

The Urban Finance Gap: Systems, Constraints, and Reform Pathways across the Commonwealth

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1. Introduction: Urban Finance as a Multi-Level Governance Challenge

Cities and local governments across the Commonwealth are the front line of sustainable development. They are responsible for the roads, drains, water systems, public spaces, housing, and transport networks that determine whether urbanisation produces prosperity or deepens vulnerability. Yet in most Commonwealth countries, the financing and funding systems available to cities are poorly matched to the scale, complexity, and long-term character of what urban development requires. The central argument of this paper is that this mismatch is not principally a problem of municipal capacity but a multi-level governance challenge. The fiscal resources available to cities, the instruments through which they can borrow, the conditions under which they can access climate finance, and the equity with which those resources are distributed across the urban system are all shaped primarily by national legislation, intergovernmental fiscal arrangements, regulatory frameworks, and the mandates and instruments of development finance institutions. Local government reform, however well designed, cannot substitute for the national-level decisions that determine how much fiscal space cities have, how predictable their revenues are, and whether they can access the long-term capital that infrastructure investment, as well as operation and maintenance, requires. This framing has direct implications for where policy attention and institutional reform need to be directed.

Across the Commonwealth, a set of macro-fiscal, market, and institutional constraints recur with sufficient consistency to constitute structural rather than idiosyncratic problems. Many Commonwealth countries, particularly small island developing states, face shallow domestic capital markets, high debt burdens, limited creditworthiness frameworks, and acute exposure to climate and natural disaster shocks that simultaneously increase infrastructure investment needs and constrain the fiscal space available to address them. Across all regions, fragmented and unfunded mandates for service delivery, unclear borrowing frameworks, weak project preparation capacity, and complex approval processes for subnational borrowing limit both national and local governments' ability to mobilise and deploy capital effectively. These are not problems that individual cities can solve, and they are not problems that technical assistance to local finance officers can resolve. They require system-level reform of the fiscal, regulatory, and institutional architecture within which cities operate.

The urgency of that reform is sharpened by the scale and long-term nature of urban infrastructure and climate investment needs. Urban populations across the Commonwealth are growing fastest in the cities least equipped to finance the infrastructure that growth requires. It is intermediary cities, secondary urban centres absorbing population at rates that outpace their institutional and fiscal capacity, where the gap between investment need and available finance is most acute, and where the consequences of underinvestment, in the form of informal settlements, inadequate sanitation, unsafe transport, and deepening climate vulnerability, are most directly felt. These consequences do not fall evenly across the population. Women, young people, and lower-income groups are disproportionately affected by underinvestment in public transport, affordable housing, water and sanitation, public space, and early childhood infrastructure, precisely the categories of expenditure most consistently underfunded when cities lack fiscal autonomy and borrowing capacity.

Social and territorial disparities compound one another: the cities least able to finance infrastructure are frequently those with the highest concentrations of poverty and informality, and the urban finance gap is therefore simultaneously a development gap and an equity gap. Addressing it requires mobilising private sector capital, as private finance is drawn to economically viable projects in well-resourced cities, not to the public goods and services in underserved communities that generate the highest social returns but the weakest financial ones. The design of public finance institutions and intermediaries must explicitly account for this gap between public and private incentives if it is to be bridged rather than widened. In this context, building the national institutions, fiscal frameworks, and capital market conditions that allow domestic resources to be mobilised at scale is more sustainable, more equitable, and ultimately more effective than dependence on international flows that are volatile, heavily intermediated, and structurally inaccessible to most subnational actors. Subnational financial

intermediaries are a critical mechanism in this regard. Their ability to lend in local currency over long tenors, pool capital from multiple sources, de-risk investment for private co-financiers, and increasingly to intermediate between global climate finance mechanisms and local delivery, makes them indispensable in any credible strategy for closing the urban infrastructure deficit.

This paper provides a comparative, system-level analysis of subnational and urban finance across the Commonwealth, developed in support of the Urban Finance Action Group (UFAG) of the Commonwealth Sustainable Cities Coalition (CSCC). Its purpose is to generate the analytical foundations and evidence base needed to develop actionable policy recommendations for national governments, local governments, finance institutions, regulators, and development partners across the Commonwealth. It is structured as follows: Section 2 presents a comparative mapping of subnational and urban finance systems across eighteen Commonwealth countries, organised around six analytical dimensions: subnational revenue, intergovernmental fiscal transfers, municipal borrowing authority, market conditions and creditworthiness, access to climate finance, and equity considerations across the urban system. Section 3 presents three country deep-dives, examining Belize, India through the lens of Kerala, and Rwanda, to illustrate how system-level constraints and reform trajectories play out in practice. Section 4 analyses five subnational financial intermediaries, the Development Bank of Southern Africa, the Tamil Nadu Urban Development Fund, the UK Public Works Loan Board, FEICOM in Cameroon, and New Zealand's Local Government Funding Agency, drawing cross-cutting lessons on what makes intermediaries effective channels for urban finance. Section 5 concludes with actionable policy recommendations directed at the full range of actors whose decisions shape whether Commonwealth cities can fund and finance the urban future their populations need.

2. Comparative Mapping Across the Commonwealth

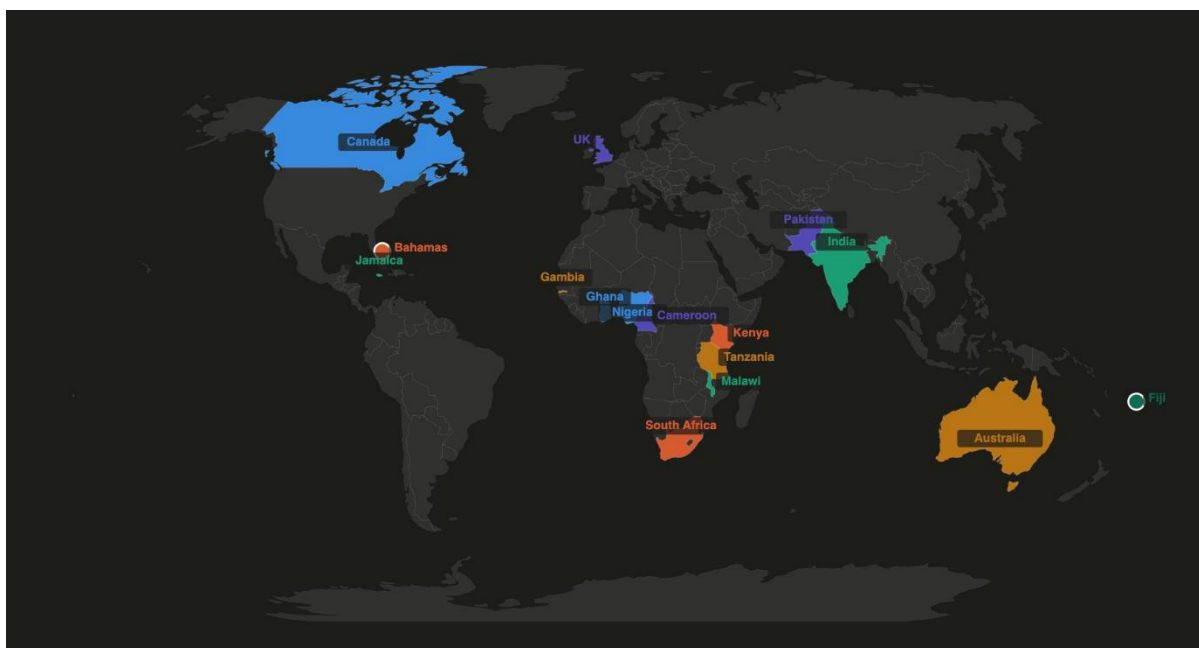


Figure 1 – Commonwealth Countries Covered by the Comparative Mapping

The Commonwealth encompasses an exceptionally diverse range of governance systems spanning large federal democracies with mature capital markets, small island developing states (SIDS) whose exposure to climate risk dwarfs their institutional resources and middle-income economies navigating the transition between administrative and fiscal decentralisation. Mapping this diversity in a way that generates actionable insight requires a framework that goes beyond country-by-country description.

What follows, therefore, is a comparative analysis structured around six analytical dimensions that together determine whether cities can fund their services and finance their infrastructure: subnational revenue, intergovernmental fiscal transfers, municipal borrowing authority, market conditions and creditworthiness, access to climate finance, and equity considerations across the urban system. These dimensions are not independent. For example, the strength of a city's own-source revenue determines its creditworthiness, which in turn shapes its access to borrowing and to climate finance, while the design of intergovernmental transfers influences whether smaller and less well-resourced cities can participate in the system at all. The equity dimension cuts across all five others, asking not only whether the system functions in aggregate but whether it distributes resources and financing access in ways that reach the cities, communities, and groups most in need. Therefore, taken individually, each dimension can identify a specific bottleneck, however, taken together, they reveal whether a city's financing architecture is structurally capable of supporting the scale and type of investment that sustainable urban development requires.

Eighteen Commonwealth countries were selected for the mapping exercise to reflect institutional, regional, and structural diversity, with case selection designed to illustrate key dimensions rather than to identify best practice models for straightforward replication. Each dimension is examined through the lens of recurring configurations that appear across Commonwealth countries regardless of region or income level, rather than through individual country profiles. It is important to highlight from the outset that these archetypes are analytical tools, not rankings. A transfer-dominated revenue system is not inherently inferior to one with strong own-source revenue; its adequacy depends on the predictability of the transfers, the expenditure responsibilities assigned to local government, and the capacity of municipalities to manage what they receive. The goal throughout this section, therefore, is to extract transferable principles and to surface the most persistent misalignments between what cities are responsible for delivering and the tools available to them to do so.

Dimension 1: Subnational Revenue

Own-source revenue (OSR) is the income that cities raise and control directly. It gives municipalities genuine fiscal agency, the practical ability to respond to locally defined needs and priorities rather than simply administering centrally determined allocations. It also forms the backbone of creditworthiness: lenders and investors assess repayment capacity primarily based on the predictability and autonomy of a city's revenue streams. Where OSR is strong, it also strengthens the accountability relationship between city government and residents, creating a local social contract in which taxation is visibly linked to service delivery. These properties make OSR a central variable in any assessment of urban finance systems, yet the relationship between OSR levels and fiscal health is not straightforwardly linear. High OSR in a small or poor city may reflect a narrow, exhausted tax base rather than fiscal strength, and large transfers may better serve horizontal equity than fragmented local revenue systems.

High Own-Source Revenue Autonomy

Cities in high revenue autonomy systems hold meaningful discretion over their own tax bases and rates, and transfers play a supplementary rather than constitutive role in municipal budgets. However, a case like Malawi illustrates the structural paradox this can produce. The Local Government Act empowers local governments to collect own-source revenue across a range of instruments,ⁱ and in the larger cities OSR makes up a substantial

share of total income. Yet the absolute value of city budgets remains very small: Mzuzu, one of Malawi's major urban centres, operated with a total budget of approximately USD 3.3 million in 2019/20ii. The lesson is that substantial reliance on own-source revenue is not inherently desirable where the underlying tax base is narrow and the local economy is limited. In such contexts, the case for intergovernmental transfers is not a concession to fiscal weakness but a structural necessity, and the appropriate policy question is how to design the right mix of OSR and transfer support rather than how to maximise the former.

A further functional alignment challenge in high OSR systems is that revenue instruments tend to reflect what is administratively collectible, principally property tax, trade licences, and fees, rather than what aligns with expenditure mandates. Cities with significant responsibilities for public transport, drainage, and public space provision may be collecting revenue primarily from commercial property and licence activity, creating a structural mismatch between the revenue base and the services it is meant to finance. This is particularly acute for services with strong gender and youth salience, such as affordable public transport and safe public space, which often cannot generate fee income sufficient to sustain themselves and therefore depend on cross-subsidy from other revenue streams or on transfer support.

Partial Own-Source Revenue Autonomy

In partial revenue autonomy systems, some own-source instruments exist but are narrowly defined, weakly administered, or set primarily at the central level. India exemplifies this configuration at scale. The 74th Constitutional Amendment Act of 1992 devolved a broad set of functions to Urban Local Bodies (ULBs), including public infrastructure, basic services, public health, and social welfare, but revenue authority remained limited and unevenly distributed across states. ULB own-source revenue as a share of total receipts declined from approximately 56 per cent in 2007/08 to 44 per cent in 2015/16, and dependence on transfers has continued to deepeniii. The introduction of the Goods and Services Tax, which consolidated indirect tax instruments into a single national regime, has further eroded the fiscal space of municipalities in Indiaiv.

The Indian case points to a lesson that applies well beyond the subcontinent: the binding constraint on municipal revenue performance is rarely the formal assignment of tax instruments but the capacity to administer them. Planning, budgeting, expenditure management, procurement, and monitoring are the functions that determine whether assigned revenue powers translate into actual income, and these are precisely the capacities that are weakest in the cities with the greatest infrastructure backlogs. This is illustrated by the wide variation in transfer dependence across Indian cities: Class I-A cities with populations above 5 million people primarily depend on their own tax revenue, while Class I-B and Class I-C cities rely more heavily on intergovernmental transfersv. It also illustrates a further tension that any decentralised system must manage: the more discretion subnational governments hold over their own tax bases and rates, the harder it becomes to achieve horizontal equalisation across a diverse urban system.

No Own-Source Revenue Autonomy

In transfer-dominated systems, municipalities have minimal discretion over own-source revenue instruments, and local fiscal space is largely defined by what central government chooses to allocate. Many Commonwealth Caribbean as well as SIDS illustrate this challenge. In Jamaica, for example, local government finances are approved and regulated by the central government; principal local revenues, including property tax and business licences, are collected into a centrally managed Parochial Revenue Fund and redistributed to municipalities rather than retained locallyvi. Local revenue streams confined to small charges and fees are narrow, volatile, and often regressive, making them a poor foundation for either service delivery. Although increasing local fiscal autonomy has been a stated policy objective since reforms in 2013 to 2016, it has not been meaningfully realised in practicevii.

Dimension 2: Intergovernmental Fiscal Transfers

Where own-source revenue is limited, intergovernmental fiscal transfers (IGFTs) fill the gap, and for the majority of Commonwealth cities, especially smaller and fiscally weaker municipalities, they constitute the dominant share of total revenue. The design features of transfer systems, including their size, predictability, timing, formula construction, and conditionality, therefore directly determine whether cities can plan, invest, and build the fiscal track record that creditworthiness requires. Well-designed, stable, rule-based transfers can function as a substitute for own-source revenue in determining repayment capacity. In most Commonwealth systems, however, that potential is not fully realised: transfers are frequently late, politically mediated, or structured in ways that weaken rather than strengthen local fiscal discipline. The gap between design and delivery often reflects the political economy of intergovernmental relations. Therefore, since IGFTs are ultimately political compacts, and without political alignment, even technically well-designed frameworks will struggle to deliver the predictability they promise.

Formula-Based and Predictable IGFTs

Canada represents one of the most institutionalised IGFT framework among Commonwealth countries. Federal transfers account for approximately one fifth of total provincial revenues, rising to around one third for the less wealthy provinces, and the equalisation formula, adopted in 2008 and extended through to 2029, is enshrined in the Constitution^{viii}. Each province's funding share is calculated by an independent expert panel on the basis of its fiscal capacity across five revenue categories, including personal income tax, business tax, consumption tax, property tax, and natural resource revenues, on a per capita basis. Municipalities are created by provincial law, and the importance of transfers at the local level varies considerably by province^{ix}. Although constitutional underpinning provides stability, the framework still carries a structural vulnerability. In particular, the underlying formula has not been reformed to reflect structural changes including population ageing, the energy transition, and the growing infrastructure responsibilities of cities. For equalisation principles to function as intended, the rules governing them must be revised periodically as economic geography, demographic structure, and expenditure mandates evolve.

More Discretionary IGFTs

Ghana's IGFT system illustrates the mixed or discretionary system, in which statutory rules coexist with significant political mediation. The District Assemblies Common Fund (DACF), established under the Constitution and guided by the Local Governance Act 2016, requires at least five per cent of national revenue to be allocated to district assemblies. This formula-based element makes the DACF an important source of funding for development projects and can contribute up to 40 per cent of total municipal revenue. In practice, however, late and partial disbursement is routine, and significant portions of the fund are diverted to national projects and programmes before reaching local governments. In 2019, 36.2 per cent of the total allocation was directed to national-level projects; across the same period, transfers to national institutions and programmes accounted for 49.6 per cent of total DACF funds^x. The consequence is that local governments respond more to transfer flows than to own-source revenue mobilisation, and the fund's supposed equalisation function is undermined by the political and administrative discretion that shapes actual disbursements^{xi}.

Ad Hoc and Unpredictable IGFTs

Nigeria's IGFT system demonstrates the acute fiscal instability that can arise when transfers are structured around volatile national revenue sources. The federal government collects the dominant share of public revenue which come from petroleum sales. These are then pooled in the Federation Account and redistributed to states and local governments according to formulas that incorporate origin, population, and equity criteria. As most resources flow from petroleum revenue, transfers are highly sensitive to global oil prices, and frequent changes in allocation

formulas have produced persistent instability in subnational fiscal arrangements^{xii}. The result is a system in which states are deeply dependent on flows they cannot predict or influence, regional disparities in development outcomes are wide, and horizontal equity effects are weak. The underlying political economy of petroleum revenue control shapes intergovernmental relations in ways that a transfer formula cannot easily correct.

Dimension 3: Municipal Borrowing

Rapid urbanisation requires capital investment in infrastructure at a scale and pace that neither own-source revenues nor intergovernmental transfers can accommodate alone. Infrastructure is a long-term, intergenerational asset, and borrowing is the mechanism that should help spread this cost more fairly across current and future beneficiaries. When prudently managed and embedded in a credible regulatory framework, municipal borrowing is not a symptom of fiscal weakness but a strategic instrument for sustainable urban development. It enables cities to mobilise significant upfront capital for housing, transport, drainage, and climate resilience investment while repaying over the asset's useful life. Furthermore, enabling fiscally mature cities to borrow from capital markets can relieve pressure on central budgets and create space for national government to direct grants toward municipalities that are not yet ready to borrow. However, it is also important to highlight that legal provisions permitting borrowing are necessary but rarely sufficient to produce actual market access.

Local Borrowing Authorised with Enabling Framework

South Africa operates the most developed municipal credit market in Africa and the most mature subnational borrowing framework in the Commonwealth outside the largest OECD economies. The Municipal Finance Management Act explicitly permits municipalities to borrow for capital investment, distinguishes between long-run borrowing for capital expenditure and short-run borrowing for liquidity management, and establishes a framework of affordability, repayment capacity, and transparency requirements^{xiii}. National Treasury does not approve individual loans but maintains a strong supervisory role, monitoring financial health and compliance. South African metropolitan municipalities have accessed commercial bank loans, development finance institutions, and the domestic bond market. The key lesson is that rigorous oversight and meaningful regulatory controls are entirely compatible with market access.

Local Borrowing Formally Permitted but Constrained

Kenya illustrates the gap between legal provision and practical access that characterises the constrained archetype. Article 212 of the 2010 Constitution allows county governments to borrow, subject to national guarantee and county assembly approval, and the Public Finance Management Act provides a framework for loans and bond issuance for development and infrastructure investment^{xiv}. In practice, county borrowing requires multiple approvals from the county assembly, the National Treasury, and Parliament, and no county has yet successfully accessed markets under this framework, although Laikipia County has tried^{xv}. The review process has proved lengthy and complex, capacity constraints and regulatory hurdles disqualify most counties at the outset, and high national debt levels limit the National Treasury's appetite to approve subnational borrowing that adds to aggregate public-sector fiscal risk. The Kenyan experience also highlights that heavy dependence on intergovernmental transfers can weaken the incentive for counties to pursue borrowing. Where significant grant flows are available without conditionality, the discipline and transaction costs that debt requires can appear unnecessary by comparison.

Local Borrowing (Effectively) Prohibited

The Bahamas illustrates a case in which subnational borrowing authority is absent by design. Local government in The Bahamas operates primarily as an administrative arm of central government, concentrated in the family islands, with no local government on the main island of New Providence where the capital Nassau is located^{xvi}. Local councils have no authority to borrow independently, and capital financing is managed entirely at the national level by the Ministry of Finance. Local government operations and development activities are financed primarily through central budget allocations rather than local revenue or borrowing. The Bahamas is not unusual within the Commonwealth Caribbean or compared to many other small island jurisdictions as the scale of local government may be too limited and the institutional infrastructure too thin to support a municipal borrowing framework^{xvii}.

Dimension 4: Market Conditions and Creditworthiness

The legal authority to borrow is a necessary but not sufficient condition for municipal borrowing. What determines whether that authority can be exercised is the financial standing of the borrower in the eyes of lenders and investors. Creditworthiness, reflecting a city's demonstrated ability to service debt from predictable revenues managed transparently, is the practical gateway to capital markets. It serves as a signal to investors and lenders about institutional readiness, governance quality, and fiscal discipline, and it influences both the cost and the availability of long-term finance. Pursuing creditworthiness is itself a governance discipline: the credit rating process, the production of audited accounts, and the development of a capital investment plan all strengthen the broader quality of municipal financial management. The market conditions within which cities operate, including the depth of domestic capital markets, the level of sovereign risk, and the availability of intermediary institutions, determine whether creditworthiness, once established, translates into actual finance.

Established Market Access

The United Kingdom represents a system of mature, established market access for local governments. The *Prudential Borrowing Framework*, introduced in 2004, gives local councils responsibility for their own capital financing decisions subject to affordability assessments by chief finance officers. The Public Works Loan Board (PWLB – see **Section 4**), operated by the UK Debt Management Office on behalf of HM Treasury, provides sovereign-backed loans at gilt-rate spreads that no commercial lender can match, and accounts for the majority of local authority borrowing. In 2014 there was an attempt to establish a UK Municipal Bonds Agency. However, it issued very few bonds across its decade of operation and has since closed to new business, a direct consequence of the PWLB's competitive pricing. The episode illustrates a structural challenge relevant well beyond the UK: when a sovereign-backed lender anchors the market at near risk-free rates, the business case for a municipal bond market is very difficult to sustain. Furthermore, creditworthiness remains highly uneven across councils, and recurring fiscal stress at individual authorities, most visibly Birmingham in 2023, demonstrates that even a well-developed market access system does not prevent individual failures when underlying revenue bases are inadequate.

Emerging and Fragmented Access

Cameroon illustrates the emerging or fragmented access archetype, in which formal borrowing capacity exists but is structurally mediated rather than market-driven. Local governments have legal personality and financial autonomy under the decentralisation framework, but fiscal autonomy in practice is constrained by limited own-source revenue, significant administrative capacity gaps, and a requirement for prior authorisation from central government institutions. Municipal financing is predominantly channelled through FEICOM, the national municipal finance institution (see **Section 4**), rather than through direct capital market access. FEICOM's structural

importance is demonstrated by the fact that for approximately 100 of Cameroon's 339 communes, its transfers represent more than 95 per cent of total revenues. The Cameroonian case also demonstrates how financial intermediaries can stimulate borrowing discipline and improve public financial management even where direct market access is still a long way off.

No Effective Market Access

Pakistan illustrates the conditions under which it is unlikely for an effective municipal credit market can emerge. Several structural features of the fiscal and financial system reinforce one another to produce this outcome. Urban infrastructure financing is fragmented across provincial governments, development authorities, and municipal bodies, limiting the consolidation of projects into structured borrowing programmes. Municipal own-source revenues are constrained, with property tax predominantly administered at the provincial level rather than by municipalities, removing the revenue instrument most commonly associated with local creditworthiness^{xviii}. The financial system is heavily oriented toward federal government securities, and the strong sovereign-bank nexus concentrates bank balance sheets in government debt instruments, limiting the broader credit market deepening that municipal borrowing would require^{xix}. Given subnational borrowing conditions are closely tied to sovereign risk dynamics, macroeconomic adjustment programmes and fiscal consolidation pressures do not merely affect the national government: they constrain fiscal space across all levels of government at once.

Dimension 5: Climate Finance

Climate change is already imposing fiscal costs on cities through damage to infrastructure, disruption of services, and the need for resilience investment that was not anticipated in original asset designs. For cities in small island developing states and other highly climate-exposed environments, these costs are not future risks but present fiscal obligations. At the same time, climate investments are capital-intensive and long-term, requiring financing instruments that align with infrastructure lifecycles, and the international climate finance architecture was not designed with subnational access in mind. These costs intersect directly with the borrowing and creditworthiness challenges discussed in the preceding dimensions as the dominant instrument in the international climate finance architecture is the loan, and access to concessional climate debt is therefore subject to many of the same creditworthiness thresholds, fiduciary standards, and institutional capacity requirements that constrain municipal borrowing more broadly. Furthermore, many climate finance mechanisms rely on nationally centralised fiduciary systems and accreditation processes that further intermediate the relationship between international funds and local delivery.

High Climate Risk with Structured Access

Fiji is highly exposed to sea-level rise, coastal erosion, saltwater intrusion, and intensified tropical cyclones, and climate resilience is accordingly a core driver of its national finance strategy. Its approach to climate finance access is more structured than many comparable SIDS, though it remains highly centralised, reflecting a broader fiscal architecture in which local government revenue autonomy is limited and subnational actors have neither the financial standing nor the institutional infrastructure to access or manage external finance independently. Fiji was the first emerging market country to issue a sovereign green bond, and it has adopted a *National Climate Finance Strategy* providing a framework to mobilise, coordinate, and channel climate resources^{xx}. The strategy emphasises coordination through national ministries and central institutions rather than direct city-level accreditation, with community adaptation grants and other adaptation initiatives channelled through national frameworks to reach local actors^{xxi}. The functional alignment challenge is that this institutional pathway, where climate finance runs through national systems, may not be calibrated to the granular, place-specific nature of adaptation investment.

High Climate Risk with Weak Access

Kiribati illustrates the extreme version of climate risk without the institutional infrastructure to access commensurate finance. As a low-lying atoll state with most of its land only a few metres above sea level, Kiribati faces existential climate risk and its National Adaptation Plan^{xxii} identifies threats to freshwater resources, food security, housing, and critical infrastructure that go beyond the capacity of any domestic financing system to address. Climate finance is heavily mediated through international donors and multilateral institutions, with accredited entities often operating at the regional or international level rather than through national structures, and externally funded programmes structured through national ministries and implementing partners rather than through local governments. Institutional strengthening efforts consequently focus on national fiduciary systems and public financial management rather than on decentralised municipal access. The practical implication is that adaptation investment is shaped by the priorities and procedural requirements of external funders rather than by locally determined needs, limiting both the relevance and the sustainability of interventions^{xxiii}.

Lower Climate Risk with Integrated Domestic Access

Malta occupies a qualitatively different position on the climate finance spectrum. Its main climate risks, including heatwaves, water scarcity, and coastal erosion, are significant but manageable within existing institutional frameworks, and even though it is an island, Malta is not among the most climate-vulnerable Commonwealth states facing habitability threats. Climate and energy transition measures are strongly embedded within the European Union (EU) Recovery and Resilience Plan framework and financed through EU development banking instruments rather than standalone international climate funds^{xxiv}. Climate governance is coordinated through national institutions under the Climate Action Authority, reflecting a domestically integrated approach in which climate investment is mainstreamed into general public financial management rather than accessed through competitive external mechanisms^{xxv}. This illustrates the principle that climate finance can be more sustainable and scalable when it is mainstreamed into broader public financial management systems rather than managed as a separate and externally dependent stream.

Dimension 6: Equity Considerations

Urban system equity shapes national development outcomes in ways that aggregate fiscal statistics obscure. Persistent disparities between dominant metropolitan centres and secondary or peripheral cities do not simply reflect differences in economic productivity; they are partly produced and continuously reproduced by fiscal architectures that systematically accumulate revenue capacity and infrastructure advantage in the largest cities. Smaller municipalities face a compounded constraint: limited revenue bases, weaker administrative capacity, and lower visibility to national policymakers and international partners reinforce one another to create structural disadvantage that market forces alone will not correct. Any framework for assessing Commonwealth urban finance systems must therefore consider not only whether individual cities can fund and finance their functions but whether the system as a whole distributes fiscal resources in a way that supports balanced urban development and maintains the horizontal equity that decentralisation frameworks typically promise.

Strong Equalisation and Support for Smaller Cities

Australia represents one of the most comprehensive institutionalised equalisation framework among Commonwealth countries. It operates a formal system of Horizontal Fiscal Equalisation (HFE), under which national revenue is distributed to states and territories so that each can provide services at equivalent standards, assuming average revenue effort and average efficiency. Funding shares are assessed by the independent Commonwealth Grants Commission whose methodology explicitly accounts for demographic composition,

service delivery scale, regional cost differentials, and revenue capacity^{xxvi}. The equalisation pool is updated annually and subject to five-year methodological reviews^{xxvii}. State Grants Commissions then determine intra-state distribution of local government grants on equity-based principles. The critical lesson is not simply that Australia has strong equalisation institutions, but that those institutions are independent, formula-driven, and subject to periodic methodological revision to reflect changing fiscal realities, including ageing populations, climate impacts, and shifting service costs.

Uneven System with Dominant City

Tanzania illustrates an uneven urban system. Dar es Salaam is the primary economic engine of the country, accounting for a disproportionate share of GDP, formal employment, and infrastructure investment, and it exhibits significantly stronger revenue mobilisation capacity and economic density than other urban local government authorities^{xxviii}. However, no sufficiently robust equalisation mechanism exists to counterbalance this structural advantage. Secondary cities, including Mwanza, Arusha, Mbeya, and Dodoma, play important regional roles but lag substantially in infrastructure provision, institutional capacity, and economic competitiveness, and investment and donor-supported urban reform programmes have often focused on larger cities, reinforcing rather than correcting these differentials. Fiscal decentralisation exists in law, but functional and financial capacities vary significantly across local government authorities, and smaller municipalities face persistent infrastructure deficits and weak service delivery systems in water, sanitation, solid waste management, and transport^{xxix}. The services most critical to gender equity and youth economic inclusion, such as public transport and safe public space, are characteristically underprovided in precisely the cities least equipped to finance them.

Highly Concentrated or Primate City Dominance

The Gambia illustrates the extreme version of spatial fiscal concentration. The Greater Banjul Area, encompassing Banjul, the Kanifing Municipal Council, and Kombo North, functions as the overwhelming centre of the national system, concentrating trade, commerce, education, healthcare, and government activity. The population distribution is highly influenced by proximity to Banjul, and urbanisation trends are rapidly reinforcing metropolitan primacy: parity between urban and rural population was reached by 2019, and projections indicate that over 72 per cent of the population will be living in urban areas by 2043, with growth driven predominantly by the expansion of the Greater Banjul Area^{xxx}. Peripheral divisions are significantly less densely populated and substantially under-resourced. Weaknesses in subnational public financial management and continued reliance on central oversight, identified in the 2024 PEFA assessment, compound the structural disadvantage of municipalities outside the metropolitan core^{xxxi}. The risk is that fiscal architecture designed for a more balanced urban system becomes dysfunctional as metropolitan primacy accelerates, a dynamic that is not specific to The Gambia but is particularly acute given the speed of concentration there.

Six Dimensions, One System

The six dimensions were chosen because they are interdependent: a weakness in any one tends to compound weaknesses in the others, and a strength in one can only be fully realised if the adjacent dimensions are functioning adequately. The mapping across eighteen Commonwealth countries confirms this interdependence in practice: Countries with strong own-source revenue frameworks but weak transfer design struggle to achieve horizontal equity. Countries with well-designed transfer systems but no borrowing framework cannot mobilise the long-term capital that infrastructure requires. Countries with borrowing authority but shallow capital markets or low creditworthiness find that legal permission does not translate into finance. And countries with acute climate risk but no pathway through the creditworthiness and institutional capacity thresholds that climate finance requires remain structurally excluded from the resources they most urgently need.

Six lessons emerge from the mapping, one anchored in each dimension but each connecting to the others:

- **The right mix matters more than the level.** High own-source revenue is not inherently superior to transfer dependence, and the policy question is never simply how to maximise OSR but how to design a coherent balance between own-source revenue, transfers, and borrowing that is proportionate to the expenditure responsibilities assigned and to the capacity available to administer them.
- **Predictability is the most important design feature of a transfer system.** The size of transfers sometimes matters less than their reliability. Late, politically mediated, or frequently revised transfers undermine planning, investment, and creditworthiness regardless of their aggregate volume and legal entrenchment without periodic formula revision produces rigidity rather than stability.
- **Legal permission to borrow is the beginning, not the end, of a municipal borrowing framework.** Enabling legislation requires an accompanying ecosystem of creditworthiness standards, regulatory clarity, project preparation support, and domestic capital market depth before it can produce actual market access, and heavy transfer dependence will suppress borrowing appetite even where the framework is technically sound.
- **Creditworthiness is a system property, not just a city property.** Individual municipal creditworthiness is shaped by the transfer system, the legal framework, the depth of domestic capital markets, and the sovereign risk environment simultaneously. Interventions that focus on individual city credit ratings without addressing the systemic conditions that constrain them will have limited and uneven impact.
- **Existential climate risk does not automatically unlock climate finance.** Access to international climate funds is determined by institutional design, fiduciary capacity, and accreditation architecture rather than by exposure to climate risk, and the cities most vulnerable to climate change are typically those least equipped to meet the access requirements. Mainstreaming climate finance into domestic public financial management systems, rather than managing it as a separate externally dependent stream, is a more sustainable long-term pathway.
- **Equalisation requires active institutional maintenance.** Legal decentralisation does not produce fiscal equity, and metropolitan concentration will tend to entrench horizontal imbalances unless equalisation mechanisms are independent, formula-driven, and subject to periodic revision. The equity dimension is not a separate consideration to be addressed after the financing architecture is in place; it is the test of whether that architecture is working.

3. Country Deep-Dives: Finance Systems in Practice

The mapping in the previous section has limits that should be acknowledged. Eighteen countries cannot represent the full diversity of the 56-member Commonwealth, and the cases were selected to illustrate dimensions rather than to produce a statistically representative picture. The analysis is also primarily structural: it identifies configurations and constraints but cannot fully capture the political dynamics, leadership qualities, or specific historical circumstances that explain why some systems reform and others do not. Therefore, this section presents three country deep-dives selected to illustrate contrasting system types and reform trajectories across the Commonwealth. Together, they span a small state experimenting with capital market instruments for municipal finance (Belize), a state-level participatory policy process seeking to modernise the urban finance toolkit (India), and a country rebuilding its land governance system in order to capture the value that urbanisation creates (Rwanda).

Belize: Building a Municipal Bond Market in a Small Economy^{xxxii}

Belize is a small Commonwealth state in Central America with a population of approximately 400,000. Local government operates through city and town councils whose mandates cover roads, drainage, solid waste management, markets, and public spaces, functions that require sustained capital investment but that are typically financed from a combination of own-source revenues and central government grants. Belize City, as the country's principal commercial and economic centre, carries a disproportionate share of these responsibilities relative to its formal transfer allocations, and for much of the 2000s it managed an infrastructure backlog that the national government could not address due to the sovereign debt restructuring that severely constrained central capital expenditure. It was within this fiscal compression that the case for accessing capital markets directly, rather than waiting for central budget allocations that were not forthcoming, became compelling.

The prior round of legislative reform that devolved meaningful revenue authority to the larger local authorities was the foundational precondition for what followed. Belize City Council held autonomous control over property tax, trade licence fees, and a range of other own-source revenues, none subject to central redistribution or requiring central approval to collect. This autonomous revenue base was what made bond issuance credible: it provided the independent income stream against which debt service could be pledged without recourse to national government. The structural conditions of the domestic financial system reinforced this opening. The Belize dollar's peg to the US dollar, maintained since 1976, created capital controls that confined domestic institutional investors, including insurance companies, pension funds, and credit unions, to local currency instruments, producing a pool of captive liquidity in search of credible local investment opportunities at a moment when interest rates were falling.

Institutional, Legal, and Political-Economy Constraints

Translating these structural conditions into an actual bond issuance required navigating a significant legislative gap: no framework existed permitting Belize City to borrow in this way. The Ministry of Finance was uncomfortable with the principle of local authority borrowing and declined to create broad enabling legislation. What it agreed to, after direct engagement at the Prime Ministerial level, was a bespoke instrument permitting a single issuance by Belize City specifically, with the Ministry retaining approval authority over the terms. This caution reflected a political-economy dynamic common across Commonwealth countries: central finance ministries tend to treat subnational borrowing as a fiscal risk to be managed rather than an instrument to be enabled, and they default to case-by-case control rather than systemic frameworks.

The investor protection structure developed to overcome the trust deficit between local government and institutional investors was innovative precisely because it worked within this constrained environment. A tax offset provision embedded in the bespoke legislation gave bond-holding investors the right to write off outstanding values against their tax and fee obligations to the Council in the event of default, transforming the instrument into a legislatively secured investment rather than a revenue pledge. A ring-fenced sinking fund administered by the Central Bank of Belize, drawing on both central government transfers and a newly created cruise ship head tax, provided a further backstop. The Central Bank's institutional credibility was central to investor confidence in a market where local government track records were weak. The first bond, issued in 2012 at eight per cent for ten years, raised USD 10 million and was fully subscribed.

The Ministry of Finance's subsequent reluctance to build on this success through broadly applicable legislation illustrates a recurring political-economy constraint. The original bespoke Act was allowed to lapse, replaced by a municipal paper regime permitting shorter-term notes of up to one year. Automatic rollover provisions created synthetic three-year instruments, but the short tenor made them poorly suited to infrastructure financing. It took a further cycle of city advocacy to produce the Municipal Securities Act of 2023, which established a framework extending borrowing powers to all local councils under prudential parameters, with the Financial Services

Commission as regulator, prospectus disclosure requirements, and International Financial Reporting Standards adoption. San Pedro Town Council became the first issuer under the new Act, and Belize City is preparing a USD 23.5 million bond.

Ongoing Considerations

Despite the progress made, Belize continues to face a set of structural bottlenecks that reflect the early stage of its municipal capital market development.

- The shift from cash-based accounting to International Financial Reporting Standards, now required under the 2023 Act, represents a significant institutional demand for municipalities that have not previously managed their finances against capital market disclosure standards. Building this capacity will require sustained technical support and time.
- The domestic investor base, while structurally captive due to capital controls, remains concentrated among a small number of institutional players, principally insurance companies, pension funds, and credit unions. Their limited price sensitivity may be sustaining coupon rates above what a more competitive market would produce, raising the long-term cost of borrowing for councils.
- Short electoral cycles present a persistent governance challenge. Local council terms run to three years, making it difficult to embed the sustained financial discipline and institutional knowledge that a municipal securities market requires across successive administrations.

These bottlenecks are not unique to Belize. They characterise the early stages of municipal capital market development across small Commonwealth economies where the preconditions for borrowing exist in principle but the institutional infrastructure to support it at scale is still being built. The Belize experience nonetheless demonstrates that incremental progress is possible, and that each legislative advance, however hard-won, creates a platform on which the next can build.

Kerala: Constructing an Urban Policy Framework for Fiscal Reform^{xxxiii}

Kerala is a state of approximately 35 million people in southern India, with one of the country's highest human development profiles and a long tradition of participatory local governance rooted in the People's Planning Campaign of the late 1990s. Urban Local Bodies (ULBs) in Kerala are assigned a broad range of functions under the 74th Constitutional Amendment Act, including public infrastructure, basic services, public health, social welfare, and development activities. However, the fiscal resources available to discharge these responsibilities have deteriorated significantly. Own-source revenue as a share of total ULB receipts has fallen, accelerated by the introduction of the Goods and Services Tax, which consolidated indirect tax instruments into a single national regime and removed instruments that had previously provided municipalities with meaningful fiscal headroom. Fiscal transfers now constitute on average approximately 66 per cent of total ULB receipts, creating structural dependence on state and central government decisions that exposes local investment programmes to political and budgetary volatility. The result is a system in which ULBs are legally responsible for a wide range of services but have neither the independent revenue nor the borrowing capacity to finance the infrastructure those services require.

Kerala's urbanisation pattern compounds these fiscal challenges. Rather than the concentrated residential and commercial cores typical of Indian cities, Kerala has developed through dispersed settlements and ribbon development along transport corridors, creating governance challenges that do not map onto existing administrative boundaries. Studies project that over 90 per cent of the population will be urbanised by 2035. Furthermore, catastrophic flooding in 2018 and subsequent years exposed urban areas as hotspots of

vulnerability, and by the early 2020s there was an honest admission within government that existing frameworks were not working for either fiscal management or climate resilience.

Institutional, Legal, and Political-Economy Constraints

The Kerala Urban Policy Commission, constituted by Government Order in December 2023, was the state government's response to the accumulated recognition that existing frameworks were inadequate. Two design features were critical to its credibility. First, the Commission was afforded full intellectual autonomy: its members were free to build their arguments independently, its findings could not be altered by bureaucracy or government, and no attempt was made to steer its conclusions from outside. Second, its leadership combined external credibility through an internationally recognised academic as Chair with direct local government representation through the Mayor of Kochi and Chairperson of the Mayors' Council of Kerala as co-chair. The resulting 24-month process engaged between 7,000 and 8,000 people across 53 stakeholder consultations, underpinned by 40 commissioned studies.

The Kerala Urban Policy, passed in February 2026 and organised around ten pillars, makes Kerala the first state in India to develop a comprehensive urban policy. Pillar 9, on Innovative and Sustainable Urban Finance, is the most significant for municipal finance purposes. Its proposals include a financial health assessment of ULBs as the basis for credit rating, Kerala Municipal Bonds for the three largest corporations, pooled bonds for smaller municipalities, revision of the Kerala Municipality Accounts Manual of 2007 to bring financial reporting to capital market standards, and the creation of a Project Initialisation Fund to support preparation of bankable projects. The policy also treats finance as a thread running through its broader framework, connecting land use, climate resilience, governance reform, and economic development rather than treating it as a standalone technical annex.

Ongoing Considerations

Despite the ambition of the Kerala Urban Policy and the rigour of the process that produced it, a set of structural constraints stand between the policy's adoption and its implementation:

- Preparing a bond prospectus, managing a credit rating process, or administering a Project Initialisation Fund requires financial and legal expertise that most Kerala municipalities do not currently have on staff. Building that capacity will take years and will require a sustained programme of technical support that goes well beyond what the Commission's mandate covered.
- The revision of the Kerala Municipality Accounts Manual, the prerequisite for capital market access, has been recommended but not yet implemented. Without updated financial reporting that meets capital market disclosure standards, creditworthiness assessment and bond issuance cannot proceed. Its delivery will require sustained political commitment across what is likely to be more than one administrative cycle.
- The structural tension between short electoral cycles and the long-term commitments that a municipal borrowing programme requires remains unresolved. No legal instrument currently exists in Kerala to embed capital investment commitments across administrations or to insulate borrowing programmes from the shifting priorities of incoming councils, and the Commission's work did not produce one.

The Kerala case illustrates a challenge that extends well beyond the state: a comprehensive and credible urban policy is a necessary but not sufficient condition for fiscal reform. The next stage of translating policy intent into the institutional changes, legal instruments, and capacity investments that make implementation possible, will be critical.

Rwanda and Kigali: Land Value Capture and the Foundations of Urban Finance^{xxxiv}

Rwanda's decentralisation framework assigns urban planning, local infrastructure, and basic service delivery responsibilities to the City of Kigali and to district governments. The financing of these responsibilities relies primarily on central government transfers and internally generated revenues, with own-source revenue playing a more limited role than the formal decentralisation architecture implies. What distinguishes the Rwandan urban finance system from comparable contexts in sub-Saharan Africa is not the strength of its fiscal transfers or the depth of its capital markets, but the state's sustained investment in land governance as the foundational infrastructure for more sophisticated urban finance instruments.

The Land Tenure Regularisation Programme, launched in 2009, demarcated, adjudicated, and registered land rights across the entire country through a participatory, low-cost methodology. More than ten million parcels were registered by 2013, with records consolidated into the Land Administration Information System, and the mandatory registration of joint spousal ownership substantially strengthened women's land rights in the process. For Kigali, these foundations laid the data and legal infrastructure on which more sophisticated instruments could subsequently be built, including land readjustment, density bonuses, and inclusionary zoning provisions embedded in the Kigali City Master Plan.

Rwanda's decision to prioritise this foundational work has produced a land governance system that is among the most comprehensive in sub-Saharan Africa and that is now enabling instruments that remain inaccessible to comparable cities elsewhere on the continent. On paper, the conditions for a functioning land-based financing system were in place. In practice, however, progress beyond property taxation proved slow and uneven, held back by gaps in operational guidance, limited institutional capacity at the local level, and the absence of clear rules on financing, valuation, and compensation.

Institutional, Legal, and Political-Economy Constraints

Rwanda's experience with land readjustment illustrates a principle applicable across urban finance instruments: legal provision and policy recognition are necessary but not sufficient for consistent, equitable delivery. The starting point was not a government initiative but an organic one. Landowners in Kigali's expanding peri-urban areas had begun informally pooling and replotting land to regularise boundaries and obtain construction permits, generating both evidence of demand and practical knowledge that formal policy would subsequently need. The government's task became one of codifying and scaling what was already happening rather than introducing something entirely new, a sequencing that produced a considerably more grounded regulatory response than a purely top-down design process would have allowed.

The Nunga pilot of 2014 was the first formally designated test of this approach. Covering approximately 62 hectares of fragmented agricultural and semi-informal land in Kicukiro District, the project proved largely self-financing, with land redistribution structured to cover implementation costs without dedicated public expenditure and was substantially completed within two years. Its shortcomings were equally instructive: the process fell short of international standards on compensation and cost-sharing, and the tendency for landowners to prioritise maximising private plot area over contributing land for roads, public spaces, and affordable housing was a structural challenge that community goodwill alone could not resolve. Rwanda has since upgraded more than 10,000 hectares through community-led participatory readjustment, with over 6,000 hectares in Kigali alone.

The Land Readjustment Instructions of October 2025 translate this accumulated experience into a consistent, scalable framework, requiring landowner committee formation, minimum participation thresholds of 70 per cent of individual plots and 90 per cent of total site area, allocation of 30 per cent of land for public purposes, and the use of pre-qualified consultants for planning, contribution calculations, and post-readjustment valuation. The

Instructions represent the point at which a decade of practice finally produced the operational rules that legal provision alone had never supplied.

Ongoing Considerations

The progress made through a decade of pilots, and the codification achieved by the 2025 Land Readjustment Instructions is significant. However, Rwanda continues to face a set of structural constraints that limit the equitable reach of its land-based financing system.

- Local implementation capacity across cities remains uneven and yet the quality of district-level sensitisation, technical assistance, and consultant support is central to whether land readjustment functions fairly across the urban system. This requires sustained investment in the institutions and personnel that deliver, otherwise the regulatory framework will produce inconsistent outcomes regardless of its technical quality.
- The absence of operational rules has been the most persistent constraint, and one that applies to all land-based financing instruments. For example, the density bonuses and inclusionary zoning provisions in the Kigali Master Plan have yet to develop comparable operational frameworks and are therefore currently not being implemented.
- The connection between land-based financing and the delivery of affordable housing, climate-resilient infrastructure, and publicly accessible amenities remains underdeveloped. The value uplift that makes land readjustment financially self-sustaining tends to accrue to existing landowners and incoming investors unless explicit protective provisions are built into the instrument design from the outset. Market forces and community goodwill are insufficient substitutes for those provisions.

The Rwanda case illustrates that the distance between a sophisticated legal framework and equitable delivery on the ground is not closed by legislation alone. It requires operational rules, local capacity, and deliberate distributional design, and each of these takes considerably longer to build than the policy frameworks that call for them.

Design, Implementation Capacity and Political Will

Belize, Kerala, and Rwanda are separated by geography, scale, income level, and the specific instruments they are pursuing. Yet the constraints they face share a common underlying structure. In each case, the enabling conditions for a more sophisticated urban finance system have been partially assembled: Belize has fiscal autonomy and domestic liquidity but is currently working on the institutional infrastructure to sustain a competitive bond market across its urban system. Kerala has political will and a credible policy framework but now needs to work on the municipal capacity and necessary regulatory instruments to implement it. Rwanda has a world-class land governance foundation but is only now developing the operational rules and local capacity to translate them into effective implementation. The gap in each case is not related to ambition but rather between policy design and implementation readiness.

A second thread runs through all three cases is that the political economy of reform is as important as its technical content. The Belize bond market required a mayor willing to engage at the Prime Ministerial level and a Ministry of Finance willing to accept, however reluctantly, a degree of subnational fiscal autonomy it had not previously permitted. The Kerala Urban Policy required a state government willing to grant a Commission genuine intellectual independence and to accept findings that named decades of institutional failure. The Rwanda land readjustment programme required a government willing to follow and codify community practice rather than impose a top-down instrument. In each case, the reform that happened was the one that found political traction. These are not lessons

that a financing framework alone can address, but they are lessons that any Commonwealth country seeking to strengthen its urban finance system will need to reckon with.

4. Subnational Financial Intermediaries for Urban Finance

Subnational financial intermediaries are public financial institutions whose mandates, governance structures, and capitalisation give them a set of capabilities that commercial banks and capital markets cannot easily replicate for subnational borrowers^{xxxv}. In general, they can lend in local currency over long tenors, reducing both the exchange rate risk and the repayment mismatches that constrain municipal borrowing. In some cases, they can pool capital from multiple sources, including sovereign budgets, development partner concessional lines, multilateral credit facilities, and domestic capital markets and on-lend that blended pool to cities at more competitive interest rates. Increasingly they are becoming accredited entities to international climate finance mechanisms, such as the Green Climate Fund, the Adaptation Fund, functioning as the institutional bridge between global climate capital and the cities that most urgently need it. Their distinctive strengths are therefore well suited to the structural challenges of urban infrastructure finance.

Across the Commonwealth, the institutional landscape is diverse, and the choice of intermediary model must be calibrated to the depth of domestic capital markets, the legal framework for subnational borrowing, the scale of the municipal system, and the proximity to climate risk. The Bank of Zambia's experience is instructive here as a reminder that the intermediary function is not limited to development banks in the conventional sense: central banks and national fiscal institutions have in some contexts played an analogous role, providing liquidity backstops or payment intercept mechanisms that give subnational finance structures the institutional credibility they need to attract private investors.

This section presents five illustrative case studies drawn from across Commonwealth and comparative regions: the Development Bank of Southern Africa (DBSA), the Tamil Nadu Urban Development Fund (TNUDF), the UK's Public Works Loan Board (PWLB), and Cameroon's FEICOM and New Zealand's Local Government Finance Association (LGFA). Together they span a range of institutional forms, from sovereign-backed direct lenders and autonomous trust funds to equalisation intermediaries pursuing climate accreditation, and a range of urban finance contexts, from one of the oldest intermediaries in the world, PWLB, to Africa's only established municipal debt market in South Africa to pooled finance structures in India, nascent climate finance windows in Cameroon and a cooperative governance model in New Zealand. A cross-cutting synthesis draws out the lessons most relevant to Commonwealth countries seeking to strengthen subnational financing pathways.

Development Bank of Southern Africa (DBSA): State-Owned DFI as Market Maker

The Development Bank of Southern Africa (DBSA) was established in 1983 as a policy instrument of the South African National Treasury, grounded in the premise that a deficit of infrastructure is the binding constraint to economic growth and prosperity. Its mandate is to raise funding and channel it into sustainable economic and social infrastructure, using its balance sheet and creditworthiness to crowd in capital for large development projects that the state alone cannot finance. The South African National Treasury remains the sole shareholder, and the DBSA is governed by the 1997 DBSA Africa Act. The Board comprises twelve members; the President of South Africa appoints the Chair and two members from the SADC region, in consultation with the respective Heads of State. From 2016, the DBSA expanded its engagement to cover the full project lifecycle, from

identification and preparation through to financing and post-completion support, reflecting an understanding that the absence of bankable projects, rather than the absence of capital, is often the primary constraint.

In 2022, the DBSA delivered 33.4 billion ZAR in overall infrastructure investments, catalysed 15.1 billion ZAR of additional funds, and disbursed 12.9 billion ZAR in loans^{xxxvi}. Its sectoral distribution reflects both the breadth of its mandate and its urban relevance: energy and environment accounted for the largest share, followed by transport and logistics, water and sanitation, social infrastructure, and ICT. The institution's portfolio is concentrated in South Africa, which accounts for approximately 70 per cent of its balance sheet, but its mandate was extended in 2010 to encompass regional economic integration across the SADC region and beyond, with loan exposures now extending to Sierra Leone, Ghana, Kenya, Tanzania, Zambia, Mozambique, and other African countries.

Financial Instruments and Urban Investment

The DBSA deploys a differentiated suite of instruments calibrated to the creditworthiness of the borrowing municipality. For metropolitan and bankable cities, its role is one of market development: supporting expansion of the municipal debt market, enhancing secondary market liquidity, encouraging innovative lending instruments, underwriting bonds, attracting project finance, and crowding in private lenders. Four South African metros, Johannesburg, Cape Town, Tshwane, and eThekweni, account for approximately 50 per cent of all municipal debt outstanding. The DBSA used to be the dominant issuer of municipal debt in South Africa but now accounts for an estimated 10 per cent of the total, with 53.2 per cent held by financial institutions and 26.1 per cent by institutional investors including pension funds and insurers, a market composition that the DBSA has been instrumental in constructing^{xxxvii}.

For under-resourced municipalities that are not creditworthy, the DBSA shifts to a grant and technical assistance model, focusing on water and sanitation, electricity, and human settlements. Targeted technical assistance since 2016 has helped municipalities develop sectoral plans and build the internal capacity required for financial management. This differentiated approach, market development for creditworthy metros and subsidised capacity support for weaker municipalities, allows the DBSA to serve as both a market maker and a development institution simultaneously, cross-subsidising its developmental work from the returns generated by its commercial portfolio^{xxxviii}.

The institution has also been accredited by the Global Environmental Facility (GEF) and the GCF, enabling it to extend green finance lines and positioning it as a conduit for international climate capital. The accreditation to climate funds opens a pathway for aligning its climate lending with the adaptation and resilience priorities of South African cities, though the concentration of bankable climate projects in the metro segment risks reproducing the same urban finance inequality that the institution's developmental mandate is designed to address.

Development Mandate versus Financial Sustainability

Access to DBSA finance is constrained by the fiscal and governance conditions of municipalities themselves, and the institution faces a set of structural tensions in responding to this:

- Of the 278 municipalities in South Africa, only 17 had their borrowing plans approved as of 2021/22, with just over a quarter in fiscal positions so precarious that their long-term viability was in doubt^{xxxix}.
- The challenges most commonly identified by the DBSA in trying to expand its municipal lending portfolio are governance and capacity problems at the municipal level, including skills deficits, poor supply chain management, weak revenue management, and inadequate operation and maintenance. These are not problems that financing alone can resolve, which is why the DBSA pairs lending with sustained technical support.

- The tension between development mandate and financial sustainability is the DBSA's most persistent structural challenge. Lending to under-resourced municipalities carries risks that cannot be fully priced into interest rates without defeating the developmental purpose of the instrument, and the cross-subsidisation model that sustains both portfolios depends on commercial lending generating sufficient returns.
- A separate challenge arises at the other end of the market: as private lenders become more competitive in the metro segment, the DBSA must avoid crowding out private capital from segments where its presence is no longer needed, and clear rules on when to step back from direct lending remain an ongoing institutional design question.

Tamil Nadu Urban Development Fund (TNUDF): Pooled Finance for Smaller Cities

The Tamil Nadu Urban Development Fund (TNUDF) was established in 1996 to help Urban Local Bodies (ULBs) in India's Tamil Nadu state access capital market financing, with a particular focus on smaller cities that would be unable to borrow independently. Its governance structure was deliberately designed to limit political interference: the TNUDF is managed by a public limited company with equity participation from the state of Tamil Nadu and private financial institutions, with the latter holding the majority stake. This ownership arrangement, blending public mandate with private discipline, has proved central to the fund's operational credibility^{xi}. The TNUDF is financed through replenishments from development partners including the World Bank, institutional borrowing from development banks including Germany's KfW, and market borrowing that the fund undertakes in its own name. Principal and interest to financiers are repaid by the state government of Tamil Nadu and the federal Government of India, providing a sovereign backstop without requiring individual municipal guarantees.

The TNUDF's portfolio spans a wide range of urban infrastructure categories. In 2019, its loan portfolio comprised approximately 39 per cent bridges and roads, 38 per cent sewerage and sanitation, 17 per cent water supply, and 6 per cent other projects^{xii}. These are precisely the categories with the highest salience for lower-income urban residents and for women's safety, mobility, and access to basic services. The standard loan terms for TNUDF loans are a twenty-year tenor with a five-year grace period at a fixed rate, a structure designed to align debt service with the revenue-generating timelines of long-lived urban infrastructure. Technical assistance is provided alongside financing, and where public infrastructure targets the urban poor, grant financing is also available.

Financial Instruments, Pooling, and Credit Enhancement

The TNUDF's most significant institutional innovation is its pooled finance mechanism. Recognising that smaller ULBs cannot individually achieve the scale required to issue bonds or attract institutional investors, the TNUDF aggregates the capital requirements of multiple smaller projects from multiple ULBs, creating a pooled fund of sufficient size to access domestic capital markets. These pooled funds are then provided with credit guarantees from the federal government, the state of Tamil Nadu, and in some instances from development partners, which reduces interest rates and extends the tenor of transactions. By combining pooled project scale with multilayered credit enhancement, the TNUDF unlocks the possibility of bond issuance on behalf of municipalities that could never issue independently.

The Tamil Nadu Water and Sanitation Pooled Fund (WSPF)^{xiii}, established in 2002, demonstrated the practical application of this model. Structured as a trust with a six-member board of trustees comprising state officials and TNUDF management and initially capitalised with a state government debt service reserve, the WSPF issued a bond of Rs 30.41 crore (approximately USD 6.4 million) in December 2002 with a 15-year maturity and 9.2 per cent annual interest rate. The bond was rated Ind AA (SO) by FITCH and LAA (SO) by ICRA and was placed privately with domestic institutional investors including Karnataka Bank, ICICI Bank, City Union Bank, and pension

and insurance funds. The multi-layered credit enhancement structure was central to investor confidence: ULBs set monthly payments into escrow accounts, the WSPF had authority to intercept state transfer payments in the event of insufficient project revenues, and USAID provided a backup guarantee of 50 per cent of principal through its Development Credit Authority. This was the first successful pooled bond of its kind outside the United States, financing water and sanitation projects in 13 small- and medium-sized towns. Half of all beneficiaries were estimated to be low-income, with monthly incomes equivalent to approximately USD 50 to 120.

Project Bankability as a Binding Constraint

For ULBs seeking TNUDF finance, the binding constraint is not the availability of capital, but the bankability of projects and the fiscal discipline required to access them. This creates a set of barriers that the TNUDF has had to design around:

- ULBs that cannot demonstrate credible revenue projections from user charges or fee collection cannot qualify, as loans are extended on the basis of demonstrated cash flows and operations and maintenance sustainability. This tends to exclude the smallest and weakest municipalities even from a pooled fund designed to serve them, creating a structural tension between the fund's developmental mandate and its financial requirements.
- The TNUDF addresses this exclusion risk through upstream project structuring support, helping ULBs develop commercially viable infrastructure projects before approaching the fund for financing. This reflects a critical sequencing lesson: blended finance and pooled borrowing can unlock capital market access for smaller municipalities, but strong project preparation and cash flow discipline are prerequisites, not outputs. The upstream technical assistance is therefore not an add-on to the financing function but its most important enabler.
- Even where projects are bankable, investor confidence requires credit enhancement. Escrow accounts, intercepts of state transfers, and partial guarantees from state and federal entities are the primary mechanisms, reducing investor risk without requiring full state guarantees and therefore avoiding the contingent liability constraints that make state-guaranteed municipal borrowing politically contentious. Institutions that attempt to pool projects before those projects are commercially structured tend to produce pools of unbankable liabilities rather than investable instruments.

UK Public Works Loan Board (PWLB): Sovereign-Backed Lending at Scale^{xliii}

The UK's Public Works Loan Board (PWLB), now operated by the UK Debt Management Office (DMO) on behalf of HM Treasury, is one of the world's oldest public financing institutions for local government, established in 1793. Its founding logic, that local authorities need access to long-term capital for public works and that government is better placed than private markets to provide it reliably and at affordable rates, remains the basis of its current operation. The DMO borrows on the gilt market at sovereign rates and on-lends to local authorities at a spread of no more than one per cent, making PWLB loans significantly cheaper than any commercial alternative. The operational relationship is civil servant to civil servant, with ministers involved only in setting the overall lending envelope that the Treasury reviews every three to four years. Local councils pass a resolution approving a capital project, the chief finance officer applies to the PWLB, and approval is typically rapid, without a credit rating process, an elaborate prospectus, or complex market engagement.

Financial Instruments and Regulatory Framework

The Prudential Borrowing Framework, introduced in 2004, shifted capital financing responsibility to local authorities themselves, permitting borrowing for any capital purpose provided the chief finance officer was satisfied that the debt was affordable and sustainable. The PWLB functions as a non-discretionary lender within this framework, which means it has historically not assessed the purpose of individual loans. This design served

local government well during the period when borrowing was directed toward capital investment in public infrastructure and service assets, but proved structurally vulnerable when several councils from the mid-2010s began using PWLB borrowing to make commercial property investments aimed at generating rental income to substitute for central grant reductions that had cut funding by over 40 per cent in real terms between 2009/10 and 2019/20.

The consequences were severe. Woking Borough Council accumulated debt of 2.16 billion pounds, equivalent to more than 20,000 pounds per head of population and required government intervention alongside Thurrock Council. Across the sector, total local authority debt reached 122 billion pounds by 2025. The reforms introduced around 2020 therefore required that borrowing have a demonstrable connection to local public service delivery, and revisions to the *Prudential Code for Capital Finance* tightened the self-certification framework within which councils assess their borrowing. The PWLB is not a regulator, but the volume of borrowing it mediates means that changes to its lending terms carry de facto regulatory weight.

The PWLB's most significant systemic contribution is not any individual loan but the certainty and simplicity it provides across the entire local government sector. Its fast, low-friction application process eliminates the professional risk and transaction costs that would otherwise deter smaller local finance officers from accessing capital for infrastructure investment, and its published borrowing and investment tables provide system-wide transparency without requiring the PWLB itself to act as a regulator. These design features, not the interest rate alone, explain its dominance.

Market Dominance and its Trade-Offs

The dominance of the PWLB has shaped the wider municipal finance market in ways that extend beyond the commercial property episode, and the institution faces a set of structural tensions that its design has not fully resolved:

- The broader fiscal crisis of UK local government, driven by a decade of grant cuts and rising demand for social care, demonstrates that a sovereign-backed lending facility can provide reliable low-cost capital at scale but cannot substitute for an adequate revenue base.
- The UK Municipal Bonds Agency, established in 2014 to offer councils a collective route to capital markets, illustrates the challenge faced by any market-based alternative to a sovereign lender. When the PWLB responded to competitive pressure by reducing its own rates, the incentive for councils to use the agency largely disappeared, and it has since closed to new business. PWLB dominance has been effective but has come at the cost of a more diverse municipal capital market.
- The absence of a dedicated green finance window or climate alignment assessment is a notable gap relative to the other intermediaries discussed in this section. Local authorities can borrow for any capital purpose connected to service delivery, including housing, transport, and climate resilience investments, but there is no mechanism to prioritise or incentivise climate-aligned borrowing.

FEICOM, Cameroon: Municipal Finance Institution Transitioning to Climate Intermediary^{xliv}

FEICOM (the Special Council Support Fund for Mutual Assistance) was established in Cameroon in 1974 and began operating in 1977 as an administrative directorate under the Ministry of Territorial Administration. Its core function is to centralise local surcharges on national taxes and redistribute them to local authorities on an equalisation basis, smoothing fiscal disparities between well-resourced urban councils and poorer rural ones across Cameroon's 360 communes. That equalisation mission has remained constant through four major organisational reforms. The most recent, through Presidential Decree 2018/635, reconstituted FEICOM as a

public establishment of an economic and financial character with legal personality and financial autonomy, formally extending its mandate to include the newly established regional tier of government and explicitly authorising it to diversify its financing sources, including through capital markets and international cooperation, and to act as a financial intermediary for resources from international partners.

FEICOM's structural importance within the Cameroonian urban finance system is exceptional: for approximately 100 of Cameroon's 339 communes, FEICOM transfers represent more than 95 per cent of total revenues. This fiscal dependence is simultaneously the source of FEICOM's leverage and the ceiling on its ambitions. It means that FEICOM already sits at the intersection of national fiscal flows and local government delivery, making it the most credible candidate to serve as a conduit for international climate finance to the local level. It also means that its ability to evolve from a grant-based transfer mechanism toward a lending or blended finance intermediary is bounded by the fiscal health of the communes it serves, which owed CFA 128 billion in aggregate to FEICOM as of early 2025.

The Climate Finance Transition: Instruments and Sequencing

FEICOM's transition toward climate finance intermediation has been built through a deliberate sequence of institutional reform and accreditation. In 2009, it obtained ISO 9001 quality management certification covering studies, advisory services, resource mobilisation, and project financing. In 2021, it migrated to an Integrated Management System incorporating ISO 14001:2015, an environmental management standard that required embedding climate and environmental considerations into its project appraisal tools and demonstrating consistent application across its portfolio. This certification was a precondition for accreditation to the GCF, whose requirements for National Implementing Entity status are among the most demanding in the international climate finance architecture. FEICOM has simultaneously pursued Adaptation Fund accreditation, for which a readiness application has been approved and a grant of USD 150,000 released to support the necessary institutional upgrades. The two processes are complementary: the Adaptation Fund readiness grant is building the institutional infrastructure that GCF accreditation will ultimately require.

In 2024, FEICOM established its own dedicated Climate Funding Window within its existing portfolio, providing financing for local authority projects addressing climate resilience, clean energy, water access, flood mitigation, and waste management. In August 2025, it launched the funding phase, selecting 50 local authorities to receive grants from an initial envelope of CFA 6 billion drawn from FEICOM's own resources. Capacity development has run alongside the financing window from the outset: a training workshop for 30 mayors in Yaoundé in February 2024 focused on equipping elected local government leaders with the skills to design and propose bankable climate-relevant projects. International partnerships with ICLEI Africa, the Covenant of Mayors in Sub-Saharan Africa, GIZ, the Global Fund for the Development of Cities, and UNCDF have provided technical support.

The Limits of Intermediation

FEICOM's climate finance ambitions face a set of structural constraints that reflect both the fiscal conditions of Cameroonian local government and the demands of the international climate finance architecture:

- The principal constraint is the fiscal fragility of Cameroonian communes themselves as local authorities with little autonomous revenue and high dependence on central transfers cannot service debt, and a grant-based climate window cannot evolve into a lending or blended finance instrument without a stronger local revenue foundation.
- The GCF accreditation process is among the most demanding and resource-intensive in international climate finance, and the USD 150,000 Adaptation Fund readiness grant covers only the preparatory steps. Full accreditation will require sustained institutional investment in fiduciary systems, environmental and social safeguards, monitoring and evaluation frameworks, and reporting capacity. The pathway from

readiness to accreditation is long, and the gap between current institutional capacity and the standards required is considerable.

- FEICOM's functional alignment with urban priorities is constrained by the same fiscal conditions that limit its intermediary ambitions. The Climate Funding Window targets climate resilience, clean energy, water access, flood mitigation, and waste management, all categories with direct relevance to lower-income urban residents, but the mechanisms for ensuring that climate finance benefits reach those residents rather than accruing to better-resourced local authorities are not yet fully elaborated.

New Zealand Local Government Funding Agency (LGFA): Collective Borrowing at Scale

New Zealand's Local Government Funding Agency (LGFA) was established in 2011 as a Council Controlled Trading Organisation, jointly owned by local authorities and the Crown, though without a sovereign guarantee^{xlv}. Its founding context was the 2008/09 financial crisis, which had exposed the structural fragility of how New Zealand's 78 local authorities were financing themselves. Councils had been borrowing independently, inconsistently, and expensively, heavily reliant on a banking sector that had sharply reduced its appetite to lend and confined to a domestic private placement market with no real contestability. The result was higher spreads, haphazard access to capital, and no coordination across a sector whose borrowing needs were beginning to grow significantly. The LGFA was designed to address all of this: by aggregating council borrowing, issuing bonds in domestic and global capital markets, and on-lending to participating councils at margins lower than any individual authority could achieve alone.

The political economy of the LGFA's establishment is instructive, not least because an earlier attempt in the 1990s had failed. That vehicle collapsed because it did not secure the participation of the largest councils, leaving it without the scale needed to cover its fixed costs. The lesson was applied directly to the 2011 design: eight of the ten largest councils agreed to underwrite the new entity before launch, providing the critical mass that made the model viable from the outset. Scale, and the speed with which it is achieved, is the load-bearing condition for vehicles of this kind. Membership has grown from 18 councils at launch to 77, with only one council remaining outside the agency on the grounds that it carries no debt. Of the 77 members, 74 are full guarantors, each holding joint liability proportioned to their share of total national property tax revenue. Auckland, which accounts for approximately 25 per cent of national property tax, holds 25 per cent of the guarantee^{xlvi}.

The Crown participated as a shareholder, provided a liquidity facility in the early years of its establishment, and outsourced all operational support to the New Zealand Debt Management Office on a contracted basis^{xlvii}. However, this support was primarily focused on the establishment phase and this central and local government collaboration was essential to its credibility. The two-tier nature of New Zealand's government system, with 78 councils and no intermediate tier between them and central government, also made coordination considerably more tractable than in comparable countries with larger and more fragmented local government systems, where the politics of aggregation are correspondingly more complex.

Financial Instruments and Urban Investment

The LGFA raises funds in both domestic and global capital markets and on-lends to participating councils on a pooled rather than project-specific basis. Loans are available at fixed or floating rates, with tenors extending to twelve years on the longest bonds currently on issue. Shorter-term facilities, including loans of twelve months and a standby emergency facility, are also available, with a cash advance overdraft facility recently added. The LGFA does not select or approve specific projects: councils are asked what they intend to borrow for but the agency

relies on the democratic planning process, including the mandatory ten-year financial plans that all New Zealand councils must produce, to determine investment priorities rather than making project-level credit judgements itself.

The investor base is deliberately diversified. Bonds are listed on the New Zealand stock exchange, giving the LGFA access to retail investors alongside domestic institutional investors and a substantial offshore investor base. Approximately 26 to 27 per cent of bonds are held by overseas investors, 28 per cent by domestic institutional investors, and 9 per cent by retail investors, with banks accounting for the remainder. The New Zealand dollar is a high-yielding currency by international standards, and the LGFA's credit rating, assessed at AAA by S&P and AA+ by Fitch, the same as the sovereign, makes it one of the few vehicles through which offshore investors can access New Zealand dollar exposure at sovereign credit quality^{xlviii}. The LGFA can issue in foreign currency where the sovereign does not, providing additional flexibility that has attracted investors who cannot access the sovereign directly.

Councils do not guarantee each other's borrowing directly but guarantee the agency, a distinction that simplifies the messaging to investors and reinforces the LGFA's identity as a quasi-public institution rather than a financial intermediary in the conventional sense. This distinction matters: the LGFA has been deliberate about not being regulated as a bank, since bank regulation would require holding substantial capital on the balance sheet, undermining the balance-sheet-light model on which its competitive pricing depends. Every time a council borrows, it contributes five per cent equity, allowing the capital base to grow in proportion to the loan book without requiring separate capitalisation.

The LGFA has developed two categories of sustainable finance products^{xlix}. Green and social loans, covering green building and social housing, currently account for approximately 23 per cent of the loan book. Climate Action Loans and Sustainable Action Loans, which are backed against specific projects and carry a discounted loan margin in exchange for a council-specific commitment to reduce greenhouse gas emissions by 2030, make up the remainder of the sustainability portfolio. These instruments represent a meaningful step toward aligning municipal borrowing with climate and social objectives, though they remain voluntary and the majority of the loan book is not yet sustainability-linked.

Scale, Sovereignty and Collective Discipline

The LGFA's model is not without structural tensions, and its experience surfaces a set of constraints relevant to any country considering a similar vehicle:

- Central government support is a structural necessity, not an optional enhancement. The LGFA required Crown participation as a shareholder, Crown-backed liquidity facilities, and legislative underpinning to establish the credibility that its credit rating depends on. During the Covid-19 pandemic, the Reserve Bank of New Zealand's quantitative easing programme supported the LGFA as one of only two borrowers outside the sovereign, a form of implicit backing that reinforced its status as a quasi-public institution rather than a conventional financial intermediary^l.
- Achieving and maintaining scale is the critical operational condition for viability. The LGFA's success depended on securing anchor participation from the largest borrowers before launch and on growing membership rapidly enough to spread fixed costs. Vehicles of this kind face a narrow window in which to establish themselves: if they do not achieve competitive pricing quickly, the incentive for councils to join or remain diminishes and the model can unravel.
- The cooperative governance structure requires careful management of competing interests. The shareholders are simultaneously the borrowers, the guarantors, and the regulated entities, and the LGFA must balance their interests as borrowers seeking low-cost capital against their interests as guarantors seeking to limit collective liability. Strong independent governance, strict lending criteria, and annual financial covenants set at the equivalent of an A+ credit rating are the mechanisms through which this balance is maintained. Councils that breach their covenants have thirty days to remedy the position before

the LGFA can require repayment, a provision that has not yet been triggered but whose existence underpins the discipline on which the model relies.

Principles for Subnational Financial Intermediaries in the Commonwealth

The five intermediaries examined in this section span more than two centuries of institutional history and they operate across radically different fiscal, legal, and political contexts. Yet the patterns that emerge from comparing them are strikingly consistent. The following principles draw on all five cases, as well as the broader literature on subnational financial intermediation, to identify what works, what fails, and what Commonwealth countries seeking to strengthen their urban finance systems most need to understand before designing or reforming an intermediary institution.

Intermediaries as Builders of Conditions

The most important lesson across all five cases is that the primary value of a subnational financial intermediary is not the volume of capital it deploys but the conditions it creates for sustainable municipal borrowing. The DBSA has spent decades building a municipal debt market in South Africa that now operates largely without it in the metro segment. The TNUDF's upstream project structuring support is just as consequential as its loan portfolio. The LGFA has standardised financial covenants, credit rating norms, and borrowing discipline across New Zealand's entire local government sector. Intermediaries that confine themselves to on-lending without investing in these demand-side and market-development functions tend to concentrate their portfolios in cities already capable of borrowing, reproducing rather than correcting the fiscal inequality across the urban system.

Institutional Identity Matters as Much as Institutional Design

A recurring theme across the cases is the importance of how an intermediary positions itself in relation to the broader financial system. The LGFA's deliberate decision to remain a quasi-public cooperative rather than a regulated bank has been central to its competitive pricing and its credit rating. The TNUDF's private-majority ownership structure insulates it from political interference without removing its public mandate. The PWLB's civil-servant-to-civil-servant operational model insulates individual lending decisions from political pressure while keeping democratic accountability where it belongs. FEICOM's ISO certifications and international accreditation processes are as much about identity and credibility as they are about compliance. Intermediaries that allow themselves to be perceived as commercial banks tend to be regulated, capitalised, and risk-assessed as commercial banks, with the result that their borrowing costs rise and their public sector developmental rationale is crowded out. The public sector identity is not incidental to the intermediary function but foundational to it: it is precisely because these institutions are not commercial lenders, and are not expected to behave as such, that they can lend at tenors, to borrowers, and for purposes that the market will not reach on its own.

Central Government Support is a Structural Necessity

All five intermediaries depend on some form of central government backing, whether explicit, through the PWLB's sovereign funding base, or implicit, through the LGFA's Crown shareholding and liquidity facility, the DBSA's National Treasury ownership, or the sovereign backstops that underpin TNUDF's pooled bonds. In each case, this backing is the load-bearing element of the credit structure. However, in all these cases it is a two-way relationship. The LGFA experience is particularly instructive in making explicit that the relationship is reciprocal: the LGFA reduces fiscal risk for central government by standardising sector borrowing, improving financial transparency, and functioning as a primary lender that removes the need for case-by-case central intervention. Commonwealth countries designing new intermediaries should frame central government support not as a subsidy to local government but as a shared infrastructure investment that benefits both tiers.

Scale is a Critical Operational Condition

The LGFA's failed 1990s predecessor, the UK Municipal Bonds Agency's decade of marginal operation, and the TNUDF's careful sequencing of pooled bond issuance all point to the same conclusion: subnational financial intermediaries have high fixed costs and thin margins, and they cannot function at below-threshold scale. The corollary, drawn directly from the LGFA's establishment, is that securing anchor participation from the largest

borrowers before launch may be a precondition for viability. Small and medium-sized councils add credibility and breadth; large councils add the scale that covers costs and anchors the credit structure. Intermediaries that launch without anchor commitments tend to be trapped in a vicious cycle in which the absence of scale produces uncompetitive pricing, which reduces participation, which further undermines scale. The DBSA illustrates a related but distinct dimension of the scale challenge: where an intermediary serves both creditworthy metros and under-resourced municipalities, the commercial returns generated in the metro segment must be sufficient to cross-subsidise the developmental work at the weaker end of the market. That cross-subsidisation model only holds if the commercial portfolio is large enough and profitable enough to sustain it, and as private lenders become more competitive in the metro segment, the DBSA must actively manage the risk that its commercial base erodes faster than its developmental mandate shrinks.

Technical Assistance and Capacity Development are Prerequisites

The DBSA pairs lending with sustained municipal capacity development. The TNUDF provides upstream project structuring support before ULBs approach the fund. FEICOM runs mayoral training programmes alongside its Climate Funding Window. These are not peripheral activities but central to the intermediary function. The absence of bankable projects, creditworthy borrowers, and financially disciplined municipalities is the primary bottleneck in urban infrastructure finance across the Commonwealth, not the absence of capital at the intermediary level. Intermediaries that treat technical assistance as an optional complement to their lending function systematically underserve the municipalities that most need support, because those municipalities cannot access the lending without the assistance.

Credit Enhancement as a Substitute for Sovereign Guarantees

Credit enhancement mechanisms can substitute for sovereign guarantees, but they must be multi-layered and legally grounded. The TNUDF's pooled bond structure, with its escrow accounts, transfer intercepts, state debt service reserves, and partial donor guarantees, demonstrated that investment-grade ratings are achievable without full sovereign backing. The Belize City experience, with its legislative tax offset and Central Bank-administered sinking fund, made the same point in a small economy context. The LGFA's cross-guarantee structure achieves a sovereign-equivalent credit rating through pooled liability rather than government guarantee. In each case, the credit enhancement works because it is legally enforceable, institutionally credible, and multi-layered enough to give investors a concrete and ordered set of remedies in the event of default. Partial guarantees targeted at first-loss tranches, intercept mechanisms that give investors priority claims on predictable revenue flows, and cross-guarantee arrangements among borrowers are all instruments that Commonwealth countries should consider before concluding that full sovereign guarantees are the only path to investable municipal credit.

Intermediating Climate Finance as a Key Offering

The global climate finance architecture was not designed with cities in mind. The dominant instruments are sovereign loans and grants channelled through national governments and nationally accredited entities, and the vast majority of Commonwealth municipalities have no direct pathway to the GCF, the Adaptation Fund, or comparable mechanisms. Subnational financial intermediaries are therefore not simply one possible channel for climate finance but, in most contexts, the only realistic institutional bridge between global climate capital and the cities that most urgently need it. Yet sustainable finance integration within intermediaries themselves remains insufficiently embedded. The LGFA's green and social loan products and its Climate Action Loans represent the most developed example among the five cases of an intermediary systematically integrating sustainability objectives into its lending terms. The DBSA's GCF accreditation and the FEICOM Climate Funding Window represent earlier-stage attempts at the same objective. The PWLB, by contrast, has no climate alignment mechanism despite mediating most of the local authority capital borrowing in England. The lesson is not that all intermediaries must immediately develop green finance windows, but that the intermediary level is the most efficient point in the system at which to embed sustainability incentives: a discounted loan margin for climate-aligned borrowing, or a covenant requirement linked to emissions reduction targets, reaches the entire borrowing population simultaneously without requiring individual project-level assessment across hundreds of municipalities.

5. A Reform Agenda for Commonwealth Urban Finance

Across the Commonwealth, the gap between what cities are responsible for delivering and the financing tools available to them is not narrowing. Urban populations are growing fastest in the countries and cities least equipped to finance the infrastructure that growth demands. The fiscal frameworks, borrowing authorities, and institutional intermediaries that determine whether cities can invest are in most Commonwealth countries inadequately designed, inconsistently implemented, or simply absent. Climate change is accelerating the urgency of this gap while simultaneously making it harder to close, as fiscal stress compounds infrastructure backlogs and the communities most exposed to climate risk are the least able to mobilise capital in response.

Four Priority Areas for Reform

Given this, four priority areas underpinning reform efforts across the Commonwealth emerge from this paper:

Resolving the Unfunded Mandates

These are the most persistent source of dysfunction in Commonwealth urban finance systems. Across the Commonwealth, expenditure responsibilities are routinely assigned to local governments without the commensurate fiscal resources, borrowing authority, or institutional support to fulfil them. Closing this gap requires both expanding local fiscal space, through stronger own-source revenue authority, better-designed intergovernmental transfers, and clearer borrowing frameworks, and ensuring that the resources cities do have are directed toward the functions they are formally responsible for. It also requires an honest reckoning with the distinction between what can and should be financed through public budgets and what can attract private capital. Some urban infrastructure, toll roads, commercial real estate, energy systems, can generate the financial returns that private investors require. Much of the infrastructure that most affects lower-income residents, drainage, sanitation, public space, affordable housing, public transport, cannot. Effective reform requires not only mobilising more capital in aggregate but ensuring that the right type of finance reaches the right type of project, and that the pressure to attract private investment does not crowd out the public funding that non-commercial infrastructure requires.

Building the Municipal Finance Systems

These systems which include data infrastructure, project preparation capacity, and creditworthiness foundations without which neither own-source revenue reform, borrowing frameworks, nor intermediary institutions can function effectively. Legal and policy frameworks for subnational borrowing exist in many Commonwealth countries but produce no actual market access, because the municipalities within them cannot demonstrate the financial track records, audited accounts, or bankable project pipelines that lenders and investors require. Investing in these foundational capabilities, including digital systems for financial reporting and revenue administration, project preparation facilities, and sustained technical support for municipal finance officers, is not a precondition to be completed before the real reform work begins. It is the reform work.

Expanding and Catalysing Investment through Subnational Financial Intermediaries

As highlighted by this analysis, subnational financial intermediaries are institutions that can pool risk, aggregate demand, and connect domestic and international capital to the cities and communities that need it most. Section 4 identifies the design principles that make intermediaries effective, and the most important of these is the willingness to serve the full range of municipalities rather than concentrating on the creditworthy larger cities that

can already access markets. Blended finance, in which concessional public capital absorbs first-loss risk to unlock private co-investment, is most valuable when it is deliberately targeted at the projects and cities that the market will not reach without it.

Applying an Equity Lense to Municipal Finance

Across all three priority areas, an equity lens must be applied deliberately and consistently. The reforms that matter most for women, young people, and lower-income residents are not a separate agenda but the test of whether the broader reform programme is working. A municipal finance system that mobilises more capital but concentrates it in well-resourced cities, commercially viable projects, and capital-intensive infrastructure while neglecting the services and maintenance systems that determine daily quality of life for the most underserved residents has not succeeded. The measure of progress is not aggregate capital mobilisation but whether the cities, communities, and groups most underserved by existing systems are gaining meaningful access to the infrastructure and services that determine their economic security, physical safety, and long-term wellbeing.

A Multistakeholder Approach

Translating these four priorities into practice requires action from multiple levels of government and from the institutions that shape the financing environment within which cities operate. The recommendations that follow are directed at the stakeholders with the greatest capacity to drive change:

National Governments

National governments set the fiscal architecture within which cities operate, and the most consequential reforms available to them are those that change the structural conditions of municipal finance rather than its surface features. Therefore, they should:

- Review and reform, intergovernmental fiscal transfer systems to improve predictability, reduce political mediation, and embed equalisation objectives that direct proportionally greater resources to smaller and more fiscally constrained municipalities.
- Invest in the fiscal decentralisation reforms that give cities meaningful own-source revenue authority, recognising that the case for transfers is not weakened but strengthened when cities also have a credible and autonomous revenue base from which debt can be serviced.
- Establish or clarify the legal frameworks for subnational borrowing, ensuring that enabling legislation is accompanied by the regulatory clarity, approval processes, and prudential standards that translate legal permission into practical market access.
- Audit the barriers to subnational borrowing, whether they are approval complexity, capacity constraints, or transfer dependence, and address them sequentially rather than treating legal provision as sufficient.

Regulators

Regulators shape the legal and prudential environment within which subnational borrowing occurs, and their most important contribution is not approval of individual transactions but the design of frameworks that make sustainable borrowing available and fiscally responsible. To do this regulators should:

- Develop systemic prudential frameworks that set clear parameters for affordability, debt sustainability, and transparency while removing the discretionary bottlenecks that suppress borrowing appetite and drive-up transaction costs.

- Treat subnational financial intermediaries as partners in fiscal risk management, recognising that well-designed intermediaries reduce systemic risk by standardising covenants, improving transparency, and concentrating monitoring capacity.
- Priorities investments digital systems for financial reporting across all regulatory functions, recognising that the data gaps that currently prevent effective monitoring and market access.

Local Governments

Local governments cannot resolve the structural constraints that national fiscal architecture imposes, but they can build the internal systems and track records that make reform arguments credible and that position cities to benefit quickly when enabling conditions improve. Therefore, they should:

- Prioritise the financial management reforms, including the transition to accrual accounting, the production of audited financial statements, and the development of multi-year capital investment plans, that are the prerequisites for creditworthiness assessment and capital market access.
- Invest in project preparation capacity, recognising that the absence of bankable projects is a more common binding constraint than the absence of capital.
- Engage actively in the political economy of fiscal reform, making the case to national governments and development partners for the functional alignment between responsibilities and resources that sustainable urban service delivery requires.
- Use intermediary institutions not only as sources of finance but as platforms for building the financial discipline and track record that opens further doors.
- Ensure that investment planning is explicitly informed by the gender and youth dimensions of service access, prioritising the public transport, water and sanitation, affordable housing, safe public space, and digital infrastructure that disproportionately determine economic participation for women and young people.

Subnational Financial Intermediaries

As the most important institutional levers available for closing the urban infrastructure finance gap across the Commonwealth, their reforms should focus on sharpening their urban mandate, deepening their technical assistance functions, and expanding their role as intermediaries for both domestic and international climate capital. To this, these intermediaries should

- Develop or strengthen dedicated subnational lending windows with instruments calibrated to the creditworthiness of different city types, offering differentiated products for creditworthy metros, capacity-constrained secondary cities, and the smallest municipalities that require grant and technical assistance rather than debt.
- Pair lending with sustained technical support, treating project preparation, financial management capacity building, and creditworthiness development as integral to their financing function rather than peripheral add-ons.
- Pursue accreditation to international climate funds, including the GCF and the Adaptation Fund, positioning themselves as the institutional bridge between global climate capital and subnational delivery.
- Establish pooled finance mechanisms that aggregate borrowing across multiple smaller municipalities to achieve the scale required for capital market access.
- Build clear rules for cross-subsidisation as well as market graduation into their institutional design from the outset.

Development Partners

Development partners, including multilateral development banks, bilateral donors, and international climate funds, have a critical role in financing the transition to stronger urban finance systems, but the most important shift available to them is a reorientation from project-by-project financing to system-building investment. Therefore, they should:

- Direct a larger proportion of urban finance support toward the institutional infrastructure, such as fiscal transfer reform, legal framework development or subnational financial intermediary capitalisation, that multiplies the impact of subsequent investment.
- Provide long-term, flexible technical assistance to subnational financial intermediaries, supporting the accreditation, governance, and product development processes that take years to complete but that create durable financing channels rather than one-off transactions.
- Reform their own access requirements, fiduciary standards, and accreditation processes to reduce the structural exclusion of cities from their financing, particularly with regards to climate finance, recognising that the gap between global climate capital and local delivery is an institutional design failure as much as a capacity constraint.
- Provide first-loss capital and concessional co-financing that reduces the risk premium for domestic institutional investors into pooled-financing mechanisms and other innovative financial models, to accelerate the demonstration phase that determines whether new models achieve the scale they need.

Commonwealth Sustainable Cities Coalition

The CSCC/CSCI and the broader Commonwealth ministerial architecture have a distinctive role to play that individual member states and development partners cannot replicate: the convening of shared learning, the development of common standards and frameworks, and the translation of comparative analysis into political commitment at the level where fiscal and regulatory decisions are made. The stakes of getting this right are high and the window for action is narrowing. The cities of the Commonwealth are not waiting for reform. They are growing, absorbing populations, and making infrastructure decisions now that will shape urban form, service access, and climate resilience for decades. Every year in which the functional alignment gap goes unaddressed, in which unfunded mandates accumulate, in which municipal finance systems remain too weak to attract capital, and in which subnational financial intermediaries lack the mandate, scale, or instruments to bridge the gap between global capital and local need, is a year in which the infrastructure deficit deepens and the cost of catching up grows. The analysis in this paper does not suggest that the path forward is simple or that any single reform will be sufficient. It does suggest that the direction is clear, that the tools exist, and that the Commonwealth has both the institutional architecture and the collective knowledge to use them. What is required now is the political will to act, the institutional coordination to act coherently, and the commitment to measure success not by the volume of capital mobilised but by whether the women, young people, and lower-income residents of Commonwealth cities are living in places that are safer, more connected, more resilient, and more equitable than they are today.

Urban Finance Action Group

This paper was commissioned by the Commonwealth Local Government Forum (CLGF) as part of its role in convening the CSCC Urban Finance Action Group (UFAG). This group brings together local government leaders and practitioners, built environment professions, funding institutions and municipal finance experts from across the different regions of the Commonwealth. The UFAG is focused on strengthening subnational urban finance, including strategies to increase own-source revenue, improve access to finance, and assess the powers and functions available to municipalities to mobilise and manage resources for infrastructure, services, climate adaptation, and inclusive and sustainable growth.

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