



LEVERAGING TRANSFORMATIVE FINANCING FOR LOCAL INFRASTRUCTURE AND PUBLIC SERVICES

TOWARDS THE THIRD MEETING OF THE MALAGA GLOBAL
COALITION FOR MUNICIPAL FINANCE : **A ROADMAP**



The Malaga Global Coalition for Municipal Finance

THE MALAGA GLOBAL COALITION FOR MUNICIPAL FINANCE.

A UNIQUE ALLIANCE FOR
A FINANCIAL ECOSYSTEM
THAT WORKS FOR CITIES
AND LOCAL
GOVERNMENTS

The Malaga Global Coalition for Municipal Finance was formed in 2018 as a response to the challenges faced by local and regional governments (LRGs) in accessing finance to advance sustainable and inclusive development in their territories. LRGs play a critical role in achieving the sustainable development agendas – **including the 2030 Agenda and its Sustainable Development Goals (SDGs), the New Urban Agenda and the Paris Climate Agreement.**

Yet, many institutional, regulatory, technical and financial challenges prevent them from having effective control over the access to and management of their finances, severely restricting their ability to finance the implementation of these agendas and carry out their mandate. This is particularly true in developing and emerging countries, where lack of sufficient municipal financing is further exacerbated by the increased needs of a fast-growing urban population.

Overcoming these barriers is vital for LRGs to be recognized as fully-fledged public actors, bringing about transformation and delivering services to their citizens, leaving no one behind. LRG underfinancing is also the result of a growing mismatch between the demand and supply sides, where the many credit lines set up by public and private financial institutions to support local governments' finance and investment fail to bridge the financing gap for the provision of sustainable urban infrastructure and public services.



The current global framework is not fit for purpose when it comes to providing LRGs with adequate access to financing for local projects fostering the required transformational socioeconomic, environmental and cultural changes.

The Malaga Coalition was created with the ambition of developing common positions and strategies to break through these obstacles and to reshape a new global financial ecosystem that enable LRGs to deliver on the global agendas. Since 2018, the Malaga Coalition has been convened twice by **United Cities and Governments (UCLG)** in collaboration with the **Global Fund for Cities Development (FMDV)**, the **United Nations Capital Development Fund (UNCDF)**, and the **city of Malaga** and has brought together a wide range of stakeholders, including local and regional authorities, central governments, Development Finance Institutions (DFIs), UN agencies, national and subnational development banks, public and private banks, credit rating agencies and academia. Its last two meetings explored solutions for transforming municipal finance and promoting an enabling environment for local governments to achieve the SDGs.

Panel discussions put forward the perspective of key stakeholders involved in local finance: LRG officials, national ministers and public and private financial institutions.

One of the main outcomes of the Malaga Coalition is the setting up of a dedicated investment fund for local governments, the **International Municipal Investment Fund (IMIF)**, to make capital available at the right price and in the right format for LRGs and intermediary cities in developing and emerging economies to finance local transformative projects.

The IMIF was introduced at the second meeting of the Malaga Coalition by its lead partners, UNCDF and UCLG in collaboration with FMDV. The Fund, whose management is entrusted to a **third-party asset manager, Meridiam**, is backed by a technical assistance facility (TAF) to assist local governments in structuring their investment project prior to submission to the IMIF.

THE MALAGA COALITION IN THE COVID-19 ERA – ADDRESSING **THREE PRIORITY AREAS**

The urgency to involve LRGs in localizing financing for the SDGs and other global agendas has escalated with the COVID-19 pandemic. This crisis has shed light on the critical role played by local authorities in providing responses during the emergency and in future recovery.

At the same time, it has shown the need to consolidate municipal finances to prepare for future complex emergencies, notably the climate change and social crises, while ensuring the sustainable provision of public services and investment in infrastructure.

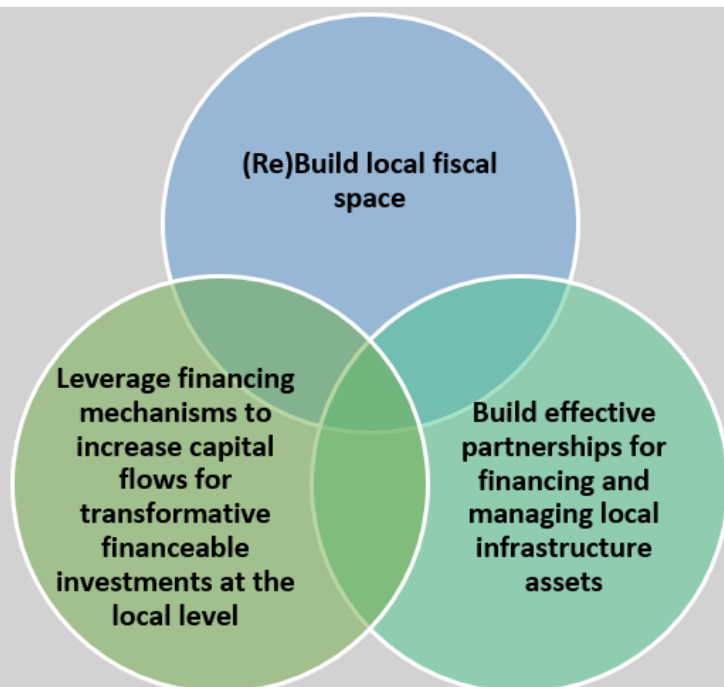
This is particularly challenging given that 2021 will be a year of strong fiscal strain for many local governments.

It will put to the test not only their ability to manage their day-to-day operations to serve their communities, but also their effort to deliver the infrastructure and services required to bring about large-scale transformation

Diversifying their resources, developing new instruments, exploring innovative financing models and building renewed operational partnerships with national governments, DFIs and private financial institutions are more critical than ever to achieve these objectives.

The third meeting of the Malaga Coalition will be convened in early 2022 and address the following **three policy areas** in order to accelerate the localization of financing for public service and capital infrastructure in the post-COVID recovery:

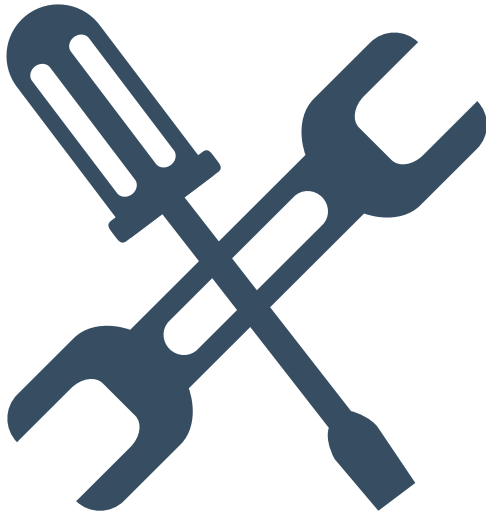
Malaga Coalition's three policy areas



THE MALAGA COALITION IN THE COVID-19 ERA – ADDRESSING **THREE PRIORITY AREAS**

1

(Re)Build local fiscal space:



LRGs’ capacity to generate own-source revenues and secure stable revenue streams through intergovernmental fiscal transfers is instrumental to fostering local economic development and facilitating the emergence of virtuous cycles of investment at the local scale. Yet local fiscal space has been severely impacted by the COVID-19 pandemic, particularly for LRGs that rely primarily on elastic sources of revenue which are sensitive to economic fluctuations, such as taxes on local economic activity.

These revenues were already affected by the digital transformation, with most digital providers not subject to local tax collection, and COVID-19 has accelerated this trend. **Four priority areas for action are identified:**



Re-emphasize the importance of transparent and formula-based systems of intergovernmental fiscal transfers that provide LRGs with stable, predictable, adequate and flexible resources to deliver on their mandate. This is also a key condition for them to create a virtuous circle of revenue generation and raise additional finance.



Identify new streams of local revenue, in particular through reforms of property tax systems, land value capture mechanisms and appropriate taxation models for digital providers that require and use local infrastructure and services but do not pay for them.



Design and apply innovative local taxation and tax sharing policies to enhance local accountability and revenues.



Advocate for greater fiscal decentralization and share evidence of how autonomous local financial and administrative institutions are economic multipliers for national development.

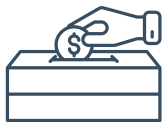
THE MALAGA COALITION IN THE COVID-19 ERA – ADDRESSING **THREE PRIORITY AREAS**

2

Build effective partnerships for financing and managing local infrastructure assets:



LRGs do not finance and manage local investment alone. Other external partners including public institutions, financial organizations and private entities are often engaged in the investment in and management of local infrastructure alongside LRGs, which are ultimately held accountable for the services provided. Stable local revenue streams and strong local government engagement are key prerequisites for successful partnerships with public and private investors at the local level to finance infrastructure assets and secure funding for their maintenance and operation. When properly managed, assets provide greater financial flows to local governments. **Five priority areas for action are identified:**



Implement policies for improved human resource capacity at local levels by sharing the pool of talent across the national territory, including professional recognition, status renewal and improved compensation, and expanding training.

Explore how local infrastructure assets can contribute more to local fiscal space and / or increase flows of capital for transformative investments at the local level.

Design and implement equity and ownership models for local infrastructure assets that attract external finance, improve efficiency and pool risk whilst retaining and enhancing local accountability.

Establish and build intermediary institutions that support infrastructure asset management and pool equity investments in local transformative assets whilst increasing local accountability.

Advocate for local financial and asset management as a national development priority and an accelerator of the green and just transformation.

THE MALAGA COALITION IN THE COVID-19 ERA – ADDRESSING **THREE PRIORITY AREAS**

3

Leverage financing mechanisms to increase capital flows for transformative financeable investments at the local level:



The third policy area relates to the enabling factors that are required for transformative and financeable local investments to materialize. Several policy, legal and institutional prerequisites must be in place to create an ecosystem of financial partners that can support each other and work to secure the financing needed for transformative local investments. Long-term institutional infrastructure finance must be directed to local government-led transformative investments. Sovereign debt alone cannot deliver the necessary volume of investment at the local level. There is a need to address the issue of sovereign contingent liability for sub-sovereign credit in order to crowd in the required finance. **Eight priority areas for action are identified:**



Promote the development of domestic capital markets and municipal bonds.



Promote investment vehicles (debt) that can lend to LRGs and other investment vehicles on their terms to finance projects that are transformative in nature and financially sustainable for LRGs.



Promote investment vehicles (equity) that crowd in investment to local projects from other domestic and international investors and build confidence through replicable projects.



Encourage the creation of specific budget lines at country level to provide technical assistance for LRGs to build their capacity to structure transformative financeable projects



Establish and increase intermediary instruments that channel climate finance directly to LRGs for effective public and private investment.



Support the creation of non-sovereign regional or global guarantee facilities for local transformative investments.



Promote the development of blended financing instruments and new public-private alliances that can meet the investment needs of all cities.



Advocate for local infrastructure investment as a pre-requisite for national survival in the face of complex emergencies.

TOWARDS THE 3RD MEETING OF THE MALAGA COALITION – **A ROADMAP**

As part of the preparation process of the 3rd meeting of the Malaga Coalition in early 2022, **two virtual preparatory meetings will be organized in 2021.**

A first preparatory meeting will be held jointly by UCLG and FMDV with the support of UNCDF in May/June 2021. It will bring together LRG representatives to share their experience in the definition and implementation of their country's recovery plans and fiscal stimulus packages in response to the pandemic.

This first gathering will aim at identifying action levers to strengthen LRGs' role in national recovery efforts. It will count on the participation of high-level UNCDF representatives, including possibly the new UNCDF Executive Secretary, to ensure that the exchanges and recommendations of local governments are fully included in the preparatory work for the debates of the 3rd meeting of the Coalition, particularly with regard to the (re)building of local fiscal space.

A second preparatory meeting will be convened by UNCDF with the support of UCLG and FMDV in October/November 2021. Drawing on the outcomes of the first meeting, it will provide a space for debate between LRGs and representatives of national governments and development finance institutions to chart ways forward for building renewed partnerships.

The preparatory sessions will culminate in **the third meeting of the Malaga Coalition**, which will take place in early 2022 in a face-to-face setting if health and travel conditions permit. The meeting will consist of two days of plenary discussions between local leaders and public and private financial partners to discuss concrete proposals for advancing each of the Coalition's three policy areas. At the end of the two-day meeting, **a taskforce [1] will be tasked with structuring these proposals into a call for action** that will lay out a set of actionable recommendations and identify the appropriate fora (UN processes such as the High-Level Political Forum and Quito+5) and partners to take the Coalition's engagement forward.

[1] The composition of this small working group is to be defined, either composed of technical members, a mix of technical and political members, or political members only



ABOUT UNCDF:

The UN Capital Development Fund makes public and private finance work for the poor in the world's 46 least developed countries (LDCs).

UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.

UNCDF's financing models work through three channels: (1) inclusive digital economies, which connects individuals, households, and small businesses with financial eco-systems that catalyze participation in the local economy, and provide tools to climb out of poverty and manage financial lives; (2) local development finance, which capacitates localities through fiscal decentralization, innovative municipal finance, and structured project finance to drive local economic expansion and sustainable development; and (3) investment finance, which provides catalytic financial structuring, de-risking, and capital deployment to drive SDG impact and domestic resource mobilization.

ABOUT UCLG:

United Cities and Local Governments (UCLG) is the global organization of local and regional governments and their associations that represents and defends their interests on the world stage. Representing 70% of the world's population, UCLG members are present in all world regions: Africa, Asia Pacific, Europe, Eurasia, Middle East-West Asia, Latin America and North America - organized in seven continental sections, a metropolitan section and a regional forum. This network covers more than 240,000 cities, regions and metropolises and more than 175 local and regional government associations present in 140 countries. UCLG includes among its main areas of political interest local democracy, climate change and environmental protection, the achievement of Sustainable Development Goals, local finance, urban development and city diplomacy for peacebuilding. Visit www.uclg.org and follow @uclg_org for more.

ABOUT FMDV:

FMDV is a global network of local and regional governments initiated by the members of United Cities and Local Governments (UCLG) and METROPOLIS, with the mission to develop and promote investment and financing solutions for urban development. Both a network of expertise and an incubator for operational strategies, FMDV is presented as an instrument for technical assistance and financial engineering and promotes a holistic approach to financing, working at all levels of intervention and with all the actors. Based on a multi-stakeholder approach, the network works in partnership with all the actors involved in local development financing issues: national and local governments, bilateral cooperation, the United Nations, regional organizations, development banks, investors, private banks, foundations, research centers and universities, citizen organizations and companies.

