



# Accelerating Urban Climate Finance in Low- and Middle- Income Countries

An important strategic dimension of MDB reform

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## ABOUT THE CITIES CLIMATE FINANCE LEADERSHIP ALLIANCE

The Cities Climate Finance Leadership Alliance (CCFLA) is a coalition of leaders committed to deploying finance for city-level climate action at scale. Trillions of dollars will be required to help cities build the low-emissions, resilient infrastructure necessary to combat and react to climate change. The CCFLA is the only multi-level and multi-stakeholder coalition aimed at closing the investment gap for urban subnational climate projects and infrastructure worldwide.

## THIS REPORT WAS DEVELOPED IN COLLABORATION WITH



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# EXECUTIVE SUMMARY

## WHY URBAN CLIMATE FINANCE MATTERS FOR MDB REFORM

**Addressing the global climate emergency requires urgent and comprehensive solutions that scale up investment, expedite collective response efforts, and carefully assess associated risks.** In recent years, Multilateral Development Banks (MDBs) have substantially increased their climate finance investments, recording an increase in the annual average from USD 57 billion in 2017/2018 to USD 93 billion in 2021/2022 (CPI, 2023).<sup>1</sup>

**Yet, to meet the goals of the Paris Agreement, an unprecedented surge in climate finance is needed, with an annual increase of at least 590% (CPI, 2021).** MDBs have the potential to play a pivotal role in this critical endeavor by using public funds to leverage investment to increase the pace and scale of climate action – particularly in low- and middle-income countries (L&MICs).

Calls for reform by high-level groups, such as the G20 Independent Experts Group, and initiatives, such as Bridgetown, are discussing how to reform MDBs to be more “fit-for-purpose” to meet the emerging challenges of this century, including achieving sustainable development, rising debt levels, and pandemics, as well as climate change. Proposals include better reflecting climate considerations in MDB mandates and strategies, expanding the sources and quantity of climate funding, enhancing operational models, creating better financial instruments for improved debt sustainability and private capital mobilization, and leveraging policy support to maximize investment impact (Bridgetown, 2023; G20, 2023a, 2023b).

**However, cities' needs have rarely been raised in MDB reform discussions.** While the Report to Governors on the World Bank Group’s Evolution Roadmap raised the importance of subnational support in early 2023, this wording does not feature in the final paper (World Bank, 2023b, 2023c). Earlier in 2023, US Treasury Secretary Janet Yellen also identified subnational access to development finance as an important reform area (Shalal, 2023).

**To address the climate emergency, MDBs must work more closely and effectively with cities, which are at the forefront of the battle against the climate crisis.** Despite occupying less than 2% of the earth’s surface, cities contribute to 70% of global energy use and 75% of total CO<sub>2</sub> emissions (UNEP, 2021; World Bank, 2022c). As a result, they hold enormous investment potential, with climate-related opportunities in urban areas

<sup>1</sup> Data for 2017/2018 include finance from Asian Development Bank (ADB), African Development Bank (AfDB), Asian Infrastructure Investment Bank (AIIB), European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB), Islamic Development Bank (IsDB), New Development Bank (NDB), and World Bank Group (WBG). For 2021/2022, data includes all the previous MDBs plus the Council of Europe Development Bank (CEB).



in L&MICs projected to exceed USD 29.4 trillion by 2030 (IFC, 2018). At the same time, the cascading impacts of climate change present dire implications in L&MIC cities and underpin the increasing need to finance urban adaptation, which is crucial to safeguard over a billion people in cities expected to be impacted by extreme climate events by 2050 (C40, 2018). Cities are also ambitious: more than 13,000 cities had joined the Global Covenant of Mayors as of October 2023, showing their willingness to collaborate with national and international organizations to address climate and economic challenges (GCoM, 2023).

**Despite the attractive opportunities for urban climate investments, there is a significant shortfall in funding.** From 2017 to 2018, cities globally received a yearly average of only USD 384 billion in climate finance, which is only 7-8% of the annual global climate finance required of between USD 4.5 trillion and USD 5.4 trillion (CCFLA, 2021b). The gap is more pronounced in L&MICs, which often lack conducive national conditions for local climate investments. Challenges to accessing urban climate finance include poor creditworthiness, limited fiscal decentralization, revenue uncertainty, and restricted access to capital markets. Political misalignment between different government levels and municipalities' insufficient institutional capacity are also challenges. Additionally, the generally small ticket sizes of urban climate infrastructure projects can also deter investors.

**The current MDB reform agenda presents a crucial avenue for addressing the global challenge of urban climate finance in L&MICs.** While MDBs cannot address this challenge alone, MDBs are uniquely placed to support the urban climate finance agenda directly and through partnerships with national governments, given these banks' large financial resources and deep technical and policy expertise. MDBs have the capacity to mobilize capital in both international and domestic markets, to bridge gaps where private investors face obstacles, and to bring cutting-edge development knowledge to projects.

**This report presents the first assessment of ten<sup>2</sup> MDBs' contributions to urban climate finance in L&MICs and explores opportunities for them to do more.** Produced in collaboration with the C40 Cities Climate Leadership Group and the Global Covenant of Mayors, it provides analysis, insights, and recommendations to position urban climate finance as an important element of the MDB reform agenda and inform decision-making.

<sup>2</sup> These MDBs are the same as those contributing to the Joint Reports on MDBs' climate finance: African Development Bank (AfDB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), Council of Europe Development Bank (CEB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank Group, including Inter-American Development Bank (IDB) and Invest (IDB Invest), Islamic Development Bank (IsDB), New Development Bank (NDB), and the World Bank Group, including World Bank, International Financial Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA).

## KEY FINDINGS AND RECOMMENDATIONS FOR MDBS

Our analysis identified **five key areas of work** to help increase the volume and effectiveness of urban climate finance in line with current MDB reform agendas. For each area, we provide concrete recommendations, supported by analytical findings, on how MDBs could enhance urban development and local climate action. The key areas of work are:

1. Urban climate finance volumes and shares
2. Strategies and coordination
3. Operating models
4. Private Capital Mobilization
5. Policy support and capacity building

Figure 1: Five recommendations to make urban climate finance a strategic component of MDB reform



## 1. INCREASE THE VOLUME AND SHARE OF URBAN CLIMATE FINANCE

### Recommendations:

- 1.1 Increase volumes and share of urban climate finance in MDB total climate finance, focusing on those regions with the most pressing urban mitigation and adaptation needs.
- 1.2 Accelerate concessional finance for urban climate action by leveraging existing MDB concessional funding and partnering with international climate funds and bilateral donors to increase these funds further.

Our analysis found that 21% of tracked climate-related MDB finance to L&MICs from 2015 to 2022 went to urban projects. This share has remained relatively constant over time despite rising urbanization, especially in Sub-Saharan Africa and the Middle East and North Africa (MENA), which have received relatively less urban climate-related finance than other regions.

A larger share of MDB urban climate-related finance is dedicated to adaptation (32%) compared to MDB climate-related finance as a whole, for which the adaptation share is 18%. Nevertheless, considering cities are often at the frontline of response to climate-related shocks and stressors, there remains a pressing need to accelerate urban adaptation investment and mitigation.

Concessional capital plays a crucial role in facilitating urban climate action, particularly for adaptation. Additional concessional funds targeting urban climate finance should be mobilized via programmatic partnerships between MDBs and thematic climate funds such as the Green Climate Fund (GCF) and the Climate Investment Funds (CIF), and/or bilateral funders. The CIF Smart Cities Program, which is currently fundraising, is an example of a platform that can leverage concessional capital for urban climate action at scale while coordinating the investments of six MDBs.<sup>3</sup>

## 2. IMPROVE URBAN FOCUS IN STRATEGY, COORDINATION, AND TRACKING

### Recommendations:

- 2.1 Consider the urban dimension in a systematic and coordinated manner when formulating MDB country, sectoral, and climate strategies, and reflect the voice of cities.
- 2.2 Track and monitor the urban shares of climate finance and report them in the Joint Reports on MDBs' Climate Finance.

<sup>3</sup> The CIF currently works through six MDBs: the AfDB, ADB, EBRD, IDB, World Bank, and the IFC.

Most MDBs include climate as a cross-cutting priority in their urban strategies. Still, their country and climate strategies do not consistently account for cities' role in sustainable development. MDBs should systematically assess the contribution of cities to each country's climate and development goals and include city representatives in the development of country, sectoral, and thematic strategies. While national governments largely drive country strategies, MDBs also contribute significantly and can help to ensure urban priorities are included. For example, some World Bank Country Climate Development Reports (e.g., for Türkiye and Egypt) have a high urban focus, including assessments of cities' climate risks, as well as their possible resilience and low-emissions development trajectories (World Bank, 2022b, 2023a). MDBs should roll out such approaches systematically across all the countries in which they are active.

In strategy development and implementation, more effective coordination is also needed across MDB departments (e.g., those working on urban, water, transport, and climate issues) and across different MDBs, particularly in developing country-level platforms.

Additionally, harmonizing definitions and tracking urban climate finance can help measure progress and prioritize future action. To enhance transparency and accountability, MDBs should, at minimum, internally track their urban climate finance flows and report on them consistently. We propose that this be achieved by disclosing such flows in the Joint Reports on MDBs' Climate Finance.

### 3. ADAPT OPERATING MODELS TO SCALE UP URBAN CLIMATE ACTION

#### Recommendations:

- 3.1 Adopt a programmatic approach to urban climate policy, pipeline development, and finance.
- 3.2 Increase the provision and effectiveness of technical assistance geared at closing cities' planning-to-investment gaps.
- 3.3 Promote direct and indirect financing for cities to address their distinct and diverse needs, including local currency financing.

Shifting away from a project-by-project approach for urban climate investment to a more strategic programmatic approach would help to scale up MDBs' urban climate finance, support their internal coordination between their climate- and urban-focused teams, and enhance engagement with cities. Such an approach, as exemplified by the EBRD Green Cities program, could help streamline planning, pipeline development, finance, and implementation support around cities' needs, as well as being flexible to finance projects across a broad range of investment sizes.

Programmatic approaches support the development of robust pipelines of financeable urban climate projects. These can be developed by increasing funding for existing in-house project preparation facilities (PPFs) (e.g., the ADB's Cities Development Initiative for Asia and the World Bank and EIB's City Climate Finance Gap Fund), improving



coordination with external PPFs, and ensuring effective linkages between technical assistance and financing activities. A joint-MDB project preparation facility could also be explored for MDBs to collaborate more closely on project origination and development.

Given that 49% of MDBs' tracked urban climate-related finance has been channeled through national governments – and this percentage is likely to be even larger after accounting for data gaps – exploring direct and intermediated means of financing cities can empower further climate action. City governments seeking sovereign loan guarantees often face bureaucratic hurdles and political differences with national governments. MDBs should, therefore, seek to finance cities directly through non-sovereign operations where possible, which only constitute 2% of tracked MDB urban climate-related finance. There is also potential for greater use of public and private financial intermediaries to finance a wide variety of cities, given that only 4% of tracked MDBs' urban climate-related flows went via this route from 2015-2022. Intermediaries such as national development banks and local commercial institutions can scale up investment in cities that may not be able to borrow directly from the MDBs, such as small- to medium-sized ones, and can contribute to enhancing the deployment of local currency instruments. Finally, foreign exchange risk was identified as a key barrier to MDB financing by cities in L&MICs. Yet, only 6% of tracked MDB urban climate-related finance was reported in currencies other than euros or US dollars.

#### 4. SHARPEN FOCUS ON PRIVATE CAPITAL MOBILIZATION

##### Recommendations:

- 4.1 Promote risk-mitigation instruments to increase private sector engagement and investment in urban climate projects.
- 4.2 Strengthen MDB finance to the private sector by investing in urban climate action both directly and through intermediaries.

MDBs can play a particularly relevant role in supporting cities to access private finance, addressing issues of low creditworthiness, limited technical capacity, and regulatory barriers. MDBs should seek to identify opportunities for private sector involvement in urban climate action and deploy risk-mitigation instruments such as guarantees and blended finance. To date, MDBs have made little use of such tools for climate finance in urban settings. Guarantees and grants make up around 2.7% of all tracked MDB climate-related finance (urban and non-urban) but less than 0.1% of all MDB urban climate-related flows. While tracked data on financial instruments has significant limitations, our interviews confirmed the need for MDBs to scale up risk-sharing instruments to crowd in private capital for urban projects.

Moreover, MDBs, particularly their private sector focused arms, can invest directly or indirectly in private companies developing urban climate solutions and help to mobilize additional private capital. They can invest directly in companies, as exemplified in the IFC Utilities for Climate Initiative, or indirectly through national development banks, local commercial banks, and privately managed blended funds such as the Subnational Climate Fund.

## 5. ENHANCE POLICY SUPPORT AND CAPACITY BUILDING

### Recommendations:

- 5.1 Work with national governments to champion comprehensive national-level policy reform initiatives to improve the enabling environment for urban climate action.
- 5.2 Expand local capacity-building initiatives to enhance city governments' financial and management capacity and their ability to work with other finance providers.

MDBs can work with national governments to improve the enabling environment for urban climate finance. This can include deploying policy-based instruments to support city-level climate action, as well as national reforms that strengthen subnational financial capacities and reduce regulatory barriers affecting cities' revenue and risk profiles and their ability to crowd in private capital. This can take the form of policy-based loans to support efforts such as fiscal decentralization, vertical policy integration, and subnational financial management.

Moreover, MDBs can reinforce efforts to strengthen cities' ability to strategize, prepare, and execute climate projects alongside other financial partners. Ongoing related initiatives include the joint MDB Public-Private Partnerships (PPP) Certification Program delivered by APMG International and the AfDB's Urban & Municipal Development Fund, which aim to address regulatory barriers and technical capacity gaps among local stakeholders (AfDB, 2023b; APMG, 2019).

## CONCLUSION AND NEXT STEPS

Ongoing calls for MDB reform present a crucial opportunity for these banks and their partners to accelerate investment for urban climate solutions in L&MICs. In the face of rapid urbanization and climate vulnerability, these cities urgently need to break down barriers to accessing critical financial resources. Strengthening L&MIC cities' capacity to respond to the climate crisis is a necessity for meeting global climate goals, and MDBs can play a crucial role in stewarding this process.

MDBs have made significant urban climate investments in recent years. Many have developed urban strategies and expertise for the climate transition and have provided public and private entities in L&MICs with TA, capacity building, and policy support to

accelerate urban climate investment. By mobilizing concessional finance, they have helped L&MIC cities to access otherwise unreachable finance sources.

There is a compelling need to ramp up these efforts and enhance their effectiveness. Overall, MDB urban financing volumes appear to have plateaued at a critical juncture in the transition to low-carbon urban development and increasing urban vulnerability to climate change. Gaps remain in prioritizing urban needs across MDBs' climate and country strategies and how they work with other actors in the international financial architecture to mobilize funding. Current project-based approaches limit MDBs' ability to catalyze systemic urban transformation and traditional MDB instruments are often not tailored to cities' needs, for example, by being too large and rarely in local currency.

Ongoing calls for MDB reform emphasize scaling up climate finance to where it is most needed, deploying risk-sharing instruments, and promoting more systemic ways of funding and collaborating among financiers, presenting an opportunity to scale the volume and effectiveness of urban climate finance. This will require concerted collective efforts by MDBs, in collaboration with shareholder governments and local stakeholders, to prioritize urban needs systematically and implement robust programs that accelerate urban climate project development from inception and investment through to implementation. This can be accomplished by leveraging existing initiatives and instruments supporting urban climate projects, as well as developing new, more fit-for-purpose ones. Inter-MDB cooperation has great potential to adopt joint strategies to scale up urban climate finance.

The findings of this paper offer a platform for reflection on how MDBs can collectively enhance their support for urban climate finance amid ongoing reform efforts. Based on these conclusions, the CCFLA aims to take the following next steps:

1. Promote an open dialogue between MDBs and cities to discuss practical action to further develop this report's recommendations.
2. Join forces with other global actors discussing MDBs' urban climate finance investment, such as the Sustainable Development Solutions Network Urban SDG Finance Commission.
3. Engage national governments, particularly those that are MDB shareholders, in the debate on how to scale and increase the quality of urban climate finance investments from MDBs.
4. Further explore innovative solutions to increase MDBs' financial instruments that can respond to cities' needs.
5. Further explore the challenges and opportunities for MDBs to scale private-sector funding for urban climate projects.

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# I. INTRODUCTION

## WHY CITIES MATTER FOR MDB REFORM

**Addressing the global climate emergency requires urgent and comprehensive solutions that scale up investment, expedite our collective response efforts, and carefully assess associated risks.** In recent years, Multilateral Development Banks (MDBs) have substantially increased their climate finance investments, recording an increase in the annual average from USD 57 billion in 2017/2018 to USD 93 billion in 2021/2022 (CPI, 2023).<sup>4</sup> Yet, to meet the Paris Agreement's goals and avert climate change's most perilous consequences, an unprecedented surge in climate finance is needed, with an annual increase of at least 590% (CPI, 2021). MDBs have the potential to play a pivotal role in this critical endeavor by using the limited public funds available to them to leverage investment to increase the pace and scale of climate action – particularly in low- and middle-income countries (L&MICs).

**Various international stakeholders are discussing how to reform MDBs to be more “fit-for-purpose” to meet the intersecting challenges of this century, including achieving sustainable development, rising debt levels, pandemics, and climate change** (see Box 1). Proposals include better reflecting climate in MDB mandates and strategies, expanding climate funding sources and quantity, enhancing operational models, creating better financial instruments for improved debt sustainability and private capital mobilization, and leveraging policy support to maximize investment impact. Reform discussions have created an opportunity to reassess MDB climate finance flows, which must dramatically increase to address global needs, as well as how to effectively allocate capital to achieve maximum impacts for both climate and sustainable development objectives (CPI, 2023).

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<sup>4</sup> Data for 2017/2018 include finance from Asian Development Bank (ADB), African Development Bank (AfDB), Asian Infrastructure Investment Bank (AIIB), European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), Inter American Development Bank (IDB), Islamic Development Bank (IsDB), New Development Bank (NDB), and World Bank Group (WBG). For 2021/2022, data includes all the previous MDBs plus the Council of Europe Development Bank (CEB)



**Box 1. Recent calls for MDB reform**

- G20 Independent Experts Group: The Triple Agenda - [Strengthening Multilateral Development Banks](#) - Volume 1; and [A Roadmap for Better, Bolder and Bigger MDBs](#) - Volume 2 (2023)
- Bridgetown Initiative led by the Prime Minister of Barbados Mia Mottley: [Bridgetown 2.0](#) (2023)
- [Vulnerable Twenty Group of Finance Ministers](#) (2023)
- Various countries at the Summit for A New Global Financial Pact called for by the French Presidency: [Multilateral Development Banks vision statement](#) (2023)
- African Union heads of state and government at the Africa Climate Summit: [African Leaders Nairobi Declaration on Climate Change and Call to Action](#) (2023)
- G20 expert panel for the [Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks](#), submitted to the G20 finance ministers (2022)
- Independent High-Level Expert Group on Climate Finance: [Finance for Climate Action](#) ("Songwe-Stern report"; 2022)

**The needs of cities have rarely been raised in MDB reform discussions.** While the Report to Governors on the World Bank Group's Evolution Roadmap raised the importance of subnational support in early 2023, this wording does not feature in the final paper (World Bank, 2023b, 2023c). Earlier in 2023, US Treasury Secretary Janet Yellen also identified subnational access to development finance as an important reform area (Shalal, 2023).

**To address the climate emergency effectively, MDBs must work more closely and effectively with cities, which are at the forefront of the battle against the climate crisis.** Despite occupying less than 2% of the earth's surface, cities contribute 70% of global energy use and 75% of total CO<sub>2</sub> emissions, mostly from carbon-intensive energy, transport, buildings, and industries (UNEP, 2021; World Bank, 2022c). Cities can reduce emissions in these critical sectors by developing, procuring, and managing low-emissions infrastructure (C40, 2023). Given that all expected population growth from 2018-50 will be in urban areas, with less developed regions accounting for over 90% of this increase, cities will be where much of the climate emergency unfolds (UNDESA, 2019).

**Cities in L&MICs are also particularly exposed to climate risks, including extreme weather events, such as intense precipitation, flooding, and extreme heat (IPCC, 2022a).** These vulnerabilities disproportionately impact socially and economically marginalized urban communities (IPCC, 2022b). A study by the C40 Cities Climate Leadership Group found that 215 million urban slum residents in over 490 cities will face disproportionate climate risks by 2050, including power, water, and food shortages due to floods and droughts (C40, 2018).

**Despite their vulnerabilities, cities in L&MICs have great potential for investments that combine high climate impact with strong economic benefits.** Recent estimates suggest that by 2030, cities in emerging markets will present private investment opportunities of at least USD 29.4 trillion in six key sectors – green buildings, electric

vehicles, climate-smart water, public transport, renewable energy, and waste (IFC, 2018). Moreover, cities can potentially reduce almost 90% of their greenhouse gas (GHG) emissions by 2050 with technically feasible and scalable solutions, enabling 87 million jobs in 2030 and generating a global economic dividend of USD 24 trillion (Coalition for Urban Transitions, 2019). Cities are also ambitious: more than 13,000 cities had joined the Global Covenant of Mayors as of October 2023, showing their willingness to collaborate with national and international organizations to address climate and economic challenges.

**Despite the attractive opportunities for urban climate investments, there is a significant shortfall in funding.** From 2017 to 2018, cities globally received a yearly average of only USD 384 billion in climate finance, which is only 7-8% of the annual global climate finance required of between USD 4.5 trillion and USD 5.4 trillion (CCFLA, 2021b). The gap is more pronounced in L&MICs, which often lack conducive national conditions for local climate investments. Challenges include limited fiscal decentralization, political misalignment between levels of government, and restricted project capacity (see Table 1). In addition, cities in L&MICs often lack financial autonomy due to revenue uncertainties and poor creditworthiness, limiting their access to capital markets.

**Table 1:** Barriers that limit urban climate investment

Barriers faced by cities	Impact on investments
Poor creditworthiness of cities	Limits investor appetite for lending due to potentially high repayment risk
Limited fiscal decentralization and revenue uncertainty	Limits the ability to rely on local revenues for repayment
Limited legal ability to access local and/or international capital markets	Prevents investors from financing cities directly
Political misalignment between levels of government	May affect the political will of central governments to direct funding to cities
Limited municipal-level institutional capacity	Limits ability to source, prepare, and implement projects
Short political cycles	Shifting priorities of administrations make it hard for cities to make long-term funding commitments
Underdeveloped local private sector, financial, and capital markets	Limits potential for private-sector capital to crowd-in through investments
Small project size	High costs of project structuring and due diligence make investments unattractive vis-à-vis larger projects

**The current MDB reform agenda presents a crucial avenue for addressing the global challenge of urban climate finance in L&MICs.** MDBs cannot address this challenge alone, especially as they are ultimately driven by countries' national priorities and the extent to which these are focused on the climate transition, as well as cities. Nonetheless, these banks have a unique role in closing the climate finance gap by

leveraging further investment. Their ability to mobilize domestic and international capital markets, address barriers to private investment, and engage with national governments on policy positions MDBs as catalysts for urban climate finance. They can also enable cities in L&MICs to create investment-friendly environments, further facilitating crucial climate investment at the urban level.

**However, data gaps make assessing current MDB contributions to urban climate investment difficult.** There is no joint public project-level dataset on MDB climate finance, and existing tracking efforts do not universally include “urban” tagging of MDB projects. While some MDBs monitor urban climate finance in their portfolios, variations in their definition and classification of what this constitutes create challenges to achieving a cohesive and consistent assessment. A shared framework for monitoring volumes and effectiveness is crucial to advancing urban climate finance as a central priority.

**This report aims to provide the first overview of urban climate finance volumes and initiatives for L&MICs of ten MDBs.<sup>5</sup>** It presents insights into how these MDBs are contributing to urban climate finance, shedding light on their strategies, successes, and challenges. This comprehensive picture of the current landscape can help inform decision-making and policy development for urban climate finance. While MDBs differ in terms of their mission, geographic and sectoral coverage, and the partners they work with (see Box 2 for more details), their broad similarities mean that the recommendations of this report apply to all MDBs. However, implementing action may vary across banks and may benefit from cooperation between MDBs to leverage their unique strengths.

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<sup>5</sup> These MDBs are the same as those contributing to the Joint Reports on MDBs' climate finance: African Development Bank (AfDB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), Council of Europe Development Bank (CEB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank Group, including Inter-American Development Bank (IDB) and Invest (IDB Invest), Islamic Development Bank (IsDB), New Development Bank (NDB), and the World Bank Group, including World Bank, International Financial Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA).

### Box 2. Differences among MDBs

MDBs share many commonalities but differ from one another in key aspects. The banks included in this paper have similar missions and governance structures, with a broad focus on advancing economic development and reducing poverty. They all work with their shareholders (national governments) to finance projects and provide TA and policy advice.

However, they have crucial differences in their sectoral focus and geographic coverage mandates. They also have varied clients and partners. Most of the MDBs analyzed in this paper have predominantly (>80%) sovereign operations, meaning that they finance national governments or may require sovereign guarantees to finance non-sovereign actors such as subnational governments (World Bank, AfDB, CEB, NDB, and IDB). Some MDBs or arms of MDBs like IFC, MIGA, and IDB Invest exclusively focus on non-sovereign investments, mostly in the private sector. The EBRD has mostly non-sovereign operations. The remaining MDBs (EIB, ADB, and AIIB) have more even splits between sovereign and non-sovereign operations. Understanding the clients that MDBs work with is crucial for how they interact with cities; banks with mostly sovereign operations are more likely to work through national governments and public financial institutions, while those with more non-sovereign operations may interact more directly with municipalities through private or semi-public companies, or commercial banks (see Section 3 for more details). More details on the missions, regional coverage, types of operations, capital allocation, and credit ratings of MDBs are shown in Annex 1.

## REPORT OBJECTIVES AND STRUCTURE

This report highlights the relevance of urban climate finance as a strategic component of MDB reform and makes recommendations for action based on an assessment of current MDB activity. It focuses on L&MICs, given their high climate vulnerability and the high capital costs they face. This research included:

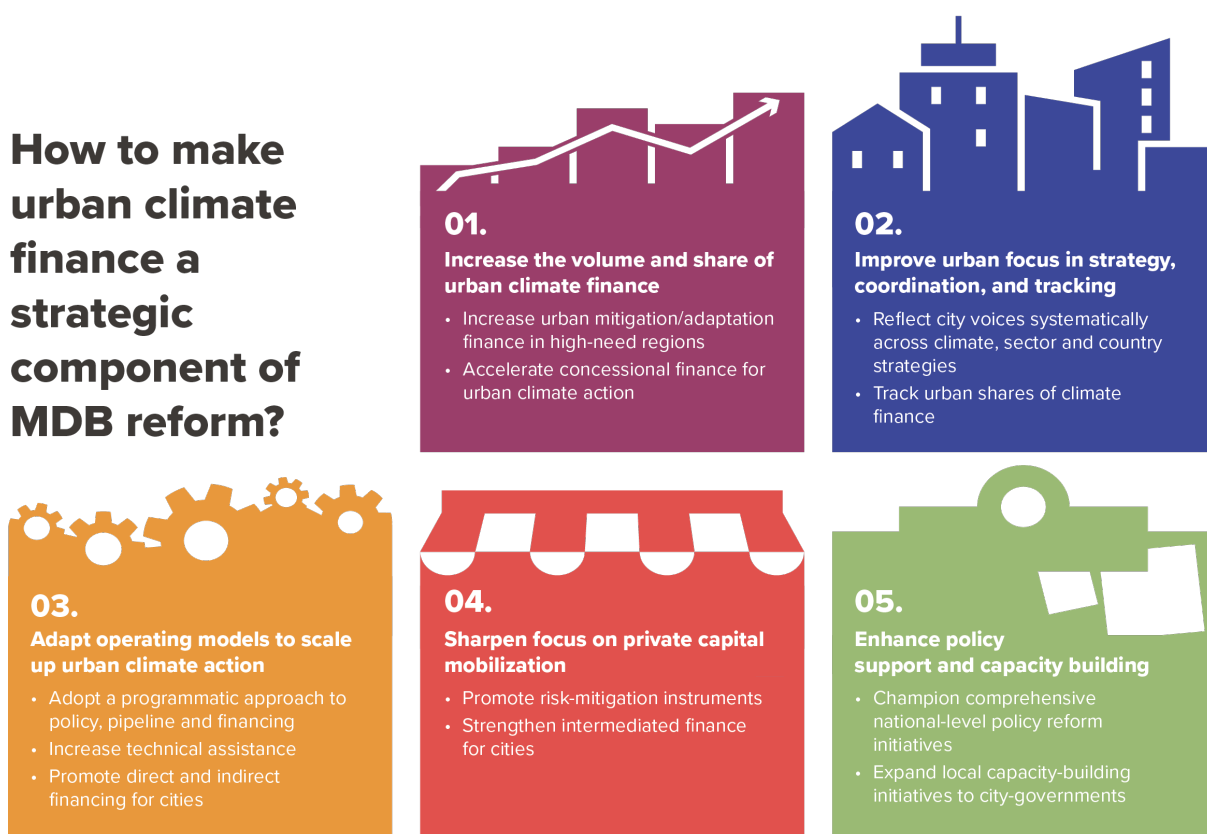
- Collecting and analyzing a dataset on MDB urban climate-related financing provided to L&MICs using novel methods (i.e., web-scraping, combining different publicly available data sources) as this is an area that currently faces a critical data gap;
- Providing analytical insights, informed by interviews and desk research, on how MDBs currently support urban climate finance and highlighting emerging best practices;
- Identifying ways in which MDBs, along with partners, can scale up the quality and quantity of urban climate finance.

**Leveraging the findings of our analysis, we have structured this paper around key recommendations designed to guide MDBs' accelerated efforts to foster urban climate finance.** These recommendations have been categorized under five key areas being discussed in calls for MDB reform. Each section puts forth specific recommendations aimed at contributing to ongoing MDB reform discussions to elevate the urban climate finance dimension (see summary of recommendations in Figure 1). The sections unfold as follows:

1. **Increase volume and share of urban climate finance:** how and why MDBs should scale up their urban climate finance, including leveraging concessional finance.
2. **Improve urban focus in strategy, coordination, and tracking:** how MDBs can systematically prioritize the urban dimension when formulating MDB country, sector, and climate strategies and work together to track urban climate finance.
3. **Adapt operating models to scale up urban climate action:** how MDBs can deliver their urban climate portfolio more with a programmatic approach, from origination to investment decisions and tools, as well as how they can work with different stakeholders to reach cities based on their diverse needs.
4. **Sharpen focus on private capital mobilization:** how MDBs can leverage their resources to accelerate the mobilization of private investment for urban climate projects.
5. **Enhance policy support and capacity building:** the policy and capacity building that MDBs can accelerate to improve the enabling environment for urban climate finance.
6. **Conclusion and next steps:** including what CCFLA aims to do to help drive action on the recommendations of this paper.

This structure aims to provide a coherent and actionable framework for MDBs to consider as they embark on the critical journey of reshaping urban climate finance for a sustainable and resilient future. In addition to providing recommendations, we also highlight examples of best practices by MDBs throughout the report that could be further enhanced and scaled up to increase their impact.

Figure 1 : Five recommendations to make urban climate finance a strategic component of MDB reform





## METHODOLOGY

**This paper employs a mixed-method methodology to rigorously collect and analyze quantitative and qualitative data on MDBs’ urban climate finance.** The quantitative data collection encompassed the financing activities and institutional practices of the ten MDBs contributing to the Joint Reports, except the IFC, due to technical challenges (see Annex 2 for details).<sup>6</sup>

**Quantitative data collection was primarily conducted by scraping information from public MDB project web portals, generating a database of 815 urban climate-related projects financed by MDBs in L&MICs, covering the period of 2015 to 2022.**<sup>7</sup> Web scraping uncovered key data such as total transaction amounts of MDB financing, sponsoring MDB, recipient institution, project name, description, and sector. This information was used to classify the climate use and urban status of MDB projects. “Climate finance” and “urban climate finance” are defined in Box 3, and the data collection process is detailed in Annex 2.

**Finally, we interviewed different staff members of eight of the MDBs covered in the quantitative scope, plus the IFC and CIF, to provide qualitative inputs. Interviews were also conducted with city representatives and urban-focused project preparation facilities (PPFs).** Further qualitative findings have been drawn from a review of relevant literature and MDB websites, as well as case studies examining MDB urban projects. These exercises aimed to glean greater detail on specific projects and programs, as well as highlight MDBs and cities’ experiences and forward-looking ideas for how urban climate finance can be effectively scaled up.

### Box 3. Climate finance definitions

**Climate finance:** Primary capital flows directed to low-carbon and climate-resilient development interventions with direct or indirect GHG mitigation or adaptation benefits (CPI, 2021).

**Urban climate finance:** Resources directed to activities limiting city-induced GHG emissions or addressing climate-related risks that cities face, contributing to urban low-carbon development or resilience. Urban climate mitigation covers projects aimed at reducing or avoiding GHG emissions from sources located within city boundaries or for those exclusively produced as a consequence of city activities (CCFLA, 2021b). Other climate projects (e.g., grid transmission) that may indirectly reduce city emissions or otherwise provide climate benefits to cities do not fall under this definition.

<sup>6</sup> IFC quantitative data is not included because the use of JavaScript injection and inconsistent webpage structures prevented us from consistently scraping financing values.

<sup>7</sup> For some MDB websites, data could not be scraped for all years. Such data gaps were filled using the OECD Development Assistance Committee (DAC) database, which contains project-level climate finance disclosures made by MDBs over the same period for Official Development Assistance. Project descriptions and other attributes in OECD DAC data tend to be less comprehensive than information collected via web scraping.

## DATA LIMITATIONS

**This report is the first attempt to comprehensively measure, analyze, and compare the urban climate investment operations of MDBs from 2015-2022, aiming to collect data over a more comprehensive period to better understand trends.** Because MDBs do not themselves publicly report on urban climate finance, this report has attempted to estimate MDBs' contributions to urban climate finance in L&MICs from 2015-2022 by assessing publicly available project data. Despite data limitations, this provides a crucial foundation for future data collection and refinement, facilitating more informed decision-making and policies on urban climate finance. Data quality checks aim to maximize the robustness of findings given these limitations, but collaboration with MDBs is welcome to help improve future iterations of this report.

**A crucial data limitation is that only total transaction amounts are extractable through web scraping, meaning that the incremental amounts of these transactions related to climate finance cannot be directly assessed.** As such, where projects have been classified as having a climate use, the web-scraped amounts are referred to as “climate-related finance” to distinguish from the MDBs' own narrower “climate finance” definition in the Joint Reports. In this report, urban climate-related finance, therefore, corresponds to resources that include urban climate finance elements but may also include other (non-urban and/or non-climate) elements that have been bundled within the same transactions. Accordingly, web-scraped climate-related finance is not a direct approximation of “climate finance,” as it would overstate the amount directed towards mitigation and/or adaptation activity (see Table 5, Annex 3, for comparison with figures from the Joint Reports).<sup>8</sup>

In addition, this methodology uses a relatively conservative definition of “urban” (see Box 3). Thus, the MDB climate-related finance figures for urban settings cited may be understated in that regard and different from MDB's internal urban tracking when available.<sup>9</sup> Finally, all quantitative data collection is limited by the extent to which MDB projects and descriptions are publicly accessible via web portals or other sources.

<sup>8</sup> See a comparison of scraped climate-related finance amounts to climate finance amounts disclosed by the MDBs in the Joint Reports in Annex 3. In general, climate-related finance amounts overstate financing for urban climate projects because these funds are not exclusively for climate end use but represent total transaction amounts.

<sup>9</sup> Comparison against MDBs' self-reported urban climate finance amounts in 2017-18 for the State of Cities Climate Finance Report (CCFLA, 2021b) shows that total web-scraped urban climate-related finance amounts are 33% lower than the ones self-reported by the banks on the same period. For the MDBs whose web scraped amounts fall below surveyed amounts, shortfalls can be linked to differences between institutional urban tagging approaches and the urban classification used in this report. For example, some banks reported energy generation projects that did not exclusively benefit urban areas and, therefore, would not be captured in the scraping methodology. See more detail on current MDB urban tagging approaches in Section 2.

# 1. INCREASE THE VOLUME AND SHARE OF URBAN CLIMATE FINANCE

*This section addresses how MDBs use their current financing capacity for urban climate action, examining climate uses, sectors, and regional destinations. It discusses how and why MDBs should scale up their urban climate finance by leveraging concessional finance.*

## Recommendations for MDBs

### 1.1. Increase volumes and share of urban climate finance in MDB total climate finance, focusing on those regions with the most pressing urban mitigation and adaptation needs.

- Grow the volume and share of urban climate finance in MDB portfolios, prioritizing regions where urbanization is key and that have received the least investment.
- Continue prioritizing adaptation, focusing on cities most vulnerable to climate impacts.
- Ensure that future increases in MDBs' lending capacity drive increased urban climate financing.

### 1.2. Accelerate concessional finance for urban climate action by leveraging existing MDB concessional funding and partnering with international climate funds and bilateral donors to increase these funds further.

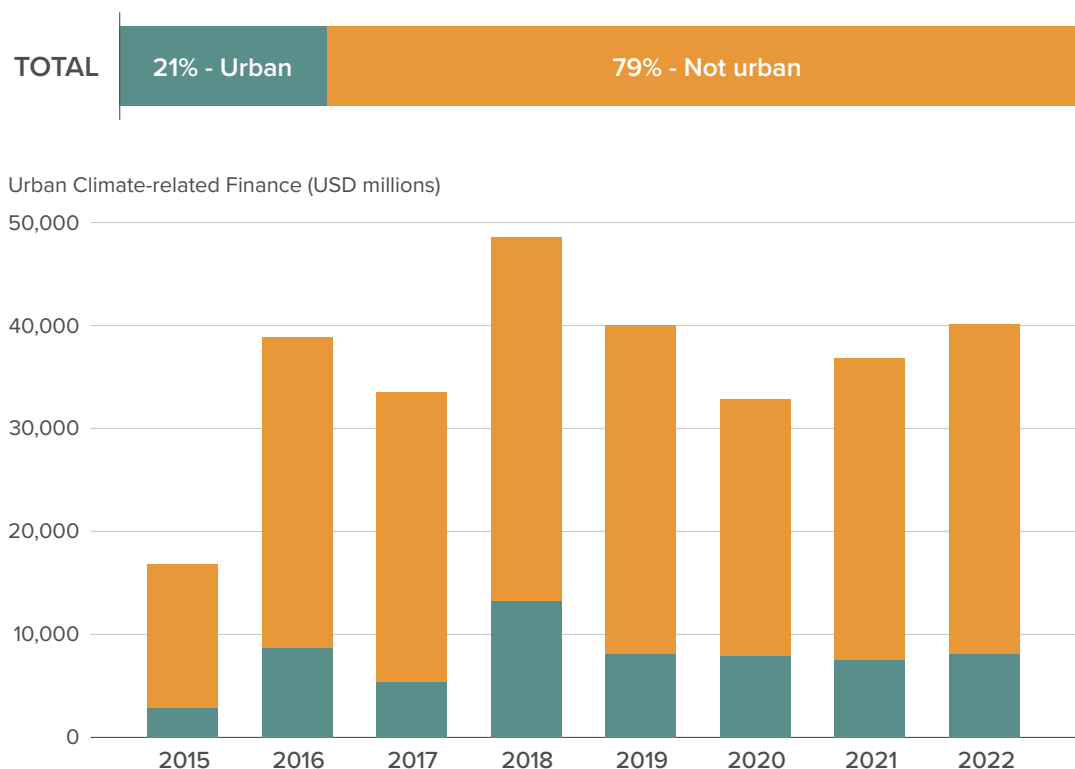
- Prioritize existing and new concessional finance for urban climate action.
- Partner with thematic funds such as the Green Climate Fund (GCF), Climate Investment Funds (CIF), Global Environmental Facility (GEF), the Adaptation Fund, and bilateral finance providers to increase and rationalize their funding for urban climate action.

## INCREASE URBAN CLIMATE FINANCE VOLUMES AND SHARES, FOCUSING ON ADAPTATION AND HIGH-NEED REGIONS

**Quantitative data analysis reveals that from 2015-22, 21% of trackable MDB climate-related finance in L&MICs went to urban climate projects** (see Figure 2).<sup>10</sup> Overall, MDBs provided USD 62 billions of urban climate-related finance to L&MICs over this period, out of a total of USD 287 billion in climate-related finance going to L&MICs. On an individual basis, MDBs allocate from 10% to over 35% of their total tracked climate-related finance for urban projects.

<sup>10</sup> As mentioned previously, the definition of "urban" used for this paper may be more restrictive than MDBs' own institutional definition.

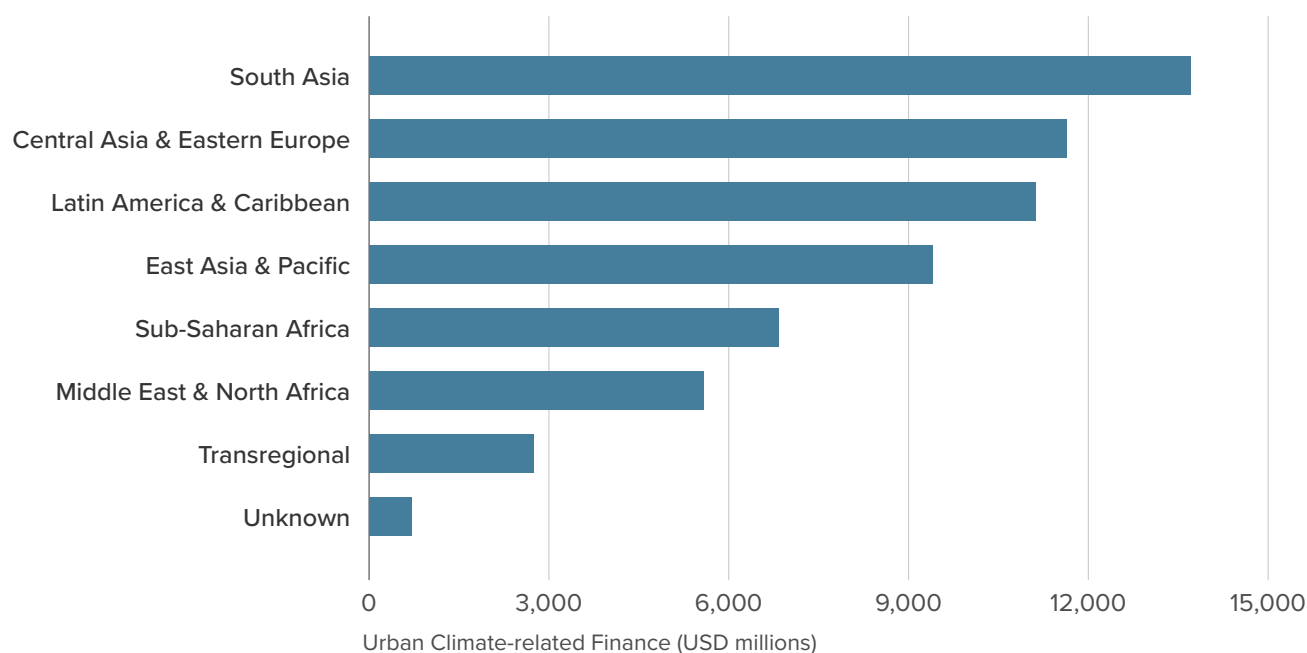
Figure 2: Urban Share of MDBs’ Climate-related Finance (2015-2022)



**Despite rising urbanization, the volume of tracked MDB urban climate-related finance has remained stable over time.** While MDBs have increased volumes of general climate-related finance, urban volumes have not increased at the same pace, resulting in a decrease in the share of MDB climate-related finance that is urban. There is an increasing need to assess how MDBs can use their current climate finance resources more effectively to maximize their impact.

**Concerning the destination of financing flows, despite the rapid urbanization trend in Sub-Saharan Africa and the Middle East and North Africa (MENA), these regions continue to receive relatively low urban climate-related financing.** According to the World Urbanization Prospects report, Africa is the world’s most rapidly urbanizing region. It is projected to transition to a majority urban population in the 2030s, with a 60% urban population by 2050 (UNDESA, 2019). This analysis finds that South Asia, Central Asia and Eastern Europe, and Latin America & the Caribbean are the top regional destinations for MDB urban climate-related finance (see Figure 3).<sup>11</sup> India and China, homes to the world’s largest urban populations and some of the most populated cities, are the largest country recipients of MDB urban climate-related finance (UNDESA, 2019).

<sup>11</sup> Note that 1% of total urban climate finance tracked has unknown destinations.

**Figure 3: Urban Climate-related Finance by Region (2015-2022)**

**From 2015-22, MDBs are estimated to have provided 40% of their total urban climate finance for mitigation efforts, 32% for adaptation, and 29% to projects with multiple climate objectives** (see Figure 4).<sup>12,13</sup> A larger share of MDB urban climate-related finance is dedicated to adaptation compared to MDB climate-related finance as a whole, for which the adaptation share is 18%.<sup>14</sup> MDB urban adaptation finance is concentrated mostly in the water and wastewater sector, while finance for mitigation is largely split between transport and energy systems (Figure 5).<sup>15</sup> This distribution is fairly intuitive, given that many cities are responsible for directly managing sea-level rises, infrastructure, flash flooding, and water treatment, as well as the decarbonization of municipal transport and energy.

Although the buildings and infrastructure sector is central to the urban climate transition – accounting for 37% of global emissions (CCFLA, 2022a) – this sector receives relatively little tracked MDB climate finance (Figure 5). This is partly due to the nature of building investments<sup>16</sup> and would be higher if data from the IFC, which has channeled USD 1.2 billion to green buildings in fiscal year 2022, was included in the analysis (IFC, 2022).

12 We use “climate finance” rather than “climate-related finance” here as incremental values (i.e., direct investment in adaptation and/or mitigation) are estimated by project sector and climate use based on total climate-related finance amounts. Estimates are based on sectoral coefficients, which approximate the share (%) of total project transactions allocated towards either mitigation, adaptation, or both. (See Annex 2 on methodology). We employed this method to prevent overestimating climate finance amounts for infrastructure projects with large non-climate components, especially in sectors such as water, which could artificially inflate figures and create a misleading perception of the balance between adaptation and mitigation efforts.

13 Due to the use of keyword-based classifications, when a project is described using both mitigation and adaptation keywords, instead of categorizing it specifically as “dual benefit finance,” this report places it into the broader category of “multiple objectives.” This decision was made to capture a wider spectrum of projects with both mitigation and adaptation elements rather than providing a precise breakdown for dual benefit finance defined more narrowly in the MDBs’ Joint Reports. “Multiple objectives” thus account for a higher share of projects than “dual benefit finance”. Values add to less than 100% due to rounding.

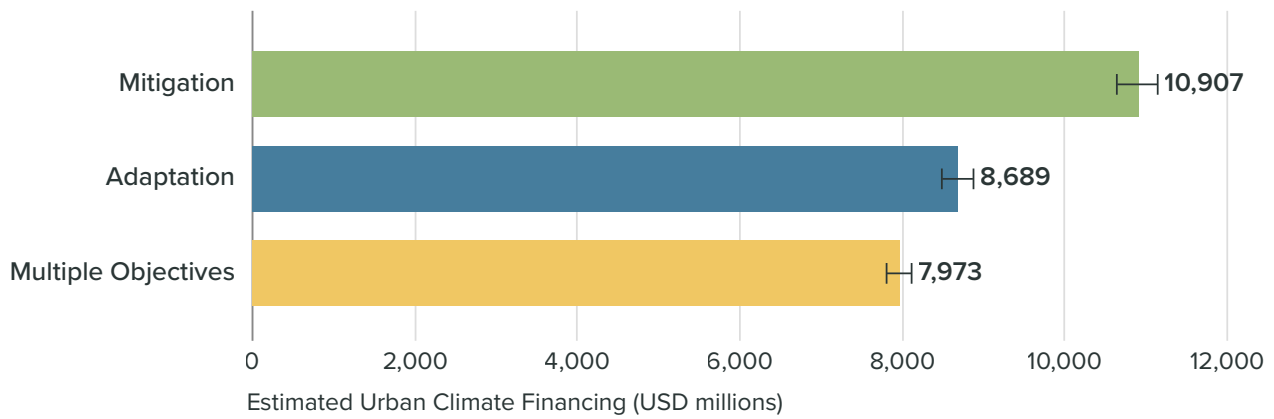
14 For all MDB projects classified as climate-related (urban and non-urban), 55% of estimated climate finance went to mitigation, 18% to adaptation, and 26% to projects with multiple objectives.

15 Note that we were not able to identify the sector for 26% of the urban climate-related finance tracked.

16 Some reasons for low MDB climate investment in buildings include: (1) building climate retrofits are often financed by private owners; (2) if they include multiple sectors, activities that provide climate benefits to the buildings and infrastructure sector often fall under other classifications, such as energy systems and industry, or other and cross-sectoral.

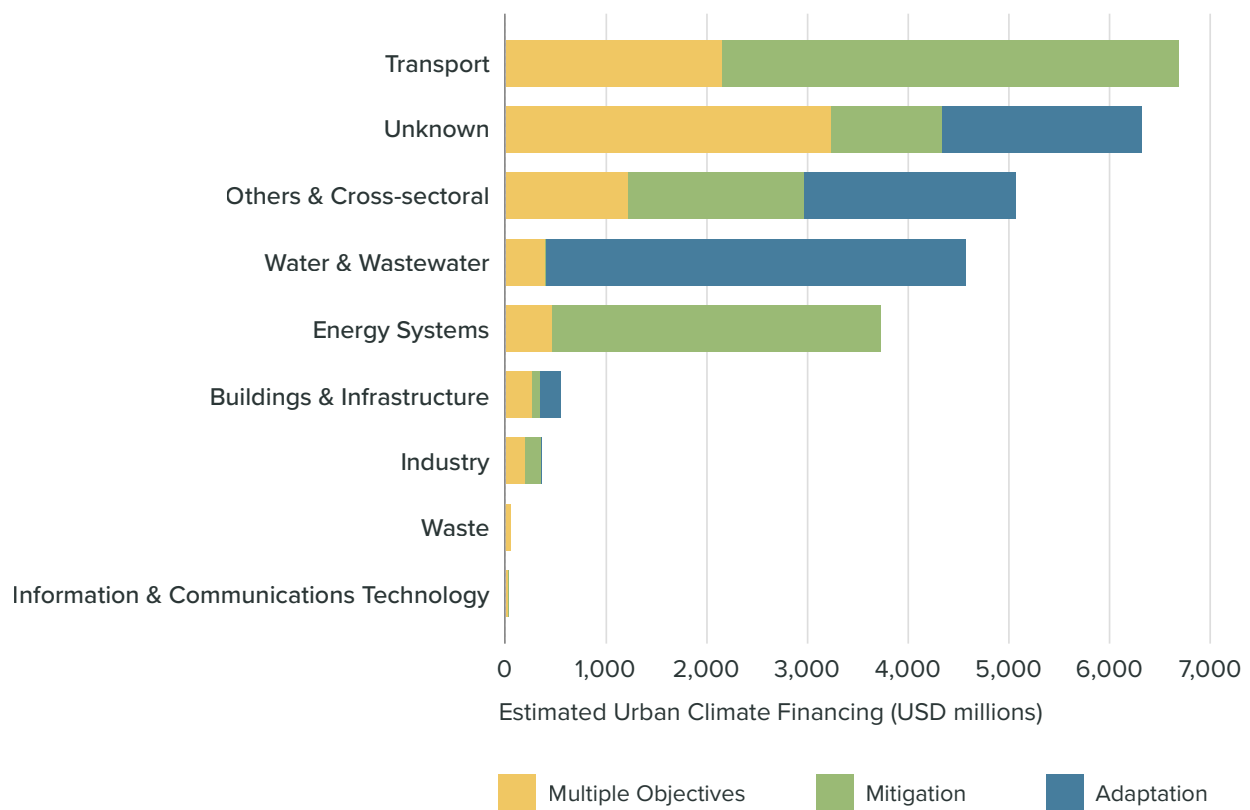


**Figure 4:** Estimated Urban Climate Finance by Climate Use (2015-2022)



Note: Whiskers represent a 95% confidence interval for coefficient estimates, recognizing that there is uncertainty about the average proportion of climate finance across sectors. See more info on coefficient estimation in Annex 2.

**Figure 5:** Estimated Urban Climate Finance Use by Sector (2015-2022)



Note: The estimated urban climate finance values in the figure represent the median estimates based on a 95% confidence interval and thus do not reflect a precise value. See more info in Annex 2 on coefficient estimation.

**Considering cities are often on the front line of the response to climate-related shocks and stressors, there is a pressing need to accelerate volumes and shares of MDB urban climate finance, particularly for adaptation.** Financing mechanisms are needed to address damages from climate-related hazards, which frequently intensify in urban areas due to high population concentrations, infrastructure, and assets (CCFLA,

2022b). MDBs can play a pivotal role in facilitating cities' adaptation initiatives, given the pressing need for effective responses in urban areas, for instance, by providing grants and concessional finance. In addition, MDBs are being urged to scale their funding for nature-based solutions, which can have co-benefits for both climate mitigation and adaptation (see Box 4).

**Moreover, ongoing discussions to increase MDB capital to address the climate emergency can support the expansion of urban climate finance in L&MICs.** As reflected in the statement of MDB heads in Marrakesh, the MDB balance sheets can be expanded through financial innovations (World Bank, 2023e). For example, the ADB plans to increase its climate finance through the Innovative Finance Facility for Climate in Asia and the Pacific (IF-CAP), which leverages guarantees from donor and philanthropic partners to accelerate climate investment, enabling the bank to multiply its lending capacity and crowd in private-sector resources (ADB, 2023). Increases in MDB lending capacity should be leveraged to ensure that urban climate finance volumes are increased to match cities' needs and emissions reduction potential.

#### **Box 4. MDBs and Nature-Based Solutions**

Nature-based solutions (NBS) for climate resilience can address multiple urban climate risks. For example, protecting forests can improve urban water supply, while urban green spaces can combat extreme heat and attenuate flood risks.

MDBs can lead in scaling up finance amid a global shortfall in NBS investment. Some banks have partly tracked NBS investments. For example, a review of IDB's Infrastructure and Energy Sector and Climate Change and Sustainable Development Sector investments (2015-2020) identified 28 projects (of 162 total projects) with NBS components (Oliver et al., 2021). Many of these projects integrated NBS into traditional infrastructure to boost performance and climate resilience. For example, the IDB provided the Paraguay government and the Municipality of Asunción with a USD 100 million loan to construct 1,500 new housing units and public service infrastructure (IDB, 2023a). USD 9.8 millions of this loan aimed to reduce urban flood risk in riverside communities by restoring wetlands and creating a linear park to increase infiltration during storms.

Several banks are working through the new MDB Natural Capital and Biodiversity Working Group to align on definitions, tracking, and reporting of nature-positive investment, which will improve the tracking of NBS finance. Ongoing research by the World Resource Institute (WRI) has found that many MDBs integrate nature themes in strategic documents and plans. Yet, to scale up NBS, particularly in cities, MDBs will need to build in-house capacity to prepare financeable nature-based projects that can mobilize climate finance that supports nature-positive outcomes.

## ACCELERATE CONCESSIONAL FINANCE FOR URBAN CLIMATE ACTION

**Mobilizing existing concessional resources for urban climate finance is crucial in reducing debt burdens.** A key focus of the MDB reform debate is improving debt sustainability through concessional finance (G20, 2023a). Concessional finance is also crucial in mobilizing additional private-sector capital (see Section 4).

**MDBs should prioritize existing concessional resources for urban climate projects.** These can be used particularly for urban adaptation projects, which have more limited revenue streams and can yield significant co-benefits, including poverty alleviation and reducing inequality within cities. The Secondary Cities Urban Mobility and Development Project in Burkina Faso by the International Development Association (IDA) is a recent example of the allocation of concessional finance for urban projects to attain climate and development co-benefits. Under this project, the IDA has approved USD 200 million to finance low-emission urban mobility infrastructure, such as electric bus fleets, non-motorized transport amenities, and climate-resilient city roads (IDA, 2023b).

**Additionally, partnerships between MDBs and thematic funds or bilateral funders can be leveraged further to mobilize additional concessional funding for urban climate projects.** MDB reform discussions have highlighted the importance of deepening cooperation between MDBs and thematic funds (Elysee, 2023a). The GCF, Adaptation Fund, and the GEF already have urban focal areas that can be further leveraged to mobilize urban climate finance.<sup>17</sup>

MDBs already cooperate with thematic climate funds on urban climate activities, including investment pipeline development, TA, and implementation support. For example, the IDB has partnered with the GCF to provide grants and concessional finance to developing countries – undertaking eight projects worth USD 762 million in GCF financing and USD 964 million in co-financing – mainly mitigation projects for buildings, cities and industries, and benefiting 11 million people (IDB, 2023c). Similarly, the ADB is supporting five Indian cities with a GEF grant of USD 17.2 million and co-financing of USD 499 million to develop resilient and low-emissions infrastructure as well as TA to prepare development plans (UrbanShift, 2023).

Nonetheless, interviewees noted that concessional finance through thematic funds is often not easily accessible and takes a long time to be mobilized. Not all MDBs have access to these funds, for instance, through GCF accreditation,<sup>18</sup> which is known to be a long process. More efforts to streamline processes and rationalize funding for urban climate action can improve the effectiveness of MDB cooperation, maximizing the potential of concessional finance. Moreover, the CIF Smart Cities Program, which is currently fundraising, can offer a future platform for MDBs to finance urban climate action at scale (see Box 5).

<sup>17</sup> The GCF has a theme on “Buildings, cities, industries, and appliances”, the GEF runs the Sustainable Cities Impact Program, and the Adaptation Fund includes urban development as a program sector.

<sup>18</sup> Of the MDBs in scope, World Bank, IDB, IFC, AfDB, ADB, EIB and EBRD are GCF accredited. Only accredited entities can access GCF funding.

**Box 5. Leveraging Concessional Finance to Accelerate Low-Carbon, Climate-Resilient Urbanization through the CIF Smart Cities Program**

The CIF Smart Cities Program aims to provide highly concessional capital and grant support to cities in L&MICs to accelerate the transition to low-carbon, climate-resilient urbanization (CIF, 2022). The focus will be on small- to medium-sized cities with limited access to private finance, facing creditworthiness constraints, and exhibiting commitment and ambition to sustainable urban planning. The CIF aims to support TA activities, including rapid city climate risks and investment pipeline diagnostics, and project preparation, as well as support the implementation of catalytic investment projects. Selected cities will receive USD 30-100 million in support, and CIF will co-finance investments from MDBs interested in funding the identified projects. The program, one of seven at the CIF, is not yet operational as it is currently fundraising. Yet, it holds a compelling appeal as it stands as an existing and operational fund that serves six MDBs (currently the AfDB, ADB, EBRD, IDB, World Bank, and the IFC), offering a framework for collaboration and resource sharing.

## 2. IMPROVE URBAN FOCUS IN STRATEGY, COORDINATION, AND TRACKING

*This section addresses how MDBs prioritize urban needs and opportunities in their strategy documents and how they can coordinate across the MDB ecosystem to facilitate tracking urban climate investments. Establishing institutional priorities for urban climate investment will enable MDBs to coordinate internally and across the ecosystem to promote greater and more effective urban climate finance.*

### Recommendations for MDBs

#### 2.1. Consider the urban dimension in a systematic and coordinated manner when formulating MDB country, sectoral, and climate strategies, and reflect the voice of cities.

- Assess the contribution of cities to each country's climate and development goals.
- Promote participation of city representatives in country strategy development and other sectoral and thematic strategies at the national level.
- Include urban financing needs and opportunities in MDB global climate strategies and in country strategies.

#### 2.2. Track and monitor the urban shares of climate finance and report them in the Joint Reports on MDBs' Climate Finance

### COORDINATE AND SYSTEMATICALLY CONSIDER THE URBAN IN COUNTRY/CLIMATE STRATEGIES

**To evaluate the priority assigned by MDBs to urban climate investment, we scrutinized the presence of stand-alone urban strategies among analyzed MDBs and how often climate action was prioritized.** We also assessed the integration of urban elements in the banks' climate and country strategies.<sup>19</sup>

**Eight of the ten MDBs have stand-alone urban strategies that include climate objectives** (see Table 6, Annex 4). All of these MDBs recognize climate change as a threat and opportunity in their regions of operation and identify climate as a key investment priority. For example, the urban policy of the Islamic Development Bank (IsDB) includes climate change and resilience as key pillars, alongside urban economy, mobility, housing, and water and sanitation (IsDB, 2020).

<sup>19</sup> MDB country strategies, referred to differently across MDBs as country partnership strategies, country partnership frameworks, or country reports, establish the priorities of MDBs in member countries, developed in partnership with member countries regularly.

**However, urban challenges and opportunities are inconsistently prioritized across MDBs' climate strategies.** Qualitative analysis revealed that, while all ten MDBs had climate strategies incorporating the urban sector, only four identified urban development as a key pillar or priority (see Table 7, Annex 5 for details). One such example is the ADB Climate Change Operational Framework (2017-30), which prioritizes urban green investment, energy, transport, and disaster resilience. This framework includes a “spotlight on cities”, detailing goals to develop a multi-sectoral climate-resilient urban development model that prioritizes low-emission transition and meets urban infrastructure needs (ADB, 2017). The remaining six MDBs either make little reference to urban development (i.e., just once in the text) or do not incorporate it as a core priority in their climate strategies.

**One area of progress is the development of country strategies, where MDBs have been increasingly integrating urban issues through more active stakeholder engagement.** Some MDBs include urban operations in country strategies as pillars or sectors. For example, the IDB's strategy for Brazil responds to the country's high urbanization levels by considering the urban sector as a cross-cutting priority and incorporating urban planning and infrastructure, waste management, urban mobility, and housing as key pillars (IDB, 2019). The World Bank Country Climate Development Reports (CCDRs), which feed into country strategies, cover urban/cities in many cases. Additionally, Turkey's CCDR has a background note on cities, buildings, and transport, which dives into the urban-climate nexus and explores resilient and low-emissions development trajectories (World Bank, 2022b). Similarly, Egypt's CCDR has a background note on cities, which assesses the climate risks faced by fourteen Egyptian cities and makes recommendations for low-emissions and resilient pathways (World Bank, 2023a). The AfDB has a policy on stakeholder participation that stresses the importance of local government involvement in country strategies (AfDB, 2001), though it is not clear how it is implemented.

**However, the integration of urban considerations and city stakeholder engagement is not systematic across MDBs' country strategy development.** Given that MDBs rely heavily on their country strategies to steer their investment, including cities' climate priorities within these documents is paramount. However, most banks have no clear, systematic guidelines for this and do not consistently include city representatives<sup>20</sup> in country strategy development. Interviews revealed that the prioritization of urban elements in country strategies and dialogue with city stakeholders depends on the extent of the engagement between MDBs' urban teams and country offices, where these exist.<sup>21</sup> Qualitative analysis of a sample of MDB country strategies<sup>22</sup> found that some are informed by consultations with city or local government stakeholders through workshops, interviews, and group discussions. However, others within and across banks do not indicate any involvement of subnational governments. Some banks' strategic frameworks recommend increasing the involvement of cities and local authorities, implying that city participation is not yet happening enough (CEB, 2023). While national

20 The city representatives may include the mayor of the largest city, the president of the association of mayors, the ministry of local governments, etc.

21 MDBs like the World Bank have a particularly strong country presence, with offices in over 130 locations. Interviews revealed that around 50% of the World Bank's Urban, Disaster Risk Management and Land Global Practice staff is located in field offices, contributing to country strategies and supporting local urban operations.

22 We reviewed 2-3 country strategies covering different geographies for each of the six MDBs for which country strategies or partnership frameworks were identified (ADB, AfDB, EBRD, EIB, IDB, and World Bank).

governments ultimately drive the importance given to the urban agenda, country strategies constitute a negotiation, thus leaving MDBs with significant sway to integrate the urban dimension of climate action more systematically.

**Prioritizing urban needs in country strategies will require effective coordination within and across MDBs** MDB leaders have recently committed to enhancing country platforms (World Bank, 2023e), fostering stronger collaboration at the national level. Given that urban climate projects are often spread across different departments within MDBs (see Table 8, Annex 6), coordination among different units (e.g., urban, water, transport, and climate) can help to mainstream urban considerations in country strategies and investment plans. Moreover, given the overlap of MDBs' investment scopes in terms of regions and sectors, cooperation at the country level can help ensure that urban investments are prioritized in a coordinated manner. For example, MDBs could cooperate on the development of country sector platforms to scale up more coordinated urban climate investments in key urban sectors.<sup>23</sup>

## TRACK AND MONITOR URBAN SHARES OF CLIMATE FINANCE

**All MDBs examined for this paper contribute to the Joint Reports on MDBs' Climate Finance (Joint Reports), an annual initiative disclosing MDBs' climate finance data (see, for example, Joint Report, 2023).** However, the Joint Reports do not disaggregate urban climate finance considerations in their findings. While data is distinguished by sectors that include urban-relevant components, such as water supply and wastewater, transport, buildings, and the built environment, no cross-cutting urban figures are provided. This creates challenges for measuring progress and making urban climate finance a priority.

**Some MDBs internally track urban climate finance in their portfolios but have differing definitions and classifications of what is categorized as urban.** Some banks only count investments made directly by their urban division, excluding other crucial urban-led sectors that separate divisions manage, such as transportation. Others include urban components in projects with multiple zones of services as well as components of national-level projects with clear urban-related impacts, such as energy transmission systems. Some MDBs report investments in energy efficiency by sector (e.g., buildings, infrastructure, and transport), while others include this as a separate sector. Additionally, some MDBs count sectors like education and health as part of urban services.

**Despite tracking challenges, enhancing inter-MDB cooperation to measure urban climate investment and report in Joint Reports is crucial.** Challenges in establishing a unified reporting system across MDBs for urban climate investment include a lack of a global definition of what is urban, as well as difficulties in measuring how much funding directed to national governments benefits cities. Yet, there are unequivocal advantages to pursuing this, including: (1) gaining an understanding of the allocation and direction of urban climate investments, enabling effective gap identification and improvement

<sup>23</sup> Country sector platforms bring together key stakeholders in support of country-led investment and transition strategies. Emerging examples are the Just Energy Transition Partnerships (JETPs) and financing cooperation mechanisms to help coal-dependent emerging economies transition to a low-emission economy with finance from developed countries.



strategies; (2) facilitating a sector-specific overview; (3) fostering a more programmatic approach to pipeline development and financing (see Section 3) through enhanced data analysis, thereby better recognizing gaps and opportunities.

## 3. ADAPT OPERATING MODELS TO SCALE UP URBAN CLIMATE ACTION

*This section addresses MDBs' operating models, which dictate how they function internally, including their origination capabilities, the financial structures they promote, and how they make investment decisions. It examines how MDBs can deliver their urban climate portfolio more effectively, from origination to investment decisions and tools, as well as how they can work with their clients to reach cities.*

### Recommendations for MDBs

#### 3.1. Adopt a programmatic approach to urban climate policy, pipeline development, and finance.

- Define a specific program or coordination mechanism to drive urban climate finance activity within each bank, including planning, pipeline development, implementation support, and internal coordination between climate teams and those involved in urban financing.
- Engage cities directly through this program, considering their specific needs and ambitions.

#### 3.2. Increase the provision and effectiveness of technical assistance geared at closing cities' planning-to-investment gaps.

- Build project preparation capacity to support cities within MDBs or by supporting and coordinating with urban-focused PPFs.
- Create stronger linkages between MDBs' project preparation and financing activities.
- Consider a joint-MDB project preparation facility for urban climate projects.

#### 3.3. Promote direct and indirect financing for cities to address their distinct and diverse needs, including local currency financing.

- Promote ways to finance city governments directly through non-sovereign operations where feasible in addition to MDBs' predominantly sovereign operations.
- Increase MDBs' investment and capacity-building operations through financial intermediaries to reach a wide variety of cities.
- Develop and promote financial instruments in local currency.

### ADOPT A PROGRAMMATIC APPROACH TO URBAN CLIMATE PIPELINE DEVELOPMENT AND FINANCING

**Our interviews found that a project-by-project approach is the norm for most MDBs engaging in urban climate investment.** Such focus on projects can create challenges for pipeline development, direct city engagement with banks, and ticket size. Ongoing calls for MDB reform have focused on moving towards more strategic programmatic

models and away from project-by-project operations, which are criticized as slow, procedurally heavy, and unable to produce systems-level change (G20, 2023a, 2023b).

**A programmatic approach to urban climate investment would support the long-term and strategic organization of interlinked projects** – potentially anchored on City-level Climate Action Plans (CCAPs), where available – and aimed at attaining large-scale global climate benefits (GEF, n.d.). The approach would entail streamlined planning, developing a robust pipeline of projects in multiple cities, financing and implementation support – potentially requiring policy and institutional reforms at local and national levels, capacity building, and TA. This could promote a more diversified portfolio of urban climate finance projects with different ticket sizes based on cities’ needs. Such an endeavor would likely demand enhanced coordination between MDBs at both the national and international levels and prioritization of urban climate investment.

**Interviews revealed that MDBs tend to source their urban climate projects in an ad-hoc manner rather than a systematic way.** They identify urban climate projects through national ministries and country strategies or via a bottom-up approach by leveraging city contacts or solicitations. City interviews mentioned CCAPs as a possible sourcing and planning mechanism, enabling financiers to identify priorities based on the most pressing local climate challenges. However, from the MDB perspective, CCAPs often lack an up-to-date pipeline of projects or investment strategy, limiting their potential for pipeline development.

**A more programmatic approach to pipeline development would involve MDBs supporting cities to develop CCAPs that translate into well-structured capital investment plans to produce a pipeline of prioritized projects that can be financed as a comprehensive climate investment program.** CCAPs could then be used to mobilize investments from other public and private financiers in line with cities’ priorities in a coordinated way. This could help streamline pipeline development and establish clear prioritization criteria.

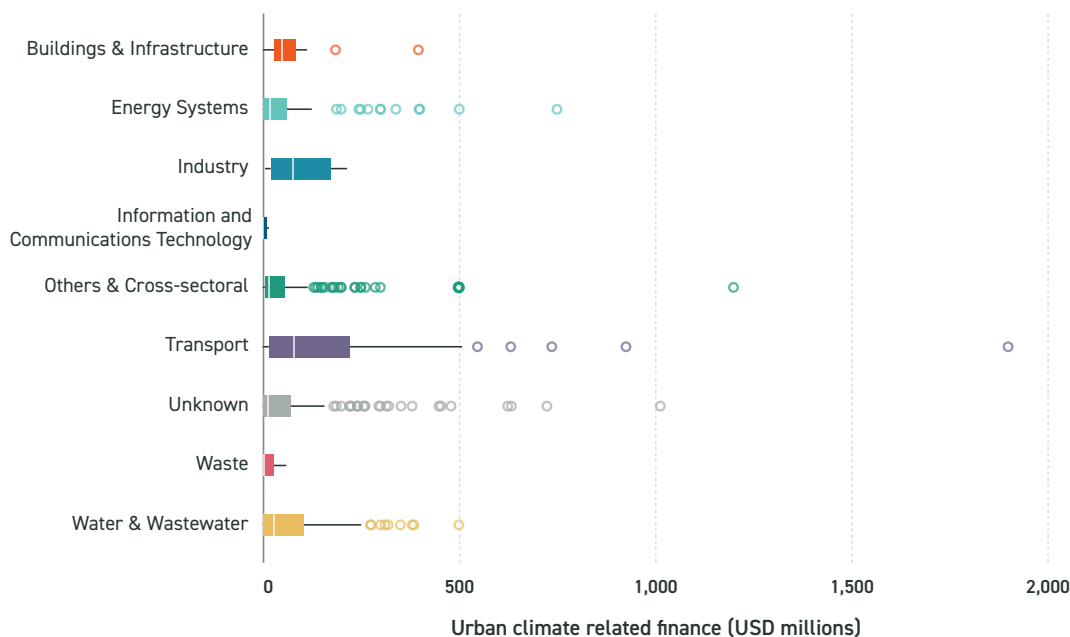
**Interviewees reported that cities often struggle to access MDB finance under the current project-by-project approach, as it is difficult to understand what projects they will finance and under what conditions.** Challenges include a lack of clarity on investment requirements such as ticket size, priority investment areas, and the need for investment plans. This is complicated because urban climate work is often spread across multiple MDB departments, making it difficult to know who to contact. Seven of the ten reviewed MDBs have stand-alone urban-focused divisions, which are separate from climate divisions (see Table 8, Annex 6) and other urban-relevant departments, such as water and transport.

**A programmatic approach could improve MDBs’ internal coordination and provide easier access and clarity to cities.** This could involve MDBs urban and climate divisions jointly delivering the program and have an external communication function to promote direct engagement with cities and establish clear criteria for urban investments (see Box 6 for the example of the EBRD Green Cities program).

**Finally, a project-by-project approach favors large-ticket sizes, while city stakeholder interviewees noted that their investment requirements are often below MDB funding thresholds.** Quantitative analysis revealed that MDB urban climate-related

ticket sizes tend to be large. For example, transport projects average USD 170 million due to the financing of large metro-rail projects (see Figure 6). Part of this is due to many MDBs' focus on infrastructure. An academic paper analyzing 60 MDB projects supporting sustainable, green, and climate-resilient city interventions found 92% to be infrastructure-focused (Bazbauers, 2021).

**Figure 6:** MDB Urban Climate-related Finance Ticket Sizes by Sector (2015-2022)



*Note: The line inside each box represents the median, while the lateral lines represent the range of distribution of the ticket sizes by sector from the lower quartile (25%) to the upper one (75%) in increasing order. Dots represent outliers projects (more than two standard deviations from the median). Four outliers greater than USD 1,000 billion were removed for visualization purposes.*

**While financing large one-off infrastructure projects in L&MIC cities is critical to bolstering their climate resilience and sustainability, programmatic investment portfolios that aggregate different project sizes could achieve greater systemic change.** The EBRD Green Cities program, for example, aims to fund multiple investments in a city based on priorities identified in Green Cities Climate Action Plans (GCAPs) (see Box 6). Similarly, the EIB offers urban framework loans, where it finances or co-finances multiple small- and medium-sized projects, typically ranging from EUR 1-50 million, over 3-5 years under a city's long-term capital investment program. The city has the flexibility to direct loan funds during implementation rather than making all decisions upfront. However, these loans are mostly deployed in EU member states, where capital investment plans are more widespread (EIB, 2016).

### Box 6. EBRD Green Cities' Programmatic Approach to Urban Environmental Challenges

EBRD's Green Cities program helps cities address environmental challenges and urban vulnerabilities through three central components – GCAPs, green infrastructure investment, and capacity building.

Cities apply directly to the program. Once selected, EBRD develops a GCAP in partnership with municipal governments and other local stakeholders with the aim of developing an action plan to tackle local environmental challenges. GCAPs provide a pipeline of green infrastructure investments financed in parallel with TA to ensure effective implementation. From 2016-2022, Green Cities invested EUR 2.3 billion in sustainable infrastructure and mobilized EUR 5 billion in EBRD and donor finance.

The program is co-led by two EBRD teams – the Sustainable Infrastructure Group and the Climate Strategy and Delivery Department's Infrastructure group. The main governance tool is a Steering Group comprising senior management from each team to facilitate internal coordination.

## INCREASE AND IMPROVE TA TO CLOSE CITIES' INVESTMENT GAPS

**The lack of investment-ready projects is a significant barrier to developing and financing the MDB urban climate pipeline.** An estimated USD 135-162 billion<sup>24</sup> is required annually for global urban climate project preparation to enable public and private financing consistent with global climate goals. City interviewees highlighted the need for more TA for project preparation to move project concepts to the financing stage. A study by the Overseas Development Institute suggests that project preparation needs to be accompanied by additional resources to accelerate climate investments in L&MICs since areas with less favorable regulatory environments and low legal, technical, and financial capacity face more delays and reduced chance of project implementation (Nassiry et al., 2016). CCFLA research has found that project preparation support in such environments can have outsized impacts, helping to develop cities' capacities and familiarity with project preparation processes (CCFLA, 2023b).

**MDBs already support cities' project preparation, including through in-house PPFs, often supported by multi-donor trust funds** (see Table 2). These facilities can enhance urban climate project pipelines and scale financing. Some MDB PPFs that are not city-focused also include urban projects as part of their portfolios (e.g., the AIIB Project Preparation Funds and the World Bank Global Infrastructure Facility). One successful example of an MDB PPF is the City Climate Finance Gap Fund, which the World Bank and the EIB implement in partnership with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).<sup>25</sup> It supports cities' identification and early-stage preparation

24 The Global Infrastructure Facility estimates that financing infrastructure project preparation would, on average, require 3% of the total project cost. CCFLA estimates that USD 4.5-5.4 trillion will be required annually by 2050 to address climate risks for urban infrastructure (CCFLA, 2021b; Lu, 2020).

25 The Gap Fund is supported by the German Federal Ministries for Economic Affairs and Climate Action and for Economic Cooperation and Development, together with Luxembourg's Ministry of Environment, Climate and Sustainable Development. Other partners include the Global Covenant of Mayors, CCFLA, ICLEI Local Governments for Sustainability, and the C40 Cities Climate Leadership Group.

of projects while potentially linking them to the World Bank and EIB investment opportunities. For instance, the fund worked to develop, in 2021, a nature-based solutions strategy to identify potential investments in Kinshasa, the Democratic Republic of the Congo, with an estimated cost of USD 153 million, with some projects selected for further preparation and financing by the World Bank (Gap Fund, 2023).

**Yet, interviews revealed that MDB TA activities are sometimes perceived as “disconnected” from their other operations, given that TA is not always linked to project financing.** For example, PPFs housed within MDBs receive project preparation requests from cities directly, but there is no guarantee that these will match MDB investment priorities upon preparation. Cities also highlighted a need for shorter project approval timelines, given their need to prepare and implement projects within time-limited windows of political alignment. The ADB’s Cities Development Initiative for Asia (CDIA) provides an example of addressing this gap by bringing together cities and bank project officers to identify and prepare projects that meet investment criteria and address cities’ climate and poverty reduction goals (CDIA, 2023).

**Moreover, greater collaboration between MDBs and external PPFs can help expand the pipeline of urban climate projects.** A joint-MDB PPF that expands on the experience of initiatives such as the City Climate Finance Gap Fund could be further explored. Joining efforts on project preparation can promote standardization across project requirements across MDBs and create a one-stop shop for MDB urban climate project preparation. Additionally, CCFLA has identified twenty-two urban-focused PPFs, which are not linked to any MDBs, that aim to close cities’ planning-to-investment gap.<sup>26</sup> However, interviews revealed that investment by MDBs in projects prepared by external PPFs is not common, as these may not meet MDB funding requirements, particularly relating to minimum ticket size.

**Table 2.** Examples of MDB initiatives providing urban TA

MDB	Initiatives that provide TA to cities <sup>27</sup>
AfDB	Urban & Municipal Development Fund*
ADB	CDIA*, ASEAN Australia Smart Cities Trust Fund*, Urban Climate Change Resilience Trust Fund, Urban Environmental Infrastructure Fund, Creating Investable Cities
AfDB	Project Preparation Special Funds*
EBRD	Green Cities*
EIB	City Climate Gap Fund*, FELICITY II*, Urban Projects Finance Initiative (UPFI)*, Greening Financial Systems Technical Assistance Programme
IDB	Emerging and Sustainable Cities Program*, Cities Network, Cities Lab
World Bank Group	City Climate Gap Fund*, Global Infrastructure Facility*, City Resilience Program*, IFC Advanced Practices for Environmental Excellence (APEX) tool, Global Facility for Disaster Risk Reduction, City Creditworthiness Initiative

\* Indicates that the initiatives provide project preparation support.

<sup>26</sup> See the CCFLA Project Preparation Resource Directory (CCFLA, 2023c)

<sup>27</sup> We note that these initiatives also provide services other than project preparation, and this list is not comprehensive.

## PROMOTE DIVERSE FINANCING OPTIONS TO REACH CITIES, INCLUDING LOCAL-CURRENCY FINANCING

MDBs serve different types of clients (see Box 2 in the Introduction for differences across MDBs). MDBs that have predominantly sovereign operations will mostly finance national governments or require sovereign guarantees when financing other actors. Banks that run non-sovereign operations, on the other hand, can finance companies and municipalities directly. Considering these features, MDBs, where possible, should promote direct finance to cities through non-sovereign operations, given the challenges surrounding obtaining sovereign guarantees. Intermediated structures through sovereigns or financial institutions can be leveraged to reach small to medium-sized cities, as well as those that are not creditworthy and cannot borrow directly. Adopting a strategic approach across urban climate operations will require greater coordination between sovereign and non-sovereign operations within each MDB.

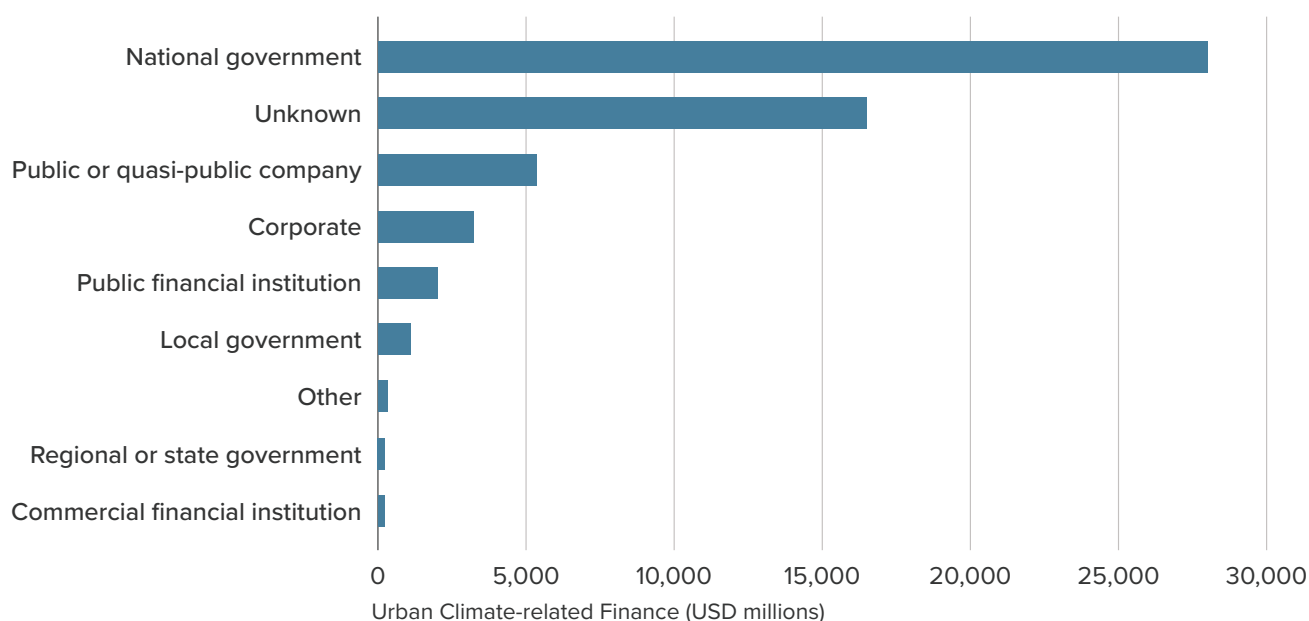
**Currently, national governments are the main channel of MDB urban climate finance, receiving USD 28 billion (49%) of the total going to L&MICs from 2015-22** (see Figure 7).<sup>28</sup> MDB sovereign urban climate operations involve lending to relevant national ministries, who may develop projects themselves or transfer funds to municipalities as the implementing agencies, either through on-lending or on-granting. For example, in 2015, IDB provided Argentina's government with a USD 200 million credit line under the PROMEBA III neighborhood improvement program. These funds were on-granted to municipalities and provinces to provide land titles and improve infrastructure, including green alternatives in precarious urban settlements (IDB, 2023d). Sovereign operations may also involve providing financing to city governments via sovereign guarantees. Another example is the USD 75 million sovereign-guaranteed loan from the NDB to Curitiba municipality to expand its bus system and promote public transport use (NDB, 2020). Sovereign operations can be particularly helpful in targeting multiple cities in a country, including smaller ones that may not be creditworthy.<sup>29</sup> In some cases, channeling financing via the sovereign may be the only option for countries where cities have international borrowing restrictions.<sup>30</sup>

28 This figure is probably underestimating the percentage of funding provided to national governments, as a total of 29% of tracked urban climate-related finance did not have information on recipient institutions. The recipient classification was done by manually checking the legal status of recipient institutions, where publicly available. We also note that "recipient institution" refers to the legal recipient of MDB funds, which may differ from the executing agency. Information on the project's executing agency was not scraped as it was not available across all MDB portals.

29 A World Bank analysis of the 500 largest cities in developing countries revealed that 4% of cities were creditworthy in international financial markets, and 20% were creditworthy in local markets (World Bank, 2013).

30 In certain L&MIC countries such as Indonesia and Peru, for example, there are restrictions on subnational and local government's ability to borrow internationally, requiring a sovereign guarantee or approval from the central government in all cases (CCI, 2023).



**Figure 7: MDBs' Urban Climate-related Finance by Recipient Institution Category (2015-2022)**

**Yet, sovereign guarantee requirements are a key challenge for city MDB finance.**

Interviewees said that national governments are often unable or unwilling to provide these, particularly where national and local politics diverge. Bureaucratic processes to secure guarantees can be protracted and convoluted, significantly delaying projects.

**Therefore, expanding MDB financing directly to cities through non-sovereign operations is crucial, particularly for L&MIC cities that can take on international debt.** Currently, only 2% of MDB urban climate-related financing (USD 1.1 billion) was channeled directly to city governments without a sovereign guarantee. This was driven by banks with large non-sovereign portfolios, such as the EBRD, which can channel finance to cities on a balance sheet or project finance basis. The IFC also provides such finance to cities, suggesting that total non-sovereign urban climate finance would be higher if IFC data was included in this tracking. MDBs with mostly sovereign operations theoretically allow for lending to municipalities as non-sovereign operations (i.e., without sovereign guarantees). However, interviews found that this was rare due to poor city creditworthiness, small project sizes, and legal and political constraints surrounding city financing.

**Public and commercial financial institutions are another key – yet currently underutilized – channel for MDBs to reach a wide variety of cities, making up only 4% of MDB urban climate-related financing (USD 2.2 billion).** Public financial institutions (national and subnational development banks, local municipal development funds) and local commercial financial institutions can achieve systemic urban climate transformation across a country by directly financing infrastructure projects, companies, or municipalities. Working with local financial intermediaries can be particularly helpful in scaling up investment in cities that may not be able to receive direct financing from the MDBs, such as small- to medium-sized ones. Local financial institutions are also key to mobilizing private capital (see Section 4) and promoting financing in local currency. For example, in 2020, the NDB provided a sovereign-guaranteed loan of USD 1.2 billion to the Brazilian National Development Bank for on-lending to the public and private sectors

for sustainable infrastructure sub-projects, including urban mobility and infrastructure (NDB, 2023). Similarly, the AIIB and the World Bank have supported the Regional Infrastructure Development Fund, which aims to close the infrastructure gap at the subnational level (see Box 7).

### **Box 7. Investing in Subnational Infrastructure Development through a World Bank and AIIB-funded public financial intermediary scheme**

PT Sarana Multi Infrastruktur, an Indonesian state-owned enterprise tasked with promoting infrastructure finance solutions, has implemented the Regional Infrastructure Development Fund (RIDF) to help close the infrastructure gap at the subnational level (AIIB, 2022). This domestic financial intermediary scheme and project development facility, funded through loans from the World Bank and the AIIB (each providing USD 100 million), will finance subnational government investments and provide TA in thematic areas, including urban transport, urban water supply and sanitation, drainage, flood and hazard risk, solid waste management and slum upgrading and affordable housing.

**Promoting more intermediated structures comes with challenges, requiring capacity-building to maximize effectiveness.** Less than 4% of public development banks globally are mandated to finance local governments, and even fewer have green infrastructure mandates (CCFLA, 2021a). Moreover, commercial banks in L&MICs have limited experience lending to municipal governments (WEF, 2022; World Bank, 2020), which tends to be concentrated in larger urban areas. For example, 70% of total local borrowing in Brazil has gone to just three municipalities (Tyson, 2022). The capacity building of financial intermediaries should, therefore, be an essential component of MDBs' intermediate finance strategies.

**Finally, promoting MDB operations in local currency is critical, with only 6% of tracked urban climate finance reported in currencies other than euros or US dollars.<sup>31</sup>** Local currency finance can reduce L&MIC cities' foreign exchange risks and support private investments and local capital market growth. Our interviews with cities also flagged a lack of local currency finance as a barrier to engaging with MDBs. Calls for MDB reform have flagged the need to increase local currency offerings, and multiple MDBs have pledged to do so.<sup>32,33</sup> Channeling more urban climate finance through local public or private financial intermediaries can also help promote greater local currency investments in urban climate action.

31 This may be an underestimation as MDBs often disclose financing in euros and US dollars regardless of the disbursement currency. MDBs identified as offering local currency finance were the AfDB, EBRD, EIB, and NDB.

32 The World Bank's Local Currency Facility (LCF), for example, caters to markets with limited or absent currency hedging. The IFC uses it to provide local currency finance for impactful projects in IDA countries (IDA, 2023a).

33 The EBRD, AfDB, EIB, IFC, and others have invested in the Currency Exchange Fund (TCX) to lend in local currency and hedge against currency mismatch (EBRD, 2009).

## 4. SHARPEN FOCUS ON PRIVATE CAPITAL MOBILIZATION

*This section addresses how MDBs can leverage their resources and work with other partners to mobilize private capital for urban climate projects.*

### Recommendations for MDBs

#### 4.1. Promote risk-mitigation instruments to increase private sector engagement and investment in urban climate projects.

- Deploy a range of urban financing instruments, such as guarantees and blended finance instruments, to reduce private-sector investment risk.

#### 4.2. Strengthen MDB finance to the private sector by investing in urban climate action both directly and through intermediaries.

- Increase financing of private-sector companies and utilities investing in urban climate solutions.
- Support public and private financial intermediaries to mobilize private capital for urban climate projects.

### PROMOTE RISK-MITIGATION FINANCIAL INSTRUMENTS TO INCREASE PRIVATE INVESTMENT IN URBAN CLIMATE PROJECTS

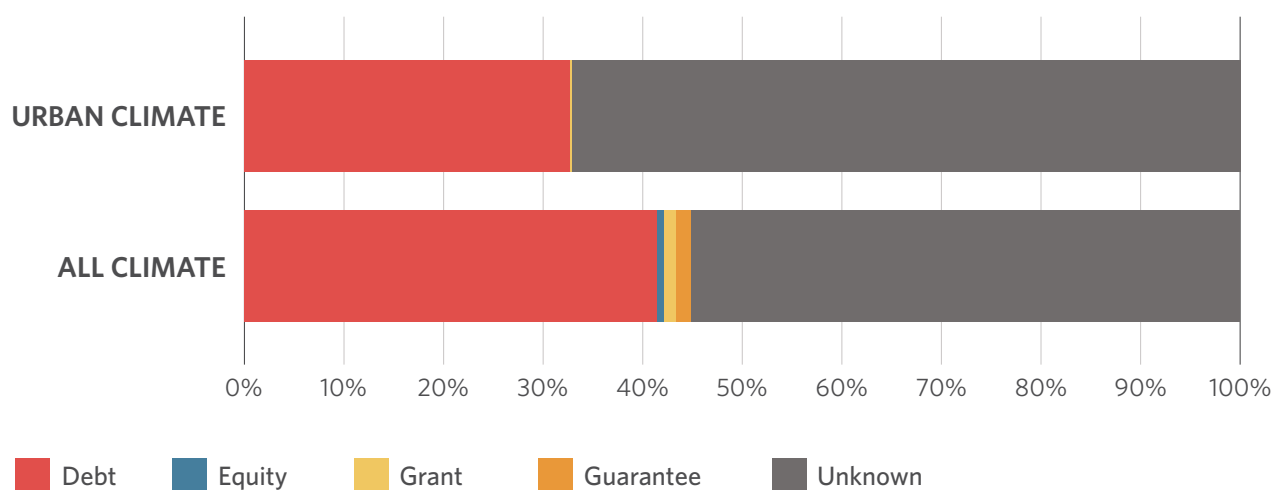
The ongoing calls for MDB reform acknowledge the crucial role of the private sector in meeting climate investment needs, particularly for L&MICs, and how MDBs can help mobilize private finance at scale (Elysee, 2023b).

Private capital mobilization by MDBs is particularly important for urban climate finance, given that cities face limited direct access to private investment and need to leverage funds beyond constrained public ones. Private investment in municipal infrastructure in developing countries necessitates strong institutional and regulatory systems, often requiring reforms beyond city governments' control (White & Wahba, 2019). In addition to limited technical capacity and regulatory barriers, cities' access to financial and asset management resources can be restricted by poor creditworthiness and the absence of risk-mitigation instruments (CCFLA, 2023a).

**MDBs can help attract additional private capital for urban climate action by deploying more risk-mitigation instruments and leveraging blended finance.** The majority of tracked MDB urban climate-related finance that we were able to identify the instruments

for is in the form of debt.<sup>34</sup> We found that guarantees and grants are used less in MDBs' urban climate-related finance (0.2%) than in their climate-related finance as a whole (2.7%, see Figure 8).<sup>35</sup> While 67% of tracked MDB urban climate-related finance have unknown financing instruments, interviews confirmed the need for MDBs to scale up the use of financial instruments other than debt to crowd in private-sector capital in urban projects.

Figure 8: MDBs' Climate-related Financing by Instrument (2015-2022)



**MDBs should scale up the use of guarantees to lower investment risk profiles and leverage additional funding for urban investment.** MDBs can issue first-loss guarantees to local governments or financial institutions, for example, which incentivize private investment in projects by promising to compensate the lender in the event of borrower default. For instance, IDB Invest financed a USD 2 million guarantee (with resources from the CIF Clean Technology Fund) to the Mexican municipality of Ensenada to assure a contract with energy solutions company Optima Energia to replace the city's streetlights with high-efficiency LEDs (IDB, 2023e).

**Blended finance can also play a crucial role in mobilizing additional private capital.** For instance, in 2020, the ADB worked with the CIF Clean Technology Fund to provide concessional finance to clean energy developer Lomligor Company Limited to improve the financial viability of a wind power plant in Thailand (EIB, 2021), a structure that could be implemented in an urban climate project. Similarly, MDBs can provide credit enhancement instruments such as subordinated financing for municipal bonds in countries with developed municipal bond markets in order to improve their ratings and make them more attractive for private capital (Sharma et al., 2023).

<sup>34</sup> Note that we could not track whether the debt was concessional, as this is not often shown on project portals.

<sup>35</sup> We are also likely to have underestimated grant capital, given that much of this comes from multi-donor trust funds, whose financing is generally not covered by project portals. Note that while MIGA was included in the quantitative analysis, no MIGA climate project in our dataset was identified as urban.

## STRENGTHEN MDB CLIMATE FINANCE TO THE PRIVATE SECTOR, BOTH DIRECTLY AND THROUGH INTERMEDIARIES

**MDBs can invest directly in private companies in order to attract additional private capital and develop local markets for urban climate investments.** These types of investments seem to be underutilized, with private companies receiving only 6% of MDB urban climate-related finance from 2015-2022 (see Figure 7, Section 3) and equity constituting less than 0.01% of MDB urban climate-related finance (see Figure 8).<sup>36</sup> The private-sector arms of MDBs and non-sovereign operations can invest directly in companies providing critical urban climate services, including through PPPs and taking equity. For instance, the IFC has provided a debt package of EUR 162.3 million for Beo Cista Energija d.o.o, a special purpose vehicle, to build a municipal waste-to-energy project through a PPP with the City of Belgrade, Serbia (IFC, 2019). MDBs can also crowd in private capital to urban climate projects through initiatives such as the Subnational Climate Fund, which invests in private companies using blended equity. The fund combines blended finance and a GCF grant-funded TA facility with commercial capital to invest in mid-sized sustainable subnational infrastructure PPPs in emerging markets (CPI, 2020).

**MDBs can also help to mobilize private capital for urban climate projects by supporting public and private financial intermediaries.** For example, the IFC Market Accelerator for Green Construction Program offers concessional finance and firm-level TA to commercial banks to accelerate the construction of certified green buildings (IFC, 2023). This support does not have to be concessional; competitive market private financing can also be used. The AfDB, for instance, has provided long-term liquidity (lines of credit) and TA to local African financial intermediaries for on-lending to small- and medium-sized enterprises under the Africa SME Programme (AfDB, 2023a). The program supported, for example, ATD, a small waste management enterprise in Mauritania, in acquiring vehicles and equipment through a loan disbursed by the Banque Populaire de Mauritanie (AfDB, 2023c).

**Finally, interviews highlighted MDBs' potential for financing municipal utility companies to increase climate finance at the city level.** As private enterprises operating public concessions or as quasi-public companies, utilities often operate with significant private capital investment. MDB financing can improve the investment risk profile of utilities' projects by assuring revenue generation and consequently attracting local private capital. This is already happening and can be scaled up further, with public or quasi-public companies receiving 9% of tracked urban climate-related finance (USD 5.3 billion) from MDBs from 2015-2022 (see Figure 7, Section 3). In addition, the IFC has started the Utilities for Climate (U4C) initiative to support municipal water utilities in identifying and financing projects to improve water supply (see Box 8).

<sup>36</sup> Note that we are likely underestimating the financial amount of equity since the IFC was not included in this analysis.

**Box 8. Financing Municipal Utilities through the IFC Utilities for Climate Initiative**

The IFC U4C initiative supports water utilities in identifying, prioritizing, and financing projects to tackle the catastrophic effects of climate change. For example, this initiative provided a sustainability-linked long-term loan to the Water and Sewerage Administration of Izmir, Turkey's third-largest city, in 2021 (IFC, 2021). The loan, which is worth up to USD 30 million and denominated in Turkish Lira, is intended to improve stormwater infrastructure, water, and wastewater in seven districts of Izmir. Investments will fund the construction of a water treatment plant and rehabilitate 315 kilometers of sewerage and stormwater infrastructure, enhancing the reliability of Izmir's water supply network – benefiting approximately 463,000 citizens. The development will provide quality drinking water to around 200,000 people.

## 5. ENHANCE POLICY SUPPORT AND CAPACITY BUILDING

*This section addresses the policy and capacity-building work that MDBs do to strengthen the enabling environment for urban climate finance and how this can be scaled up.*

### Recommendations for MDBs

#### 5.1. Work with national governments to champion comprehensive national-level policy reform initiatives to improve the enabling environment for urban climate action.

- Where possible, support national reforms to enhance local government financial autonomy, including fiscal decentralization and optimizing subnational borrowing restrictions.
- Use policy-based instruments to strengthen the enabling environment for urban climate finance.

#### 5.2. Expand local capacity-building initiatives to enhance city governments' financial and management capacity and their ability to work with other finance providers.

- Support capacity-building efforts to enhance cities' ability to plan, prepare, and implement climate projects with other finance providers.
- Scale up the use of instruments that have local capacity-building components.

## CHAMPION NATIONAL POLICY REFORMS TO ENABLE URBAN CLIMATE ACTION

**Limited institutional and fiscal capacity of municipalities, political misalignment between levels of government, and underdeveloped local capital markets hinder the effectiveness of MDB urban climate finance (see Table 1 in Introduction).** Such issues affect cities' local revenue and risk profiles, their ability to secure both public and private finance, and their capacity to implement projects.

**Some MDBs already work to improve the enabling environments for urban climate finance by supporting national reforms to strengthen subnational actors and local markets.** For example, IDB's Subnational Governments and Decentralization Sector Framework outlines the bank's work to improve the coordination of intergovernmental arrangements, increase subnational governments' service delivery capacities, generate revenue, and monitor and control resources (IDB, 2018).

**MDBs' work on national climate policy can be leveraged further to support urban climate action through vertical policy integration.** Many banks are supporting country governments in implementing their Nationally Determined Contributions (NDCs) and National Adaptation Plans, including monitoring and reporting on their targets. This



work could be leveraged to integrate cities into such plans.<sup>37</sup> The ADB is developing a Subnational Government Monitor to evaluate the enabling environment for planning, funding, and financing of subnational governments and to support vertical policy integration to downscale NDCs to the subnational level. The monitor will support institutional and governance reforms that increase creditworthiness and vertical policy integration.<sup>38</sup>

**Moreover, MDBs can deploy more policy-based instruments where available.** While most MDBs' instruments are project-based, some support policy and institutional reforms. For example, policy-based loans (PBLs) offer general budget support to implement a set of reforms aimed at enhancing the effectiveness of developmental objectives.<sup>39</sup> Given that they are not tied to specific projects, PBLs provide flexibility to borrowers, with greater procedural simplicity and shorter time frames. This has prompted the G20 to recommend greater PBL deployment from MDBs (G20, 2023a). PBLs were deployed extensively during the COVID-19 pandemic, with an uptick in country demand since then,<sup>40</sup> leading many banks to commit to increasing their share in total lending, including for climate purposes.<sup>41</sup>

**Policy-based instruments have particular potential to advance climate goals and can be leveraged to enhance the enabling environment for urban climate action.** This is evidenced by the fact that 97% of the World Bank's Development Policy Financing<sup>42</sup> delivered climate co-benefits in 2021, up from 7% in 2015, through helping countries reduce emissions, strengthen climate change strategic frameworks, and align government spending with climate change mitigation and adaptation efforts (World Bank, 2021). An example from the World Bank shows that PBLs can be used to implement national-level reforms to strengthen the enabling environment for urban investments by promoting fiscal decentralization and regional coordination (see Box 9).

### **Box 9. A World Bank Policy-Based Loan for Regional Coordination and Urban Land Management**

In 2020, the World Bank extended a development policy financing loan of USD 400 million to Colombia's Ministry of Finance and Public Credit to support: (1) the strengthening of regional coordination, planning, and resource allocation to support policies to enable territorial entities to collaborate on service delivery, regional investments, and solving for shared challenges such as climate change; (2) the fostering of efficient and decentralized urban land management systems. Reforms under the loan included strengthening subnational management and accountability, decentralizing land management to local governments, and developing land-based instruments to finance climate change adaptation (World Bank, 2022a).

37 The AfDB's Africa NDC Hub supports the transformation of NDCs into financeable projects, while ADB's NDC Advance platform helps translate NDCs into climate investment plans.

38 Information obtained through interviews.

39 World Bank, IDB, ADB, and AfDB provide PBLs (ADB, 2021; AfDB, 2018; IDB, 2023b; Murphy & Savoy, 2022; World Bank, 2023d).

40 For instance, the share of Development Policy Finance instruments in IBRD's overall commitments increased to 39% in 2019, up from 22% in 2018, and remained high in 2020 (36%) and 2021 (35%), reflecting the COVID-19 response (World Bank, 2021).

41 ADB has responded to increased PBL demand by expanding its PBL ceiling of 20% of sovereign operations to USD 18 billion in PBL commitments from 2022-24 (ADB, 2021).

42 The World Bank policy-based financing, as opposed to Investment Project Financing and Program-for-Results Financing.

## SUPPORT LOCAL CAPACITY-BUILDING INITIATIVES TO SUPPORT CITY GOVERNMENTS

**MDBs can also overcome domestic barriers by supporting capacity building.** At the city level, MDBs provide support focused on issues ranging from diagnostics, investment planning, and prioritization to training of city officials. For example, the World Bank's City Creditworthiness Initiative empowers local authorities to enhance financial performance, increasing their capacity to undertake non-sovereign credit (World Bank, 2023f). Other initiatives like the IFC's business model for its cities' focus area integrate advisory and investment support, including helping plan green investments through the APEX tool or training city officials on transport decarbonization using its Electric Vehicles Toolkit (IFC, 2020).

**MDBs have combined their efforts on capacity-building initiatives.** For example, five banks helped to develop the joint MDB Public-Private Partnerships (PPP) Certification Program delivered by APMG International, which is aimed at fostering common knowledge and understanding among stakeholders implementing PPPs.<sup>43</sup> As of May 2023, the EBRD had offered the program to around 250 national and municipal government officials in 13 countries. Other initiatives focus on filling local data gaps by providing climate risk analysis services (e.g., the World Bank City Resilience program) and by creating city knowledge sharing networks (e.g., IDB Cities Network). See other initiatives in Table 2 in Section 3.

**Finally, MDBs should mobilize instruments, including capacity building linked to core financing components.** An example is the World Bank Urban Performance Grants, which comprised 41% of its urban development finance portfolio between 2013 and 2020 (Lee et al., 2022). These are fiscal transfers from higher levels of government to cities and local governments to incentivize improvements in their institutional performance, policies, and service delivery. Many of these grants include capacity-building support provided by higher tiers of government to participating cities based on local needs. This may include mentoring, training, and consultancy support for planning, budgeting, financial management systems, and procurement activities, in addition to the provision of IT systems, equipment, and other services according to requests outlined in local capacity-building plans (Lee et al., 2022).

<sup>43</sup> These are the ADB, EBRD, IDB, IsDB, World Bank, the Multilateral Investment Fund, and the Public-Private Infrastructure Advisory Facility (APMG, 2019).

## II. CONCLUSION AND NEXT STEPS

Ongoing calls for MDB reform present a crucial opportunity for these banks and their partners to accelerate investment in urban climate solutions for L&MIC cities. In the face of rapid urbanization and climate vulnerability, these cities urgently need to break down barriers to accessing critical financial resources. Strengthening L&MIC cities' capacity to respond to the climate crisis is a necessity for meeting global climate goals, and MDBs can play a crucial role in stewarding this process.

As illustrated throughout this report, all banks contributing to the Joint Report on MDBs' Climate Finance have made significant urban climate investments in recent years. Many have developed urban strategies and expertise for the climate transition and have provided public and private entities in L&MICs with TA, capacity building, and policy support to accelerate urban climate investment. By mobilizing concessional finance, they have helped L&MIC cities to access otherwise unreachable finance sources.

There is a compelling need to ramp up these efforts and enhance their effectiveness. Overall, MDB urban financing volumes appear to have plateaued at a critical juncture in the transition to low-carbon urban development and increasing urban vulnerability to climate change. Gaps remain in prioritizing urban needs across MDBs' climate and country strategies and how MDBs work with other actors in the international financial architecture to mobilize funding. Current project-based approaches limit MDBs' ability to catalyze systemic urban transformation and traditional MDB instruments are often not tailored to cities' needs, for example, by often being too large and rarely in local currency.

Ongoing calls for MDB reform emphasize scaling up climate finance to where it is most needed, deploying risk-sharing instruments, and promoting more systemic ways of funding and collaborating among financiers, presenting an opportunity to scale the volume and effectiveness of urban climate finance. This will require concerted collective efforts by MDBs, in collaboration with shareholder governments and local stakeholders, to systematically prioritize urban needs and implement robust programs that accelerate urban climate project development from inception and investment through to implementation. This can be accomplished by leveraging existing initiatives and instruments supporting urban climate projects, as well as developing new, more fit-for-purpose ones. Inter-MDB cooperation has great potential to adopt joint strategies to scale up urban climate finance.

The findings of this paper offer a platform for reflection on how MDBs can collectively enhance their support for urban climate finance amid ongoing reform efforts. Based on these conclusions, the CCFLA aims to take the following next steps:

- Promote an open dialogue between MDBs and cities to discuss practical action to further develop this report's recommendations.

- Join forces with other global actors discussing MDBs' urban climate finance investment, such as the Sustainable Development Solutions Network Urban SDG Finance Commission.
- Engage national governments, particularly MDB shareholders, in the debate on how to scale and increase the quality of urban climate finance investments from MDBs.
- Further explore innovative solutions to increase MDBs' financial instruments that can respond to cities' needs.
- Further explore the challenges and opportunities for MDBs to scale private-sector funding for urban climate projects.

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# ANNEX 1: MDBS' GENERAL OPERATIONS

Table 3 outlines each MDB's mandates, including regional focus, top financed sectors, share of sovereign and non-sovereign operations, subscribed capital and credit ratings. Information in the table was compiled from annual reports, rating documents and MDB websites.

Table 3: MDBs' mandates and general operations

MDB	Regional focus	Mandate	Top financed sectors	Type of operations*	Subscribed capital (USD bill)	Credit rating
AfDB	Africa	Spur sustainable economic development and social progress in regional member countries, thus contributing to poverty reduction.	Transport, power, finance, agriculture	Mostly sovereign	97	AAA
ADB	Asia and the Pacific	Envisions a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining efforts to eradicate extreme poverty in the region.	Finance, transport, public sector management, agriculture	Balanced split between sovereign and non-sovereign	141	AAA
AIIB	Asia and Oceania	Build "Infrastructure for Tomorrow" through investments in infrastructure and other productive sectors which seek to foster sustainable economic development, create wealth, and improve infrastructure connectivity in Asia.	COVID recovery, energy, finance, transport, urban	Balanced split between sovereign and non-sovereign	96.7	AAA

MDB	Regional focus	Mandate	Top financed sectors	Type of operations*	Subscribed capital (USD bill)	Credit rating
CEB	Europe	An exclusively social mandate “to make Europe better for all its people” through the provision of financing and technical expertise for projects with a high social impact in its member states. The social focus is aimed at fostering inclusive and sustainable growth and contribute to improving the living conditions of the most vulnerable populations in Europe.	All sectors: health, education, affordable housing	Mostly sovereign	9.73	AAA
EBRD	Europe + Central Asia + Southern and Eastern Mediterranean	Foster “transition towards open market-oriented economies” in countries from central and eastern Europe to central Asia and the southern and eastern Mediterranean, with a focus on private-sector development.	Depository credit, power and energy, transport, municipal and environmental infrastructure	Mostly non-sovereign	29.8	AAA
EIB	Europe + Global	Works closely with other EU institutions to “foster European integration, promote the development of the EU and support EU policies in over 160 countries.” EIB founded EIB Global, its development-focused arm investing outside of EU member states.	Services, transport, energy	Balanced split between sovereign and non-sovereign	263.6	AAA
IDB	Latin America and the Caribbean	Improve lives in Latin America and the Caribbean, with the aim of achieving development in a sustainable, climate-friendly way.	Public sector reform, social investment, private firms & SME development, water	Mostly sovereign	176.8	AAA

MDB	Regional focus	Mandate	Top financed sectors	Type of operations*	Subscribed capital (USD bill)	Credit rating
IDB Invest (part of the IDB group)	Latin America and the Caribbean	Aims “to be the partner of choice for the private sector in Latin America and the Caribbean.” Finances projects that advance clean energy, modernize agriculture, strengthen transportation systems, and expand access to financing.	All sectors: Infrastructure, Transportation, Energy, Water and sanitation. Social infrastructure, Financial institutions, Investment funds, Corporates, Agribusiness, Digital economy, Tourism, Manufacturing	Non-sovereign	3	AAA
IsDB	OIC <sup>44</sup>	Promotes comprehensive human development, with a focus on the priority areas of alleviating poverty, improving health and education, and improving governance. Focused on the Muslim world.	Transport, agriculture, health	Not found	70	AAA
NDB	BRICS, EMDCs <sup>45</sup> (Bangladesh, Egypt, UAE, and Uruguay)	Mobilizes resources for infrastructure and sustainable development in BRICS and EMDCs. Particularly focused on infrastructure.	COVID assistance, urban development, transport	Mostly sovereign	50	AA+
World Bank	Global	Envisions “a world free of poverty – on a livable planet.” This has to be achieved through expanded financial capacity, stronger partnerships and deeper engagement with the private sector as well as efficient processes.	IBRD: public administration, health, agriculture, social protection. IDA: public administration, transportation, social protection, health	Mostly sovereign	370	AAA

<sup>44</sup> Organization of the Islamic Cooperation (OIC), including 57 countries.

<sup>45</sup> BRICS is a group of Brazil, Russia, India, China, and South Africa (recently expanded to include Saudi Arabia, Iran, Ethiopia, Egypt, Argentina, and the United Arab Emirates). EMDCs stand for Emerging Markets and Developing Countries.



MDB	Regional focus	Mandate	Top financed sectors	Type of operations*	Subscribed capital (USD bill)	Credit rating
IFC (part of the World Bank Group)  [not included in the quantitative analysis]	Global	Advances economic development and improves the lives of people by encouraging the growth of the private sector in developing countries.	Financial markets, infrastructure, manufacturing	Non-sovereign	32.8	AAA
MIGA (part of the World Bank Group)	Global	Provides political risk insurance (guarantees) for projects in a broad range of sectors in developing member countries, covering all regions of the world.	All sectors: Agribusiness, Capital Markets, Energy, Extractive Industries, Financial, Manufacturing, Services, Telecommunications, Tourism, Transport, Water	Non-sovereign	1.9	AAA

(\*) “mostly” in the “Type of Operations” column indicates more than 80% of operations.

# ANNEX 2: QUANTITATIVE DATA COLLECTION AND PROCESSING

## DATA COLLECTION, STRUCTURE AND PROCESSING METHODS

Project-level data is collected from MDBs' public project databases on their websites using application programming interface (API) calls, open data downloads and web scraping. Details of each data source are shown in Table 4.

Data was collected for the ten MDBs contributing to the Joint Report on MDB Climate Finance. The IsDB and the Council of Europe Development Bank do not publish project information on their websites, so they were excluded from the primary web scraping. IFC data was not included in the final dataset because the use of JavaScript injection and inconsistent webpage structures prevented us from consistently scraping the correct financing values. There were also instances where information could not be scraped from other MDB project portals for all of the years 2015-22 (see Table 5, Annex 3 for details). In cases where MDB data could not be collected via web scraping, data from the OECD Climate Change Disclosure was used to fill gaps.<sup>46</sup>

**Table 4:** Details of MDBs' project-level data collection methods and sources

MDB	Collection Method	Source Website
African Development Bank (AfDB) <sup>47</sup>	Web scraping	<a href="https://www.afdb.org/en/projects-and-operations">https://www.afdb.org/en/projects-and-operations</a>
Asian Development Bank (ADB)	Web scraping and CSV	<a href="https://www.afdb.org/en/projects-and-operations">https://www.afdb.org/en/projects-and-operations</a> <a href="https://data.adb.org/dataset/climate-change-financing-adb">https://data.adb.org/dataset/climate-change-financing-adb</a>
Asian Infrastructure Investment Bank (AIIB)	Web scraping	<a href="https://www.aiib.org/en/projects">https://www.aiib.org/en/projects</a>
Council of Europe Development Bank (CEB)	OECD DAC Disclosures	<a href="https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/climate-change.htm">https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/climate-change.htm</a>

<sup>46</sup> OECD DAC data records climate-related external development finance flows from bilateral and multilateral sources over the period 2013-2021.

<sup>47</sup> Note that the AfDB Data Portal, which has more projects than the sources used, was found later in the process, therefore this analysis likely underestimates the AfDB contribution.

MDB	Collection Method	Source Website
European Bank for Reconstruction and Development (EBRD)	Web scraping	<a href="https://www.ebrd.com/project-finder">https://www.ebrd.com/project-finder</a>
European Investment Bank (EIB)	Web scraping	<a href="https://www.eib.org/en/projects/all/index.htm">https://www.eib.org/en/projects/all/index.htm</a>
Inter-American Development Bank (IDB)	XLSX	<a href="https://www.iadb.org/en/projects">https://www.iadb.org/en/projects</a> <a href="#">Project information XLSX download</a>
IDB Invest (part of the IDB Group)	Web scraping	<a href="https://idbinvest.org/en/projects">https://idbinvest.org/en/projects</a>
Islamic Development Bank (IsDB)	OECD DAC Disclosures	<a href="https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/climate-change.htm">https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/climate-change.htm</a>
New Development Bank (NDB)	Web Scraping	<a href="https://www.ndb.int/projects/all-projects/">https://www.ndb.int/projects/all-projects/</a>
World Bank	API (web scraping for project description) <a href="https://datacatalog.worldbank.org/search/dataset/0037800">https://datacatalog.worldbank.org/search/dataset/0037800</a>	<a href="https://search.worldbank.org/api/v2/projects">https://search.worldbank.org/api/v2/projects</a>
MIGA (part of the World Bank Group)	CSV	<a href="https://www.miga.org/projects">https://www.miga.org/projects</a>

## DATA STRUCTURE

The dataset observations, referred to as “projects”, are individual financing operations by MDBs. Our data processing aimed to produce a structure based on CPI’s Global Landscape of Climate Finance (GLCF) dataset, with six additional fields containing information specific to urban climate finance: total transaction amounts of MDB financing, sponsoring MDB, recipient institution, project name, description, and sector.

## PROCESSING METHODS

We used a three-step data processing method.

- **Step 1: Collection:** Data described in Table 4 was collected and merged into a single dataset.
- **Step 2: Classification:** Collected data was classified as (1) climate-related; (2) and/or urban. Other processed fields were generated using GLCF reference tables.<sup>48</sup>
- **Step 3: Quality Controls:** (1) The largest 10-20 urban climate projects by financing amount were manually reviewed to verify correct classifications and web-scraped financing amounts; (2) Where manual review indicated systematic errors in classification (e.g., faulty keyword selection leading to misclassification as urban or climate), the classification process was manually revised; (3) projects displayed on MDB web portals that have since been canceled were removed from the data to avoid tracking climate-related finance amounts that had not been disbursed.

## DEFINING URBAN CLIMATE-RELATED PROJECTS

### 1. CLASSIFICATION OF URBAN PROJECTS

A multi-step process was used to assign a binary urban classification. At each step, only the projects that remained unclassified are passed to the next step.

1. One transportation subsector, “Transit Oriented Development and Infrastructure” and one energy solution, “District Heating and Cooling”, are inherently urban. Any projects with these subsectors or solutions were classified as urban.
2. Projects that matched any urban keywords (i.e., “urban”, “city”, “cities”, “municipal”, “subnational”, and “local government”) in their project name or description were classified as urban.
3. Projects that contained an urban subnational administrative area name as defined using the GADM dataset<sup>49</sup> were classified as urban.<sup>50</sup>

<sup>48</sup> See more details here: <https://www.climatepolicyinitiative.org/wp-content/uploads/2021/10/Methodology.pdf>

<sup>49</sup> GADM 4.1. Available at <https://gadm.org/index.html>

<sup>50</sup> A list of urban subnational administrative names is matched to project names and descriptions to identify projects taking place in urban areas. The list of urban subnational areas is generated according to the following steps: 1) The list of urban subnational administrative names is sourced from the GADM global database of all administrative areas at all levels of subdivision. The GADM data has both English and official names for each administrative area. 2) GADM data includes the Global Human Settlements Model (GHS-SMOD) classifications for urban areas. Urban classifications are Urban Center, Dense Urban, and Semi-Dense Urban. 3) Zonal statistics are used to identify urban areas within each administrative area. Where 25% or more of the total administrative area contains urban areas, it is classified as urban. 4) Urban administrative areas are converted to a list of names including all language and spelling variations.

4. Agriculture sector projects were classified as non-urban.
5. Projects with “rural”, “non-urban”, and “inter-urban” in their names or descriptions were classified as non-urban.
6. All other projects were classified as non-urban.

## 2. CLASSIFICATION OF CLIMATE PROJECTS

Projects are classified as climate-related finance using methodology adapted from CPI’s GLCF definition and methodology, which builds on the recommended operational definition of the UNFCCC Standing Committee on Finance (see UNFCCC SCF, 2014, 2016, 2018, 2020). Accordingly, a multi-step process uses sectors and keywords to classify projects as relating to Adaption, Mitigation, Multiple Objectives, or No Climate Use. At each step, only those projects that remain unclassified are passed to the next step.

1. Projects in the fossil fuel sector were classified as having No Climate Use.
2. Projects with a climate use corresponding to GLCF sector classification (e.g., “renewable energy”) are classified as matching climate use.
3. Using keyword lists (see below), projects with names and/or descriptions that matched only the adaptation keywords were classified as Adaptation. Projects matching only the mitigation keywords were classified as Mitigation. Those matching both keywords were classified as Multiple Objectives.
4. All remaining projects were classified as No Climate Use.

Keyword matching utilizes lists of 129 adaptation keywords and 65 mitigation keywords, building on previous CCFLA and CPI climate finance tracking projects.<sup>51</sup> The reliance on keyword matching makes the data susceptible to variation in the descriptions between banks, either due to different levels of detail included in the descriptions or technical barriers to scraping the descriptions. It is also reliant on how the banks describe projects, which generally does not include measured impacts of projects. To minimize false classification, keywords are validated based on the frequency that such words appear in the project name and description, with words that appear very frequently eliminated from key word lists to ensure precise classification of climate projects. For example, sustainability and resilience were excluded through the validation process due to their common use in non-climate contexts.

Finally, a binary climate-related classification is assigned based on climate use classification. If the project’s climate use is either Adaptation, Mitigation, or Multiple Objectives, it is classified as a climate-related project.

<sup>51</sup> Adaptation keywords are based on the list of climate adaptation sub-activities developed for the State of Cities Climate Finance report (2021): [www.climatepolicyinitiative.org/wp-content/uploads/2021/06/SCCF\\_PART1-FINAL-1.pdf](http://www.climatepolicyinitiative.org/wp-content/uploads/2021/06/SCCF_PART1-FINAL-1.pdf). Mitigation keywords are based on the mitigation-related glossary terms of the IEA Net Zero by 2050 report (2021): [https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroBy2050-ARoadmapfortheGlobalEnergySector\\_CORR.pdf](https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroBy2050-ARoadmapfortheGlobalEnergySector_CORR.pdf).

## ESTIMATES OF URBAN CLIMATE MITIGATION AND ADAPTATION FINANCE

After data have been collected and processed, climate finance amounts are estimated from MDB urban climate-related finance amounts (i.e., total financing of projects with an urban climate finance component), aiming to identify the incremental amount attributable to a specific climate use — Mitigation, Adaptation, or Multiple Objectives.

Since incremental amounts of total transactions directed towards climate uses are not directly observable from scraped project-level data, these amounts are estimated using assumptions derived from other data sources. In particular, the estimation method leverages the OECD DAC database, where such incremental climate finance amounts (i.e., direct financing of adaptation and mitigation) are recorded.

Using a subset of OECD DAC transactions data associated with our sample MDBs, sector-level “coefficients” are calculated for adaptation, mitigation, and general climate (Multiple objectives) finance. These “coefficients” reflect the average proportion of total project finance directed towards adaptation, mitigation, or both climate uses, within a given sector. In addition to a central average coefficient, “low” and “high” coefficients are calculated using a 95% confidence interval, recognizing substantial uncertainty with regards to the true average proportion of climate finance across sectors. Finally, coefficients (low, central, high) are used to estimate climate finance amounts from the total transaction amounts recorded in the primary dataset, based on sector and climate use classifications.<sup>52</sup>

As a result, findings based on estimated climate finance amounts are presented as a range, rather than a single estimate. OECD DAC data — which contains over 14,000 project-level observations for the sample MDBs over the period 2015-2022 — seems fairly representative of the population of projects collected in the web-scraped dataset, and thus aggregate findings based on coefficient estimates should still be relatively robust.

A key limitation to the representativeness of OECD DAC data is that they are not classified as urban or non-urban. Hypothesizing that urban projects are particularly likely to contain a lower increment of climate finance relative to total project-level finance, is it probable that this estimation methodology overestimates climate finance amounts to some degree.

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<sup>52</sup> We expect that these estimates are fairly accurate at the level of aggregate statistics. However, these estimated values should not be utilized at a transaction-level, due to likely error from extrapolation of sector-averages.

## ANNEX 3: MDB-REPORTED CLIMATE FINANCE AND SCRAPED MDB CLIMATE-RELATED FINANCE

We compared climate finance data reported by MDBs in the Joint Reports from 2015-2022 with the scraped data. The data is for all economies, not just L&MICs, to enable comparison with earlier Joint Reports. For most MDBs, web-scraped climate-related finance values exceed climate finance values disclosed in the Joint Reports over the period 2015-2022. However, for a number of MDBs, climate-related finance cannot be scraped in particular years. Where possible, these gaps are filled using OECD DAC data, which contains observations for MDBs in missing years. Overall, comprehensiveness and precision of quantitative data used in this research is limited by overestimation of MDB climate finance at the transaction level as well as potential under inclusion of MDB projects at the institution level.

**Table 5:** MDB-reported climate finance vs scraped climate-related finance (2015-2022) for all economies

Bank	Climate finance reported 2015-22 (USD bill)	Percentage difference between scraped climate-related finance and reported values (2015-22)	Scraping data gaps
African Development Bank (AfDB)	19.8	-17%	Only 2015-2021 (of which 2020 and 2021 from OECD)
Asian Development Bank (ADB)	40.9	+29.2%	N.A.
Asian Infrastructure Investment Bank (AIIB)	6.4	+32.4%	From OECD; Only 2016-2021
Council of Europe Development Bank (CEB)	Not reported	0.9 US billion *	From OECD; Only 2019-2021
European Bank for Reconstruction and Development (EBRD)	37.1	+43.8%	N.A.
European Investment Bank (EIB)	138.7	+62.2%	N.A.
Inter-American Development Bank Group (IDBG)	34.7	-12.4%	N.A.



Bank	Climate finance reported 2015-22 (USD bill)	Percentage difference between scraped climate-related finance and reported values (2015-22)	Scraping data gaps
Islamic Development Bank (IsDB)	2.5	-47.2%	From OECD; Only 2019-2021
New Development Bank (NDB)	Not reported	14.2 US billion*	Only 2016-2022
World Bank + MIGA	159.2	-48.3%	Excludes IFC due to difficulties in web scraping

*\*As these MDBs did not report their values, we have provided only the scraped climate-related finance values*

# ANNEX 4: MDBS' URBAN STRATEGIES

**Table 6:** MDBs' Urban Strategies and their Climate Focus

MDB	Urban strategy	Climate focus
AfDB	<a href="#">Urban Development Strategy</a>	Yes
ADB	<a href="#">Urban Sector Directional Guide</a>	Yes
AIIB	<a href="#">Sustainable Cities Strategy</a>	Yes
CEB	N.A.	N.A.
EBRD	<a href="#">Municipal and Infrastructure Sector Strategy</a>	Yes
EIB	<a href="#">The EIB in the City: Investment on the agenda</a>	Yes
IDB	<a href="#">Housing and Urban Development Sector Framework Document</a>	Yes
IsDB	<a href="#">Urban Sector Policy</a>	Yes
NDB	None	N.A.
World Bank	<a href="#">Urban Development Strategy</a>	Yes

*\*Note that above information was compiled from available information on MDB websites*

# ANNEX 5: MDBS' CLIMATE STRATEGY ANALYSIS

The goal of our qualitative analysis was to understand whether MDBs strategically focus on the urban in the development of their climate strategies, given that most climate-related challenges, as well as opportunities for transformative development, lie in cities (see World Bank, 2022a; C40, 2022b; UNEP, 2021). The analysis was structured in two steps:

**(I) Assessing the presence of urban considerations:** The first step entailed a keyword search of climate strategy documents of the ten MDBs (see Table 7). The keywords included 'urban', 'cities' and 'municipal' to ascertain the presence of the urban sector in banks' climate strategies.

**(II) Assessing the strategic urban focus:** The second step was assessing the extent to which MDBs had a strategic urban focus. Doing so entailed developing a classification rubric, against which their climate strategies were assessed. The strategies were marked as having a 'high' urban focus if urban development was included as a strategic pillar or priority area, or 'moderate' if urban was framed in other priority areas/sectors but was not a main priority, while 'low' scores referred to strategies that mentioned urban in passing or did not mention it at all in their climate objectives (Table 7).

This methodology was inspired by a recent review that assessed the urban content of global NDCs (UN-Habitat, 2022).

**Table 7:** MDBs' climate strategies and their urban focus

MDB	Document	Includes Urban Components?	Strategic Urban Focus of Climate Strategies
ADB	Climate Change Operational Framework 2017–2030	Yes	High
EIB	EIB Group Climate Bank Roadmap 2021-2025	Yes	High
IsDB	2020–2025 Climate Action Plan	Yes	Moderate
	Climate Change Policy	Yes	Low
EBRD	Green Economy Transition 2021-2025	Yes	High
IDBG	Climate Change Action Plan 2021–2025	Yes	Moderate

MDB	Document	Includes Urban Components?	Strategic Urban Focus of Climate Strategies
AIIB	AIIB-Amundi-Climate-Change-Investment-Framework	Yes	Low
	Environmental and Social Framework 2022	Yes	Moderate
NDB	New Development Bank Environment and Social Framework	Yes	Low
CEB	Sustainability Report 2022	Yes	Moderate
AfDB	Climate and Green Growth Strategic Framework: Projecting Africa's Voice - Strategy 2021–2030	Yes	Moderate
World Bank + MIGA	Climate Change Action Plan 2021-25	Yes	High

*\*Note that the climate strategies were obtained from available information on MDB websites*

# ANNEX 6: MDBS' URBAN DIVISIONS

Table 8: Urban and Urban-related Divisions of MDBs

MDB	Urban division	Urban-related divisions
AfDB	<b>Infrastructure &amp; Urban Development</b> (Covers urban transport, PPPs, municipal finance, housing)	<ul style="list-style-type: none"> <li>• Water and Sanitation</li> <li>• Climate Change</li> <li>• Green Growth</li> </ul>
ADB	<b>Water and Urban Development Sector Office</b>	<ul style="list-style-type: none"> <li>• Transport Sector Office</li> <li>• Climate change, Resilience and Environmental Cluster</li> </ul>
AfDB	<b>Infrastructure Investment Department</b> (With an urban specialism within the department)	<ul style="list-style-type: none"> <li>• Transport specialism</li> <li>• Water specialism</li> <li>• Energy specialism</li> <li>• (All specialisms are part of the IID and include urban operations)</li> <li>• Social Infrastructure Department</li> </ul>
CEB	N.A.	<ul style="list-style-type: none"> <li>• Environmental and Social Sustainability-Climate Change Unit</li> </ul>
EBRD	<b>Sustainable Infrastructure Group</b> (Covers renewable energy, municipal infrastructure and services, water and wastewater, public transport, urban roads and lighting, solid waste management, district heating, energy efficiency, smart cities / digital infrastructure, and services)	<ul style="list-style-type: none"> <li>• Climate Strategy and Delivery Department</li> <li>• Environmental and Sustainability Department</li> <li>• Sustainable Infrastructure Policy and Project Preparation Department</li> </ul>
EIB	<b>Urban and Territorial Development Department</b> (Covers urban development, territorial development, urban advisory, urban mobility departments)	<ul style="list-style-type: none"> <li>• Sustainability and Quality Management Department</li> <li>• Mobility Department</li> <li>• Energy Department</li> <li>• Environment and Natural Resources Department</li> </ul>
IDB	<b>Urban Development &amp; Housing Division</b> (Contained within the Climate Change and Sustainability Development Sector)	<ul style="list-style-type: none"> <li>• Transport division</li> <li>• Water and sanitation division</li> <li>• Energy division</li> <li>• Climate Change division</li> </ul>

MDB	Urban division	Urban-related divisions
IsDB	N.A.	N.A.
NDB	N.A.	<ul style="list-style-type: none"> <li>• Infrastructure division</li> <li>• Project portfolio management department (covering transport, water, and sanitation, etc.)</li> </ul>
World Bank	<b>Urban Development Practice</b> (Covers cities and climate change, inclusive cities, disaster risk management, land)	<ul style="list-style-type: none"> <li>• Water Practice</li> <li>• Transport Practice</li> <li>• Social Sustainability and Inclusion Practice</li> <li>• Environment Practice</li> </ul>

*\*Note that above information was compiled from available information on MDB websites*

[citiesclimatefinance.org](https://citiesclimatefinance.org)