

# FEASIBILITY FUND TERMS OF REFERENCE

## BACKGROUND

With less than a decade remaining to achieve the global development goals, sustainable development in the 21st century needs investment. The social, environmental, health, urban, and economic challenges left to overcome call for innovative financing mechanisms and financial solutions that create scalable and effective ways of channeling funds from private sources, financial markets, philanthropists, foundations, companies, and other sources to help solve pressing global development and humanitarian challenges.

These financing solutions can take a variety of forms across sectors and geographies, from bonds, insurance-linked securities, and impact investments to advanced market commitments. Over the last several years, philanthropy has championed the development of such innovative finance solutions that have been successful in enabling, accelerating, and harnessing private capital markets for public good.

UN-Habitat's discussion paper "The Sustainable Investment Gap and How to Close It (2020)"<sup>1</sup> highlights that the total investment gap for infrastructure and the SDGs is estimated at \$38 trillion for the years 2020-2030, and that if all the current investment trend in infrastructure until 2030 was aligned to SDGs, there would still be a financing gap of \$5.6 trillion. Crucially, 65% of the SDG targets and indicators are linked to urban development.<sup>2</sup> In addition to meeting their current population needs, cities will also have to accommodate 2.5 billion more inhabitants by 2050, when it is estimated that 68% of the world's population will live in cities.<sup>3</sup> 90% of this urban growth will occur in developing countries in Asia, Africa, the Middle East and Latin America, where the financing gap is most acute.

The same paper notes that the total private and public finance capacity available for investing in sustainable development in cities by 2030 is far greater than the financing gap - standing at \$98 trillion. One of the major gaps in being able to channel available private capital resources into sustainable development projects in developing and emerging economies is lack of project preparation. Pipeline projects, while frequently well designed to address development challenges and opportunities in cities, are not presented and financially structured in a way that can attract private capital. This is often due to lack of local knowledge and capacity in upstream project preparation.

Several high-impact projects in developing countries have been supported to reach financial close through project preparation support, which tends to be tailored to specifics of the projects. Where local capacity to provide this support is not available, international consultants are often deployed. This can be costly, so there needs to be a degree of confidence in the project feasibility before assigning this technical support. Many cities in developing countries tend not to have sufficient budgets to pay for this work, and investors are also reluctant to pay for this upstream preparation work, preferring to engage at a later stage of project development when sufficient data is available to demonstrate that

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<sup>1</sup> UN-Habitat, 2020. *The Sustainable Investment Gap & How to Close It: Cities, Infrastructure and SDG Investment Gap*. <https://unhabitat.org/the-sustainable-investment-gap-and-how-to-close-it-cities-infrastructure-and-sdg-investment-gap>.

<sup>2</sup> UN-Habitat, 2020. *Financing Sustainable Urbanization: Counting the Costs and Closing the Gap*. <https://unhabitat.org/financing-sustainable-urbanization-counting-the-costs-and-closing-the-gap>

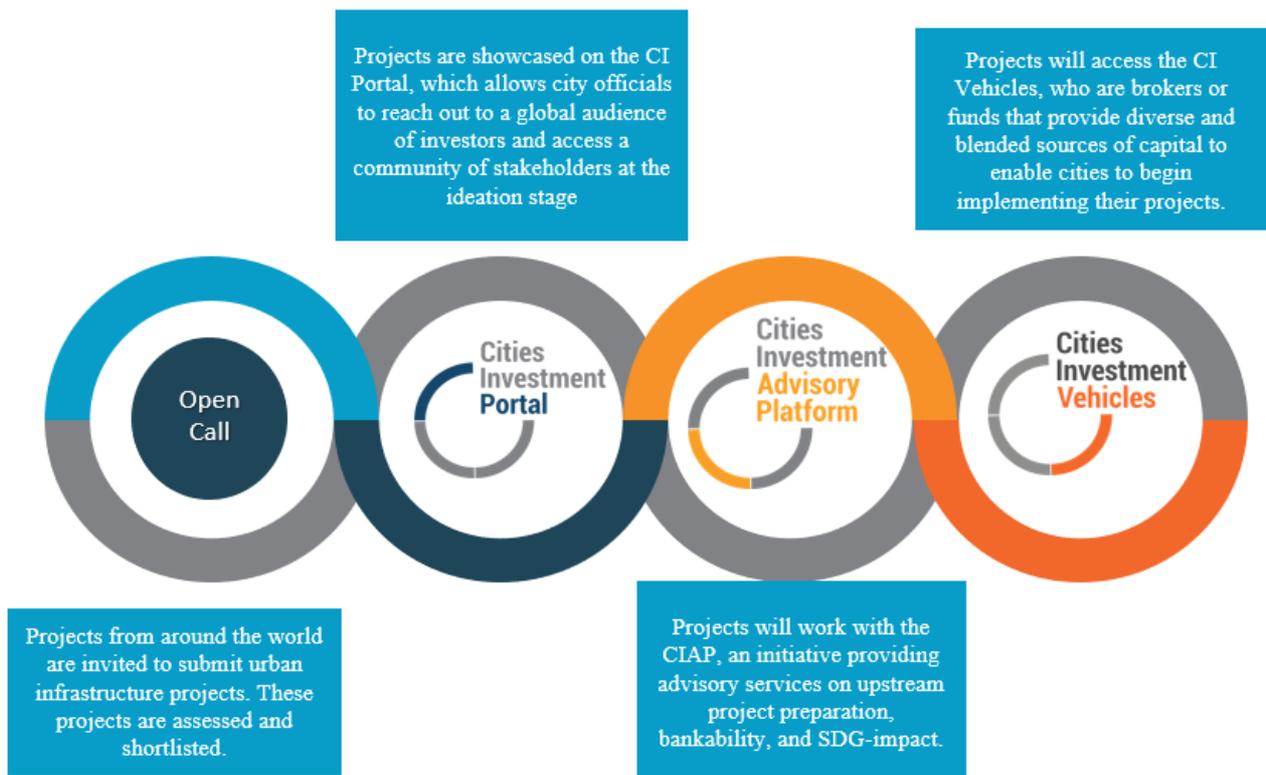
<sup>3</sup> United Nations Department of Economic and Social Affairs (UNDESA), 2018. <https://www.un.org/development/desa/en/news/population/2018-revision-of-world-urbanization-prospects.html>.

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projects are feasible for investment. Consequently, many potentially impactful and investable projects fail to be implemented.

To broaden opportunities for SDG impact projects for cities in emerging and developing countries to attract finance, UN-Habitat has established with partners a City Investment Facility (CIF) This facility includes.

- City Investment Portal (CIP); an online ‘marketplace’ where information on high impact pipeline projects originating in cities in developing and emerging economies can be uploaded and viewed by a global audience of investors;
- City Investment Advisory Platform (CIAP) that provides technical support from early to mid/late stages of project development on the financial preparation and SDG optimization of projects; and,
- City Investment Vehicles (CIV) that invest in projects during mid to late stages of their development to complete the de-risking process and crowd in diverse sources of finance to enable implementation.



The CIF receives a global pipeline of projects through open calls, projects submitted by partner organisations, projects developed through UN-Habitat country programmes and projects developed through the SDG Cities and other global flagship programmes. The portal and vehicles are self-funded through usage fees and private capital investment respectively. More information is available [here](#).

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At a meeting of UN-Habitat Foundation and Philanthropy Platform's Innovative Finance Working Group on 12 July 2021, there was overwhelming support to establish a Feasibility Fund. This Fund would enable cities to access specialist services that support the up-stream preparation and pre-feasibility of high impact urban SDG Projects in developing countries, designed to attract diverse sources of finance, including private capital. Services would include rapid pre-feasibility assessments, SDG project assessments and tailored advisory, that would enable such projects to be presented for investment. The Innovative Finance Working Group also agreed that the Feasibility Fund would be embedded within the City Investment Advisory Platform, (CIAP), thus integrated within the full value chain of the CIF including its Portal (CIV) and Investment Vehicles (CIV). This document outlines the Terms of Reference for the Feasibility Fund for sustainable urban development.

### OBJECTIVE

The objective of the Feasibility Fund is to increase access of cities in developing countries to effective, cost-efficient project preparation support that enables high impact SDG pipeline projects to reach financial close and thus be implemented.

It does this through:

- Supporting the establishment of the **CIAP** to provide excellent project preparation services in the most cost-effective way possible.
- Sponsoring the delivery of project preparation support through the **CIAP** to selected projects in developing countries.

### GUIDING PRINCIPLES

The Feasibility Fund is committed to:

- Filling priority gaps identified by the Innovative Finance working group, including, but not limited to: urban infrastructure, affordable housing, climate change, and children and youth wellbeing; and/or respond to emerging strategic opportunities to accelerate the implementation of the SDGs in secondary and tertiary cities, that do not have easy access to international financing.
- Achieving measurable results, in line with the SDGs with a focus on efficiency and sustainability.
- Promoting collective impact, by, for example including a non-governmental or private sector partners.
- Leaving no-one behind.
- Delivering high quality support in the most cost-efficient manner as possible.

### COST EFFICIENCY

Cost efficiency is achieved by:

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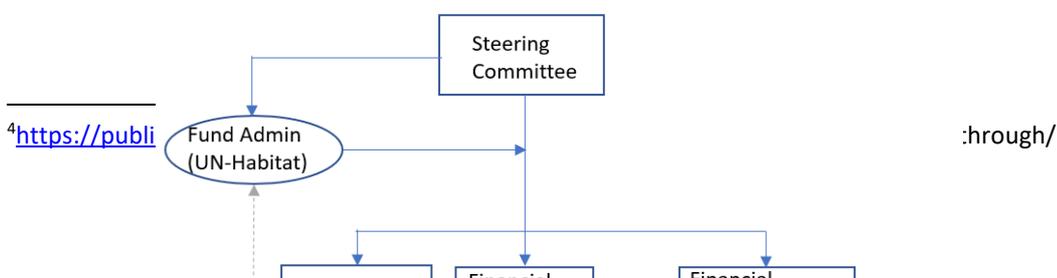
1. Deployment of digital tools that enable project promoters to upload data and that generate analysis, supported by remote technical backstopping. This reduces costs associated with data collection and analysis and defines clearly where tailored support is needed.
2. Utilisation of already existing tried and tested digital tools to avoid costs of tool development and maintenance.
3. Provision of tailored support through selected sub-regional partners with relevant language skills and experience of context.
4. Payment based on services delivered – success fee modalities to be explored.

### CIAP SERVICES

1. Rapid pre-feasibility assessments of projects.
2. Pre-feasibility studies that provide potential investors with key analysis on expected internal rate of return, risks, co-financing and de-risking arrangements.
3. Rapid SDG Assessment of pipeline projects.
4. Early-stage national investor outreach to complement international investor outreach by CIP.
5. Tailored project preparation support to reach a level of feasibility as needed to engage City Investment Vehicles, investors connecting through the CIP, or relevant partner investment matchmaking facilities.
6. Tailored SDG impact advisory at key design stages and SDG validation assessment during implementation

### KEY ACTORS

1. Feasibility Fund Steering Committee, responsible for oversight of the activities of the Fund. It comprises of members of the Working Group or their nominees. UN-Habitat will provide secretariat support.
2. UN-Habitat: management and reporting on Feasibility Fund contributions and disbursements; undertakes SDG Project Assessment.
3. CIAP Lead Partner: initially responsible for undertaking project preparation support; responsible for recruiting and training sub-regional service providers as demand grows and monitoring and reporting on their work; undertake project preparation support within a defined geography; undertake donor outreach and resource mobilization.
4. Sustainable Infrastructure Foundation SOURCE platform:<sup>4</sup> An online service developed by several major MDBs, where project information is uploaded into detailed templates and an analysis on investment readiness and project preparation gaps is generated.
5. CIAP Sub-Regional Implementing Partner: Private or not-for-profit entities specializing in project preparation advisory, trained by the CIAP Lead Partner to deliver against CIAP guiding principles. They will operate in targeted sub-regions thus be in reasonable proximity to cities in developing countries. They will be paid on a project-by-project basis; success fee payment approach will be explored.



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### PROCESS FLOW

1. Projects arrive at the CIP through open calls, and by submissions of partner organisations, and UN-Habitat flagship initiatives and country programmes. The CIP filtering process selects only projects that demonstrate SDG impact potential and a realistic financing strategy.
2. Projects in the CIP are reviewed by the CIVs who inform the CIP administrator of the projects that they are potentially interested to engage with.
3. The CIP administrator periodically updates the Feasibility Fund Steering Committee with a list of projects in developing countries that are attracting CIV and investor interest.
4. The Steering Committee meets every three to six months to review the list and agree which should be eligible for the support of the Fund and the services that should be provided for each.
5. Selected projects are directed to the CIAP Lead Partner and Sub-Regional Implementing Partners as relevant, to support financial feasibility, and to UN-Habitat to support SDG Assessment.
6. The Fund Administrator (UN-Habitat) is instructed by the Steering Committee to earmark funding for the services selected.
7. The CIAP Lead Partner or Sub-Regional Implementing Partners delivers one or more of the following services on the instruction of the Steering Committee:
  - Rapid pre-feasibility assessment delivered remotely
  - SIF-SOURCE analysis delivered remotely using a digital platform
  - Investor prospectus (delivered remotely)
  - Tailored advisory to address project preparation gaps identified in the SIF-SOURCE analysis and to meet interests of prospective investors.
8. UN-Habitat delivers one or more of the following services on the instruction of the Steering Committee:
  - Rapid SDG Project Assessment, delivered remotely
  - Tailored advisory during various project design stages to maximise SDG impacts
  - SDG Assessments during project implementation stages
9. CIAP Lead Partner and UN-Habitat review and sign off on the work of Implementing Partners. The Fund Administrator (UN-Habitat) processes payments.
10. Information generated through steps 7 and 8 above is uploaded into the CIP.
11. The CIP informs interested investors and vehicles of the updated project information.

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12. Remaining project preparation gaps are identified by CIP administration based on CIV and investor feedback.
13. Steering Committee authorises further advisory to meet the gaps.
14. Vehicles engage with the projects as soon as they are viable and invest in due diligence, risk mitigation and legal arrangements then assemble the capital stack needed for project implementation by engaging relevant investors.
15. The CIP follows up periodically on implementation stages.
16. SDG Validation Assessments are carried out at least once during implementation stages. Investors are encouraged to pay for this.

### GOVERNANCE

The Fund is governed by a Steering Committee consisting of the members of the Foundation and Philanthropy Platform or suitable nominees, meeting every three to six months. They will promote the Feasibility Fund, mobilize funding, select a Lead Implementing Partner, approve on the selection of Sub-Regional Implementing Partners, agree on and authorize the use funding to support project preparation and provide general oversight and guidance. UN-Habitat will administer the Feasibility Fund.

### FUNDING MODEL

- UN-Habitat: administration of Feasibility Fund contributions and disbursements, financial and impact reporting. 13% overhead is applied for Fund administration.
- CIAP Lead Partner: Payment is based on services delivered. CIAP Lead Partner is encouraged to mobilize donor funding to sustain its activities.
- Sustainable Infrastructure Foundation SOURCE Platform. Annual subscription for unlimited projects is \$100,000. (UN-Habitat is working towards co-funding this).
- CIAP Sub-Regional Implementing Partner: Payment is based on services delivered. A success fee model is being explored.
- Where possible mechanisms will be introduced to recover upstream preparation costs when investment deals are secured.

### ESTIMATED COSTS PER SERVICE

Project access to the City Investment Portal	USD 600
Rapid pre-feasibility assessment delivered remotely	USD 5,000-10,000
Backstopping support to project promoters using SIF-SOURCE Platform	USD 5,000
Investor prospectus (delivered remotely)	USD 5,000
Rapid SDG Project Assessment, delivered remotely	USD 5,000 – 10,000

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Tailored advisory to address project preparation gaps identified in the SIF-SOURCE analysis and to meet interests of prospective investors.	USD 20,000 – 200,000 (depending of size and complexity)
Tailored advisory to strengthen SDG Impacts.	USD 20,000 – 50,000
SDG Validation assessment during implementation stages.	USD 25,000

### CONTRIBUTIONS TO THE FEASIBILITY FUND

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 Fund. This maximises the flexibility for the Steering Committee to define the use of funds based on principles of the Fund and likelihood of success.
- Donors that prefer to make earmarked contributions may earmark their contributions to the specific outcomes and geographies.
- Funds can also be channelled directly from the source to implementing partners to undertake feasibility advisory work – where so, separate contribution to cover any secretariat/ Service Provider costs is encouraged.