

Gap Analysis Report: Closing the gap between finance and urban climate action

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In collaboration with:



Climate-KIC is supported
by the EIT, a body of the
European Union

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Executive Summary

The role and involvement of local and subnational governments in ensuring a global development pathway that limits the increase in global temperatures to 2 degrees Celsius (°C) above pre-Industrial levels is crucial. Given the important role of local and subnational governments in transformative and sustainable development, this paper - developed as part of the *Close the Gap through Transformative Local Action (CGTLA) project*¹ - aims at identifying the main barriers for local and subnational climate action to access public climate investment (primarily in the form of funds and loans from multilateral development banks). CGTLA forms part of the Low Carbon City Lab - Unlocking the climate action potential of cities (LoCaL), a Climate- KIC flagship² program³.

In order to reach this goal, this paper is based on an in-depth analysis of 120 Transformative Actions Program (TAP) applications received from 87 local and regional governments around the globe⁴, and a literature review including 8 of the most recent major papers and reports (Section 5) published on public finance for climate actions. Using the same methodology, a parallel project under the LoCaL Flagship program, namely the *Climate Financier project*⁵, addresses the development of Barriers to Private Investments into Urban Climate Mitigation Projects.

This paper attempts to reveal and address two main barriers for local transformative projects to access finance resources:

- The nature of the project: geographic distribution of project sources, sectoral distribution of project types
- The capacity of local government: the ability to assess the sustainability impact and financial benefit of a proposed project

In the end, the report concludes that despite public finance agencies distributing public finance evenly across the globe and the mitigation/adaptation sectors, the decentralized information about finance resources, the complexity of project selection criteria, and the lack of specialized staff in local governments to prepare project finance profiles have created barriers for local and subnational governments to effectively implement sustainable transformative projects.

There is a need for more centralized management of public finance resources. Local and subnational governments with transformative sustainable projects need a platform where all financing agencies transparently provide their project identification and selection procedures with unified assessment criteria.

In the meantime, grants and subsidies should be used to raise awareness and build capacity in local and subnational governments. Intensive training should be carried out to benefit all local and subnational government staff for identifying, prioritizing transformative sustainable actions and preparing project finance materials.

¹ <http://local.climate-kic.org/projects/closing-the-gap-through-transformative-local-action-cgtla/>

² <http://www.climate-kic.org/>

³ <http://local.climate-kic.org/>

⁴ For more information, please visit TAP project platform: <http://tap-potential.org/projects/>

⁵ <http://local.climate-kic.org/projects/climate-financier/>

1. Background and Methodology

1.1 Local government and urban action is crucial in tackling climate change

Local governments and cities can significantly shape the world's development towards a low-carbon resilient future. They are not only increasingly becoming active and organized; they also have executive and administrative power over crucial sectors, play a driving role in mobilizing key stakeholders, engage from the planning stage to monitoring and evaluating developments, and could reap ample socio-economic benefits from sustainable investments.

Cities currently contribute 70 % of global energy related carbon dioxide (CO₂) emissions.⁶ Fueled by continuing urbanization and economic growth, this share will only increase. 80 % of the increase in global annual energy demand until 2030 is projected to stem from cities in developing countries⁷.

While consumption patterns vary, transport, waste and buildings are areas with high greenhouse-gas (GHG)-emissions-saving potential, where cities have crucial executive, regulatory and administrative powers. Action in these areas could result in GHG savings of 3.7 gigatonnes of CO₂ equivalent (Gt CO₂e) annually in 2030 additional to current national reduction plans. This would correspond to 15–20 % of the emission reductions necessary for a 2°C pathway⁸. The planning and investment choices made today will determine whether this potential could be realized.

1.2 Exploring the Transformative Actions Program (TAP)

The Transformative Actions Program (TAP) is-a 10-year action program that was launched in April 2015 by ICLEI, in partnership with many actors, to support the development and implementation of climate change mitigation and adaptation projects that will raise ambition at all levels and contribute to international climate goals.

In summary, the goal of the TAP is to progressively unlock the potential for cities, towns and regions to accelerate implementation of local climate action. It does so by supporting and encouraging investments in urban areas, contributing to the development of new financing mechanisms and helping to eliminate hurdles in access to climate finance. This is a complex undertaking and thus is supported by and coordinated with a number of key partners, including the French Development Agency (AFD), the Organization for Economic Cooperation and Development (OECD), the Global Environment Facility (GEF), the WWF and others. The TAP made its global debut at the international climate negotiations during the 21st Conference of Parties of the UN Framework Convention on Climate Change (COP21) in Paris by displaying climate actions from more than 120 cities and regions at the Cities & Regions Pavilion – TAP2015⁹.

To achieve its goals, the TAP was designed around five key pillars:

1. [TAP Project Pipeline](#), through which the TAP supports at least 100 projects per year from cities, towns and regions.
2. [The TAP Platform](#), an online resource for local climate finance which features the submitted projects¹⁰.

⁶ University of Cambridge and ICLEI: Climate Change: Implications for Cities - Key Findings from the Intergovernmental Panel on Climate Change Fifth Assessment Report (Cities Summary) (2014)

⁷ ibid

⁸ UN Secretary General's Special Envoy for Cities and Climate Change, C40 Cities Climate Leadership Group (2014): "Advancing climate ambition: cities as partners in global climate action"

⁹ <http://www.cities-and-regions.org/>

¹⁰ <http://tap-potential.org/projects/>

3. The annual [Cities & Regions Pavilion](#), which showcases selected projects to a multi-actor audience at the climate COPs¹¹.
4. [TAP Project Implementation](#), through which the TAP assists cities and regions in implementing their climate ambitions.
5. [TAP Advocacy for Accelerated Climate Action \(TAACA\)](#), is the overarching fifth pillar that supports the other four by progressively setting the stage for better access to climate finance and accelerated implementation. TAP Advocacy mobilizes cities and regions, raises awareness of local action in global processes and advocates for better access to local climate finance¹².

This report is based on the data, comments, events and feedback from these five TAP pillar activities. More information on the TAP is provided overleaf.

1.3 Closing the Gap through Transformative LoCaL Action – unlocking the potential (CGTLA)

Led by the WWF, the project “Closing the Gap through Transformative Local Action “(CGTLA) is part of the larger Low Carbon City Lab (LoCaL) program, which is financed by Climate-KIC. It seeks support to unlock and scale up investments at the local level, ambitious, cross-cutting and inclusive, low-carbon projects.

This gap analysis is conducted as part of the CGTLA project and aims at identifying barriers for local governments in accessing finance assistance from public climate funds (primarily from multilateral development banks). A parallel project under the LoCaL Flagship program addresses the development of Barriers to Private Investments into Urban Climate Mitigation Projects.

¹¹ <http://tap-potential.org/transformative-actions-program-tap-on-center-stage-at-cities-regions-pavilion/>

¹² This closely links to the activities of the Cities Climate finance Leadership Alliance (CCFLA) and other initiatives that address similar goals

2. Project types and locations

The Transformative Actions Program (TAP), launched in 2015, aims to support and encourage investment in urban areas, eliminate barriers to climate finance, and contribute to the development of new financing mechanisms.

In November 2015, 87 local and subnational governments from 41 countries submitted 120 TAP projects – proposed transformative actions. Of these submissions, 81 came from developing countries (68%) and 7 from least developed countries (LDCs)¹³ or small island states. The total budget for 99 of the submitted TAP actions amounts to 8,839,287,584 USD¹⁴.

Figure 1. Map of geographical distribution of TAP applications received



2.1 Geographical distribution of climate actions

According to the geographical location and status of economic development, TAP applicants span nine regions. 36% of submitted projects were based in Latin America and the Caribbean, amounting to 33% of total applied budget; 17% were from European countries, representing 50% of total applied budget. Table 1 below provides a breakdown of the number of actions and applied budget per region. Actions from developed countries are highlighted in blue.

¹³ List of least developed countries: http://unfccc.int/cooperation_and_support/ldc/items/3097.php

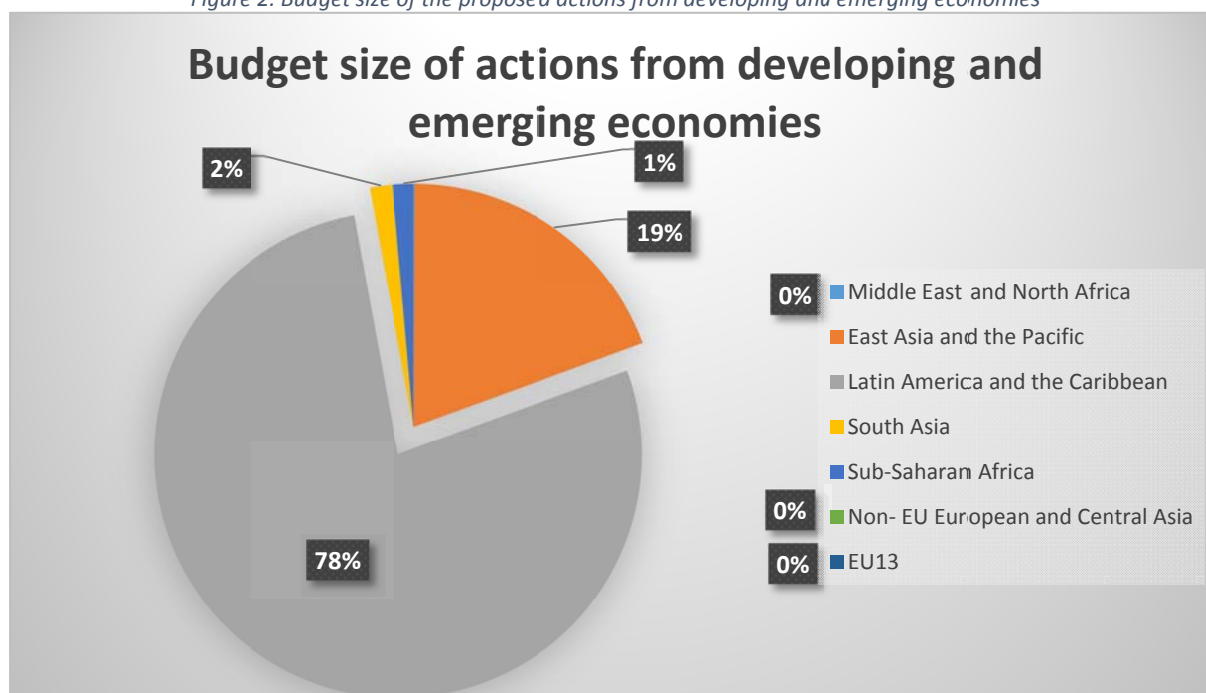
¹⁴ 21 applicants did not indicate a budget size.

Table 1. Summary table of geographical distribution of TAP applications¹⁵

Region	Number of Actions		Applied budget (USD)	
	Number	Percentage	Number	Percentage
Middle East and North Africa	4	3%	2,686,000	0%
East Asia and the Pacific	15	13%	719,797,389	8%
Latin America and the Caribbean	43	36%	2,893,554,824	33%
South Asia	6	5%	55,966,235	1%
Sub-Saharan Africa	13	11%	51,704,361	1%
Developed countries from East Asia and the Pacific	5	4%	4,402,280	0%
Developed countries from European Union	20	17%	4,382,282,315	50%
North America	13	11%	728,894,180	8%
Oceania	1	1%	0	0%

As the table above depicts, actions submitted by local and subnational governments in developing countries amounted to USD 3.723 billion, representing 42% of total reported budget. Within this percentage, Latin America and the Caribbean comprise 78% of the total applied budget of actions from developing countries, followed by East Asia and the Pacific with 19%; South Asia with 2%, Sub-Saharan Africa with 2% and Middle East and North Africa 0.072%. Figure 2 provides an overview of the budget size of projects from developing countries.

Figure 2. Budget size of the proposed actions from developing and emerging economies



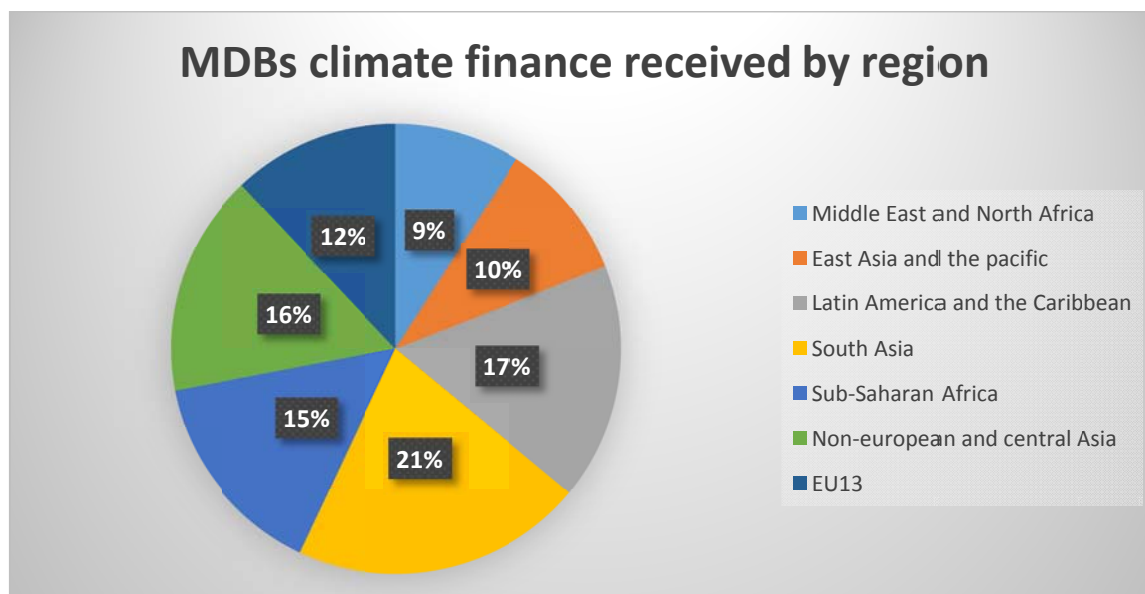
The latest Joint Report on Multilateral Development Banks (MDBs) ' Climate Finance¹⁶ has revealed that in 2014, the MDBs committed over USD 28 billion for climate action in developing and emerging

¹⁵ No applications were received from countries in the EU13 countries (the latest 13 countries which joined in the European Union), non-EU European and central Asia region

economies, bringing the total commitments of the past four years to exceed USD 100 billion in developing and emerging economies

In 2014, South Asia received 21% of total climate finance commitments of the MDBs, followed by Latin America and the Caribbean with 17%; non-EU Europe and Central Asia with 16 %; and Sub-Saharan Africa with 15%, as presented in Figure 3.

Figure 3. Multilateral Development Banks' climate finance received by region



By comparing Figures 2 and 3, it is evident that while the MDBs' climate finance distribution is reasonably evenly spread between regions, the budgets proposed by TAP projects are unequally distributed between different developing economies. Based on feedback received during the TAP application submission phase, it seems that local and subnational governments from Africa and the Middle East in particular lack staff with expertise to submit complete TAP applications, and find it challenging to provide quantitative budget estimates for their submitted projects.

Local and subnational governments in Africa, the Middle East and Asia need to raise awareness to realize the potential of local climate action – this is a gap that has been identified.. Local governments in those regions are in need of capacity building in order to qualitatively plan climate actions and quantitatively proposed actions in order to define and ideally also access finance resources.

2.2 Sectoral distribution of TAP proposed actions

2.2.1 Sectoral distribution of adaptation projects

In 2015, the TAP platform received 36 adaptation actions, with a proposed budget size of USD 2.416 billion. Among them 23 (64%) included mitigation impacts as a secondary focus.

According to the impacts and nature of these actions, the 36 adaptation actions cover 5 major sectors:

¹⁶ 2014 Joint report on Multilateral Development Banks' Climate Finance was published in June 2015 by a group of Multilateral Development Banks (MDBs): the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank (IDB), and the International Finance Corporation (IFC) and the World Bank (WB) from the World Bank Group (WBG).

- Agricultural and ecological resources: actions that alleviate climate impacts on agricultural activities such food production, irrigation, forestry, fishery and support ecosystem, and biodiversity.
- Water and wastewater systems: actions that alleviate climate impacts on the water supply, wastewater infrastructure/ management systems, and water resources management (e.g. improve catchment of water system).
- Energy, transport, built environment and infrastructure: infrastructure development or urban planning in energy, transport and other environment facilities.
- ICT (Information and Communication Technologies): employment of ICT hardware and software for urban planning, monitoring and evaluation.
- Financial services: using banking or insurance methods to facilitate urban resilience or adaptation activities.
- Cross-cutting: cross-cutting activities with a focus, e.g. on education, health, policy and regulation, and/or capacity building, etc.

Table 2. Proposed adaptation actions listed by sector

Adaptation sectors	Number of submitted projects	Reported budget (USD)
Agricultural and ecological resources	9	15,431,164
Energy, transport, and other built environment and infrastructure	10	1,620,745,925
ICT (Information Communication and Technologies)	2	435,140
Water and wastewater system	2	7,827,252
Financial services	1	219,000,000
Cross-sector activities and others	12	553,511,380
Total	36	2,416,950,861

The majority of adaptation projects submitted by local and subnational governments focus on Infrastructure development; Agricultural, biodiversity and ecology; and Cross-sector activities (such as education, public health and regulation/policy framework). Among these, infrastructure development comprises of more than 50% of the proposed budget, and requires the most financial and technical assistance. Figure 4 provides a summary of this per sector.

Figure 4. TAP received adaptation actions budget by sectors

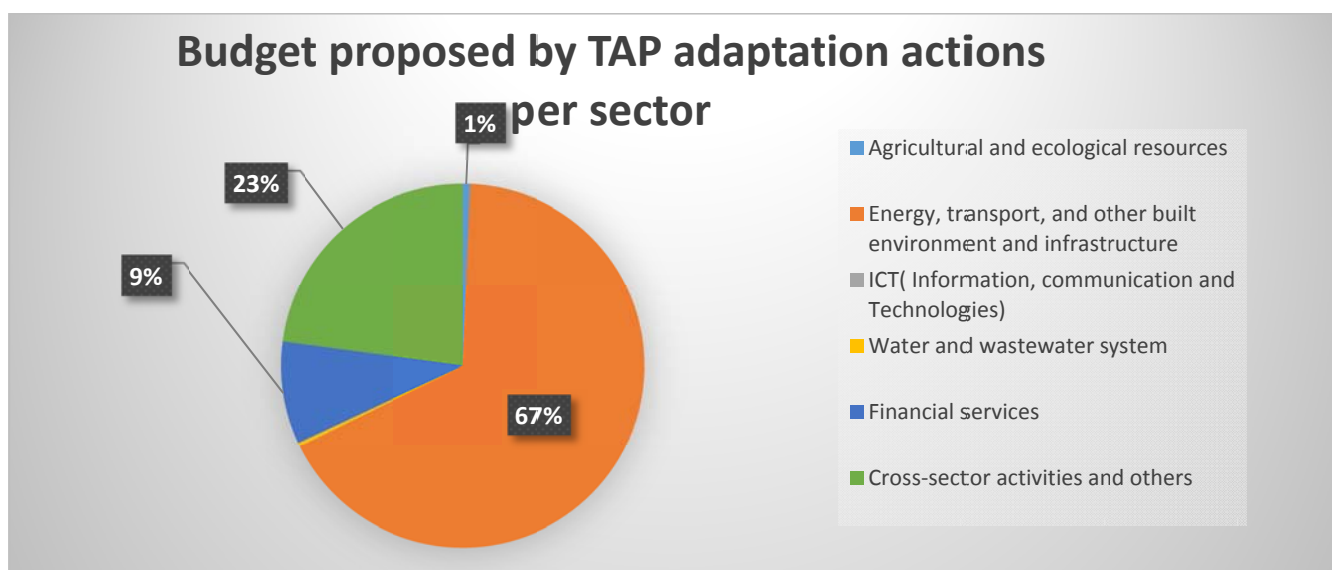
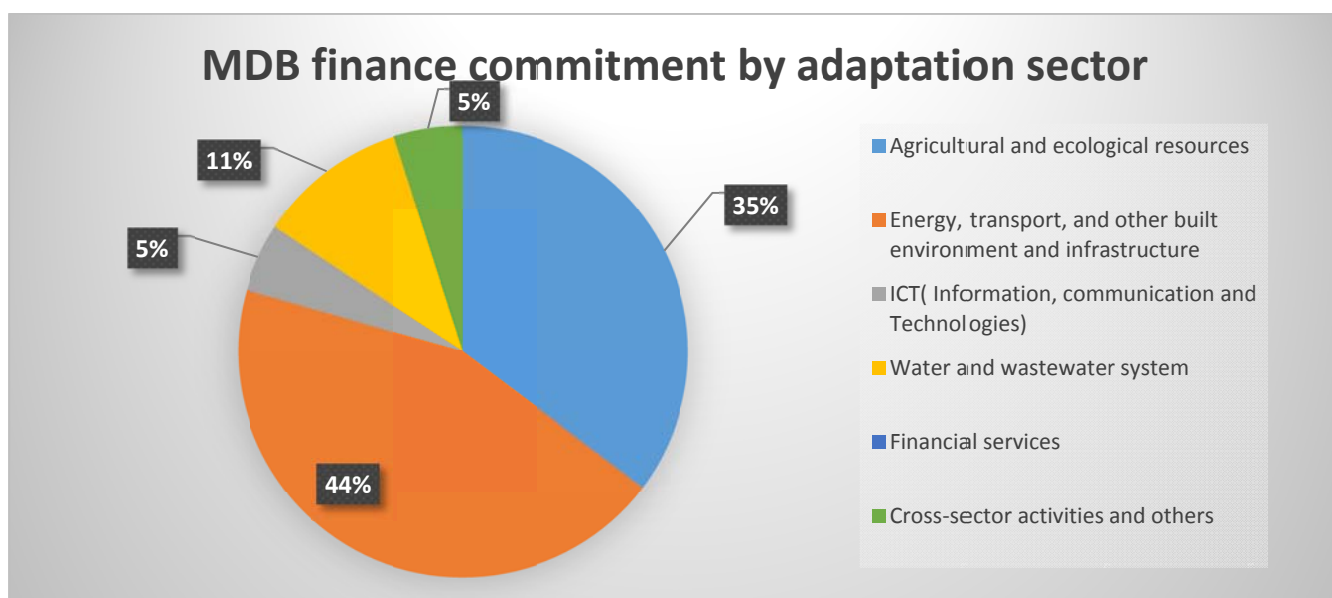


Figure 5. MDB finance commitment by adaptation sector



As presented in Figure 5, the latest Joint Report on Multilateral Development Banks' Climate Finance (2015) shows that the majority of committed adaptation finance has been allocated to energy, transport and other built environment and infrastructure¹⁷ (44%), followed by agricultural and ecological resources¹⁸ (35%).

¹⁷ For comparison with the TAP action category, the "Industry, Extractive Industries, Manufacturing and Trade" sector, "Coastal and Riverine Infrastructure (including built flood protection infrastructure)" and "Energy, Transport and Other Built Environment and Infrastructure" sector from the MDBs' 2014 report are combined and renamed as "Energy, Transport and Other Built Environment and Infrastructure" in this report.

¹⁸ For the sake of comparison with the TAP action category, the "Crop Production and Food production" sector and "other Agricultural and Ecological resources" from the MDBs' 2014 report, these were combined and renamed as "Agricultural and ecological resources" sector. "Institutional Capacity sector" in the MDBs' 2014 report is treated as "cross-cutting" actions in this report.

The Cross-sectoral activities and financial services, commonly called “soft measures”, such as education, awareness raising campaigns, policy and regulatory measures - although often employed by local and subnational governments (32%) - are less commonly financed by MDBs (only 5%).

2.2.1 Sectoral distribution of mitigation actions

In 2015, the TAP platform received 84 mitigation actions, with a proposed budget size of USD 6.422 billion. Among them, 37 (42%) included mitigation projects with adaptation impacts as secondary focus.

According to the impacts and nature of the actions, those 84 mitigation actions are broken down into seven major sectors:

- Stationary energy: actions that reduce greenhouse gas (GHG) emissions by increasing the share of renewable energy or energy efficiency in stationary facilities.
- Transport: actions that reduce GHG emissions by optimizing transport systems or energy consumption in the transport sector.
- Agricultural, Forestry and Land Use (AFOLU): actions that reduce GHGs by various improvements in land use and land use change (e.g. manure management).
- Waste and wastewater management: actions that reduce GHG emissions from aerobic or anaerobic digestion by enhancing the treatment of waste or wastewater.
- Industrial process and product use: actions that reduce GHGs from industrial process and product use by optimizing industrial processes (note: improving energy efficiency in industrial processes is categorized in “Stationary energy” sector).
- Financial services: using banking or insurance methods to facilitate urban mitigation activities.
- Cross-cutting: cross-cutting activities with a focus on education, health, policy and regulation, and/or capacity building, etc.

Table 3. TAP received mitigation actions by sector

Mitigation sectors	Number of actions	Reported budget (USD)
Stationary energy	22	2,751,144,486
Transport	11	486,415,869
Agriculture, forestry and land use	7	81,843,484
Waste and wastewater management	14	1,470,977,399
Industrial process and product use	0	-
Finance services	3	417,000,000
Cross-sector activities and others	27	1,214,955,485
Total	84	6,422,336,723

The number of actions received with an indicative budget size is presented in Table 3 above and Figure 6 below. The majority of mitigation actions submitted by local and subnational governments focus on Stationary energy (43%); Waste and wastewater management (23%), Cross-sector activities (19%) and Transport (8%). Although they only account for 19% of the total budget, Cross-sector activities, such as education, awareness raising and policy/regulation framework development, constitute the largest group of actions. 32% of the TAP actions are cross-sector activities.

Figure 6. TAP mitigation actions indicative budget by sector

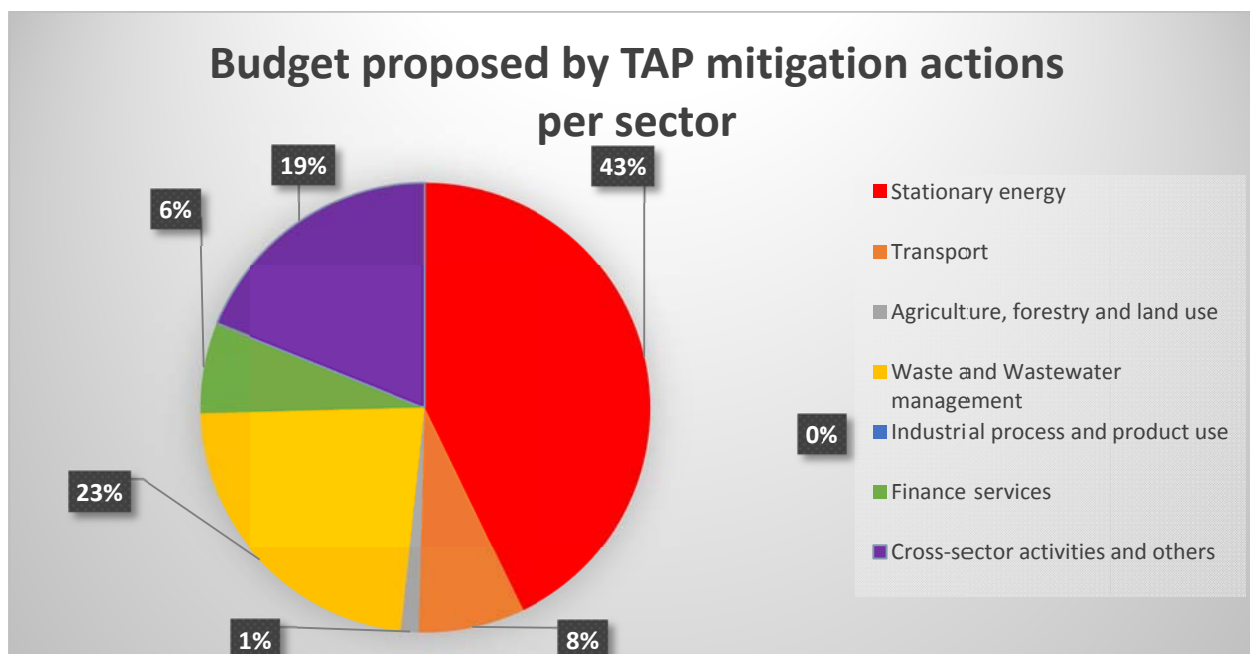
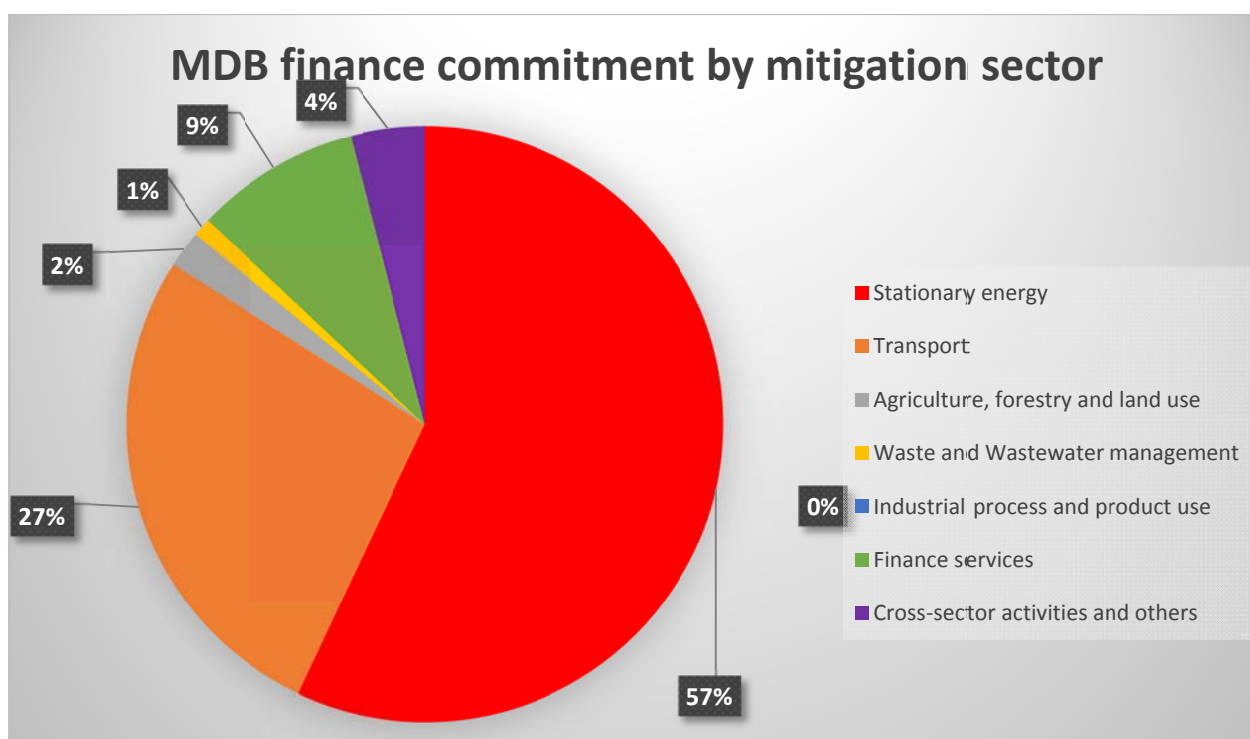


Figure 7. MDBs finance commitment by mitigation sector



As presented in Figure 7, the Joint Report on Multilateral Development Banks' Climate Finance (2015) shows that most of committed mitigation finance has been allocated to Stationary energy¹⁹ (57%), followed by Transport (35%).

The Cross-sector activities and financial services²⁰, also referred to as "soft measures are often employed by local and subnational governments (26%), but less frequently financed by MDBs(11%).

It is worthwhile noticing that the TAP platform does not currently categorize actions by sector. For the sake of analysis, this report analyzes every action by sector, based on the submitted action summaries and supporting documents. Over 50% of the TAP proposed action summaries address cross-sectoral activities, and 20 TAP applications directly submitted (see section 3.2) adaptation action plans that do not define priorities.

On the whole, the information submitted by the applicants made it difficult to discern the schedule and priorities of the entire action plan, along with the total proposed budget for activities across specific sectors. For this report, all the comprehensive action plans have been categorized as "cross-sector activities and other". However, MDBs rarely finance stand-alone "cross-sector activities", unless it is part of a financed infrastructure project.

On the other hand, the MDBs should consider creating channels for multi-sectoral approaches to assess and finance comprehensive programs. There is a need for direct connection between finance experts and local decision makers, which the TAP aims to strengthen. Both local / regional governments and finance experts should organize workshops to jointly analyze local development plans.

Organizations such as Global Infrastructure Basel (GIB)²¹ and Gold Standard Foundation (GSF)²² offer project assessment tools and guidance for urban sustainable development. Further analysis on the results of using these standards is likely to be assessed within LoCaL projects in 2016.

In ICLEI's experience a sound regulatory framework, improved awareness and financially attractive environments will pave the way for infrastructure projects in all sectors. However, according to the feedback received during the TAP application process, due to the lack of an impact assessment methodology, local / regional governments are not able to connect "soft measures" to solid adaptation impacts, and therefore often fail to access financial assistance.

There is clearly a gap between the more commonly financed sectors and the most frequent and urgent needs of the local / regional governments. More resources should be allocated to finance soft measures. These measures might not directly lead to adaptation or mitigation impacts, yet they provide the necessary pre-requisites for efficient implementation of "hard measures" (infrastructure projects). A regulation or policy might create demand for green technology. Education and financial assistance (guarantees or insurance, for example) might enhance the credit rating of a local or subnational government. Funds committed to the soft-measure sector optimize a local government's chances to access other financial mechanisms, such as commercial loans, private finance. It is the

¹⁹ For comparison with TAP action category, the "Renewable Energy" sector, and "Energy efficiency" Sector from the MDBs' 2014 report are combined and renamed as "Stationary energy" in this report.

²⁰ For comparison with TAP action category, the "Energy efficiency, renewable energy and other financing through financial intermediaries or similar" sector from the MDBs' 2014 report is renamed as "Finance service" in this report. "Industrial process and product use" is not captured in the MDBs' 2014 report, therefore treated as 0 in this report. "

²¹ The SuRe Standard - <http://www.gib-foundation.org/sure-standard/>

²² The Gold Standard's Financing Cities of the Future: Tools to Financing Cities of the Future: Tools to Scale-up Clean Urban Development report at: <http://www.goldstandard.org/blog-item/financing-cities-future-tools-scale-clean-urban-development>

sector where local climate action typically starts. Committing financial resources in this sector will benefit with a higher financial leverage rate.

3. Finance knowledge and staff capacity

3.1 Lower rate of secured finance

Among the 120 TAP actions, only 57% indicates that they have at least partly secured finance resources for project development and/or implementation. 95% of TAP applications flagged needs for extra investment.

The most common and direct source for financing local sustainable actions is through the local government's own budget. In the case of the 2015 TAP applications, 24% of TAP actions were directly financed by local and subnational governments, and are showcases of good practice. However due to the complexity of the project and limited own finance resources of local / regional governments, 114 are still looking for funding, especially for infrastructure projects. There is a funding gap of USD 7,095,025,283 in order to unleash the transformative climate impacts of these TAP actions.

3.2 Lack of awareness of financial instruments and their requirements

In contrast to the sizable demands for investment, as presented in the figure 8 below, awareness of various finance instruments and their requirements are relatively low among local governments.

In reference to a recently published WWF report *Financing the Transition: Sustainable Infrastructure in Cities* (2015)²³, the following financial instruments (listed in Table 4) provide significant potential to support investment in sustainable infrastructure:

Table 4. Financial instruments with significant potential to support investment in sustainable infrastructure²⁴

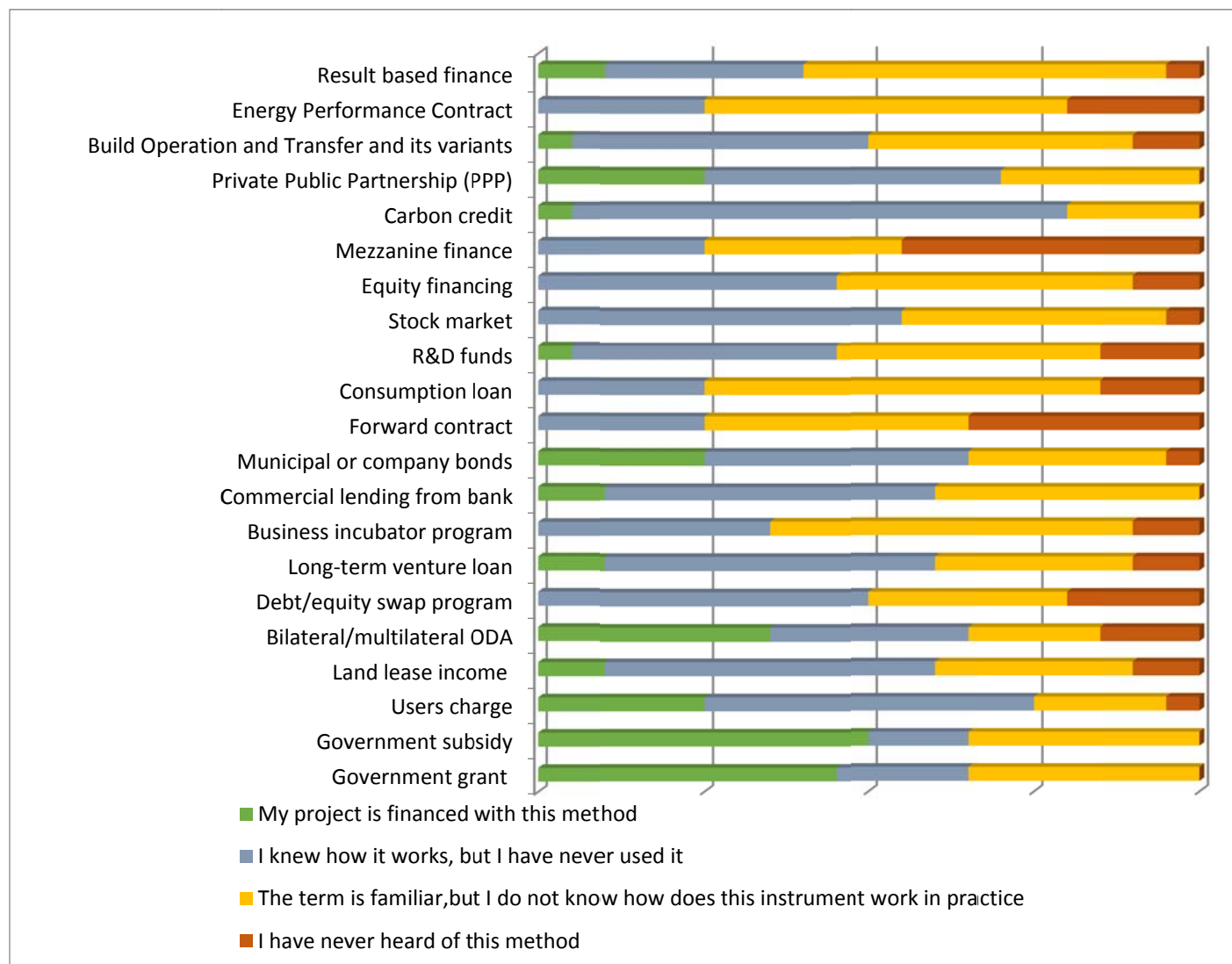
Type	Instrument
Public	<ul style="list-style-type: none"> • Public private partnership (PPP) • Tax incentive • Land value capture mechanism • Building rights and permit • Grant and subsidy • Research and Development (R&D) fund
Debt	<ul style="list-style-type: none"> • Loan (incl. concessional loans or loans blended with grants) • Special purpose bond (e.g. green city bond) • Targeted guarantee and credit enhancement • Debt refinancing mechanism (e.g. asset-backed securities, forfeiting)
Equity	<ul style="list-style-type: none"> • Listed infrastructure equity • Infrastructure funds • Thematic/targeted private equity structures and funds • Equity-funded direct investment (SPVs and JVs) • Stock market
Result-based finance	<ul style="list-style-type: none"> • Energy Performance Contract (EPC) • Carbon credit • Build Operation and Transfer

²³ http://www.panda.org/what_we_do/footprint/cities/financing_for_sustainable_infrastructure_in_cities/

²⁴ Figure 1, page 5 of Financing the Transition: Sustainable Infrastructure in Cities report, by Z/Yen Group Limited and WWF, 2015

According to TAP applicants' feedback, presented in Figure 8 below, only public finance instruments were commonly used and well understood. Local governments often do not have experience with the majority of equity and debt finance instruments.

Figure 8. Assessment of local government understanding and experience of financial instruments



3.3 Lack of evidence to show project “bankability”

The scarcity of commercial finance instruments as a viable tool to finance local government projects stems from the lack of capacity to develop and package sustainable projects into financially attractive business cases.

A reflection of this is the overriding trend among the 2015 TAP applications, where the majority of evidence provided by applicants relating to sustainability impact, financial viability, project prioritization, procurement and financing methods, could have been strengthened.

Initiatives like Cities Development Initiative for Asia (CDIA)²⁵ work closely with cities on project prioritization and preparation, including feasibility assessments and financing options. In 2015, as presented in Figure 9 below, CDIA listed the following steps as guidance for local governments to prepare and prioritize sustainable project financing:

²⁵ <http://cdia.asia/>

- Project prioritization and development of a public investment program
- Designing financial structure and development of social environment impact assessment
- Conduction of pre-feasibility study
- Packaging to finance agency for due diligence study
- Consulting stakeholders throughout the entire process

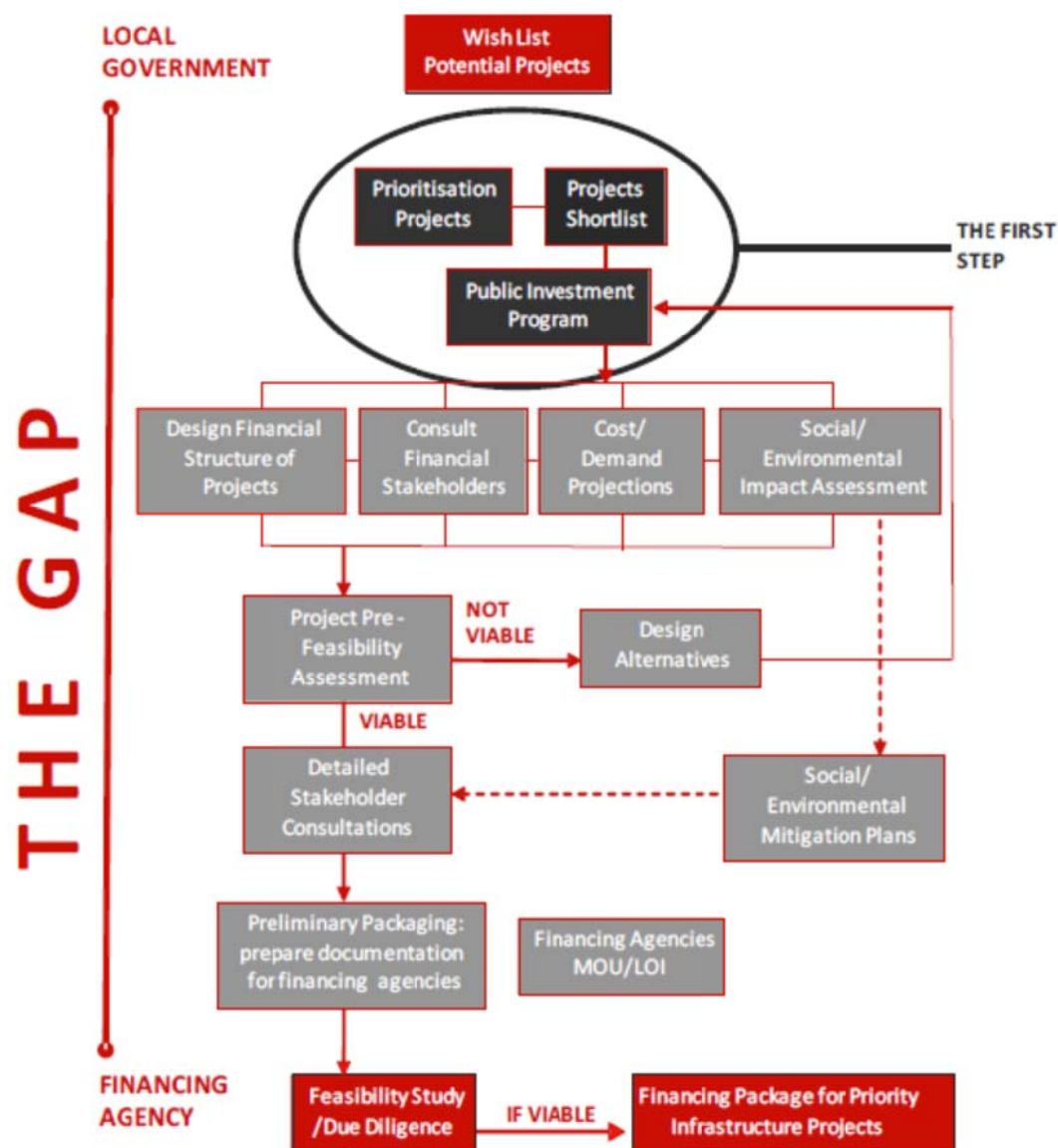
Despite the above mentioned CDIA preparatory steps to package and implement bankable projects, among the 2015 TAP applications:

- only 51% included a financial /technical feasibility report,
- 30% prepared environment assessment report,
- 24% indicate secured funds from private or public financing agency,
- 16% indicate receiving finance assistance from national government;
- none of the TAP applications indicate the existence of a cost recovery mechanism

The last point is of particular concern to local governments; as such a mechanism is necessary when applying for loans and private investment. Without demonstrating the presence of a cost recovery mechanism, there is an implicit unsustainable nature to the finance project itself, let alone making it attractive for potential funders.

The above results correspond to interview results listed in the WWF report (2015), page 43, namely, “generally speaking, respondents working in finance feel that the lack of investable projects is the main issue preventing infrastructure investment at scale rather than the lack of finance. Respondents working in multilateral finance mentioned the difficulty of meeting lending targets.”

Figure 9. Steps towards successful infrastructure finance²⁶



Source: CDIA, City Infrastructure Investment Programming and Prioritization Toolkit and Pre-Feasibility Studies Guidelines, 2010

Local governments recognize the need for a departure from self-financed projects, considering the scale of projects required to address climate change, along with the need for a deeper understanding of the array of available financial instruments. In addition, local governments must understand the tenants and prerequisites of sound proposals to accrue necessary funding.

3.4 Lack of centralized and tailored capacity building services for local decision-makers

The WWF study (2015) compiled a series of existing organizations and initiatives to improve capacity building for local decision-makers, including:

²⁶ CDIA, City Infrastructure Investment Programming and Prioritization Toolkit and Pre-Feasibility Studies Guidelines, 2010

- Initiatives which focus on infrastructure data-driven programmers and tools, such as Africa Infrastructure Knowledge Programme, Global Commission on the Economy and Climate, LSE Cities, New Cities Foundation, World Bank's Urbanization Knowledge Partnership and WRI Ross Center for Sustainable Cities
- Initiatives that demonstrate good practices and policy, led by C40, Cities Alliance, Compact of Mayors, ICLEI-Local Governments for Sustainability (ICLEI), Metropolis, United Cities and Local Governments (UCLG), Urban Infrastructure Initiative, and WWF's Earth Hour City Challenge (EHCC)
- Initiatives that focused on infrastructure and financing, led by Cities Development Initiative for Asia, Energy Efficiency Finance Institutions Group (EEFIG), Global Fund for Cities Development (FMDV), Global Infrastructure Basel (GIB), ICLEI's Transformative Actions Program (TAP), Shack/Slum Dwellers International (SDI), World Bank's low Carbon Livable Cities Initiative, Cities Climate Finance Leadership Alliance (CCFLA)

Though there is often strong cooperation and linkages between these initiatives and organizations, the lack of a centralized platform for local and subnational governments to consult has arguably created a barrier to advancing necessary finance tools and awareness.

There is no standard finance preparation procedure for local and subnational governments to follow. The assessment criteria to finance projects vary from agency to agency, from sector to sector. The vast range of requirements results in extensive funds and in-house capacity needed by interested local governments to prepare different sets of documents for applications.

3.5 Lack of financial mechanism for policy/regulation and capacity building

An overview of the 2015 TAP applications revealed an additional barrier to accruing finance for urban actions, namely, some actions' bankability is easier to demonstrate than others.

For example, the bankability of infrastructure projects, as opposed to soft measures such as capacity-building projects that do not directly lead to marketable results. To ameliorate this, public financial instruments and/or leveraging tools can improve the local government's risk-return profile. In addition, public funds, especially grants and subsidies, should be given to actions with higher technological risk, or to projects which present more uncertainty, such as policies, regulation and awareness raising activities.

The value of the development of such actions which do not bring "direct" financial payback cannot be underestimated. Policies and capacity building pave the way for stable strategies, economic and regulatory environments, as well as high-quality human resources and mature technology and services, from which sustainable transformative infrastructure actions may follow.

4. Looking Forward

Local government capacity is key to preparing and developing sustainable and financially attractive transformative actions. Initiatives from different backgrounds with various types of expertise, as listed in chapter 3.3 should collaborate closely in developing a common framework for project selection and assessment standards, toolkits and training practice.

In 2016, the TAP will further collaborate with members of the Cities Climate Finance Leadership Alliance (CCFLA)²⁷ and enhance its function as a local sustainable action portal. The TAP will simplify its reporting procedure and requirements, facilitate the identification of bankable, as well as sustainable, transformative local actions. ICLEI will also eagerly explore collaboration with public and private financing agencies, aiming to provide tailored made match-making financing opportunities to high quality local actions. Based on more than 20 years of experience in supporting local sustainability, ICLEI will develop a project-finance themed capacity-building program for local governments with different backgrounds and capacity level to equally profile and present transformative action with high-quality.

Financed by Climate KIC, Development of Gap through Transformative Local Action (CGTLA) project has focus on mapping and piloting how to connecting financing opportunity to promising local transformative actions. As possible next steps, the project's partners will look to develop further the findings and initiatives from the CGTLA. For example, South Pole Group will lead an initiative to strengthen guidance for green municipal bonds in cooperation with Climate Policy Initiative (CPI) as well as other CGTLA partners. Gold Standard Foundation will lead on developing a "Gold Standard City Program", including the development of a results-based financing certification standard designed to facilitate market based mitigation finance according to their climate impacts and using Sustainable Development Goals(SDG) indicators ICLEI and CDP will lead a project to enhance TAP to become a project-financer matchmaking platform for public and private investors.

²⁷ <http://www.citiesclimatefinance.org/>

5. References documents

1. [Financing the Transition: Sustainable Infrastructure in Cities, WWF, 2015](#)
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5. [Projects Making Carbon Markets Work for Your City: A Guide for Cities in Developing Countries](#), UN-HABITAT, 2014
6. [Joint Report on Multilateral Development Banks' Climate Finance](#), World Bank, 2015
7. [Climate Financing for City Development](#), ICLEI, 2012
8. [Financing the Resilient City](#), ICLEI, 2013
9. [carbonn Climate Registry](#), 2015