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Item 8(b) of the provisional agenda

Matters relating to finance

**Matters relating to the Standing Committee on
Finance**

**Conference of the Parties serving as the
meeting of the Parties to the Paris Agreement**
Second session

Madrid, 2–13 December 2019

Item 6(a) of the provisional agenda

Matters relating to finance

Matters relating to the Standing Committee on Finance

Report of the Standing Committee on Finance

Addendum

2019 Forum of the Standing Committee on Finance: “Climate finance and sustainable cities”

Summary

This report contains information on the 2019 Forum of the Standing Committee on Finance, held from 12 to 13 September in Beirut, Lebanon, on the topic of climate finance and sustainable cities. It contains key findings and a detailed summary of all sessions of the Forum, which was focused on the importance of localizing climate action and city finance.

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Abbreviations and acronyms

ANFICT	National Agency for Local Authority Funding (Niger)
ANICT	Local Authorities National Investment Agency (Mali)
COP	Conference of the Parties
FDL	Local Development Fund (Madagascar)
FEICOM	Special Fund for Equipment and Inter-Municipal Intervention (Cameroon)
GCF	Green Climate Fund
MSMEs	micro-, small- and medium-sized enterprises
NAP	national adaptation plan
NDC	nationally determined contribution
RIAFCO	Network of African Local Government Financing Institutions
SCF	Standing Committee on Finance
SDG	Sustainable Development Goal

I. Introduction

1. The theme of the 2019 SCF Forum was “Climate finance and sustainable cities”. The objective of the Forum was to enhance understanding of how to accelerate the mobilization and delivery of climate finance for the development of sustainable cities by:

(a) Bringing together key stakeholders to share good practices and lessons learned in financing sustainable cities and integrating climate considerations into cities’ broader domestic infrastructure, development and urban planning processes;

(b) Identifying challenges faced at the city level in accessing and attracting climate finance, and sharing information on available support;

(c) Exploring the role of climate finance in facilitating the development of inclusive, participatory, gender-responsive and youth-oriented cities.

2. The Forum¹ took place in Beirut, Lebanon, from 12 to 13 September 2019, and was hosted by the United Nations Economic and Social Commission for West Asia. The Forum was organized with financial contributions from Australia and Norway, and from the United Nations Economic and Social Commission for West Asia, the Union for the Mediterranean and the Islamic Development Bank.

3. About 130 participants attended the Forum, representing municipal and national governments, global city networks, financial institutions (including multilateral development banks, multilateral climate funds and international commercial banks), bilateral agencies, international organizations, United Nations agencies, think tanks and civil society.

4. The Forum was organized into four thematic parts and eight sessions on various aspects of climate finance and sustainable cities (see figure 1).

Figure 1

Organization of the 2019 Forum of the Standing Committee on Finance

Part I (sessions 1 and 2) Climate finance and sustainable cities <ul style="list-style-type: none"> ○ <i>Importance of cities in climate action</i> ○ <i>Climate finance in the context of cities’ sustainable development</i> ○ <i>Urban sustainability solutions for key sectors and financing needs</i> 		
Part II (sessions 3 and 4) Planning and financing sustainable cities <ul style="list-style-type: none"> ○ <i>Sources of climate finance for cities</i> ○ <i>Innovative financing mechanisms and instruments for cities’ climate action</i> ○ <i>Cities’ financial needs and investment priorities</i> 	Part III (sessions 5 and 6) Capacity-building and enabling environments for mobilizing and accessing climate finance for sustainable cities <ul style="list-style-type: none"> ○ <i>Access to climate finance at the city level</i> ○ <i>Project preparation and readiness support for city-level actors</i> ○ <i>Incentivizing private sector engagement</i> 	Part IV (sessions 7 and 8) Role of climate finance in building more inclusive sustainable cities <ul style="list-style-type: none"> ○ <i>Empowering groups in vulnerable situations</i> ○ <i>Enabling environments for inclusive growth</i> ○ <i>Potential of MSMEs in funding climate action at the city level</i>

5. The following modalities were used for in-depth discussion at the Forum:

(a) Plenary sessions, including scene-setting presentations and panel discussion, aimed at stimulating further discussion among participants;

¹ The programme, presentations and slides, and recordings are available on the 2019 SCF Forum web page at <https://unfccc.int/process-and-meetings/bodies/constituted-bodies/standing-committee-on-finance-scf/scf-forum/2019-forum-of-the-standing-committee-on-finance>.

(b) Breakout group sessions, which consisted of case study presentations to initiate in-depth group discussion on best practices and lessons learned and to identify challenges and possible solutions for overcoming them;

(c) Plenary sessions for reporting back on the breakout group discussions and identifying key findings.

6. Multimedia tools were used to stimulate interactive discussion at the Forum, including videos to introduce the discussion objectives and resource persons, and pre-recorded and real-time virtual presentations by guest resource persons.²

7. The secretariat conducted a survey of the participants to evaluate the organization of the Forum from both the substantive and the logistical perspective. The outcomes of the survey are available online.³

II. Key findings

A. Climate finance and sustainable cities

8. Climate change impacts in urban sectors cause a domino effect, whereby the consequences for one sector have an impact on other sectors. Many international development agendas highlight the close linkages between climate action and urban sustainable development: they must be complementary at all levels and across all sectors, and cities must be supported in their efforts to mainstream climate change and sustainable development in their development plans and strategies.

9. National governments have an important role to play in establishing enabling environments and policy frameworks for the transition to low-emission and climate-resilient economies. Moreover, sustained multi-level governance integration of NDCs and NAPs is important for making a more concerted effort towards building sustainable cities.

10. Although cities are crucial to a low-emission and climate-resilient future, a lack of finance and access to finance is a major barrier preventing cities, particularly in developing countries, from realizing their sustainability ambitions. Furthermore, it was emphasized by some that existing development finance institutions and multilateral development banks are often constrained by their mandates and balance sheets to work directly with cities or to mobilize climate investment for cities at the pace and scale required. In addition, the long and complex application procedures of international climate funds act as another barrier to cities' access to finance.

11. Cities have communicated their need for defined, set-aside, predictable and accessible climate finance. There is a gap of USD 1.8–2.4 trillion per year in financing for low-emission and climate-resilient infrastructure globally, the majority of which is needed in urban areas. Both public and private finance need to be fully harnessed to fill the gap, and cities must be provided financial and technical support for mobilizing and accessing public and private sources of finance. City networks and partnerships have a crucial role to play in matching supply with demand for climate finance.

12. Cities vary in size, geographical location, fiscal status, creditworthiness and financial autonomy, and they face different challenges in improving their sustainability. Each city requires a nuanced approach to planning and financing to become a sustainable city, and the financial and technical support provided needs to be customized to meet the needs and priorities of the city.

13. Awareness around climate finance among city-level actors involved in planning and financing sustainable cities must be increased, and their capacity to mobilize and access climate finance should be bolstered. Institutionalizing the capacity of city authorities and

² The comments and questions received from participants via the online tool can be found on the 2019 SCF Forum web page.

³ https://unfccc.int/sites/default/files/resource/Forum%20feedback_.pdf.

creating enabling environments will help to retain the capacity to utilize climate finance for urban sustainability projects in the longer term.

14. Urban sustainability projects must be informed by science in order to ensure that climate finance addresses the core issues of sustainability and resilience. This will also help to maximize the effectiveness and impact of projects funded by climate finance.

15. Urban climate actions should be centred on development benefits to make such actions more meaningful and effective, and help to improve the livelihoods of city residents in developing countries. Communication and engagement with local stakeholders when planning and financing urban sustainability and resilience projects is crucial to ensuring that no one is unintentionally left behind by the projects.

16. Significant differences exist between cities in developing and developed countries, and between cities in different developing countries, in terms of capacity, levels of financial and decision-making independence and, most important, ability to access finance. Many cities in developing countries, for instance, have no functioning capital market, low creditworthiness or no credit rating. If multilateral climate funds and development institutions make interventions based only on the criteria of economic returns or commercial viability, there is a risk that cities in developing countries cannot benefit from the interventions.

17. There are social and economic impacts in transforming conventional cities into sustainable cities, particularly in developing countries and in sectors such as transport and waste management. A just and equitable transition and job creation are crucial for catalysing political decisions required for the shift.

B. Planning and financing sustainable cities

18. Partnerships and joint initiatives among key actors, including cities, global city networks, national governments, and multilateral and bilateral financing institutions, are critical to planning and financing sustainable cities and for:

- (a) Raising awareness around climate finance among local authorities;
- (b) Fostering peer-to-peer learning and building the capacity to mobilize and access climate finance;
- (c) Sending positive political signals to, and fostering confidence and trust within, the private sector.

19. Small cities can join local government associations to cooperate with national governments, global city networks and international support providers, and jointly seek systemic solutions in relation to preparing and implementing urban sustainability projects. Small-scale projects in small cities with similar circumstances and characteristics can be bundled into project portfolios, which can help lower credit risks, reduce transaction costs and streamline project application processes.

20. A number of international and domestic sources of climate finance exist. No single source of finance can meet all the needs of a city; therefore, an urban project may make use of a mix of financial sources from both the public and private sector. The innovative use of domestic sources of climate finance, including green bonds, subnational climate funds and cities' participatory budgets, is being piloted. However, many cities in developing countries need financial and technical support to make use of those sources. In addition, there is a lack of awareness regarding the availability of financial resources and assistance.

21. Financial instruments can be used to help cities overcome fiscal and regulatory barriers to mobilizing financial resources from both public and private sources. However, in some cases, cities may not be empowered, due to national legislation, to directly access international funds. Experts at the city level are best placed to understand those financial and regulatory barriers, while subnational development banks (and also subregional multilateral development banks and climate funds) may be in a position to advise and assist cities in designing and applying the most suitable financial instruments.

22. In order to unlock private investment, cities must communicate urban sustainability projects in the language of private investors, for example in terms of the risks and returns involved and the project duration. Lack of understanding of the scale of project risk could amplify perceived risk and create the perception among investors that urban sustainability projects entail additional risks and costs.

23. Assessing the investment needs of cities in the context of national investment needs for implementing NDCs and NAPs will help to strengthen the vertical integration of national and subnational actors in striving towards achieving the goals of the Paris Agreement and the SDGs. Meanwhile, engaging with various key climate finance stakeholders in assessing those needs and applying internationally endorsed assessment methodologies can send out positive signals and help to attract potential investors.

C. Capacity-building and enabling environments for mobilizing and delivering climate finance for cities

24. Cities' access to climate finance should be facilitated so that scaled-up climate finance can be channelled to cities for urban sustainability projects. Subnational finance vehicles operated by multilateral climate funds that directly support cities could be created, while including urban climate action in the second round of NDCs could ensure that urban priorities are integrated into national planning processes and help to secure more financial resources for city-level projects.

25. Financial engineering of climate and sustainability investments takes place primarily at the national level, but many of the financiers involved lack understanding of how city finance works and require relevant training and capacity-building. Subnational development banks may have the expertise to meet that need, and can help local and regional governments to expand and diversify their financial resources while helping to build the structural capacity to formulate bankable low-emission and climate-resilient projects.

26. Engaging and collaborating with the financial sector is essential to financing urban sustainability projects. Engaging the sector early, during the project conceptualization stage, is useful as finance experts can help to assess the commercial viability of a project and advise on how the project can be financially structured. Good green investment opportunities at the city level are in high demand, and it should be a priority of cities and other key stakeholders supporting urban sustainability action to engage the financial sector and explore ways of financing urban projects.

27. Engaging local private investors and finding a suitable place for them in urban sustainability projects is important. Such investors should be offered incentives based on reaching milestones that showcase the sustainability outcomes of their activities and their consideration of the characteristics and scale of local businesses.

28. While unlocking private investment is important, a group of participants emphasized that the prospects for economic returns and the commercial viability of projects should not be determining factors for multilateral climate funds and development institutions making interventions.

29. Aligning cities' project proposals with NDCs and the SDGs is important in the project preparation phase as it can help in matching supply with demand for climate finance. Creating interdepartmental working groups within city administrations could help enhance internal coordination in preparing project proposals; while the burden on city governments to develop project proposals internally could be alleviated by delegating part of this function to a dedicated national or subnational agency.

D. Role of climate finance in building more inclusive and sustainable cities

30. City planning and project implementation must be inclusive of all constituencies and groups, including the urban poor, women and youth.

31. At least a quarter of the world’s urban population is living in slums and informal settlements, and that proportion is on the rise; yet the urban poor have often been neglected in city project planning and implementation processes. They should be seen as positive change makers and be invited to participate in project planning, preparation and implementation processes. Local and national governments can work together with industry leaders to create green jobs that could benefit both the urban poor and municipalities.

32. Meanwhile, rural areas must not be neglected in development: addressing the development gap between rural and urban areas is important for slowing the rapid urban population growth. Furthermore, when it comes to sustainable urban development, due consideration should also be given to small and secondary cities, not just to megacities.

33. Engaging gender and youth advisers in urban planning could help to ensure that climate finance is used to make cities more sustainable, gender-responsive and youth-oriented. Their opinions and advice should be given due consideration in the project cycle.

34. While building the capacity of women, youth and community leaders is important, building the capacity of local and municipal authorities to understand the linkages between climate change and the economic, social and environmental issues faced by cities, as well as the need to include gender and youth perspectives in sustainable city planning, is equally important.

35. Lastly, attaining political buy-in and financial support for gender and climate change projects, especially from local governments, remains a challenge; and stronger political will is needed to localize and finance climate action.

III. Summary of discussions

A. Climate finance and sustainable cities

36. The world is experiencing rapid urbanization, driven by economic, social and environmental changes. Currently, 55 per cent of the world’s population lives in cities, but by 2050 this is expected to rise to 68 per cent, with an additional 2.5 billion people living in urban areas. Cities account for more than 80 per cent of global gross domestic product, which is expected to grow to 88 per cent by 2025.⁴ Cities are not only the main drivers of climate change, but also among the most affected by the adverse impacts of climate change, such as extreme weather events. Climate change also affects livelihoods, especially those of people living in cities in developing countries, as it contributes to increases in the price of food, water and energy.

37. Tackling climate change is inherently linked to achieving sustainable development in the context of urban planning and development. City authorities must identify how each sector is affected by climate change and assess the chain reaction that an impact on one sector can cause in another. In this regard, the Cross-Dependency Initiative⁵ provides a tool that can be used to map the cross-cutting impact of climate change across different sectors at the city level.

38. Many international development agendas⁶ highlight the linkages between climate change and urban development (see box 1). The linkages demonstrate the importance of breaking down divisions and ensuring complementarity between climate action and urban sustainable development activities at all levels.

⁴ United Nations Department of Economic and Social Affairs. 2019. *World Urbanization Prospects: The 2018 Revision*. New York: United Nations. Available at <https://population.un.org/wup/Publications/Files/WUP2018-Report.pdf>.

⁵ See <http://xdi.systems/>.

⁶ Such as the Paris Agreement, the 2030 Agenda for Sustainable Development, the New Urban Agenda and the Sendai Framework for Disaster Risk Reduction 2015–2030.

Box 1

Linkages between climate change and urban development in international agreements

Paris Agreement

Underscores the importance of cities and other subnational authorities taking climate action and being supported in this regard. The United Nations Human Settlements Programme reviewed 160 NDCs and found that 110 (69 per cent) included reference to urban action

2030 Agenda for Sustainable Development

Of 169 SDG targets, 92 (54 per cent) are relevant to local government

New Urban Agenda

Includes 22 references to climate change, climate action and related issues (compared with a single reference in the Istanbul Declaration on Human Settlements and the Habitat Agenda)

Sendai Framework for Disaster Risk Reduction 2015–2030

Includes 30 references to climate change, and urban planning is highlighted as key to strengthening disaster risk governance

Source: http://www.europarl.europa.eu/cmsdata/124169/REGI_2017.06.19_3_R.Tuts_Urban%20Action%20on%20Climate%20Change%20Linkages_UN-Habitat.pdf.

39. Subnational governments have a significant role to play in combating climate change. The panellist from the Climate Policy Initiative mentioned that, according to the Organisation for Economic Co-operation and Development, 55 per cent of public financial spending is carried out by subnational governments, and 64 per cent of climate-related spending and investment is at the subnational level.⁷

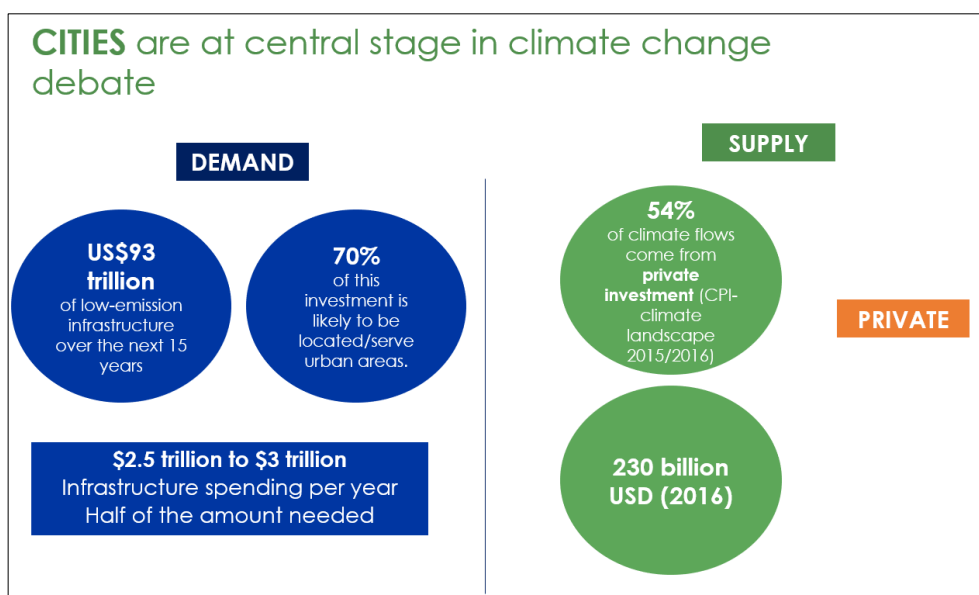
40. According to the Global Commission on the Economy and Climate, a USD 93 trillion investment in low-emission infrastructure is required over the next 15 years, 70 per cent of which is for urban areas (see figure 2). This translates into a per annum investment of USD 4.3–5.4 trillion until 2030; yet the current investment scale remains at USD 2.5–3 trillion per year, which is about half of the amount required.⁸ Interpreting the financing needs for urban infrastructure requires a nuanced and regionally contextualized approach given that by 2050 90 per cent of population growth will be concentrated in medium-sized cities in Africa and Asia,⁹ and the financing needs of developed countries are focused on maintaining and retrofitting aged infrastructure.

⁷ Organisation for Economic Co-operation and Development, World Bank and United Nations Environment Programme. 2018. *Financing Climate Futures: Rethinking Infrastructure*. Paris: Organisation for Economic Co-operation and Development Publishing. Available at <https://www.oecd.org/environment/financing-climate-futures-9789264308114-en.htm>.

⁸ Cities Climate Finance Leadership Alliance. 2015. *The State of City Climate Finance 2015*. New York: Cities Climate Finance Leadership Alliance. Available at <http://ccfla.wpengine.com/wp-content/uploads/2015/12/CCFLA-State-of-City-Climate-Finance-2015.pdf>.

⁹ United Nations Department of Economic and Social Affairs. 2018. *World Urbanization Prospects: The 2018 Revision*. New York: United Nations. Available at <https://population.un.org/wup/Publications/Files/WUP2018-Report.pdf>.

Figure 2
Estimated demand for and supply of climate finance at the city level



Source: Presentation by Priscilla Negreiros, Climate Policy Initiative. Available at <https://unfccc.int/sites/default/files/resource/Session%201%20Priscilla%20CPI.pdf>.

41. Studies show that there are financial resources, particularly from the private sector, that could be harnessed to fill the financing gap. According to a representative of the New Cities Foundation, there is unprecedented appetite in the private sector, including among institutional investors and pension funds, for investment in climate-resilient infrastructure.¹⁰ However, several barriers to mobilizing and accessing finance for infrastructure investment and sustainable development in cities remain, particularly in developing countries, such as:

- (a) Lack of financial autonomy (e.g. taxation policy managed by the national government, cities not permitted to take on debt);
- (b) Limited financial and human resources and technical capacity to formulate investment-ready climate projects or issue municipal bonds;
- (c) Poor creditworthiness or lack of credit, resulting in limited access to the global financial market;
- (d) Regulations enacted by cities being bound by national priorities;
- (e) Lack of awareness of and capacity to utilize:
 - (i) International sources of climate finance through bilateral and multilateral channels;
 - (ii) Innovative financial instruments that can help cities to collaborate more closely with financial institutions and corporations and harness the potential of private markets.

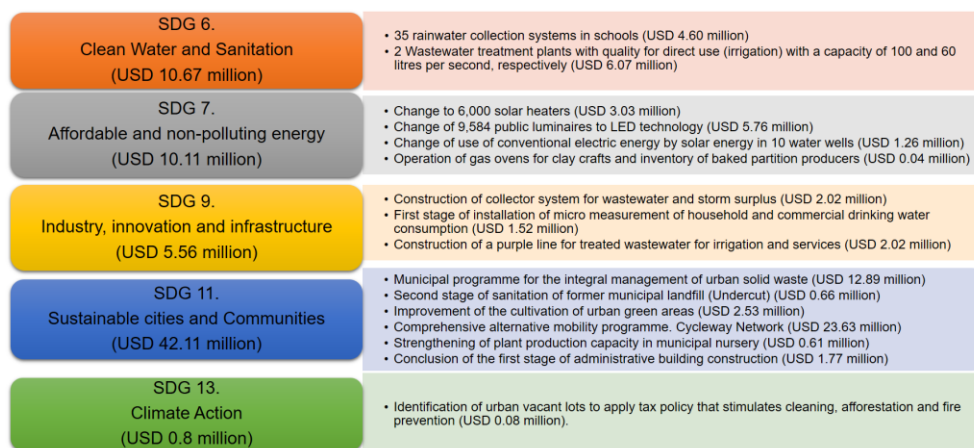
42. Many cities, in both developed and developing countries, are demonstrably committed to carrying out climate action and achieving the SDGs. For example, the Mayor of Metepec, Mexico, shared activities that her city has undertaken, including developing an inventory of greenhouse gas emissions; carrying out vulnerability assessment; mainstreaming climate change in local development strategies and emergency management plans; establishing systems to monitor and report progress towards the SDGs; and joining global city networks in order to form partnerships with other cities.

¹⁰ Kim J. 2016. *Handbook on Urban Infrastructure Finance*. Montreal, Canada: New Cities Foundation. Available at <https://newcities.org/wp-content/uploads/2016/03/PDF-Handbook-on-Urban-Infrastructure-Finance-Julie-Kim.pdf>.

43. Some cities in developing countries (e.g. Metepec, Mexico, which served as a case study) have also started to assess their financing and investment needs for implementing urban sustainability projects, including with specific climate targets and financial requirements (see figure 3). This was highlighted as a useful way to match supply with demand for climate finance. Furthermore, some cities have started to work with the financial sector, including commercial banks and insurance groups, to create climate adaptation bonds and climate-resilience investment vehicles, thereby exploring how to engage the private sector in meeting the financing and investment needs of cities.

Figure 3

Financial needs and investment priorities of the urban sustainability projects of the Mexican city of Metepec



Source: Presentation by Gabriela Gamboa, Mayor of Metepec, Mexico. Available at <https://unfccc.int/sites/default/files/resource/Session%201%20Gamboa%20Metepec.pdf>.

44. National governments play a dual role as enablers and regulators in facilitating climate action at the city level. One panellist, a former minister of environment of Egypt, shared an example from the energy sector: the national Government introduced policy on feed-in tariffs, thereby enabling investment in renewable energy by multilateral development banks and the private sector; and also played a regulatory role by reforming the price structure of electricity and adjusting fossil fuel subsidies while ensuring equity and protecting people in vulnerable situations.

45. Vertical integration that ensures harmonization between national and municipal governments was highlighted as a crucial element of coherent national action towards tackling climate change and achieving sustainable urban development. The absence of such integration can be counterproductive, for example when one major city in a country is advancing climate action while another is taking decisions that are harmful to the environment. The electoral cycle of cities and the consequent turnover of mayors and leadership was also raised as a challenge in ensuring sustained vertical integration.

46. In this context, the discussion addressed how to ensure sustained vertical integration, such as by working with city-level technocrats or assigning a national agency to coordinate the integration. Another important aspect highlighted was the need for city authorities to be aware of the cost of climate change impacts on different sectors (infrastructure, health, water, etc.); the cost of inaction or misaction; and the possibility of accessing and harnessing public and private financial resources to support sustainable urban projects and programmes.

47. Existing challenges in building sustainable cities, and how climate finance could be used to address those challenges in the energy and building, water and waste management, and transportation sectors, were discussed in three breakout groups. Box 2 summarizes the brainstorming discussions.

Box 2

Summary of the brainstorming discussions*Points that emerged across all three brainstorming groups*

- A nuanced approach is needed to address the sustainability challenges faced by cities and exploring possible solutions given the various circumstances and contexts of cities of different sizes and in diverse geographical locations.
- There is a general lack of complementary planning and action across the different sectors. Strong governance, that establishes an urban cross-sectoral framework and empowers one agency to lead the coordination may help to enhance complementary planning and action.
- With blended finance, the limited public finance of municipal governments can be used to improve the risk profile of urban projects and ready them for investment, thereby catalysing additional financial resources from other sources, including the private sector.
- Awareness around climate finance needs to be enhanced among city authorities, local communities, local financial institutions and engineers working on urban projects. In particular, capacity-building on climate finance for city authorities must be institutionalized so that it can be sustained. Furthermore, a platform is needed for city experts in each sector to share best practices and lessons learned in utilizing climate finance to develop sustainable cities.

Points that emerged from the energy and building brainstorming group

- City authorities and investors need to undertake cost–benefit analyses to decide between retrofitting old buildings and building new buildings. Sometimes it makes more economic sense to build new buildings and ‘leapfrog’ into a sustainable city.
- Building codes are an important policy instrument for reducing emissions from urban buildings and structures. Many cities in developing countries need support to develop and implement building codes.
- City authorities and urban project developers require greater access to financial instruments (such as equity finance or guarantees that can de-risk urban housing and energy projects). Scaled-up public finance (e.g. for guarantees) and enabling environments for greening the financial market may help to expand the opportunities available.
- Small-scale energy or housing projects can be bundled into portfolios. This can help to lower credit risks, reduce transaction costs and streamline application processes, which encourages local financial institutions to participate, thus facilitating larger-scale investment.

Points that emerged from the water and waste management brainstorming group

- Rapid urbanization will increase water stress at an unprecedented rate; and solid waste generation will double between 2016 and 2050. Enhancing the science-policy interface is key to ensuring that climate finance is directed to address the core issues in these sectors.
- For example, in the water sector, international support is available to help countries to identify where river basins are most vulnerable to climate change, and to enhance the capacity to develop water projects that are ready to be funded by climate finance.
- Multilateral climate funds offer funding opportunities for projects in the water sector; project proposals need to frame the issue of water from a climate change perspective in order to get funding approval.
- Public policy tools, such as environmental licensing, payment for ecosystem services and collective action approaches, are available to city authorities preparing water or waste projects. However, challenges remain; for example, environmental licensing may increase the time, technology and finance required for project implementation. These public policy tools require the political interest of the people impacted by the project; measuring the impact and effectiveness of the policy intervention and the investment remains difficult.

Points that emerged from the transportation brainstorming group

- Many developing countries prioritize development objectives that are more closely related to livelihoods (e.g. poverty alleviation or public health) over low-emission transportation. In this context, the development benefits of transportation projects (e.g. enhanced mobility and cleaner air) should be emphasized to make transportation projects more meaningful and effective.
- The transportation sector, particularly in developing country cities, is highly dominated by MSMEs. The right incentives and enabling environment are therefore critical to catalyse a green transition in the sector. Public–private partnerships are a policy instrument that can be effective in making climate finance directly accessible to MSMEs.
- Communication and engagement with local stakeholders in a clear and transparent process is crucial to making sure the economies of local transportation businesses (which often depend on conventional fossil fuel-based automobiles) are not sidelined in urban transportation projects.

B. Planning and financing sustainable cities

48. Planning and financing sustainable cities is challenging and complex, but key stakeholders, including city authorities, national governments, global city networks, and multilateral and bilateral financing institutions, are stepping up to jointly assist cities in mobilizing and accessing the climate finance required to plan and finance urban sustainability projects.

49. In this context, the Mayor of the city of Guisser, Morocco, shared the example of a subnational climate finance expertise programme in the country¹¹ that is a joint initiative of an association of mayors and local governments and is supported by a global city network and the national government. City authorities, particularly in small cities, find such joint initiatives useful because they raise awareness of climate finance among local authorities and help them to develop investment-ready urban sustainability projects.

50. Another example of a city-to-city matchmaking scheme¹² was shared by a panellist from Japan. Under the scheme, cities in developing countries are partnered with cities in developed countries on the basis of their financial, technological and capacity-building needs and capacity to meet those needs, respectively. A bilateral support agency coordinates the matchmaking and uses public grants to finance feasibility studies in the developing country city. At the project implementation stage, public funds provide half of the investment requirement, and a consortium of private businesses from the two cities contributes the other half of the investment needed, thereby mobilizing the financial resources required for the project as well as fostering the recipient city's ownership and the long-term sustainability of the project.

51. Such joint initiatives and partnership schemes send positive political signals to and build confidence and trust within the private sector, particularly MSMEs, thereby encouraging them to participate and invest in urban sustainability projects.

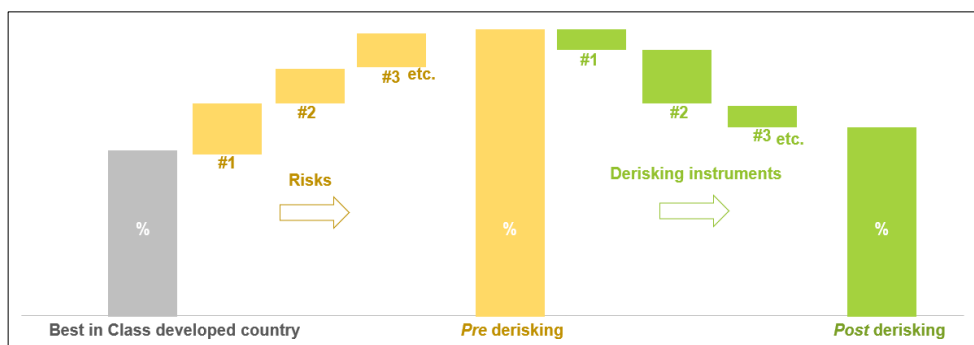
52. Furthermore, public instruments are useful for de-risking urban renewable energy projects. Such projects entail a higher upfront cost, compared with conventional fossil fuel-based energy investment, and the cost of capital is higher in developing countries than in developed countries owing to various perceived and actual risks.¹³ A representative of Lebanon shared how a package of public instruments can assist policymakers and city authorities in developing countries in reducing project investment risk (see figure 4).

¹¹ See http://www.fmdv.net/Actualites/Actualite_1376.

¹² See <http://www.env.go.jp/earth/coop/lowcarbon-asia/english/project/index.html>.

¹³ Including grid or transmission risks, political risks, power market risks, social acceptance risks, financial sector risks and macroeconomic risks.

Figure 4
United Nations Development Programme framework for de-risking renewable energy investment



Source: Presentation by Vahakn Kabakian, Ministry of Environment of Lebanon. Available at <https://unfccc.int/sites/default/files/resource/SCF%20Session%203%20Presentation%20VK%20-%20Lebanon.pdf>.

53. Building on that example, one participant shared the case of Nicaragua, demonstrating that combining conducive foreign direct investment policy and a long-term power purchasing agreement that spans 20 years can be as effective as a package of public instruments in de-risking urban energy projects.

1. Sources of climate finance for cities

54. There is no single source of finance that can meet all needs of cities. The sources of finance used for urban projects are determined by a number of factors, such as the scale and type of project and the city’s fiscal status, creditworthiness and financial autonomy (some cities are not legally permitted to receive grants or loans from an international source). When designing the financial structure of an urban project and identifying possible sources of climate finance, each city’s unique circumstances and each project’s characteristics must be taken into account.

55. Green bonds can be used to mobilize climate finance at scale by attracting investment from institutional investors and pension funds for both mitigation and adaptation projects. Cape Town, Johannesburg, Paris and Tokyo are examples of cities where green bonds have been used successfully to mobilize climate finance for urban projects, highlighting the potential of green bonds to finance urban sustainability action.

56. However, challenges remain in using green bonds to meet the financing needs of cities in developing countries, including that:

- (a) Many cities are under financial stress due to budgetary constraints and are not sufficiently creditworthy to access the green bond market;
- (b) Issuing green bonds requires a substantial amount of technical expertise and capacity-building;
- (c) There is no internationally agreed standard to designate a bond as ‘green’, and cities have to rely on national guidelines, which are sometimes not available;
- (d) Determining the eligibility of a project to be funded by green bonds requires certification by a third-party institution, which can increase the project cost.

57. Possible alternative sources of climate finance that developing country cities can tap include subnational climate funds, their participatory budgets, and local or municipal taxation:

- (a) Subnational green funds can make use of limited public funding sourced from the national government to catalyse private investment at the municipal level. The Paris Green Fund, which was initially mobilized with EUR 15 million from the French Government in 2018, has catalysed more than EUR 200 million of investment in urban sustainability projects, mainly from small and medium-sized enterprises, which are required

to showcase positive impacts on urban sustainability, such as creating new jobs, promoting renewable energy and producing social impacts;

(b) Under a city’s participatory budgeting process, a mayor decides to set aside a certain percentage of the public urban investment budget for citizens to decide on its usage. Additional resources can be mobilized through crowd-funding among the citizens. Such a scheme can encourage the voluntary participation of citizens and strengthen their ownership of urban sustainability projects;

(c) Although local tax is a potential option for mobilizing financial resources, in many countries taxation policy is managed at the national level and even local taxes require State authorization, so mayors have limited capacity to mobilize a meaningful amount of resources through taxation. In addition, social unacceptability of an additional local tax could place a political burden on the city.

58. Examples demonstrate that no single source of finance can fulfil all the investment needs of a city, and different sources of finance, both public and private, need to be utilized in order to make an impact. Closer communication and collaboration between the environmental and financial divisions of city administrations, and closer communication between governments and the financial sector, are required to match supply with demand for climate finance.

2. Innovative climate finance instruments for cities

59. Innovative financial instruments can help cities to make use of financial resources from both the public and private sectors. Enabling environments and conducive policies are key to cities tapping into the private financial resources available in the investment market, including from pension funds, sovereign wealth funds and institutional investors, through entrepreneurship and innovative financial instruments.

60. Innovative financial instruments are not necessarily “new” instruments. Rather, a financial instrument is considered innovative if it can unlock solutions to problems that the market alone cannot resolve. The circumstances of market failures vary by city and by sector; hence the development and use of innovative financial instruments may vary from city to city. Experts at the city level are best placed to understand the issues that cities face on the ground, such as financial or regulatory constraints. Such experts should therefore be engaged in designing and applying innovative financial instruments for urban sustainability projects. Ways to assist cities in using innovative financial instruments and replicating best practices in other cities of similar size and context include:

(a) Pooling resources within a geographical scope (e.g. a subregion);

(b) Promoting communication and collaboration among key climate finance actors, including subnational development banks, subregional multilateral development banks and climate funds;

(c) Utilizing the initiatives and financing vehicles that support cities in using innovative financial instruments, such as the Global Innovation Lab for Climate Finance¹⁴ and the Sub national Climate Fund Africa of R20 – Regions of Climate Action.¹⁵

61. Various financial instruments are used to design the financing structure of an urban sustainability project, and city authorities and urban project designers often engage with private investors. Issues related to urban sustainability and the transition to low-emission and climate-resilient cities need to be appropriately explained to private investors, and they need to be informed of the risks, returns and duration of the proposed project. Investors might otherwise perceive greater risk because of the complex nature of urban sustainability projects and the misconception that they entail additional costs. Furthermore, it can be useful to use the needs and priorities of private investors as a starting point for conceptualizing and designing an urban project.

¹⁴ See <https://www.climatefinancelab.org/the-labs/global/>.

¹⁵ See <https://regions20.org/sub-national-climate-fund-sncf-2/>.

3. Cities' financial needs and investment priorities

62. Cities' investment needs and priorities should be assessed in the context of broader national investment needs and priorities for implementing NDCs and NAPs. Given that recent climate finance (at the national and international level) has often been channelled to support action under NDCs and NAPs, aligning a city's investment plan with the respective NDC and NAPs will facilitate its access to climate finance.

63. National governments should reflect urban climate action in NDCs, particularly when preparing the second round of NDCs (to be completed by 2020), so that cities' considerations can be mainstreamed in national planning and more financial resources can be provided for urban projects. Furthermore, national government entities (e.g. ministries of finance) that undertake fiscal policy reform should consider how to support subnational governments in mobilizing and accessing climate finance.

64. Stakeholders often collaborate in assessing the investment needs and priorities of cities. In this regard, a representative of the European Bank for Reconstruction and Development shared information on its Green Cities programme,¹⁶ which helps cities to identify their sustainable urban investment needs and priorities and prepare a green city action plan on the basis of a methodology developed by ICLEI – Local Governments for Sustainability. Key stakeholders, such as local communities, civil society, the mayor's office and potential private investors, are involved in assessing a city's needs, identifying priority action areas and developing the action plan. Such plans helped the European Bank for Reconstruction and Development to finance urban sustainability projects and catalysed co-financing by the GCF. Furthermore, engaging with partners from the early stage of the needs assessment, in a transparent manner and in accordance with internationally endorsed methodologies and standards, sends a positive signal to potential investors and lowers the financial risk of private investors.

65. By taking an active role in assessing their financial and investment needs, city-level actors strengthen ownership of their investment plans and project results. Scalability and replicability are keys to ensuring the long-term sustainability of projects.

66. Smaller cities may have identified financial and investment needs that are smaller in scale than others, but they should have an equal opportunity to access domestic and international climate finance. However, examples illustrate that smaller cities often do not have a working relationship with the national government, nor do they have access to public instruments, such as sovereign guarantees. To overcome these challenges, smaller cities can join local government associations so that they can express their needs collectively. Furthermore, national governments and smaller cities can jointly seek systemic solutions to facilitate cities' more independent and regular access to climate finance.

C. Capacity-building and enabling environments for mobilizing and delivering climate finance for cities

67. Urban sustainability projects and climate action entail high upfront cost, but many cities face challenges in mobilizing or accessing international climate finance owing to their low level of capacity or creditworthiness or inadequate enabling environments and policy frameworks. Therefore, cities' capacity to manage their fiscal resources and access to climate finance needs to be strengthened, and national governments need to find systematic ways to localize climate action, particularly at the city level.

68. Although many climate funds and multilateral development banks offer climate finance and capacity-building support for project preparation and implementation, advancing a project to the actual financing stage remains a challenge for many cities. Climate finance access modalities and mechanisms must be decentralized so that cities have more opportunity to access finance and so that funding flows directly to cities for their urban sustainability projects.

¹⁶ See <https://www.ebrdgreencities.com/>.

69. New political challenges that hamper the sustainability of urban projects and local climate action emerge with every electoral cycle at both the national and subnational level, as policies are often discontinued when a new government or mayor takes office. In this regard, there is a need to ‘election proof’ cities’ climate action plans so that work can continue uninterrupted even after a change in political leadership.

70. Most financiers lack understanding of how city finance works, and there is an important role for subnational development banks in this regard. For instance, subnational development banks can help local and regional governments to expand and diversify their financial resources, address their structural lack of capacity and formulate and implement low-emission and climate-resilient projects. Similarly, there are international support organizations and development institutions that can provide capacity-building support specifically targeting local government financing institutions. For example, the United Nations Capital Development Fund and the Global Fund for Cities Development are working with RIAFCO, a network of African local government financing institutions, to enhance cities’ understanding of municipal finance instruments and their regulatory and policy context as well as innovative sources of finance (see box 3).

Box 3

Network of African Local Government Financing Institutions

RIAFCO is an innovative network of local government financing institutions across Africa. The network aims to encourage such institutions to cooperate closely on all aspects of decentralization of finance and to build solidarity among its members through peer-to-peer institutional and technical exchanges. It has 11 member countries: Benin, Burkina Faso, Burundi, Cameroon, Côte d’Ivoire, Gabon, Guinea, Madagascar, Mali, Niger and Senegal.

RIAFCO member institutions include FEICOM, FDL and ANICT. Key priorities of RIAFCO member institutions include strengthening institutional capacities and strategic functions such as the budget, accounting and financial functions through peer-to-peer learning and benchmarking. An example of best practice showcased by RIAFCO is FEICOM’s completion of training on how to obtain credit rating from international rating agencies in line with international accounting standards, which was backed by Cameroon’s Ministry of the Economy and Finance. For local government financing institutions, complying with international accounting standards remains a priority so that they can produce reliable financial information for potential investors, lenders and other creditors.

Source: RIAFCO. 2018. *Studies on financial resource sustainability and diversification for Local Government Financing Institutions in Africa*. Yaoundé: RIAFCO. Available at <https://www.uncdf.org/article/3838/studies-on-financial-resource-sustainability-and-diversification-for-local-government-financing-institutions-in-africa>.

71. Building a project pipeline that generates income remains a challenge. While the importance of engaging and collaborating with the private sector is often emphasized, capacity-building in the area of private sector engagement and partnerships for sustainable development is still much needed.

72. Unlocking private finance is essential for meeting the climate and sustainable development needs of cities. A representative of the Hongkong and Shanghai Banking Corporation stressed the importance of engaging the private sector from the early stages of designing urban projects, as the financial sector has the capacity to assess the commercial viability of a project in the initial conceptualization stage and determine the project’s risk–return profile. Good green investment opportunities at the city level are in high demand within the financial sector, and so it is important for city authorities to reach out to the sector and explore all possibilities to unlock private sector investment.

1. Climate finance access and accreditation

73. International climate funds and multilateral development banks still rely predominantly on accredited entities at the national and international level to direct funds. For instance, the GCF currently does not have a subnational financing vehicle that directly

channels funds to city-level sustainability projects and programmes. As a result, under the current structure and modality of the GCF, cities first need to identify and aggregate their mitigation and adaptation needs and present them to the GCF national designated authority, which then relays the information to the GCF and requests support. During that process, cities also need to ensure that their needs are justified in the context of climate change, which can be challenging for city administrations.

74. However, there is growing awareness that small and medium-sized cities should also be offered funding opportunities for their investment-ready climate projects. Thus, there is a need to decentralize access modalities and create subnational financing vehicles that can better reach cities and address their needs.

75. Representatives of city authorities and other stakeholders expressed that they had been largely unaware of the existing international funding mechanisms and programmes, highlighting that city administrations are generally unfamiliar with sources and instruments of climate finance and their capacity constraints in developing and implementing urban projects.

76. While capacity gaps and constraints of cities in accessing finance during all phases of a project cycle were highlighted throughout the discussions, differing views were expressed on the orientation of interventions by multilateral climate funds and development institutions, such as the criteria used for project preparation and support related to capacity-building. One group of participants underlined the importance of de-risking urban projects through public finance and utilizing financial instruments like blended finance to unlock private sector investment. Another group of participants stressed that the prospects for economic returns or the commercial viability of projects should not be the determining factors for multilateral climate funds and development institutions making interventions. If economic returns and commercial viability are the only criteria, many cities in developing countries and the poor will not be reached, contrary to the principle of leaving no one behind set out in the 2030 Agenda for Sustainable Development.

77. While much emphasis has been placed on replicating good practices and sharing lessons learned with regard to capacity-building, the capacity gap between different cities in the world can be immense, not only between cities in developing and developed countries but also between cities in different developing countries. In this context, the range of sizes, characteristics and circumstances of cities was reiterated, and some participants noted that the good practices of a few cities leading climate action may not be directly applicable to or replicable in a large number of other cities. Furthermore, building the institutional capacity of cities is a long-term venture and should be undertaken in parallel with developing regulatory and legal frameworks that enable climate action at the subnational level.

2. Project preparation and capacity-building support for cities

78. Lack of human and institutional capacity at the municipal level makes it challenging for cities to navigate the numerous project preparation facilities and to plan and finance urban sustainability projects. Incubator platforms, such as the ICLEI – Local Governments for Sustainability Transformative Actions Program, which matchmakes cities with suitable project preparation facilities and financiers on the basis of the stage of the project and the city's needs, can help cities to overcome capacity-related challenges.

79. Participants raised some important points relating to preparing project proposals using project preparation facilities. Project proposals need to be fully aligned with NDCs and the SDGs to be eligible for climate finance and should describe specific indicators for measuring the success of the project, the results framework that can be used to assess the indicators and the expected duration of the project to achieve its objectives.

80. For the purposes of project preparation and implementation, internal coordination needs to be strengthened within city administrations, for example by creating interdepartmental working groups involving staff from environmental and financial departments.

81. One way to alleviate the burden of project preparation and capacity-building on local and subnational governments could be to delegate part of those functions to national or subnational agencies. Cities would thus not have to internalize all project preparation tasks

and capacities from the onset, but could make use of support from national or subnational agencies to expedite the process. In fact, there are a number of organizations and groups providing specific expertise and technical assistance to help cities to develop and implement projects that are in line with global climate goals and the SDGs.

3. Incentivizing private sector engagement

82. Awareness and understanding of national climate finance architecture has improved but there is still a general lack of understanding within the private sector and among financiers in both the public and private sphere of how climate finance works at the subnational level. Financiers, who have expertise in the various financing options, including innovative financial instruments,¹⁷ need to be trained in the areas of city-level sustainability projects, de-risking urban projects and incentivizing private sector engagement. In this context, participants highlighted the potential role that subnational development banks could play in training financiers and raising awareness and understanding of municipal finance.

83. Private sector entities need to be better informed about sustainable investment opportunities at the city level. In recent years, some multilateral development banks have introduced urban programmes to improve private sector access to climate finance and engagement with cities. However, such programmes still need to be fully mainstreamed in the operations of multilateral development banks and multilateral and bilateral channels of climate finance.

84. Engaging private investors and finding a suitable place for them in the value chain of urban sustainability is important. To this end, financial incentives for the private sector should be offered on the basis of the milestones that they have reached and their activities that have contributed to urban sustainability, taking into consideration the unique characteristics and scale of local businesses. The pace and scale of finance flowing from the international and national level down to the city and local level is currently not enough for efforts towards meeting the SDGs by 2030. Greater efforts must be made to catalyse local climate action through champions, advocacy and follow-up work.

D. Role of climate finance in building more inclusive and sustainable cities

85. Participants discussed possible ways of addressing the needs of urban poor communities and people in vulnerable situations through sustainable urban services and the creation of green jobs.

86. A case study from Egypt was presented, which showed how urban poor communities were supported through a government-led sustainability initiative. The national Government worked with municipalities, the packaging industry and local small and medium-sized enterprises to formally offer contracts for garbage collection work to the urban poor living in informal settlements who had already been voluntarily collecting and recovering up to two thirds of the municipal waste. The national Government worked with multinational packaging companies to create a system of reversing credits so that all garbage collectors in the value chain could be compensated for their work. As a result of this initiative and the close collaboration of the Government with the industry and local small and medium-sized enterprises in the process, every tonne of municipal waste collected created seven jobs, benefiting and empowering the urban poor.

87. Efforts to develop sustainable cities that are more inclusive, gender-responsive and youth-oriented must go beyond stakeholder consultations with the urban poor, gender and youth groups. A representative of the Mediterranean Youth Climate Network shared that many youth consultative bodies stand ready to engage with city authorities on local planning, and that the voices of youth must be taken into consideration in order to make a sustained impact at the city level. Vulnerable communities and minority groups should be assisted in identifying their sustainability needs and priorities and translating their needs into

¹⁷ Including risk-sharing, insurance associations, sustainability and green bonds, equity investments and blended finance.

sustainability projects in collaboration with city and national authorities and other partner organizations.

88. Targeted training and capacity-building are needed to empower women and girls to participate in urban sustainability projects, and political and financial support is required to ensure the long-term sustainability of gender-inclusive urban climate action. The Gender into Urban Climate Change Initiative of GenderCC – Women for Climate Justice aims to build local knowledge and skills for climate action from the grass roots. Female trainees were selected from community groups to participate in a sustainable energy training programme. The trainees then became energy advisers to local governments. However, the project was not supported financially by the local government and the trainees had to seek and rely on external funding.

89. Municipal and local authorities have an important role to play in linking climate change with cities' social, economic and environmental issues as well as with broader sustainable development needs. City authorities' knowledge of those linkages needs to be strengthened and their capacities need to be bolstered so that they can adequately address the needs of vulnerable groups. Furthermore, linking climate change with broader development issues could assist city authorities in identifying possible sources of climate finance.

90. Developing rural areas was highlighted as a way to slow migration to urban areas and lessen the burden that rapid urban population growth places on city infrastructure. In the 1980s, authorities in Managua, the capital and the largest city of Nicaragua, were struggling to build and maintain infrastructure for a city of 800,000 people because the pace of urban population growth exceeded the pace of urban infrastructure development. In this context, it was emphasized that development action must not neglect rural areas, and addressing the development gaps between rural and urban areas is also important from the perspective of achieving sustainable development in a balanced manner.

1. Role of climate finance in empowering groups in vulnerable situations

91. The rapid growth in urban populations worldwide has been accompanied by an increase in populations living in informal settlements, slums and poor residential areas. The United Nations Human Settlements Programme estimates that around 25 per cent of the world's urban population lives in slums, and that, since 1990, 213 million more people are now living in slums.¹⁸

92. Those living in informal settlements or slums have often been neglected by governments and have not been invited to take part in urban sustainability discussions. They have also been largely excluded from opportunities to make decisions on urban systems and infrastructure. A representative of Shack/Slum Dwellers International, a network of community-based organizations of the urban poor in 33 countries in Africa, Asia and Latin America, emphasized that slum dwellers can be agents of climate action at the community and municipal level and must be seen as able to contribute to solutions. A number of grass-roots initiatives and micro-level climate actions were presented, including the network's work with slum dwellers in greening the streets, collecting and recycling waste and building public toilets. Efforts are also being made in countries like Uganda to introduce small renewable energy solutions for people living in informal settlements.

93. The urban poor living in informal settlements and slums must be integrated into city planning and decision-making, as they have the potential to contribute to sustainable cities and can bring about positive change given the right training and opportunities for participation. Grass-roots networks and federations like Shack/Slum Dwellers International focus on having regular community-level discussions and forums at the city, national and regional level, and aggregating the needs of their communities. They can thus serve as a collective voice of the urban poor and influence politics and decision-making. For instance, these grass-roots networks are participating in global climate action forums, including the discussions of the Global Commission on Adaptation.

¹⁸ United Nations Human Settlements Programme. 2015. *Habitat III Issue Papers: 22 – Informal Settlements*. Available at http://new.unhabitat.org/sites/default/files/download-manager-files/Habitat-III-Issue-Paper-22_Informal-Settlements-2.0%20%282%29.pdf.

94. The power of small grants and seed money to be used to advance community and urban projects was emphasized. A representative of Belize presented a project aimed at developing a national resilience strategy action plan by working directly with communities and having them agree on their 10 priority actions. Project administrators received a grant of USD 50,000 from the United Nations Development Programme for the project, which they are using to conduct research and seek additional funding from other donor agencies.

95. Lack of data at the local and municipal level presents a challenge in the context of empowering groups in vulnerable situations in building sustainable cities. There has not been much research focused on sustainability at the subnational and municipal level, and national reports often do not reflect the realities and needs of smaller communities and the poor residential areas in cities. This data gap needs to be addressed to facilitate the development of effective projects, which could be achieved by using grants to fund data collection and by establishing partnerships with local research institutes and universities.

2. Enabling environments for inclusive growth

96. There is a high level of youth activism in relation to climate change, and an increasing number of green and social mentoring initiatives and programmes are being offered to youth. Gender policies are mainstreamed in many multilateral and bilateral institutions channelling climate finance. However, efforts at inclusivity must go beyond simply referencing gender and youth groups in city planning and budgeting processes; these groups need to participate in formulating and implementing projects.

97. Engaging with gender and youth advisers as well as applying gender- and youth-related markers and checklists in preparing urban projects can help to foster more inclusive, gender-responsive and youth-oriented cities. Having gender and youth advisers engaged throughout all stages of designing urban sustainability projects can help to ensure that their needs are reflected in the project. Additional aspects of enabling environments for inclusive growth include strong advocacy for inclusive growth; platforms for sharing experience of urban sustainability action; and social impact projects and entrepreneurship with a climate dimension.

3. Potential of micro-, small- and medium-sized enterprises in funding climate action that can benefit groups in vulnerable situations

98. MSMEs are the main drivers of development in local economies and there is an emerging movement for them to engage in urban sustainability projects. MSMEs' climate-related needs must be matched with the supply of climate finance, including establishing financing criteria and standards specifically for MSMEs at the city level. Financing products and tools are available or being developed for MSMEs in developing countries, such as India and Mexico. A good practice in developed countries is the policy of providing incentives to local MSMEs by allocating 5 per cent of the local government budget for this use so that the financial resources can be directed to support MSMEs.

99. MSMEs have the potential to finance climate action and projects: they can help meet the needs of vulnerable and marginalized groups in their municipalities and cities and support mitigation action at the city level. Developing funding programmes conducive to investment by MSMEs could help to harness the full potential of MSMEs in relation to urban sustainable development. Furthermore, MSMEs must be engaged in cities' climate action and planning processes as key stakeholders.