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EXECUTIVE SUMMARY

The increasingly rapid urbanization places huge demands on infrastructure, services, job creation, climate and environment. More than half of the population lives in urban areas and 1.5 million people are added to the global urban population every week. Estimates suggesting that by 2050, two-thirds of humanity will live in cities and towns. Cities consume over two-thirds of the world’s energy and account for more than 70% of global CO₂ emissions.

With the Paris Agreement⁴ and the United Nations’ Sustainable Development Goals² (SDGs) for first time there is one Agenda for a Sustainable Future bringing all nations into a common cause to undertake ambitious global climate efforts. Despite this favorable environment, a serious gap between funds available and funds deployed in local projects still exists.

Notwithstanding the fact that facing these challenges will not be possible without the support of local governments, they are often unable to attract adequate investment and access finance flows required for sustainable, low-to-no emission, climate resilient development.

Although in recent years, significant strides have been made with regards to availability of climate finance as well as financing sustainable development, accessibility of those funds remains limited. Financial institutions have difficulties identifying fundable projects, while particularly developing countries encounter challenges in designing quality projects and programmes, which creates a discrepancy between supply and demand.

The International Finance Corporation estimates that while there is about USD 22.3 trillion (IFC 2016) "climate-smart investment potential" worldwide, McKinsey (2018) reports that only USD 3 trillion is actually being invested. One of the main bottlenecks identified of why local governments continue to be unable to reach these funds is the lack of understanding the complexity of the financial architecture and funds available.

Furthermore, commonly to finance projects several funding sources and financial mechanisms have to be combined, which requires extensive capacity available for pulling together and then managing these sources. This publication contributes to have a better overview on financial institutions, including examples of relevant ongoing programs targeting sustainable urban development.

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¹. https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement
1. FINANCE FLOWS

1.1 GLOBAL FINANCIAL TRENDS

While data collection and comparability of data remain a challenge, – due to lack of methodologies, data gaps and insufficient capacity - there is a clear increasing trend in the finance flows and funds available.

The new global framework for financing sustainable development, provided by the Addis Ababa Action Agenda, acknowledges the challenges local authorities face in light of a lack of adequate resources, capacity constraints and, at times, insufficient national and international support. To address these challenges, world leaders committed to scaling up international cooperation to strengthen the capacities of municipalities and other local authorities. The New Urban Agenda, adopted at the Habitat III Conference in Quito in October 2016, further translates the Addis Agenda and the 2030 Agenda for Sustainable Development—including SDG 11—to local level needs and should guide local authorities and central governments in their quest for financing sustainable development (UNCDF).

In the past years most of the climate related investments happen in the energy sector, renewable energy and energy efficiency, led by the private sector. However in spite of this leading role in the global climate finance flows only 30% of private funds has public sector recipients.

1.2 SUBNATIONAL FINANCE

To track subnational finance globally is even more challenging as subnational governments, particularly in the developing countries, rarely have a complete, consistent database, nor report in a transparent way. According to the estimations of the Climate Change Finance Leadership Alliance (CCFLA, 2017) more than US$1 trillion is missing each year for urban investments; and the needs, for the coming decades, are projected to amount to several trillion dollars. Traditional approaches of revenue mobilization for local and subnational governments are unlikely to meet the financing needs for the abovementioned global commitments.

The largest share of local projects is represented by energy, buildings and transport sector, followed by waste and water. 70 % of subnational actions are financed by local governments (cCR, 2017), with support of grants and loans from the governments or domestic financial institutions. Even if international financial institutions, multilateral development and climate funds play an increasing role for urban finance the vast majority of international finance cannot be directly accessed by local governments. The private sector still has an unlocked potential investing in urban projects. There is a wide array of financial tools to engage the private sector, including bonds, public-private partnership, etc., yet most of these opportunities remain limited and not available for developing countries due to lack of creditworthiness and clear revenue streams.

2. SOURCES OF FUNDING

Funding can come from public or private sources and within those we can distinguish international, national and sub-national level. At the international level public finance flows through development Banks, UN Mechanism (SDG and climate funds), EU Funds, and other multi- and bilateral channels.

![Finance sources diagram]

4. CCFLA mapping: Localizing climate finance, mapping gaps and opportunities, designing solutions
5. Boosting subnational climate action through new climate governance, carbonn Climate Registry 2016-2017 report
2.1 MULTILATERAL DEVELOPMENT BANKS

Multilateral development banks (MDBs) can be categorized many ways. The two biggest groups are "main" and "sub-regional" multilateral development banks. The major difference is between the purpose, geographical coverage, and membership (Table 1). Furthermore, there are also other international financial institutions with a very similar mandate, but don't fall under the abovedescribed categories.

<table>
<thead>
<tr>
<th>MAIN</th>
<th>SUB-REGIONAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>PURPOSE</td>
<td>created by a group of countries to provide financing and professional advising for the purpose of development</td>
</tr>
<tr>
<td>MEMBERSHIP</td>
<td>developed donor countries and developing borrower countries</td>
</tr>
<tr>
<td>FINANCIAL TOOLS</td>
<td>• short-term loans at market rates • very-long-term loans (also known as credits) below market rates • grants</td>
</tr>
</tbody>
</table>

The European Investment Bank (EIB) is a publicly owned international financial institution and its shareholders are the EU member states. It is therefore both a bank and an EU Institution, and supports projects that make a significant contribution to growth, employment, economic and social cohesion and environmental sustainability, both in the EU and beyond.
There are also **state owned Bilateral Development Banks** like among others the German KfW Bankengruppe, the French Agence française de développement (AFD) or the Japan Bank for International Cooperation (JBIC). These development banks are public financial institutions, owned by the government, but acting also internationally. While aiming at sustainable development they contribute to the execution of the country's foreign policy.

Another important financial instrument to be mentioned for climate finance are the **Climate Investment Funds (CIFs)**. The CIFs are additional to existing Official Development Assistance (ODA), are designed by developed and developing countries and are implemented with the multilateral development banks. These public resources are held in trust by the World Bank, and they are disbursed as grants, highly concessional loans, and risk mitigation instruments to recipient countries. CIFs are two distinct funds: the **Clean Technology Fund** and the **Strategic Climate Fund**.

## THE WORLD BANK GROUP

The World Bank's work in urban development aims to build sustainable cities and communities through an urbanization process that is inclusive, resilient and low carbon, productive, and livable, contributing to the World Bank's goals to end extreme poverty and boost shared prosperity. The World Bank invests an average of $6 billion in urban development and resilience projects every year. Through a combination of investment project financing, policy development loans, and Program-for-Results funding, the Bank aims to help cities meet the critical demands of urbanization.

The World Bank is working in partnership with the private sector, governments, and civil society to build cities and communities that are: (1) resilient to climate change and disasters caused by natural hazards; (2) sustainable with low-carbon growth; and (3) well-financed to create competitive economies, jobs for people, and ensure all – especially the poorest – can benefit. World Bank-supported operations and technical assistance contributes to the Sustainable Development Goal No.11 and the implementation of the New Urban Agenda to make cities inclusive, safe, resilient, and sustainable for all.

**Financial instruments:** loans and credits with sovereign guarantees required.

### CITY RESILIENCE PROGRAM

Aims to catalyze deal flows for investors by supporting city governments in the design of large-scale investment programs. 


### Zooming in: Barranquilla, Colombia

In order to reduce vulnerability to natural hazards, Barranquilla looks to the rehabilitation of a 429-hectare low flood plain area highly susceptible to flooding along the Magdalena River. The required public investments are greater than the municipality's resources; therefore, CRP working closely with IFC in the preparation of a loan operation in Barranquilla that will enable the city to access the necessary funds that can finance the upgrade of the drainage system.

### INTER-AMERICA DEVELOPMENT BANK (IDB)

The Bank's key challenge for the urban development and housing sector is to extend the full benefits of urbanization to all urban residents.

**Financial instruments:** the main financing instruments of the IDB for the public sector are sovereign guaranteed loans (investment loans, policy-based loans, and development sustainability credit-line). Non-sovereign guaranteed loans, which are primarily for the private sector, can also be accessed by subnational institutional investors.

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6. [https://www.climateinvestmentfunds.org/](https://www.climateinvestmentfunds.org/)
CORPORACION ANDINA DE FOMENTO (CAF)
CAF established the Latin American Climate Change Programme (PLACC) and the Climate Change Mitigation Programme to deal with climate change from an urban perspective.
https://www.caf.com/
Financial instruments: loans represent CAF’s main financial tool and are primarily provided for central governments of member countries and the private sector. Sovereign loans are also provided to local governments.

ASIAN DEVELOPMENT BANK (ADB)
The Urban Operational Plan for the years 2012-2020 gives the frame of the direction and approach for the urban sector operations of the ADB. The focus is on improving planning and financing capacities. In the course of the Sustainable Development Goals, the ADB announced the doubling of its climate financing for Asia-Pacific by 2020 including city related issues (e.g. smart cities, sustainable transport).
Financial instruments: traditionally funding through members national budgets, but under the UFPF, see Appendix 1, ADB seeks to provide more innovative finance through e.g. resources for targeted subsidies, credit enhancement mechanisms, and PPP programmes.

URBAN FINANCING PARTNERSHIP FACILITY (UFPF)
The UFPF is comprised of: Urban Climate Change Resilience Trust Fund and Urban Environmental Infrastructure Fund. The aim of the UFPF is to raise and utilize development partner funds for investment co-financing in urban environmental infrastructure projects by local governments and cities and support a wide range of technical assistance to help lay the groundwork for such projects.
https://www.adb.org/site/funds/funds/urban-financing-partnership-facility

Zooming in: Karnataka, India
The investment grant supports activities of the Karnataka Integrated Urban Water Management Investment Program. Specifically, the UEIF grant financing will be utilized for the development of community-based sanitation interventions (install around 5,000 new toilets targeting poor and vulnerable households).

EUROPEAN INVESTMENT BANK (EIB)
One of the EIB’s priority areas are investments into environment and climate. Under the Urban Agenda for the EU, the EIB’s specifically finances projects on city-level through program loans, direct investment loans, framework loans directly to cities, framework loans via financial intermediary, and participation in equity fund investments.
http://www.eib.org/en/projects
Financial instruments: bonds, loans, equity and fund investment, blending (guarantees, technical assistance, first loss pieces etc in combination with concessional financing). Larger projects can be financed either directly or indirectly through a government or financial intermediary. Technical Assistance support through initiatives such as the European Investment Advisory Hub, JASPERS and other advisory instruments benefiting cities including ELENA, EPEC and fi-compass. In 2017 URBIS, a newly dedicated urban advisory platform, was set as a joint effort under the umbrella of the European Investment Advisory Hub. URBIS unites the efforts of different EIB services to help urban authorities building the capacity of projects and access tailor-made financingsolutions and accelerate their urban investment projects.
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)
Initially focused on the countries of the former Eastern Bloc it expanded to support development in more than 30 countries from central Europe to central Asia. EBRD has diverse activities mainstreaming sustainability into every sector of the economy.
https://www.ebrd.com/

Financial instruments: sub-sovereign loans, corporate debt, quasi-equity debt, guarantees, and targeted credit lines. EBRD primarily invests in private companies, either directly or through financial intermediaries, such as local banks and investment funds. Municipalities can receive loans through local banks, which are supported by EBRD.

GREEN CITIES PROGRAMME
With over €1 billion in EBRD committed funds, EBRD Green Cities strives to build a better and more sustainable future for cities and their residents. The programme achieves this by identifying, prioritising and connecting cities’ environmental challenges with sustainable infrastructure investments and policy measures.
http://www.ebrdgreencities.com/

Zooming in: Sofia, Bulgaria
Sofia joined EBRD Green Cities in May 2018 with the goal of transforming the capital city into a greener place to live for its inhabitants. The city is under pressure due to factors such as ongoing growth in road transportation, which is linked to increasing fuel consumption and carbon emissions. By developing a GCAP, Sofia has mapped out a systematic approach to addressing these urban environmental challenges. By prioritising investments and reforms, the GCAP lays the foundation for a long-term green and sustainable vision for the city.

2.2 UN DEVELOPMENT AND CLIMATE FUNDS

THE SUSTAINABLE DEVELOPMENT GOALS FUND (SDG FUND)
Is an international multi-donor and multi-agency development mechanism created in 2014 by the United Nations to support sustainable development activities through integrated and multidimensional joint programmes. The SDG Fund is the first UN development cooperation mechanism specifically established to implement the 2030 Agenda. Its main objective is to bring together UN agencies, national governments, academia, civil society and business to address the challenges of poverty, promote the 2030 Agenda for Sustainable Development and achieve SDGs.
Application process: As an inter-agency mechanism, the SDG Fund works across the UN system, through UN agencies, implementing joint programmes around the globe. The highest representative of the UN in the country is appointed as UN Resident Coordinator and is responsible for the strategic coordination and implementation.

UNFCCC CLIMATE FUNDS
The United Nations Framework Convention on climate change established a Financial Mechanism to provide funds to developing country Parties in implementing the Convention. The operation of the Financial Mechanism entrusted to the Global Environment Facility (GEF) and the Green Climate Fund (GCF) as an operating entities. In addition Parties have established four special funds: the Special Climate Change Fund (SCCF), the Least Developed Countries Fund (LDCF), both managed by the GEF; the GCF; and the Adaptation Fund (AF).
Multilateral climate funds use mainly grants and concessional loans. These funds are not or rarely accessible directly for LGRs. Below more detailed information on the application process of the three biggest institutions: Green Climate Fund, Green Environment Facility, Adaptation Fund.
Overview of international financial sources and institutions

ADAPTATION FUND

The Adaptation Fund was established under the Kyoto Protocol of the UN Framework Convention on Climate Change. The Fund is financed in part by government and private donors, and also from a two percent share of proceeds of Certified Emission Reductions (CERs) issued under the Protocol’s Clean Development Mechanism projects.

Financial instruments: grants

Application process: Only accredited entities has access to funds and can submit a concept or a full project proposal. Therefore to apply for project and programme funding, countries must submit proposals through an accredited institution. There are three categories: National Implementing Entities (NIEs), Regional Implementing Entities (RIEs), Multilateral Implementing Entities (MIEs) 7. The project or programme would need to be in accordance with priorities laid out in national strategies and plans or in Nationally Determined Contributions. Proposals are accepted three times a year: twice before the biannual Adaptation Fund Board meetings and once during an intersessional review cycle.

GREEN CLIMATE FUND (GCF)

The Fund seeks to promote a paradigm shift to low-emission and climate-resilient development, taking into account the needs of nations that are particularly vulnerable to climate change impacts. The Fund creates new models for climate finance, channeling investment from both the public and private sectors. It aims to deliver equal amounts of funding to mitigation and adaptation.

Financial instruments: grants, loans, equity or guarantees

Application process: GCF does not implement projects directly itself, but through partnerships with Accredited Entities 8. Developing countries nominate National Designated Authorities (NDAs) or focal points to act as the point of communication with GCF. Every project the GCF Board agrees to fund must be endorsed, expressed via a no objection letter, by the NDA or focal point. Accredited Entities develop funding proposals, in close consultation with NDAs or focal points.

https://www.greenclimate.fund/

7. The list of accredited entities: https://www.adaptation-fund.org/apply-funding/implementing-entities/
8. The list of GCF accredited entities: https://www.greenclimate.fund/how-we-work/tools/entity-directory

Zooming in: Artik, Armenia

The project seeks to improve resilience of highly exposed Artik city of Armenia to hydro-meteorological threats that are increasing in frequency and intensity as a result of climate change. The project will reduce the quantity of debris flowing to reservoir located down the Artik city and the pollution of agricultural lands (300 hectares of arable land 190 hectares of pastures, 15 hectares of hay meadows, 640 ha of artificial forests, 80ha of water reservoir and other natural landscapes) in the project impact area by increasing their resilience and adaptation to climate change.

Implementing Entity: Environmental Project Implementation Unit

Executing Entity: Ministry of Nature Protection of RA
GLOBAL ENVIRONMENT FACILITY (GEF)
The GEF administers several trust funds and provides secretariat services, on an interim basis, for the Adaptation Fund. The World Bank serves as the GEF Trustee, helps mobilize GEF resources; disburses funds to GEF Agencies; prepares financial reports on investments and use of resources; and monitors application of budgetary and project funds. GEF funding to support the projects is contributed by donor countries. These financial contributions are replenished every four years (recently GEF-6 2014-2018). The GEF provides funding for national projects and programmes that fall under one of its focal area strategies: Biodiversity, Climate Change Mitigation, International Waters, Land Degradation, Chemicals and Waste, Sustainable Forest Management. Urban management projects can receive funding from several of these focal areas.

https://www.thegef.org/

Financial instruments: usually grants (depends on the Fund)

Application process: In most cases, the GEF provides funding to support government projects and programs. Governments decide on the executing agency (among others governmental institutions, civil society organizations, private sector companies, research institutions). The GEF Operational Focal Point (OFP) coordinates all GEF-related activities within a country. The OFP reviews project ideas, checks against eligibility criteria and ensures that new project ideas will not duplicate an existing project.9

GLOBAL PLATFORM FOR SUSTAINABLE CITIES (GPSC)
The GEF-6 Sustainable Cities program provides support to cities to facilitate integrated urban planning, management, and financing for sustainable development and sound ecosystem management. The Global Platform for Sustainable Cities (GPSC) provides integrated solutions and cutting-edge knowledge support for cities seeking to improve their urban sustainability.

https://www.thegpsc.org/

Zooming in: Beijing, Guiyang, Nanchang, Ningbo, Shenzhen, Shijiazhuang, and Tianjin, China

The project focuses on integrating transit infrastructure with urban development. It will complement China’s ambitious infrastructure goals—specifically, achieving a total of 6,000 km of urban rail infrastructure and 4,000 metro stations by 2020.

Implementing agency: World Bank

2.3 EU FUNDS

The EU and the European Commission provide support through a wide range of funding programmes, covering funding opportunities as well as advice on how to access funding and put it to use. There are two major political commitments giving the frame and shaping the urban policy. The Urban Agenda for the EU was launched in May 2016 with the Pact of Amsterdam10. It represents a new multi-level working method promoting cooperation between Member States, cities, the European Commission and other stakeholders in order to stimulate growth, liveability and innovation in the cities of Europe and to identify and successfully tackle social challenges.

Furthermore, in the 2014-2020 programming period the urban dimension is also at the very heart of Regional Policy. At least 50% of the European Regional Development Fund (ERDF) resources for this period will be invested in urban areas and around 10 billion euros will be directly allocated to integrated strategies for sustainable urban development. Besides the Structural Funds there are also other programmes and initiatives focusing on urban development. The Covenant of Mayors developed an interactive funding guide helping cities to get an overview of this complex system and find the program matching the most to their needs.

https://www.covenantofmayors.eu/support/funding

9. The list of GEF OFPs: https://www.thegef.org/focal_points_list
Overview of international financial sources and institutions

In the EU's external policy, blending is an important instrument for complementing other aid modalities and pursuing the relevant regional, national, and overarching policy priorities. The principle of the mechanism is to combine EU grants with loans or equity from public and private financiers.


**COHESION FUND**

The Cohesion Fund is aimed at Member States whose Gross National Income (GNI) per inhabitant is less than 90% of the EU average. It aims to reduce economic and social disparities and to promote sustainable development.

2.4 MULTI-AND BILATERAL FINANCE

Multi- and bilateral financial institutions use the same instruments to channel funding as national financial institutions, including (concessional) loans, grants, equity and guarantees.

A detailed list on bilateral development cooperation agencies offering bilateral funding can be found here: https://unfccc.int/topics/climate-finance/resources/multilateral-and-bilateral-funding-sources

3. RECOMMENDATIONS

To improve the availability and accessibility of funds, action needs to be ramped up at all levels of government, including local, regional, and national. There is a 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 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. 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. In order to 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.

No single source of funding is sufficient to cover the anticipated costs of urban development 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. Therefore, it is necessary to consider new partners as eligible pieces of the climate finance puzzle.

**Zooming in: Arad, Romania**

The project involved work on both the county’s drinking water supply system and the wastewater collection and treatment system. In terms of the drinking water infrastructure, the project rehabilitated Ineu’s water source well, along with extending 5 km and rehabilitating 10 km of the system's distribution networks. As to the county’s wastewater collection and treatment systems, the project extended 28 km of the sewage network and rehabilitated an additional 5 km. It also updated two wastewater pumping stations, built two km of transfer sewer collector and refurbished six treatment plants. As a direct result of these efforts, 98% of the population in the project area are now connected to the water network and thus have a reliable source of quality drinking water. Furthermore, 96% of the population is connected to the sewage system.
THE IUC PROGRAMME

The International Urban Cooperation (IUC) programme enables cities in different global regions to link up and share solutions to common problems. It is part of a long-term strategy by the European Union to foster sustainable urban development in cooperation with the public and private sectors, as well as representatives of research and innovation, community groups and citizens. Through engaging in the IUC, cities will have the chance to share and exchange knowledge with their international counterparts, building a greener, more prosperous future.

The IUC programme is an opportunity for local governments to learn from each other, set ambitious targets, forge lasting partnerships, test new solutions, and boost their city’s international profile. Its activities will support the achievement of policy objectives as well as major international agreements on urban development and climate change, such as the EU Urban Agenda, the UN Sustainable Development Goals, and the Paris Agreement.

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