local currency to be pegged against a reference OECD currency.

It is therefore desirable to crowd in as much local equity funding as possible, though this is often impractical as it may simply not be available. More recently groups such as EAIF (Emerging Africa Infrastructure Fund) and GuarantCo, part of PIDG (Private Infrastructure Development Group), will provide locally denominated loans and guarantees which reduces, but not eliminate, the overall equity sponsor risk should local currency payments depreciate. There are also products available from GuarantCo and Cardano Development's TCX which hedge an offtake's currency mismatch where agreements are denominated in USD.

## **CONCLUSION**

In conclusion, there are products and mitigants available to reduce the overall inherent risk in a project. These mitigants are often needed to establish the first wave of investment within a Frontier Market. Continued observance by National and Sub-National Government of existing legal and tax frameworks, a willingness to evolve and adopt innovative measures, coupled with an established track record over time, will ultimately manifest in a Country's ability to attract greater quantities of global private capital at a lower cost.

# BECOME A CIAP IMPLEMENTING PARTNER

The Cities Investment Facility (CIF) invites organisations and enterprises around the world to submit an Expression of Interest to jointly run and operate an initiative to advise and incubate UN Sustainable Development Goals (SDGs) aligned, investable urban infrastructure projects.

## CITIES INVESTMENT FACILITY OVERVIEW

CIF is a multi-stakeholder initiative centred around unlocking greater capital flows to urban impact projects, by supporting their processes of ideation, design, financing, and implementation, using a series of partnership-based instruments.

Selected projects will actively participate in all 3 pillars of CIF in the following ways:

- Projects will be uploaded on the Cities Investment Portal (CI Portal), which allows city officials to showcase their projects to a global audience and stakeholders
- Projects shall receive early project preparation support from the Cities Investment Advisory Platform (CIAP), an initiative providing advisory services on upstream project preparation, "investability", and SDG-alignment.
- Projects will access funding for mid to late-stage project preparation from the Cities Investment Vehicles (CI Vehicles). CI Vehicles are funded by diverse and blended sources of capital to enable cities to begin implementing their projects.
- The selected organisations shall partner with the UN-Habitat in running and operating the Cities Investment Advisory Platform.

## WHO IS CIF LOOKING TO PARTNER WITH?

Following this call for an additional Cities Investment Facility partner, the selected organisation(s) shall work with the UN-Habitat in running and operating the Cities Investment Advisory Platform. All organisations/entities in both the public and private sector which are officially registered in their country of origin are eligible to apply.

## WHAT IS INVOLVED?

Cities Investment Advisory Platform is the second rung of the Cities Investment Facility and aims to bridge the gap between the design/conceptualisation of urban infrastructure projects and investor requirements. The CIAP implementing partner is expected to work closely with the CI Vehicle partners to provide support and guidance to selected upstream (pre)feasibility project in the CIF pipeline to align better with the UN Sustainable Development Goals (SDGs) and become investor ready. UN-Habitat shall lead the advisory for project preparation to align with SDGs while the implementing partner will lead the project preparation to align with investor expectation. The roles and responsibilities of the implementing partner will comprise of but

not limited to:

- Conduct initial financial modelling and assessment of the selected projects to create a baseline
- Understand financial markets and project structure to determine the financing structure and the asset class (Grant, Debt, Equity, etc) that best suits the project
- Work with the CI Vehicle partners and third party agencies to provide advice on project design and operation modification to de-risk projects and improve returns to investors
- Advise, guide and/or connect project promoters with agency that can help perform Feasibility and Environmental, Social and Impact Assessment Studies
- Support the development of improved project preparation and bankability assessment capacities
- Understand and identify permits, legal requirements, licences and right of way for the project to be implemented
- Support the fundraising activities and create a "Feasibility Fund" to support the advisory services

## WHAT ARE THE BENEFITS?

If successful through the application process to become a Cities Investment Advisory Platform Partner, your team will be working alongside both UN-Habitat staff and private partners to provide urban infrastructure project preparation services. Some of the partnership benefits primarily include, but is not limited to the following:

- Access to provide project preparation services for urban development projects which are UN Sustainable Development Goal (SDG) certified
- Exposure to engage with urban development projects from multiple geographical regions throughout Asia & the Pacific, Latin America, Africa, Arab States and Europe, and varying urban sectors such as transport, affordable housing, roads & bridges, informal settlements, waste management, water & sanitation, urban health, disability services, energy and many more
- Enhanced capacity to provide risk mitigation services for urban development projects in politically unstable regions
- Opportunities for personal business development through UN-Habitat event engagement and presentation prospects for sustainable finance, urban development, project promoter capacity-building and development bank financing seminars within the United Nations system
- Adoption into the UN-Habitat partnership network
- A ratified Memorandum of Understanding with UN-Habitat outlining roles and responsibilities in the bilateral relationship and signifying the strength of the partnership

## WHAT IS EXPECTED?

Once the project passes through CIF, the project should be able to demonstrate the following for the CIV to take the work forward:

- Prepare and submit drafts and reports as shown in the process flow diagram attached
- Financial Model showing a risk commensurate equity return and sufficient cash flow to service debt
- Sufficient safeguards for the capital providers in the event of political risks like change of government, expropriation, etc.
- Technical Feasibility of the project along with a detailed project plan and risk study carried out for the construction phase and implementation
- The permits/rights of ways/legal requirements are identified if not secured

**Please note that this is not an exhaustive list and may require further coordination and consultation with CIV partners depending on the project and risks involved.**

## EXPRESSION OF INTEREST REQUIREMENTS

Interested entities and organisations need to submit an executive summary of no more than 1500 words (Maximum 3.5 Pages) indicating:

- Name and Location of the Organisation along with the name and contact information of the organisations focal point(s)
- Brief overview of the organisation including the Vision, Business Scope, and areas of expertise (Geographical, Thematic, etc.)
- A good understanding of the Cities Investment Facilities vision and the tasks entailed
- Specific areas where the organisation sees collaboration opportunities – network, subject matter expertise, previous experience in the field, etc.
- Past Experience of development projects that could differentiate you from other firms
- Proposed Fundraising and Operations Plan to support CIAP and the advisory services to the projects

## DOCUMENTS REQUIRED:

Please provide the following documents as an appendix to the executive summary:

- Evidence of support of the Principles of UN Global Compact
- Copies of Valid Legal Registration Documents which include:
- Tax Clearance Certificate
- Trader's License

- Certificate of Incorporation
- List of Infrastructure Projects you have worked/consulted. Provide name of project, years of involvement, names of entities involved, brief description of the project, deliverables achieved and references (names and contacts) of top clients which demonstrate specific experience in this line of work
- A proposed business model for how the company aims to sustain its involvement with the CIAP – Maximum 2 pages
- Description of team and bios of the key staff members
- Audited financial reports for the last three recent years

## PLEASE NOTE:

To be eligible to apply and work with the UN, the organisation or any of its officials should not be

- Associated with fraud, corruption, (in all forms including bribery, extortion), money laundering, terrorism, significant irresponsibility/litigation
- On the UN Sanction List
- Priority will be given to entities that:
- Provide all the required documents to the utmost standards
- Showcase a financially feasible and sustainable business model
- Commit to the corporate activities of CIF (Fundraising, Administrative operations, Advocacy and Outreach) and actively support the fundraising activities for the CIAP "Feasibility Fund"
- Showcase strong collaboration opportunities which can benefit CIF and the projects – Network, experience and expertise
- Have regional/subject matter expertise but can work in a global context if required

## WHAT ARE THE NEXT STEPS?

1. Submit your proposals as a single PDF document of no larger than 20MB to [unhabitat-cip@un.org](mailto:unhabitat-cip@un.org) and cc: [erastus.njuki@un.org](mailto:erastus.njuki@un.org), [soham.punjabi@un.org](mailto:soham.punjabi@un.org) and [rebecca.johns@un.org](mailto:rebecca.johns@un.org) by 25 November 2021
2. Shortlisted organisations will be notified by end of the 2021 or sooner and shall be invited to submit a Statement of Commitment
3. UN-Habitat shall conduct due diligence on shortlisted organisations
4. Organisations that clear due diligence shall be invited to sign a Memorandum of Understanding

**Please note that the deadline for submissions is 25 November 2021 11:59 PM EAT.**

If you have any questions regarding the process, please email us at [unhabitat-cip@un.org](mailto:unhabitat-cip@un.org)

## MEET THE UN-HABITAT CITIES INVESTMENT FACILITY TEAM

## Internal Community of Practice for CIF, Sustainable Finance



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**Sharmaarke Abdullahi**  
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**Neil Khor**  
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