



INTRODUCTION

Local governments, including municipalities, state-owned enterprises (SOE) and other subnational authorities, are increasingly responsible for delivering infrastructure services and community-level public goods. In many emerging markets, they have now become the primary interface for delivering community-focused infrastructure through PPPs. Yet, their ability to mobilize private capital remains constrained by limited creditworthiness, fragmented revenue streams, and exposure to both fiscal and foreign exchange risks. Blended finance offers a pathway to unlock local and international investment by combining concessional funding, guarantees, and risk-sharing tools with municipal-level financing mechanisms.

This policy brief draws on insights from the June 2025 WAPPP webinar and case studies presented by Convergence, Balibago Waterworks System, and Sao Paulo Parcerias. It highlights both the opportunities and challenges of embedding blended finance in local government-led PPPs, and explores how subnational authorities can structure scalable, bankable programs that serve local priorities and attract both concessional and commercial capital.

KEY CHALLENGES IN LOCAL CURRENCY PPP FINANCE

Fiscal Autonomy and Revenue Constraints

Many local governments lack independent revenue streams and depend heavily on unpredictable intergovernmental transfers, limiting their ability to generate or ring-fence revenues for PPP projects

Limited Creditworthiness

Many municipalities lack investment-grade ratings, making it difficult to access long-term debt markets without external guarantees or subsidies

Capacity and Technical Constraints

Local governments frequently lack the technical capabilities and resources to structure bankable PPP projects and align them with investor expectations

Investor Perceptions and Risk Aversion

Currency risks, lack of guarantees, and limited track records, deter private sector participation and raise the cost of capital

Mismatch of Local Needs and Investor Mandates

Small- and medium-scale PPPs often fall below the commercial investability thresholds of institutional investors, making pooled or portfolio approaches necessary

BLENDING FINANCE MODELS FOR LOCAL GOVERNMENT PPPs

Subnational Credit Guarantees

National or MDB-backed guarantees to enhance municipal creditworthiness and attract domestic banks.

Example: AfDB's Partial Credit Guarantee for local banks lending to subsovereign entities.

First-Loss or Concessional Capital

Donor or DFI capital absorbing early losses to de-risk local revenue-backed projects.

Revenue Indexation and Ring-Fencing

Linking repayments to inflation (CPI) and securing revenues through escrow accounts or ISPO-like structures.

Pooled Financing Facilities

Aggregating multiple municipal projects into a single blended vehicle to achieve scale and diversification.

Local Currency Solutions

Use of guarantees, indexed bonds, or hedging tools to mobilize local banks and institutional investors while reducing FX exposure.

These blended finance models are also at the core of WAPPP's 2025 [Guidelines on Small-Scale PPPs](#), which underscore the structured approach essential to scaling community-level PPP programs.

CASE STUDIES IN PRACTICE

Water and Sanitation Pooled Fund – Tamil Nadu, India

A landmark pooled bond issuance involving 13 urban local bodies (ULBs) in Tamil Nadu raised USD 6.2 million to finance water and sanitation infrastructure.

- 15-year maturity, AA rating, and 9.2% coupon;
- Credit enhancement : escrow accounts, state debt reserve funds, & a partial guarantee by USAID;
- Pooling reduced transaction costs and improved access to long-term domestic capital markets.

Sub-National Climate Finance Initiative (SnCF)

Structured as a blended private equity fund, the SnCF supports subnational climate-aligned infrastructure projects with a combination of commercial, concessional, and technical assistance capital.

- Target fund size: USD 750 million
- Structure: USD 600M senior commercial, USD 150M first-loss concessional capital, and a TA facility for capacity building and SDG certification.

São Paulo Parcerias – Institutionalized Local PPP Capacity

Brazil's largest subnational PPP unit and demonstrates how local governments can successfully lead PPP pipelines when equipped with strong technical capacity and intergovernmental coordination.

- Supported over 55 signed contracts, generating USD 2.3 billion in economic benefits.
- Comprehensive support spanning project preparation, bidding processes, contract management, and performance and impact evaluation.
- Manages a portfolio across sectors such as education, parks, urban renewal, and transport.
- Showcases how capital contributions, tax incentives, and federal risk-mitigation tools (e.g., FX insurance, guarantee funds) can make even municipal-level PPPs bankable and attractive to private capital.

Balibago Waterworks – Frugal, Transparent, and Scalable Local PPPs

Philippines' oldest private water utility, demonstrates how small-scale water PPPs at the barangay and municipal levels can be sustainably delivered with blended finance and a disciplined project model:

- Concessions range from 4,000 to 150,000 people, with several funded through a combination of philanthropic grants (e.g., Rotary International) and commercial loans;
- Projects start with capex of USD 400,000 and scale annually with expansions under USD 100,000, using internally generated cash;
- Transparent tariffs and IRRs of 10–12%,

PANEL INSIGHTS

Aakif Merchant (Convergence): Local government PPPs require fiscal decentralization, prudent debt management, and independent governance of pooled funds.

Stella Coimbra (SPP): Brazil supports municipalities with PPP training, project prep funds, and FX risk mitigation; São Paulo's autonomy is a key success factor.

Babati Mokgethi (AfDB): Bankability is central; guarantees, first-loss capital, and transparent city financial data are essential.

Nathaniel Munetsi (GIFA): Success depends on cost discipline, expert structuring, risk management, and local government guarantees.

Cristina Alejandro (Balibago Waterworks): For water PPPs, start small, accept moderate IRRs, set proper tariffs, control costs, and scale gradually.

POLICY RECOMMENDATIONS

- 1 Promote Fiscal Decentralization with Guardrails**
 Advance reforms to empower subnational governments with own-source revenues, while strengthening debt management to avoid overexposure.
- 2 Expand Project Preparation Support**
 Scale up dedicated technical assistance and federal co-financing mechanisms for early-stage structuring of subnational PPPs.
- 3 De-Risk Local Investments through Blended Finance Tools**
 Deploy risk-sharing instruments (guarantees, first-loss capital, FX hedging) tailored to the local context, ensuring viability without excessive concessionality.
- 4 Institutionalize Pooled Finance Platforms**
 Encourage regional or national platforms that aggregate subnational projects under robust, apolitical governance to improve ratings and attract institutional investors.
- 5 Enhance Transparency and Market Readiness**
 Support open fiscal data platforms and municipal credit assessments to increase investor confidence and signal readiness for PPP financing.

CONCLUSION

With concessional resources becoming increasingly scarce, local governments must adopt more proactive roles in financing infrastructure. Local government-led blended finance offers a pathway to unlock sustainable investment, but only if paired with strong institutions, risk mitigation, and a disciplined fiscal framework.

The future of decentralized infrastructure finance will depend on subnational capacity, national coordination, and public-private collaboration grounded in transparency and sound governance. WAPPP remains committed to supporting this shift and scaling innovations that bring blended finance closer to where it is most needed.



WAPPP

CONTACT

World Association of PPP Units
and Professionals

[http://wappp.net/
contact@wappp.net](http://wappp.net/contact@wappp.net)