Call for inputs by the Standing Committee on Finance in the organization of its next Forum

Submission by ICLEI

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A. Proposed theme for next SCF Forum:

"Toward sustainable and climate resilient cities and regions"
or
"Unlocking and catalyzing climate finance for local action"

Local actions to reach global goals

With the Paris Agreement and the United Nations' Sustainable Development Goals (SDGs) first time we have one Agenda for a Sustainable Future bringing all nations into a common cause to undertake ambitious global climate efforts. Despite this favorable environment, there exists a serious gap between how much money is and could be invested, and how much money is making it to local projects.

The rapid urbanization places huge demands on infrastructure, services, job creation, climate and environment. More than half of the population live in urban areas and 1.5 million people are added to the global urban population every week[1]. Cities consume over two-thirds of the world's energy and account for more than 70% of global CO2 emissions[2].

Given the continued and increasing pressures of climate change, acting at the local level is an urgent matter. Local and regional governments are in the front line of climate action, but they are unable to shoulder the massive infrastructure investments and adaptation efforts required for sustainable, low-to-no emission, and climate resilient development.

[1] PwC analysis of United Nations, Department of Economic and Social Affairs, Population Division (2014)
[2] C40. A Global Opportunity for Cities to Lead, www.c40.org/why_cities

Climate finance gap and cities' barriers to funding and investment

The international community has to find ways to close an investment gap of USD 480 billion in order to reach the 1.5 °C global temperature target by 2030.[3]

While the International Finance Corporation estimates that while there is about USD 22.3 trillion (IFC 2016) in "climate-smart investment potential" worldwide, McKinsey (2018) reports that only USD 3 trillion is actually being invested.

Factoring in climate resilience in the urban infrastructure context, under the premise that business proceeds as usual, capital investment needs amount to about USD 4.1 to 4.3 trillion annually, with a premium of 9 to 27% per annum (USD 0.4 trillion to USD 1.1 trillion) of additional investment for a low-emission and climate-resilient path (CCFLA 2015).

Today more than USD 1 trillion is missing each year for urban investments; and the needs, for the coming decades, are projected to amount to several trillion dollars (CCFLA 2017).
Therefore, action needs to be ramped up at all levels of government, including local, regional, and national. In addition, relevant private sector stakeholders and industries, such as real estate and insurance need to be included at the table of decision-making and release the substantial adaptation financing necessary. At the same time, the engagement of invaluable community stakeholders, including women, youth, indigenous peoples, and the expanding informal sector and informal settlements in Global South cities ensures the longevity of adaptation action and often provides alternatives to adaptation financing at the micro-level.

Although in recent years, significant strides have been made with regards to ***availability*** of climate finance, ***accessibility*** of those funds remains limited. Local governments continue to be unable to reach the funds, which would require that they among others: understand their risk and vulnerabilities to climate change impacts; identify priorities and outline adaptation actions; identify investment needs; measure the climate benefits and co-benefits of their interventions in terms of return on investment (RoI); design sustainable, bankable, and financially attractive adaptation projects. However, the reality is that the preconditions for these steps constitute a challenge on their own as local and regional governments need to first achieve a certain level of financial literacy, acquire expert knowledge, and build capacity in project preparation and design. Though there is demand from IFIs for good quality local and regional projects, investment in building the expertise necessary to create successful local climate projects is a rare commodity.

The main bottlenecks identified:

- Lack of understanding the complexity of the financial architecture and funds available;
- Unfriendly regulations governing international financial institutions (IFIs) (most of which do not allow direct access to funding for local governments);
- The sheer size of the projects (most consider only large scale projects);
- Lack of capacity to develop financeable/bankable (adaptation and mitigation) projects;

[3] McCollum D, et. Al (2018) Energy investment needs for fulfilling the Paris Agreement and achieving the Sustainable Development Goals, *Nature Energy*, http://www.iiasa.ac.at/web/home/about/news/180618-climate-targets.html

- Finance gap on early stage project preparation (scoping, project definition phase);
- Submission requirements too complex and the process is too long;
- Lack of fiscal capacity (pre-financing, co-financing is not affordable; lack of creditworthiness);
- Difficulty to engage private sector (high risk, low ROI);
- Lack of understanding and fear from innovative financial instruments;
- Control at national level (in many countries transfer and management of funds is subject to national level approval and control[4])

Needs of local governments and interest of financial institutions remain imbalanced. Large projects mainly focus on climate resilient infrastructure ("hard" measures), while funding for improving social systems, data collection, knowledge flows and capacity building for adaptation ("soft" measures) is limited. This overlooks the needs of cities, especially ones with large informal settlements and informal sector.

On the other hand financial institutions and investors are struggling to find bankable and financially attractive projects. Projects usually do not pass the bankability and creditworthiness threshold and are therefore not considered.

Overcoming barriers and achieving sustainable and climate resilient urban future

The key message emerging from local and regional governments at past ICLEI Resilient Cities forums[5] has been the pressing need to create an enabling environment for investment and climate adaptation action at the local level so as to unlock the potential of cities for attaining the Sustainable Development Goals (SDGs) and achieving the Paris Agreement.

Ensuring ***good governance*** at the local level is an essential first step toward this direction. Local and regional governments need to demonstrate the capacity to manage funds effectively and provide a sufficient evidence base for the necessity and feasibility of their adaptation (or mitigation) climate projects.[6] In Global South cities, local capacity to secure and manage adaptation funding remains an obstacle. This could be mended by capacity building and investment in specialized city staff (Financial investment consultants, risk experts, chief financial officers, etc.)

In parallel, national governments need to create the necessary ***enabling regulatory environment*** which (a) facilitates the flow of resources from the national to the local level where climate action takes place and (b) ensures more autonomy for local and regional governments to systematically leverage investments from Public-Private-Partnerships (PPPs).

International financing institutions are called to increase the ***availability and accessibility of financial resources*** to subnational governments for climate change action (mitigation and adaptation). In order to

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[4] In Brazil, for example, the national government must authorize loans to local authorities and vouch for their fiscal responsibility. http://resilient-cities.iclei.org/resilient-cities-hub-site/about-the-global-forum/
The same also often applies to private investment. In South Africa, national government's financial regulations restrict long-term contract periods between cities and private sectors. ICLEI (2016), Resilient Cities 2016 Report

widen accessibility, next to the creation of flexible investment mechanisms to fund small-scale projects, ***substantial capacity building and technical and financial assistance*** for project preparation already at the very early stage are required to jumpstart sustainable and financially attractive projects at the urban level.

It is important that capacity building and technical assistance for project preparation is tailored and contextualized.[7] Especially with regards to climate change adaptation, which is context-bound, project preparation needs to consider the unique conditions of cities in terms of hazards, vulnerabilities, project priorities, and multi-benefits as a result of adaptation projects. Further support is needed to ***quantify the benefits of adaptation actions***, e.g. in terms of avoided costs, insurance savings, and increased property value, to guide evidence-based interventions and to make a business case to other public and private actors.

Support is also needed to reconcile the different perspectives and priorities among sectors and establish a common language for effective PPPs that express "shared value approaches" which consider economic, social, and environmental returns. Defining mutual benefits from partnerships helps forge more lasting and effective multi-stakeholder coalitions. This is particularly true for PPPs, but also for broader socio-political partnerships that include marginalized and vulnerable citizens.

No single source of funding is sufficient to cover the anticipated costs of urban adaptation in the short and medium term. Cities should instead blend a mix of public and private funding from international, national, local, and community sources (e.g. loans, grants, bonds, microfinance, tax revenue, community lending, crowdsourcing etc.). Diversification spreads out risk for a more sustainable, locally-controlled strategy.[8] Therefore, it is necessary to consider new partners as eligible piece of the climate finance puzzle. For example, partnerships between cities and the (re)insurance, real estate industry and Micro- or Small and Medium Enterprises (MSMEs and SMEs) hold a great potential for unlocking expertise and resources for sustainable, low-to-no emission, climate resilient, and socially-inclusive urban development.

By safeguarding the business continuity of MSMEs and SMEs, governments (national and subnational) indirectly empower the women that often head these structures. By promoting the development of micro-insurance schemes at the local level, cities support the inclusion of women, youth, urban poor, and other marginalized communities. There are multiple benefits for supporting community-level economic activity and risk sharing. Though often partners have inherently conflicting interests (e.g. realtors and insurers' interests over high disaster risk properties), including the right stakeholders from the start of the projects, enables ownership of results and shared benefits.

As mentioned above good project preparation entails early stage preparation steps ("*project incubator phase*") where local leaders are given support to prepare projects more effectively. ***ICLEI's Transformative Actions Program (TAP)*** – an innovative initiative which aims at catalyzing and improving capital flows to cities, towns, and regions and at strengthening the capacity of the latter for accessing climate finance and

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[7] C40 Cities Finance Facility, CDP and Global Covenant of Mayors (2018), *The demand for financing climate projects in cities*
[8]ICLEI (2016), Resilient Cities Report 2016

attracting investment – was created to address this gap[9]. TAP helps local and regional governments to develop robust and bankable projects ready for financing and implementation by connecting transformative climate projects with the right partners, experts, and project preparation tools. The program also helps local leaders by identifying their needs in terms of climate financing and builds their capacity to address those.

ICLEI's climate neutrality framework[10]

ICLEI has long advocated that local and regional governments commit to climate neutrality targets. This past June, at the ICLEI World Congress in Montréal, ICLEI issued a call to action[11] for the ICLEI network to address climate neutrality, starting with government operations. The ICLEI Montréal Commitment[12] calls on local and regional governments to aim for 100 percent renewable energy and divest from fossil fuels as critical steps to achieve climate neutral government operations and infrastructure.

The ICLEI Montréal Commitment is a roadmap to sustainable urban development where ICLEI challenges local and regional governments to tackle climate change through a systems approach, following five interconnected pathways towards low emission, nature-based, resilient, circular and equitable development.

Through the low emission pathway, local and regional governments step up to achieve climate neutrality and deliver on global climate goals. Our vision of climate neutrality is a holistic process that includes ambitious climate change mitigation and adaptation at home and additional contributions to global climate processes and mechanisms.

Here are four key steps that cities and regions can take towards climate neutrality.

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[9] http://tap-potential.org/

[10] Further information available at: https://iclei.org/en/Climate_neutrality.html.

[11] See a related blog on this at: http://talkofthecities.iclei.org/four-steps-to-climate-neutrality/.

[12] Available at: https://worldcongress2018.iclei.org/wp-content/uploads/The%20ICLEI%20Montr%C3%A9al%20Commitment.pdf.

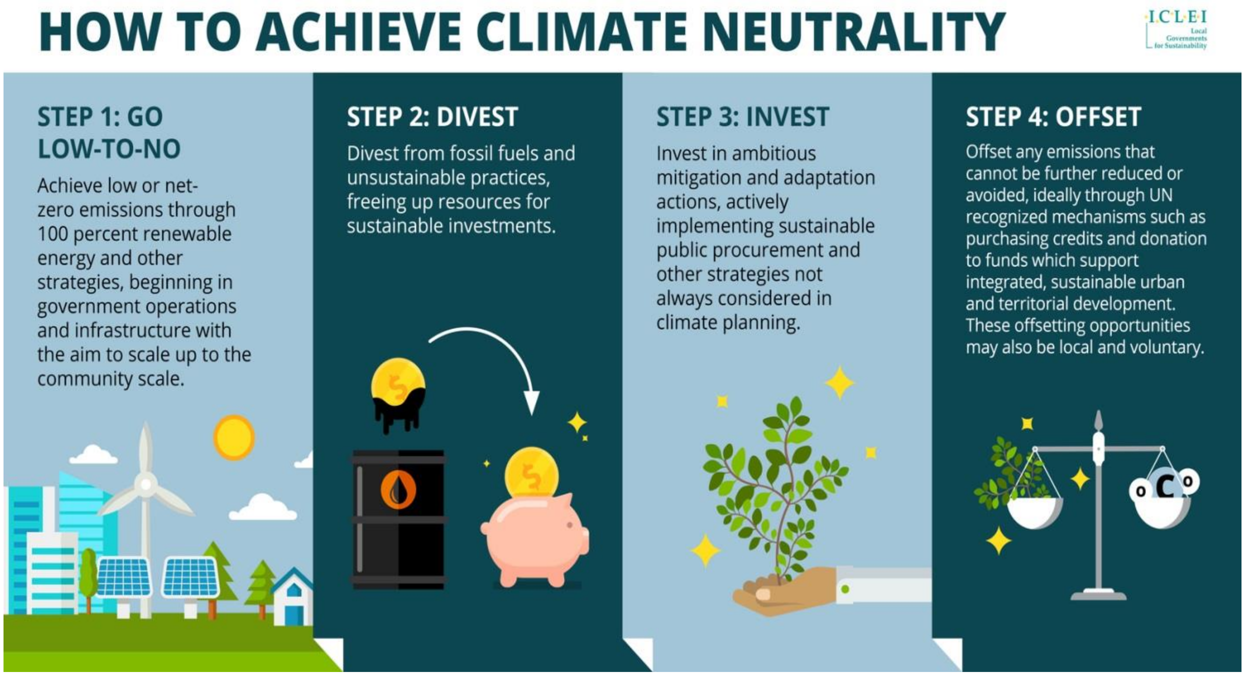

Figure 1: ICLEI climate neutrality framework four step process.

Divestment from fossil fuels: New York City case study

On 11 September 2018 at the Global Climate Action Summit (GCAS), ICLEI USA and New York City Mayor's Office released the first in-depth case study on NYC's fossil fuel divestment decision.[13] The new case study details why and how New York City (NYC) has begun to divest billions of pension fund dollars from fossil fuels.

NYC's retirement system is the largest municipal pension system in the United States, controlling a total of USD 194 billion in investments. The case study provides the first in-depth look at this decision since Mayor Bill de Blasio made the announcement in January 2018. Through this divestment, NYC is effectively leading the global divestment movement and taking a critical step towards its target to become climate neutral by 2050.

"As one of ICLEI's longest standing members, New York City sets a strong example for our global network of more than 1,500 local and regional governments worldwide," said Gino Van Begin, ICLEI Secretary General. The case study[14] aims to show peer cities, large and small, that the principles and processes behind fossil fuel divestment are transferable to nearly any location where the will to divest exists. The study provides perspectives from various stakeholders on why New York City initiated the process to divest from fossil fuels — and the steps they are taking to get there.

[13] Case study is available at: http://icleiusa.org/wp-content/uploads/2018/09/NYC-Divestment-Case-Study-ICLEI-USA.pdf.
[14] An interactive web version of the report is available at: https://rise.articulate.com/share/zPTk51djvC1gi_Hd3MU-m7SuDumEgzen#/?_k=6jo5iy.

Expected key recommendations as outcomes from 2019 SCF Forum

Based on the suggested theme for the next SCF Forum, it is expected that a set of recommendations will be presented in the form of a call to action for:

- Existing demand for climate finance to be met and imbalance between available funding for climate action at the international level and lack of finance at the local level to be corrected;
- Enhanced availability and accessibility for climate change finance at the subnational level;
- Greater project preparation support (financial and technical) for cities and regions. Including the project definition phase and tailored to local context with the ultimate objective of creating bankable, robust local climate projects ready for implementation and investment;
- Creation of innovative and flexible investment mechanisms to fund smaller scale projects;
- An enabling regulatory environment that facilitates the flow of resources from national to subnational level and supports cities-private sector partnerships;
- Innovative ways to mobilize and steer private and insurance investment at the local level;
- Quantifying climate change adaptation benefits and co-benefits from projects;
- Inclusion of key community stakeholders that ensures socially-inclusive and people-centered development.

B. Relevant events scheduled to take place in 2019, which could be considered by the SCF as potential partners to organize the Forum with

ICLEI- Local Governments for Sustainability suggests the following list of major international events as appropriate for joining forces with the 2019 SCF Forum:

- Resilient Cities 2019 congress – 10th anniversary next year, big event with a confirmed pre-event at UNFCCC looking into local progress from the Cities IPCC, Bonn, Germany
- LOCS Africa – location and date tbc
- Latin America Climate Week (by UNFCCC), to be hosted by Salvador (Brazil) in July 2019
- FNP Sustainable Development Conference (National Mayor´s Front biannual conference) to be hosted by Brazil in August 2019 - participants mayors and cities

C. Relevant information and case studies in relation to the proposed theme

- TAP projects: http://tap-potential.org/projects/
- Financing the Resilient City, ICLEI White Paper
- Close to home: Subnational strategies for climate compatible development, CDKN/ICLEI paper
- carbonn Climate Registry (cCR) 2016-2017 report (on climate data available - here you see how cities finance adaptation/mitigation efforts page 16)
- Resilient Cities Report 2015 (especially pages 8-10 for finance outcomes), Resilient Cities Report 2016 (pages 11-13 finance outcomes), Resilient Cities Report 2017 (pages 7 to 9 -- Outcomes from 1st ever Insurance Industry & Cities Summit) and Resilient Cities Report 2018 (pages 17-18)
- CCFLA (2018), Summary of Good Practice of Successful Project Preparation Facilities

- CCFLA (2017), Localizing Climate Finance, Mapping Gaps and Opportunities, Designing Solutions (2nd Edition of the CCFLA mapping report)
- Finance opportunities for climate change solutions in cities (Resilient Cities 2016 Background paper)
- Going to town: How the Green Climate Fund can support a paradigm shift in cities (Resilient Cities 2016 Background paper)
- C40 Cities Finance Facility, CDP and Global Covenant of Mayors (2018), The demand for financing climate projects in cities
- McCollum D, et. Al (2018), Energy investment needs for fulfilling the Paris Agreement and achieving the Sustainable Development Goals, Nature Energy
- Green Climate Fund (2018), Seventh Report of the Green Climate Fund to the Conference of the Parties to the United Nations Framework Convention on Climate Change. GCF/B.20/15 (8 June 2018)
- Climate-KIC Learning Platform (2018), Sustainable Infrastructure Finance e-course
- SIF (2018), PFF Finder