



Urban Climate Finance in the Wake of COVID-19

A Policy Brief from the Cities Climate Finance Leadership Alliance
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CITIES CLIMATE
FINANCE
LEADERSHIP
ALLIANCE



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ABOUT THE CITIES CLIMATE FINANCE LEADERSHIP ALLIANCE

The Cities Climate Finance Leadership Alliance (the Alliance) is a coalition of leaders committed to deploying finance for city level climate action at scale by 2030. It is the multi-level and multi-stakeholder coalition aimed at closing the investment gap for urban subnational climate projects and infrastructure worldwide. Climate Policy Initiative (CPI) serves as Secretariat for the Alliance. Funding for the Alliance's activities is jointly made available through two German government ministries: The Federal Ministry for Economic Cooperation and Development (BMZ) and the Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety (BMU).

KEYWORDS

Urban climate finance, Cities, Green recovery, COVID-19

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ABSTRACT

In order to alleviate the economic and social consequences of COVID-19, several public and private entities have announced economic stimulus packages: national governments have proposed fiscal and monetary stimulus; multilateral development banks (MDBs) and climate funds have announced recovery funds to assist developing countries and emerging economies; and a number of private institutions have launched initiatives promoting green infrastructure investment opportunities. These COVID-19 recovery packages under development are an opportunity, especially for cities, to relaunch their economies and promote a green transition to carbon neutrality. Yet, it is still unclear how cities might benefit from these recovery funds and how related to urban climate finance these funds will be. This policy brief aims at responding to this problem.

In examining COVID-19 recovery assistance for cities from key funders - national governments, Development Finance Institutions (DFIs), and the private sector - some key trends have emerged:

From the USD 20.5 trillion pledged to COVID-19 recovery globally, only USD 1.1 trillion dollars are committed to cities. From this, USD 916 billion went to short-term liquidity and USD 194 billion to remaining funds.

Of the more than USD 1.1 trillion pledged to cities to-date:

- Funding is starting to evolve from short-term, immediate liquidity assistance to longer term, recovery-focused approaches.
- Significant funding has yet to be programmed, either by geography or sector.
- Common themes and areas of intervention are emerging across city-specific instruments that can guide programming for current and future initiatives.

These trends point to opportunities and strategies for funders and cities to jointly promote a green urban recovery; however, barriers exist in terms of directly providing funding to cities, and finding approaches to addressing the diverse economic, regulatory, and sectoral needs in a comprehensive way. To address these challenges, we recommend:

- Structuring financial instruments to enable cities to access them directly.
- Working with local and/or climate-specific institutions to develop appropriate mechanisms and project portfolios.
- Working with project preparation facilities (PPFs) to support the investment readiness of projects chosen by cities.
- Working through existing networks—such as the Cities Climate Finance Leadership Alliance—to facilitate effective knowledge and experience exchange.

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1. INTRODUCTION

The COVID-19 pandemic will have far-reaching global impact for years to come. The impacts are particularly pronounced in cities, as they are on the frontline of the health, social, and economic crises caused by the pandemic. In July 2020, the UN estimated that 90% of all reported COVID-19 cases were in cities.¹ Cities are key to global recovery from the pandemic, as the center of economic and social activity more than 4 billion people (more than 55% of global population²). However, cities are facing the need for massive transformation at a time when they can least afford it.

In the wake of COVID-19, the tax and fee revenue that city governments would typically rely on to fund critical services like transportation, housing, and sanitation has declined significantly. At the same time, city administrations have increased spending on healthcare and social protection. Many cities have already spent through their reserves and reached their maximum debt ceilings. In some cases, cities have put capital expenditures on hold indefinitely, or shifted long-term capital budgets to immediate operational needs. Coupled with these fiscal challenges are regulatory and structural impediments preventing cities from borrowing or accessing donor funding directly.

Funding from external sources is paramount given the existing gap of public infrastructure. Over the next ten years, 90 trillion U.S. dollars in infrastructure investments will be needed³. This existing infrastructure gap for sustainable transport, energy, housing, waste and wastewater management, flood and heat resilience projects, as well as the inevitable need for investment in climate actions to maintain global warming below 1.5° Celsius continues to be a key priority during and after the COVID-19 pandemic.

Cities are a major source of greenhouse gas emissions. In the process of “building back better,” cities will need to incorporate climate smart and resilient recovery policies that will contribute to long-term sustainability and resilience. Beyond the environmental aspects, a recent analysis from the International Labor Organization (ILO) calculated that the transition to more “climate-resilient” economies could directly create 18 million jobs, and indirectly support 1.2 billion others⁴.

This is particularly important, as the COVID-19 pandemic has also exacerbated disparities between the wealthy and the poor. The urban poor in many cities live in communities where existing infrastructure is weak, and where overcrowding and physical structures do not allow for proper social distancing. Many housing developments lack adequate access to water, electricity, and internet connectivity. The urban poor are less likely to be able to work from home and often lack access to testing and treatment. They are also more vulnerable to the effects of climate change.

1 United Nations 2020.

2 United Nations 2018.

3 Available at: <https://www.un.org/development/desa/en/news/population/2018-revision-of-world-urbanization-prospects.html>

4 OECD 2020.

As the Cities Climate Finance Leadership Alliance (the Alliance) noted in its statement on the COVID-19 crisis:

“The pandemic is a wake-up call that our cities must be better prepared for the climate crisis. As with COVID-19, the negative effects of climate change will lead to catastrophic consequences for cities. However, climate impacts will stay with us over a much longer period of time, with even more devastating impacts, than COVID-19.”⁵

⁵ CCFLA 2020.

2. OBJECTIVES

As of October 25, 2020, USD 20.5 trillion had been pledged for COVID-19 relief globally.⁶ Of this funding, however, just over USD 1.1 trillion was pledged in whole or in part to cities, the bulk of which is intended for short-term fiscal support (see the section on Trends). As the world begins to recover from COVID-19, more funding needs to be channeled toward cities given their place at the nexus of economic, health, and environmental well-being for more than half of the global population.

The policy brief is written at a time when many funding entities are still formulating their strategies, and as needs are shifting and increasing in cities and other sectors. To this end, our intention is to capture a snapshot of what has been committed to date, analyze the approaches and broader trends, and provide recommendations for cities and funders going forward. As commitments are increasing and changing by the minute, it may not capture everything, but tries to provide as comprehensive a view as possible.⁷

Types of Funders

Development Finance Institutions (DFIs) and Climate Funds: these are bi- and multi-national organizations or funds focused on providing grant assistance or debt capital to developing countries. They include organizations such as the World Bank Group, Asian Development Bank, the African Development Bank, and the United Nations. The research covers 21 organizations (see Table 2).

National Governments: in this policy brief, "national governments" include funding directly from a country's treasury as well as funding from national development banks to fund assistance in that country (not multi- or bi-lateral assistance). The policy brief identified city-specific initiatives from 17 countries plus the European Union. A full list of countries reviewed is in Table 3.

Private sector: this covers private investors and banks, and foundations/philanthropic organizations. A comprehensive review of these organizations was conducted, and two initiatives- from HSBC and JPMorgan Chase- were identified.

To this end, the objective of this brief is to identify the gaps and opportunities with funding pledged to-date, and to provide recommendations for how to channel existing and future funds toward facilitating a green recovery. We focus on the funding that has been announced to support a green recovery for cities since the COVID-19 pandemic began. In the recommendations, we indicate where funding facilities and alliances can be leveraged to effectively deploy capital toward a green recovery. We analyze funds that have been committed in whole or in part directly to cities to help manage the impact of the COVID-19 crisis, with an emphasis on the capital earmarked for a green recovery. For this work, we focus on three major types of funders: (1) development finance institutions (DFIs) and climate funds, (2) national governments, and (3) the private sector (including philanthropies) (see Figure 1), and directs our recommendations to these parties.

⁶ Cornish 2020.

⁷ The commitments were mapped from March 2020 until October 2020.

For this analysis, we divide the pledged support into phases, (1) first tracking the funds intended for immediate emergency or short-term support to lessen the financial, health, and infrastructure crises faced by cities. We then (2) look to the medium-term where assistance is targeted at helping cities to start to recover and make modifications to minimize viral spread in public spaces and transportation. (3) Finally, we examine those funds pledged to assist in a long-term green recovery for cities to strengthen their resilience to future pandemics and climate crises.

While the initiatives identified varied in size, focus, and structure, common themes emerged according to timeline and intervention as shown in Table 1.

Table 1: Types of assistance by phase

SHORT-TERM	MEDIUM-TERM	LONG-TERM
<ul style="list-style-type: none"> • Emergency liquidity for cities to relieve debt payments, increasing borrowing capacity, funding to replace lost tax and fee revenue. • Humanitarian and social safety net assistance. • Water, sanitation, and health (WASH) emergency interventions. • Funding for testing and tracing, supplemental hospital facilities. • Support to SMEs and other businesses to maintain operations and employment. 	<ul style="list-style-type: none"> • Social distancing on transportation. • Water treatment measures. • Upgraded health facilities and infrastructure. • Sustainable COVID-19-compliant retrofits. 	<ul style="list-style-type: none"> • Water and Sanitation. • Full urban re-design or retrofit. • Clean energy/ energy efficiency. • Project preparation facilities to increase the pipeline of investment-ready projects, and ensure they address climate mitigation and adaptation.

When identifying and analyzing instruments, we apply the definition of “urban climate finance” used by the forthcoming 2021 State of Cities Climate Finance Report⁸, as follows:

“Resources directed to activities limiting city-induced GHG emissions or aiming to address climate-related risks faced by cities, contributing to urban low carbon development or resilience.

- *For urban climate mitigation, this covers projects contributing to reducing or avoiding GHG emissions from sources located strictly within the city boundary, or for those produced as a consequence of activities occurring in the city exclusively.*
- *For urban climate adaptation, this covers projects that aim at maintaining or increasing the adaptive capacity and resilience of cities, in response to climate-related risks affecting the city directly.”*

⁸ The Report is planned to be launched by February/March 2021.

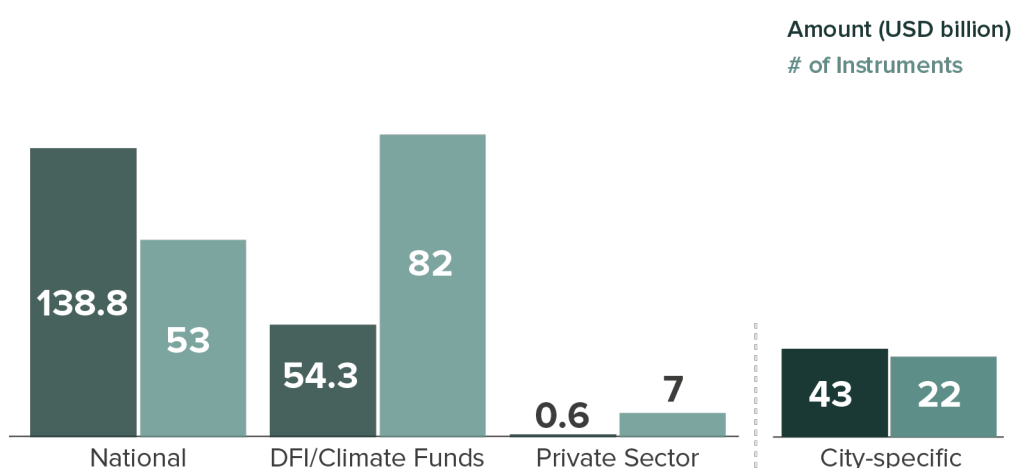
3. TRENDS IN ASSISTANCE FOR CITIES AND COVID-19

Research of publicly available documents and announcements discovered financial assistance consisting of more than 150 facilities or financial instruments⁹ of around USD 1.1 trillion committed to activities that directly or indirectly support urban climate finance. Some key trends observed in analyzing the instruments in greater detail include:

Most funding is for short-term liquidity support to local governments. Of the funding pledged to-date, nearly USD 916 billion (over 80%) was for short-term liquidity facilities and direct transfers from national governments to recapitalize loan funds, replace lost revenue from taxes and fees, and fund immediate humanitarian needs in cities and municipalities. The policy brief counts those liquidity facilities with specific provisions for cities, as they will help to alleviate the strain on urban finances, hopefully freeing up funds to support a green recovery. However, **the following analysis into funds in support of urban climate finance does not consider these liquidity facilities – only the USD 194 billion remaining funds.**

National governments lead the way in terms of funding (net of liquidity facilities), with DFIs launching the greatest number of instruments, with city-specific instruments accounting for only 22% of total funding. When the liquidity facilities are removed from the analysis, city-related or city-specific assistance total just USD 194 billion. The chart below shows the breakdown of funding volume and number of instruments by major funder type as well as by city-specific instruments.

Figure 2: Total funding by funder type and city-specific instruments



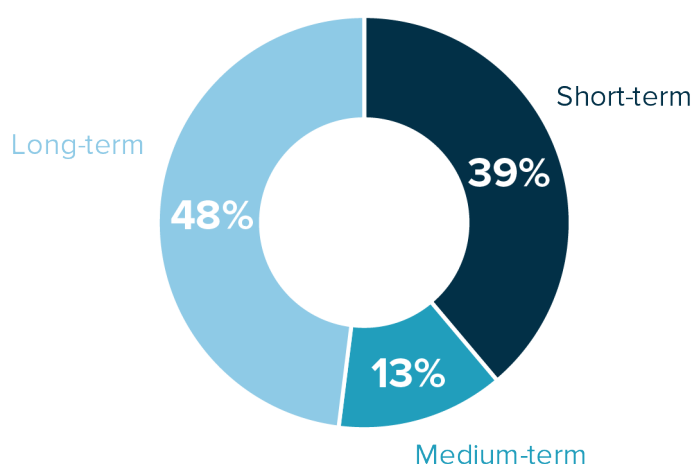
Some of the trends observed through the research and analysis of financial packages announced to-date include:

⁹ The terms “facilities” and “instruments” are used interchangeably throughout this policy brief.

Most non-liquidity funding is either short-term or long-term.

- Short-term assistance (outside of liquidity support) is focused on humanitarian and health assistance, and facilities and equipment to increase access to water and sanitation in underserved communities.
- Medium-term support for cities, comprising only 13% of commitments to-date, is primarily focused on funding measures to accommodate social distancing on transport and in buildings, provide immediate water and sanitation support, and improve testing and contact tracing.
- Long-term support (48% of total commitments) is focused on the concept of “building back better” through building retrofits, sustainable transportation and vehicle fleets, increasing open spaces for recreation and commuting, and improving water and sanitation infrastructure.

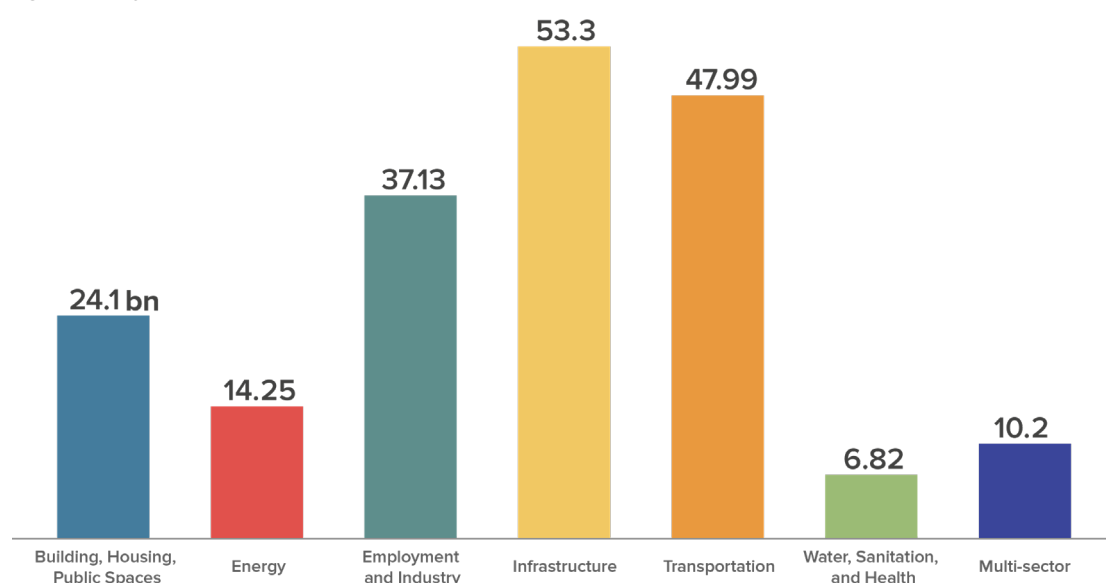
Figure 3: All assistance by phase



Yet, most funding is loosely or not yet programed, providing an opportunity for cities.

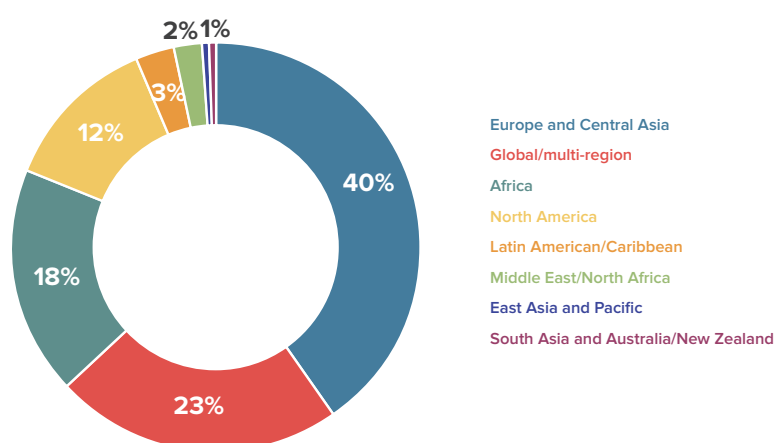
- DFIs and national governments have pledged nearly USD 194 billion in 135 instruments (see Figure 2), but in many cases have provided few details on programing or disbursement. This creates is an opportunity to work with DFIs and governments to help effectively program a significant share of their funding through cities.
 - There are a number of global facilities that are intended for infrastructure as an integrated category covering several sectors or sector dedicated programs that largely occur in, or provide services to, cities. The details around these facilities are still unclear but should be beneficial to cities if programed correctly.
 - Figure 4 shows funding pledged by sector and in Figure 5 geography.
- 32% of funding is pledged broadly toward infrastructure and multi-sector efforts, with room to refine in terms of programing and subsectors such as energy, transportation, etc. (see sectoral definitions in the DFI/Climate Funds section for a definition of categories).

In terms of geography, 40% of total funding pledged is designated as global or multi-region, indicating that is has not yet been geographically committed.

Figure 4: Funding value by sector¹⁰

Where support has been committed to city-specific programs, many individual initiatives from DFIs, but no global effort to support cities:

- Major donors are funding individual initiatives to support either individual cities (European Investment Bank - EIB), or in support of urban infrastructure on a country-wide basis (World Bank, French Development Agency - AFD).
- Figure 5 shows that the largest share of funding is for Europe and Central Asia. These are largely national initiatives from European Union members supporting their own economies; the second largest block of funding is in global or multi-regional facilities that have yet to be programmed.

Figure 5: All funding by region

Assistance is focused on a few key approaches for cities

Figure 4 shows that the main sectors for assistance pledged include employment/industry, infrastructure, and transportation. Within these categories, some key trends in assistance include:

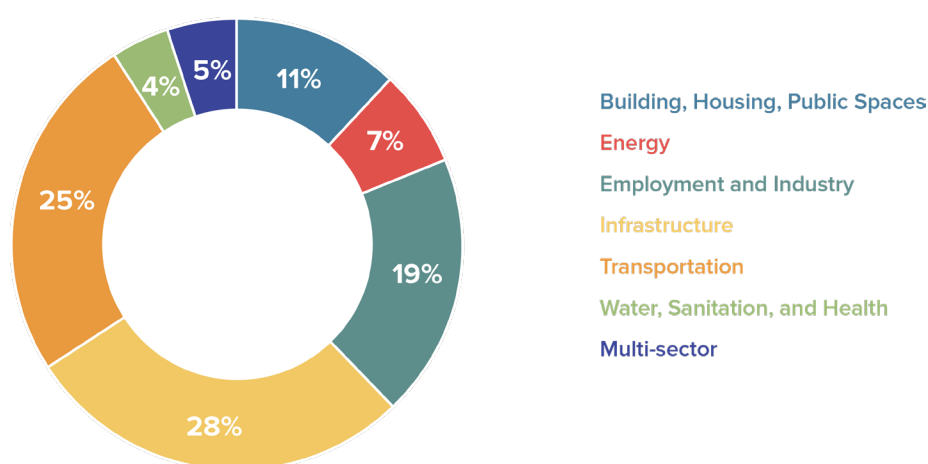
¹⁰ "Infrastructure" refers to funding that has been pledged for general infrastructure activities, without specification for subsector.

- Retrofitting buildings: COVID-19-compliant retrofits related to ventilation, barriers, and space reconfiguration; and general building retrofits to reduce emissions.
- Transport: support for public fleet conversion and electric vehicle charging infrastructure, as well as tax credits for EV and bicycle purchases.
- Public spaces: Reconfiguring public spaces to emphasize walking and cycling and to facilitate social distancing, and outdoor (open-air) activity.
- Water and Sanitation: Improved water and sanitation to stop virus spread and improve sanitary conditions, particularly in poor urban areas.

4. INSTRUMENT ANALYSIS

The preceding section provided some insight into global trends for assistance pledged for cities. This section examines this funding in more detail, looking at the trends by the type of funder and examining their approach by phase, sector, and geography.

Figure 6: DFI assistance by sector



4.1 DFI/CLIMATE INSTRUMENTS

4.1.1. ASSISTANCE BY SECTOR

DFIs comprise USD 54 billion (28%) of total non-liquidity financial assistance¹¹ committed to-date. These investments fall into a few major sectors, which are categorized as follows:

- **Infrastructure (integrated)** : Funding earmarked for green infrastructure (with no specific sectoral or mitigation/adaptation designation).
- **Energy**: Funded related to renewable energy or energy efficiency.
- **Transportation**: Funding for local transportation networks, electric vehicles, or to promote walking or biking.
- **Water and Sanitation (WASH)**: funding specifically indicated for WASH issues.
- **Multi-sector**: Funding earmarked for more than one sector (such as WASH and transportation).

¹¹ Instrument analysis omits those instruments that are specifically for liquidity support for cities or sub-national governments, as they are not directly related to urban climate finance for a green recovery.

EXAMPLES OF INTERVENTIONS BY SECTOR

Infrastructure (integrated): Infrastructure is the largest sector by USD value for DFIs at 38% of funds pledged to-date. This is followed by climate mitigation measures (24%), energy (12%), and WASH (11%). Multi-sector initiatives, which cut across the above-mentioned sectors, account for 15% of funds pledged.

EXAMPLES OF INFRASTRUCTURE INTERVENTIONS:

- The Government of Indonesia has established a line of credit with AFD for USD 150 million to facilitate infrastructure improvements for a green recovery. Thirty percent of the funds are designated for municipalities. The facility is part of a larger partnership between the two entities to mobilize innovative finance and promote sustainable development¹².
- The Swedish International Development Cooperation Agency (SIDA) has proposed a global facility designed to help cities reduce spatial inequality and promote and improved urban environment¹³.

Transportation: While only a small segment of DFI funding, there are several initiatives directly related to promoting a green urban recovery and therefore offer important examples of approaches for other DFIs or country assistance programs. Most of the assistance in this sector is related to greening public transportation fleets.

Examples of transportation interventions:

- The EBRD has provided a USD 8 million loan to the government of Novi Sad, Serbia to switch its bus fleet to electric vehicles¹⁴.
- The ADB has signed a loan with a Chinese state-owned bank to finance the conversion of buses from gas to electric, and generally support sustainable urban transport¹⁵.

4.1.2 ASSISTANCE BY TIME HORIZON

The largest share of funding for cities by DFIs is short-term funding (43%), followed by long-term funding (35%).

EXAMPLES OF SHORT-TERM INTERVENTIONS

Support for utilities:

- USD 2.7 billion from the Brazilian Development Bank (BNDES) in Brazil to support electric utilities facing shortfalls in revenue due to the crisis¹⁶. This financial support will ensure utilities are in a better position to fund a green recovery effort once the

¹² Agence Française de Développement 2020.

¹³ The Guardian 2020.

¹⁴ EBRD 2020.

¹⁵ ADB 2020

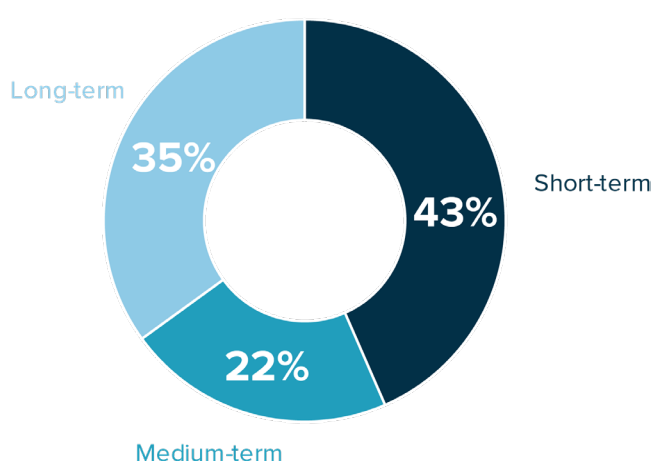
¹⁶ BNDES 2020.

immediate crisis has passed.

- Agence Française de Développement (AFD), African Development Bank (AfDB), and Japan International Cooperation Agency (JICA) have also developed a joint USD 270 million facility for the national utility in Egypt to help support them through the crisis, with the intent of positioning the company to develop clean energy in the medium and long-term¹⁷.

Funding to support water, sanitation, and health (WASH): By far, the largest number of short-term DFI interventions is in support of WASH needs in developing countries. The United States Agency for International Development (USAID) has pledged USD 50 million to fund the provision of hand-washing stations and water supply equipment in several countries, including Georgia, Myanmar, and South Africa¹⁸.

Figure 7: DFI assistance by phase



EXAMPLES OF MEDIUM-TERM INTERVENTIONS

Rapid assistance for WASH infrastructure:

- WASH interventions are also by far the main focus of medium-term interventions for DFIs. JICA has a program in Kenya and Tajikistan to provide water treatment chemicals. The Asian Development Bank (ADB) is providing USD 3 million to improve water access and sanitation in the Marshall Islands.¹⁹
- The European Union, in collaboration with the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), is providing support of USD 45 million and USD 51 million for WASH activities in Bulgaria and Jordan respectively.²⁰

Support for COVID-19-compliant infrastructure: The World Bank is providing assistance totaling USD 267 million to support urban infrastructure in Kenya and Mozambique. The assistance to Kenya has a focus on informal settlements in urban centers, looking to upgrade existing infrastructure to mitigate the effects of COVID-19, and improve

¹⁷ AfDB 2020.

¹⁸ Devex 2020.

¹⁹ Ibid.

²⁰ Ibid.

sustainability.²¹ The Mozambique facility is explicitly for municipalities to help the recover from the pandemic.²²

EXAMPLES OF LONG-TERM INTERVENTIONS

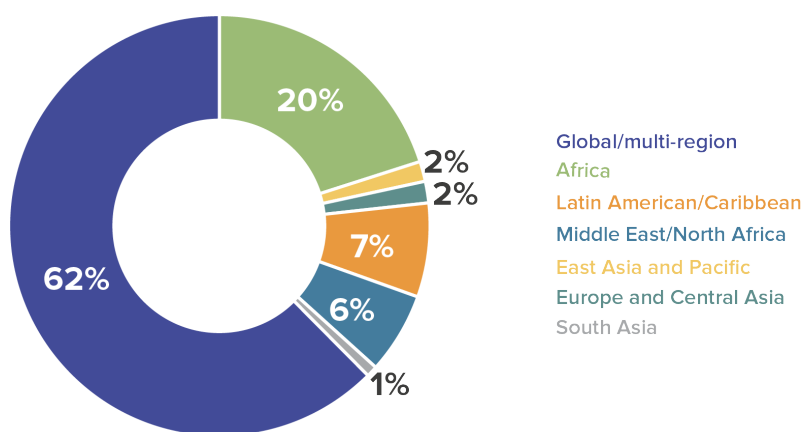
Comprehensive infrastructure loan programs: AFD, EIB, and the World Bank have all executed (or are in process of closing) framework loans that take a comprehensive approach to green recovery for cities. EIB has issued loans for Radom²³ and Wielkopolska²⁴, Poland to fund activities like public building refurbishment and greening urban transport. An EIB financing package for the City of Barcelona, Spain will fund 40 different projects aimed at regenerating over 200,000m² in the city, increasing pedestrian zones and green spaces, and minimizing vehicle traffic²⁵.

Long-term support for WASH: As with the short- and medium-term assistance, WASH continues to be a priority area for DFIs in the long-term. The World Bank has provided funding of over USD 300 million in support of comprehensive investments in the WASH sector, including a USD 250 million facility for Buenos Aires, Argentina to extend water and sanitation facilities to vulnerable areas in the city.²⁶

4.1.3 INTERVENTIONS BY REGION

As noted in the Trends section, much of the funding pledged toward the COVID-19 recovery has not been specifically programed. Figure 8 shows that more than 60% of DFI-pledged funding is for global or multi-region facilities. Africa captures a 20% share, with the remaining regions capturing between 1-7%.

Figure 8: DFI funding by geography



21 World Bank 2020 August 7.

22 World Bank 2020 June 26.

23 EIB 2020 September 7..

24 EIB 2020 July 16.

25 <https://www.eib.org/en/projects/pipelines/all/20190838>.

26 Devex 2020.

4.1.4 SUMMARY OF DFI TRENDS

Table 2 shows the areas where DFI commitments have been identified through publicly available information. The table is sorted according to the phases and intervention types identified in the previous section.

Note: The table focuses on funding announced explicitly to address COVID-19 recovery. Some donors have implemented significant response programs, but are re-directing existing funds, so are not included in the analysis.

Table 2: DFI assistance by sector and phase (see Annex 1 for list of DFI Acronyms)

		ADB	AFD	AFDB	AIIB	BNDES	CABEI	EBRD	EIB	IDB	IMF	ISDB	JICA	KFW	NDB	SIDA	UN	USAID	US-DFC	WBG
Short-term	Emergency liquidity/debt relief			X	X	X	X	X		X	X		X						X	X
	Humanitarian response/ Safety net										X				X		X	X		
	Water, sanitation, and health (WASH) emergency interventions			X	X	X	X			X		X			X			X		
	Supplemental funds for utility and service fees		X	X		X		X					X							
	Support to SMEs						X			X										X
Medium-term	Medium-term sustainable transportation solutions	X						X	X											X
	Temporary water treatment measures												X							
	Upgraded health facilities and infrastructure								X											X
	Sustainable COVID-19-compliant retrofits													X						
Long-term	Climate resilient infrastructure and transportation	X	X	X								X								X
	Long-term water and sanitation solutions		X																	X
	Full urban re-design or retrofit								X							X				
	Clean energy/ energy efficiency								X		X									
	Project preparation								X											X

4.1.5 NATIONAL INSTRUMENTS²⁷

Fifty-three initiatives from 17 countries and the European Union, totaling nearly USD 140 billion in non-liquidity assistance for cities or in support of city budgets have been announced since the start of the COVID-19 pandemic. The bulk of the funding is for either short- or long-term assistance (see Figure 9). Pledged assistance is dominated by developed countries (see Figure 10), who have funding to support their own municipalities via tax revenues, government reserves, or issuance of sovereign bonds.²⁸ Outside of the developed countries, South Africa has pledged to support the development of USD 20 billion in infrastructure projects to address COVID-19 challenges and climate adaptation needs; however, they have acknowledged that outside funding will be required.²⁹

Figure 9: National assistance by phase

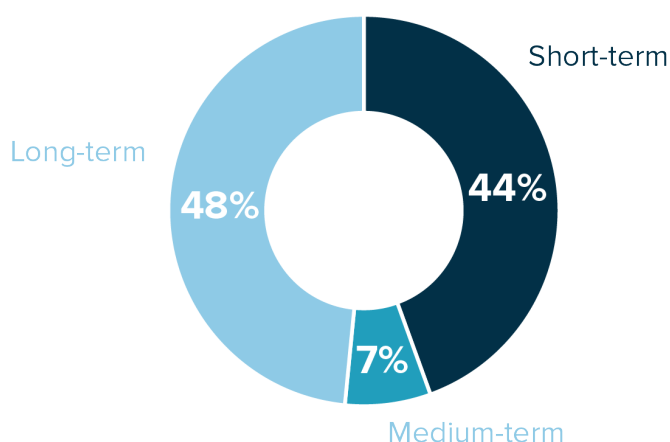
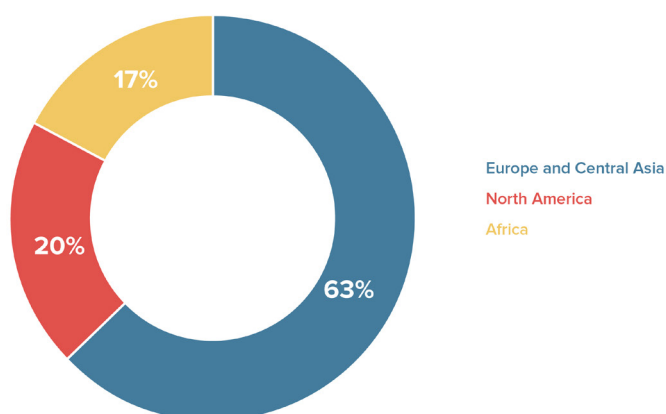


Figure 10: National funding by geography



The largest sectors for assistance from national governments are employment and industry (27%), transportation (28%), and infrastructure (23%) (see Figure 11).

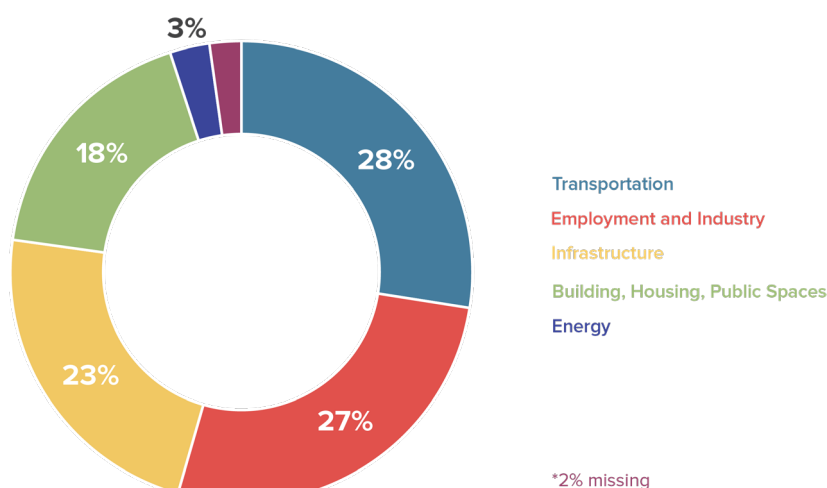
²⁷ National instruments refer to those sources of funding directly intended for the country. It does not include any multi- or bi-lateral assistance for other countries.

²⁸ Funding for Oceania and Asia are less than 1% of total national funding, so do not show up on the graph. Only non-liquidity assistance is shown, so Latin America (Brazil) is not represented.

²⁹ Business Insider 2020.

Employment and industry: This category includes a number of the interventions from Table 2, including those short-term safety net measures, support for retrofits, and conversion to renewable energy and electric fleets for industry. For example, the European Union has pledged nearly USD 35 billion to facilitate a just transition for workers displaced by the closing of power plants and mining facilities³⁰. South Korea³¹ and France³² have each pledged USD 1.4 billion to help industries in their countries decarbonize through transition to renewable energy, as well as encouraging the development of green industry.

Figure 11: National assistance by sector



Transportation: The European Union and the United States account for all of the funds pledged in support of transportation in cities. Through the CARES Act, the United States has pledged USD 23 billion in “capital and operating” support for public transit authorities to minimize the financial damage from COVID-19 and allow for modifications to vehicles and trains to comply with COVID-19 and keep public transportation running. France has pledged USD 7 billion for cities to fund projects to encourage walking and cycling, as well as funds to convert trains (subways and street cars) to electric power. Germany and Spain have committed USD 240 million and USD 120 million respectively to help cities convert their public transportation fleets to electric power. Finally, Italy is providing tax breaks to citizens who purchase bicycles.

In terms of specific interventions, Europe is leading the way for climate-focused assistance to cities.

- The European Union has announced that 25% of their COVID-19 stimulus package will be focused on climate resilience³³.
- In Finland, the government has committed to seven different initiatives to help cities recover in a sustainable manner. Over USD 1.5 billion has been earmarked for greening transportation, phasing out oil heating in public buildings, and promoting walking and cycling. The government has also established an investment fund (USD 360 million) to fund infrastructure projects aimed at tackling climate change.

30 Devex 2020.

31 Ibid.

32 Ibid.

33 WRI 2020.

Table 3 tracks the initiatives announced to-date by phase and type of intervention. Some initiatives may be counted in more than one category.

Table 3: National assistance by sector and phase

		Brazil	Bulgaria	Denmark	EU	Finland	France	Germany	Ireland	Italy	Libya	New Zealand	South Africa	South Korea	Spain	Sweden	Ukraine	UK	USA
Short-term	Emergency liquidity/debt relief	X	X					X								X	X	X	X
	Humanitarian response/ Safety net				X	X					X		X			X			X
	Water, sanitation, and health (WASH) emergency interventions												X			X			
	Supplemental funds for utility and service fees															X		X	
	Support to SMEs		X			X										X			X
Medium-term	Medium-term sustainable transportation solutions		X	X	X	X	X	X	X	X					X				
	Temporary water treatment measures												X						
	Upgraded health facilities and infrastructure																		
	Sustainable COVID-19-compliant retrofits			X	X	X	X	X	X			X	X					X	
Long-term	Climate resilient infrastructure and transportation				X	X	X						X	X	X				
	Long-term water and sanitation solutions					X							X						
	Full urban re-design or retrofit			X	X	X	X	X	X	X				X				X	
	Clean energy/ energy efficiency			X		X	X					X	X	X				X	

4.1.6 PRIVATE INSTRUMENTS

The private sector - (defined in this brief as foundations, banks, and private investors) - can play a significant role in financing and facilitating a green recovery for cities. These entities have the ability to quickly deploy funds to serve critical needs. Companies with operations in major cities typically have philanthropic initiatives designed to support their local communities. These funds could be redeployed or augmented to improve the resilience and recovery of cities. Foundations with a climate or urban mandate could likewise channel their capital toward a green, urban recovery. Finally, banks and equity investors alike could seek investment opportunities in urban areas through

infrastructure, real estate, and transportation to build sustainable, resilient, profitable portfolios.

To date, private sector assistance has largely been focused on the immediate humanitarian response. Very few initiatives related to urban climate finance have been announced. Some entities with existing portfolios, such as Bloomberg Sustainable Cities, have been working with cities on crisis management and recovery plans, but have not announced additional funding.

Major initiatives announced to-date include:

HSBC/IFC Real Economy Green Investment Opportunity Global Emerging Market (REGIO) Bond Fund: HSBC has teamed with the IFC to serve as anchor investors in the REGIO bond fund, an approximately USD 500 million facility aimed at buying bonds that fund climate mitigation projects in emerging markets³⁴. The fund addresses seven sustainable development goals (SDGs), including SDG 11, Sustainable Cities and Communities³⁵. The fund was announced on 21 May 2020 and is available to institutional and professional investment clients of HSBC.

JPMorgan Chase AdvancingCities initiative: On 18 March 2020, JPMorgan Chase announced a USD 35 million increase in their commitment to their AdvancingCities initiative to help vulnerable communities to recover from COVID-19³⁶. Originally capitalized at USD 500 million, the AdvancingCities initiative is a “five-year initiative to invest in solutions that bolster the long-term vitality of the world’s cities and the communities”³⁷.

34 HSBC 2020.

35 Ibid.

36 Business Wire 2020.

37 JPMorgan Chase 2020.

5. CHALLENGES AND RECOMMENDATIONS

The global response to COVID-19 is rapidly changing, and new instruments, policies, and approaches are being formulated on a nearly daily basis. To-date, much of the funding has been focused on addressing the immediate impacts of the pandemic on health, income, shelter, water, and sanitation. As cities turn toward recovery, the focus will need to switch to longer-term, comprehensive solutions to ensure the recovery is green and sustainable. This will require that funds pledged are accessible and controlled by cities and do not exacerbate their debt burden unnecessarily. Making this a reality will require overcoming many of the challenges cities face when accessing and deploying capital.

The first trends identified previously—significant volume of under-programmed long-term funds, lack of a comprehensive approach, yet clear areas to focus on for a green recovery—reveal challenges and opportunities to effectively help cities build back better. The challenges and recommendations we highlight are intended for consideration by key funders—national governments, DFIs and climate funds, and the private sector—as they look to program current and future capital. Where possible, examples of existing or planned tools, networks, and funding mechanisms are provided.

5.1 CHALLENGE: CITIES' ABILITY TO BORROW OR ACCESS FUNDING IS LIMITED, LEADING TO A LACK OF DIRECT CONTROL OVER RESOURCES

Local governments are fully confronted with the COVID-19 pandemic since they are on the frontline of citizen engagement, providing service delivery and managing of public spaces. Due to shrinking tax revenues and available cashflow as well as inflexible earmarked intergovernmental transfers, local governments are likely to witness liquidity constraints and sharply increasing public debt as well as defaults on credits.

Local governments rely on three major sources: their own revenues, intergovernmental transfers, and subnational borrowing. Policy barriers that prevent cities from effectively accessing finance to develop critical recovery projects and initiatives are numerous and vary by country and region. Many of these place varying limits on cities' ability to borrow from public and private institutions or issue bonds. For cities with access to capital markets, this lowers credit ratings for public bonds and other lending instruments. Higher risk profiles, even for possible insolvency, and strong currency devaluation or depreciation, foreign direct investment by the private sector is very likely to decrease drastically. Overall, the situation lowers even more than before access to long-term financing for infrastructure investments.

In developing countries, the majority of international public development finance is channeled through the national government in the form of sovereign loans, which are then on-lent to cities and other sub sovereign entities. Accessing these funds requires that cities be aware they exist, know how to access them, and have projects eligible given the loan conditions. When funds are not earmarked for cities, they must compete against all other projects and priorities in the country.

RECOMMENDATIONS

Maintain fiscal support for local governments so that they can maintain their credit ratings and borrowing capacity. Much of the assistance to cities and other sub sovereign entities has come in the form of fiscal support to help minimize the impact on city coffers from lost tax and fee revenue and increased COVID-19-related costs. This should continue, and could be done through continued direct transfers, and/or eventually through more blended finance approaches where national governments or DFIs provide first loss facilities or other forms of guarantees to de-risk loans to cities, enabling them to borrow at more favorable terms. A blended finance approach could also be used to finance public-private partnerships (PPPs), which would also reduce the debt burden on cities while simultaneously leverage private capital.

Earmark funds for urban climate finance to facilitate a green recovery. Whether through DFIs or from national governments, designating funds to specifically be spent on green recovery projects in cities will be more effective in achieving their objective. Several countries in Europe—including Denmark, Finland, France, Germany, and the United Kingdom—have taken this approach to funding public fleet conversions, reshaping public spaces to encourage pedestrian traffic, and retrofitting buildings to reduce emissions. Other countries could take similar approaches, and DFIs could also look to design facilities for developing countries in a similar fashion.

Examples:

- See the description of programs funded by Denmark, Finland, France, Germany, and the United Kingdom in the National Instruments section of this brief.
- CICLIA (Cities and CLimate In Africa): funded by AFD, this is a project preparation facility specifically designed to help cities develop low-carbon infrastructure projects.³⁸
- Green Cities: an initiative of the EBRD, Green Cities helps cities develop (through grants) and fund (through loans) a “Green City Action Plan” focusing on sustainable infrastructure.³⁹

Design DFI-sponsored instruments to allow cities direct access to funding, rather than having to access capital from a sovereign loan. Direct loans or grants to cities will ensure that funds go directly toward their intended project or objective.

Examples:

- The Asian Infrastructure Investment Bank (AIIB) makes direct loans for infrastructure

³⁸ Green City Finance Directory.

³⁹ Ibid.

projects to cities, rather than going through a sovereign loan structure.

- EIB's framework loan approach through its Vital Infrastructure Support Program (VISP) is an example of a comprehensive approach to helping cities facilitate a green recovery.

5.2 CHALLENGE: THE DIVERSITY IN SIZE, INVESTOR READINESS, AND SCOPE OF NEED FROM CITY TO CITY IS IMMENSE, MAKING IT DIFFICULT FOR FUNDERS TO DEVISE COMPREHENSIVE, LONG-TERM APPROACHES

The process for engaging with cities can vary from country to country, as well as by size or governance structure. It can be inefficient for DFIs or private funders to engage with individual cities, who will likely prefer engaging at a national level. This can dilute the input cities have on programming funds to meet their needs and may mean that funding does not go to the sector or the cities who need it the most.

In addition, DFIs and other funders often have minimum “ticket sizes” for investments, particularly in complicated projects in the infrastructure sector. The cost to structure and carry out due diligence on a project is the same regardless of the size of the investment. It is therefore in the interest of these funders to find larger projects, meaning smaller cities can be left behind.

RECOMMENDATIONS

Work with Project Preparation Facilities to make projects investment ready

External services from Project Preparation Facilities (PPFs) offer local governments to prepare financially viable projects PPFs as members of the Alliance are well equipped to serve that purpose and provide cities with strong support for post-COVID recovery actions, adapting flexibly to changing demands and needs. PPFs work flexibly across different sectors and technical expertise to adapt according to demands from partner cities. For an impactful and effective urban infrastructure recovery program, it is important to develop and maintain a pipeline of projects that are technically well-defined, have gone through a rigorous appraisal and selection process, are financially feasible, and contribute sufficiently to growth, social cohesion, as well as towards the achievement of the Paris Agreement and the SDGs.

Project pipelines supported by PPFs have significant potential to create co-benefits such as job creation, air quality improvement, gender equality, community engagement, or food security. By strengthening co-benefits of a climate infrastructure project, a city does not have to choose between climate action and social and economic benefits. PPFs typically involve a combination of grant funding and technical assistance including

capacity development support, allowing local governments to design and structure projects to be able to access debt or equity to finance project implementation. In this regard, PPFs are brokers – they support bridging the demand and the supply side by connecting financial institutions with city governments. Some PPFs are tied directly to follow-on financing, while others will work with cities to help identify and secure funding.

For a more comprehensive compilation of facilities or initiatives active in the area of project preparation aimed at cities, refer to the Green City Finance Directory, recently launched by the Alliance⁴⁰ or the PPFs that are part of the Leadership of Urban Climate Investment in the Alliance website⁴¹.

Working with National Development Banks. National Development Banks (NDBs) offer many comparative advantages in terms of financing green urban recovery efforts. A recent Alliance report highlighted several benefits to working with NDBs, including a close proximity to the market that enables a better understanding of priorities and effective risk mitigation, ability to tap different funding sources, ability to lend in local currency, and ability to pool different financing sources into a blended structure⁴².

Examples:

- While NDBs vary considerably in size, mandate, and structure from country to country, many have significant mandates to fund projects that would support urban climate finance. These include the Brazilian Development Bank (BNDES) with a dedicated credit line for urban infrastructure, and the Chinese Development Bank (CDB), whose mandate to support the government's 5-year plan that includes green infrastructure⁴³.

Aggregate projects and investment that prioritize urban climate projects. Setting up city-focused funds (such as the GURF) or structuring a bond or other asset-backed instrument can help increase transaction size. By setting up a facility focused on building urban climate finance projects, economies of scale and project aggregation can make projects economical. The Alliance, throughout its Financial Toolbox Action Group, is developing a framework report to provide an overall scene-setting framework on actionable aggregation interventions that significantly increase finance for small and medium-sized urban climate projects.⁴⁴

Two instruments recently endorsed by the Global Innovation Lab for Climate Finance (The Lab) address aim to address these challenges:

- **Climate Adaptation Notes (CAN):** Climate Adaptation Notes is an asset-backed capital markets instrument that combines the construction and post-construction financing/re-financing phases of project finance into a single instrument. CAN leverages the technical due diligence expertise of commercial banks, the development mandate of DFIs, and the capital liquidity and long-term risk appetite of institutional investors to increase funding available and improve pricing for climate adaptation infrastructure projects that serve cities⁴⁵. CAN has been designed for

40 Green City Finance Directory. Available from: <https://www.citiesclimatefinance.org/green-city-finance-directory/>

41 LUCI PPFs. Available from: <https://www.citiesclimatefinance.org/leadershipforurbanclimateinvestment/>

42 CCFLA 2020.

43 Ibid.

44 This Report is aimed to be launched early 2021 in <https://www.citiesclimatefinance.org/>

45 Global Innovation Lab for Climate Finance 2020.

Southern Africa but should be replicable globally. It is sponsored by Renewable by Nature and GFA Climate & Infrastructure and aims at an initial issuance of USD 125 million.

- **Sub-National Climate Fund (SnCF):** SnCF is a blended equity facility with a technical assistance arm designed to both prepare and invest in projects at the sub-national level, with a focus on renewable energy, nature-based solutions, and waste and sanitation. It is sponsored by R20—Regions of Climate Action and aims for an initial capitalization of USD 750 million. On November 13, 2020, the Green Climate Fund (GCF) approved an equity investment in the fund of USD 168 million⁴⁶.

Working with city networks, international organizations and networking and knowledge-sharing organizations to design and implement comprehensive assistance programs that cover the life cycle of an approach to a green urban recovery. There are very strong global networks of cities that work with their members to address some of the most critical challenges facing cities, and have been active in the COVID-19 era in terms of finding resources for cities to address this crisis. DFIs, national governments, and private sector funders would be wise to leverage the expertise and reach of these networks to design and deploy funding for a green recovery for cities.

Examples:

- **Cities Climate Finance Leadership Alliance (the Alliance):** The Alliance is comprised of city networks, DFIs, private sector entities, and NGOs/think tanks/ international organizations with mandates to facilitate urban climate finance through policy, funding, or other advisory means. Among the city networks members of the Alliance there are: C40 Cities; the Global Covenant of Mayors for Climate and Energy, ICLEI—Local Government for Sustainability, UCLG—the global network of cities, local, and regional governments; the FMDV - Global Fund for Cities Development; the Resilient Cities Network; R20- Regions of climate action⁴⁷.
- **Global Urban Resilience Fund:** The U20, an initiative of the G20 focusing on climate action and sustainable growth for cities, has launched the Global Urban Resilience Fund (GURF) October 2, 2020. It is intended to become the first ever cities-led Fund, managed by U20, to finance resilience infrastructure and capability in cities. U20 anticipates the fund will be seeded by DFIs and the private sector and support cities in different stages of the project cycle through different financial products like grants, low-interest loans, securitization and guarantees. U20 anticipates the GURF will be operational in 2021⁴⁸.

⁴⁶ GCF 2020.

⁴⁷ As of September 2020.

⁴⁸ Direct consultations with U20 representatives.

7. CONCLUSION

The response to the COVID-19 crisis to-date has been rightfully focused on the most critical, short-term needs, such as financial support for people and small businesses; testing, tracing, and PPE provision. Also, for basic humanitarian assistance such provision of food and sheltering to vulnerable populations. As the immediate issues are addressed, those in a position to provide assistance (countries, donors, and the private sector) will need to turn their attention to the medium- and long-term. In doing so, funders should consider designing funding mechanisms that:

- Are directly accessible by cities.
- Meet the diverse needs of cities.
- Leverage existing networks, project preparation facilities, and local institutions.
- Help cities to develop investment ready projects.

This policy brief aims to contribute new key findings to the conversation on helping cities to build back better. As the world slowly moves toward a recovery phase, new funds to meet new needs are likely to arise, necessitating further conversation and coordination. While a true green urban recovery will remain a work in progress for many years, it is clear that it should be driven through cities as the success or failure of stopping future pandemics and maintaining quality of life and prosperity will be determined in cities.

8. ANNEX 1: LIST OF DEVELOPMENT FINANCE INSTITUTION (DFI) ACRONYMS

ADB	Asian Development Bank
AFD	French Agency for Development
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
BNDES	Brazilian National Development Bank
CABEI	Central American Bank for Economic Integration
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
IDB	Inter-American Development Bank
IMF	International Monetary Fund
IsDB	Islamic Development Bank
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau (the German state-owned development bank)
NDB	New Development Bank
SIDA	Swedish International Development Cooperation Agency
UN	United Nations
USAID	United States Agency for International Development
US-DFC	U.S. International Development Finance Corporation
WBG	World Bank Group

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