Scaling Urban Climate Finance

CCFLA contribution to the Baku to Belém Roadmap to 1.3T

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CITIES CLIMATE FINANCE LEADERSHIP ALLIANCE

1. INTRODUCTION & ROADMAP EXPECTATIONS

Cities are indispensable actors in the global climate transition, and urban investment today will shape a global low-emissions and resilient future. Currently, 56% of the world's population lives in cities and 70% of people are expected to reside in urban areas by 2050 (World Bank 2023). Urban areas contribute to 70% of global greenhouse gas (GHG) emissions, 75% of global energy consumption, and generate over 80% of global gross domestic product (IEA 2024). Cities are, therefore, central to realizing the Paris Agreement goals, including Nationally Determined Contributions (NDCs) and National Adaptation Plans (NAPs). At the same time, cities face increasing climate threats, with frequent extreme weather events such as floods, heatwaves, and rising sea levels, especially in EMDEs.

The momentum for city-led climate action is rapidly growing, driven by cities' leadership in climate action and their massive potential to reduce emissions and build resilience. At COP28, the Local Climate Action Summit highlighted local leaders' role in emissions reduction, while the Coalition for High Ambition Multilevel Partnerships (CHAMP), endorsed by 74 national governments, promoted multilevel collaboration on updated NDCs (WRI 2024). Further, over 13,000 cities are now part of the Global Covenant of Mayors (GCoM), demonstrating that they are already acting decisively on climate change.[1]

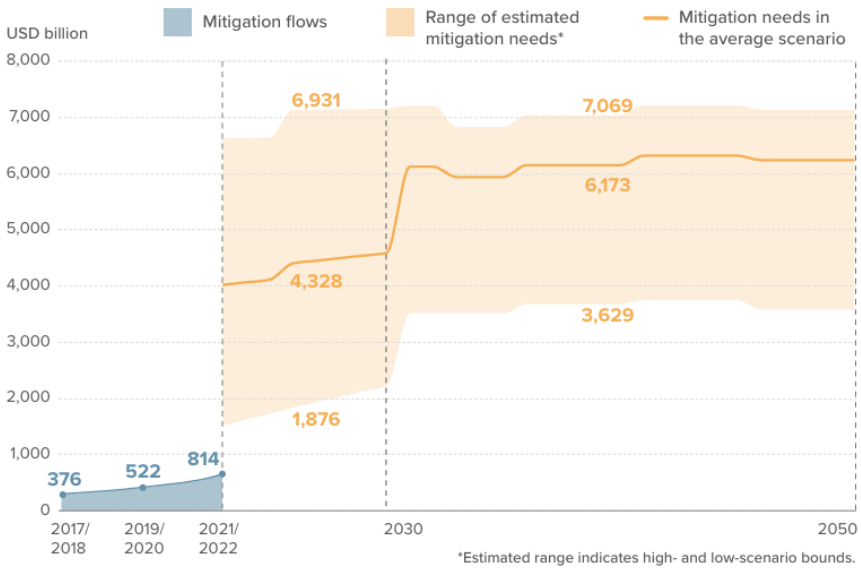
Cities will need investments from both public and private sources to build the low-emission, resilient infrastructure required to combat and adapt to climate change. In this context, the Cities Climate Finance Leadership Alliance (CCFLA) is the leading multi-level and multi-stakeholder coalition aimed at closing the investment gap for urban climate projects worldwide. Its 80+ members include the world's largest city and subnational networks, major public and private financial institutions, governments, and international organizations, representing the main market players in urban climate finance.

The "Baku to Belém Roadmap to 1.3T" should prioritize scaling urban climate finance in emerging markets and developing economies (EMDEs) as a cornerstone of the delivery of the Paris Agreement goals. This will include:

[1] GCoM is the largest global alliance for city-level climate leadership, representing over 1 billion people through the participation of 13712 cities.

1. Increasing both the quality and quantity of urban climate finance needed to address cities' mitigation requirements and rapidly scale urban adaptation finance in EMDEs.
2. Integrating urban climate finance within the international financial architecture reform discussions, focusing on how development finance institutions (DFIs), such as multilateral development banks (MDBs), can prioritize investment in subnational climate action. This includes enhancing local governments' access to innovative financial instruments, unlocking investments in key mitigation and adaptation sectors.
3. Strengthening data transparency to track and report urban investment needs, enhance cities' fiscal space, and mobilize private investment.
4. Championing multi-level governance by supporting initiatives like the Coalition for High Ambition Multilevel Partnerships (CHAMP) to align local, national, and global climate agendas.

Figure 1. Urban climate finance compared with urban mitigation needs by 2050; reprinted from CCFLA (2024).



2. WHY SCALING CITIES' CLIMATE FINANCE IS CRITICAL

Cities offer a substantial climate investment opportunity, and scaling up climate investment flows at the local level remains essential. As crucial actors for low-emissions and resilient development, scaling cities' climate finance is critical to meeting the Baku to Belém Roadmap's mandate, which calls on all actors to work

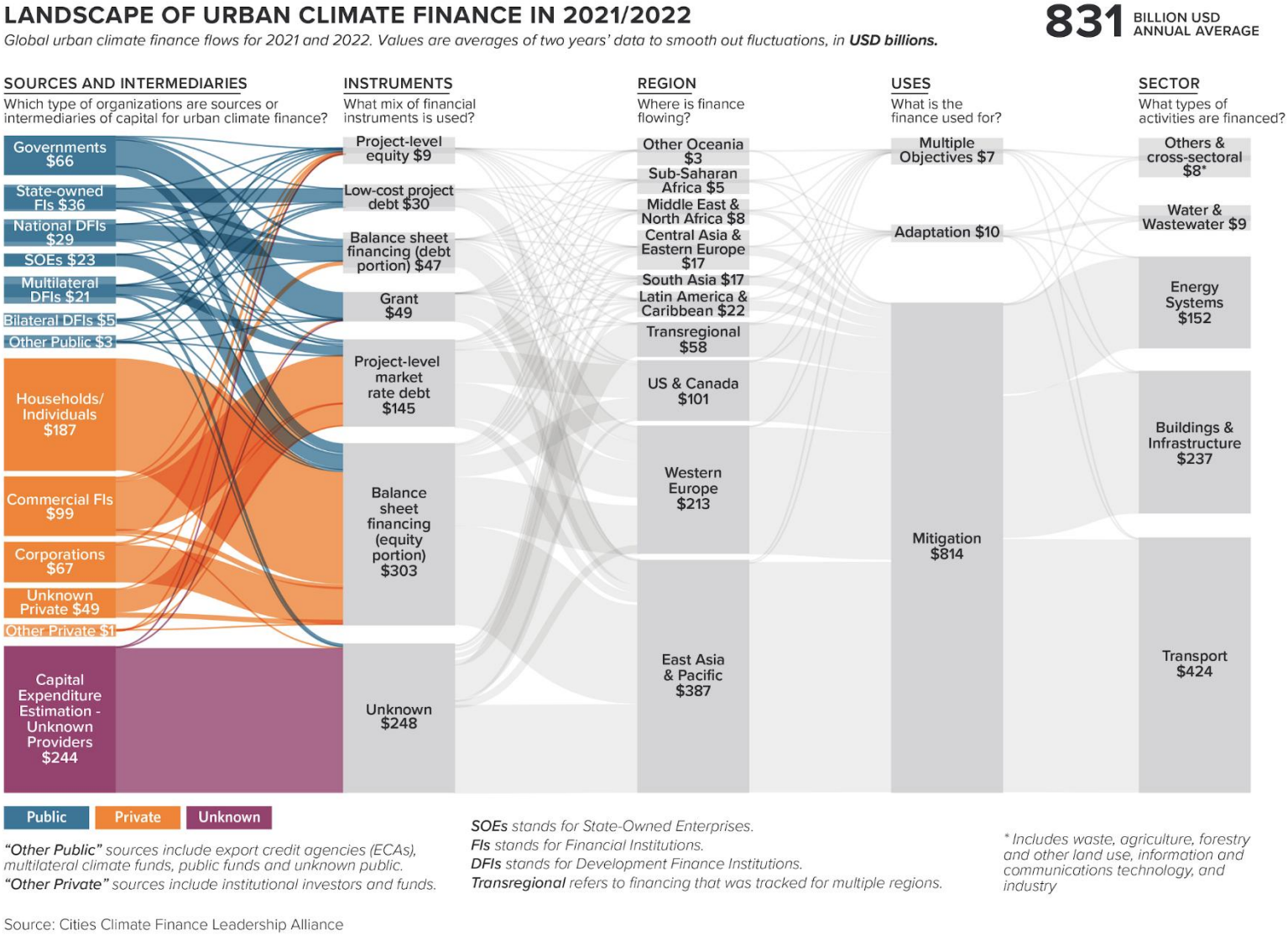
together to scale up financing to developing countries. While the Roadmap sets a target of mobilizing USD 1.3 trillion annually by 2035, CCFLA's 2024 State of Cities Climate Finance report reveals that current urban climate finance flows reached USD 831 billion in 2021/2022 – doubling from 2017/2018. However, cities require over five times that amount, USD 4.3 trillion per year until 2030 and over USD 6 trillion annually from 2031 to 2050, for mitigation alone (CCFLA 2024). These investment needs are dominated by the transport, energy, and buildings sectors, which collectively require USD 3.9 trillion annually by 2030 (CCFLA 2024).

While scaling urban climate finance globally is essential, addressing regional disparities is equally critical. Tracked urban climate finance remained heavily skewed toward developed economies and China. Flows were severely insufficient in developing economies in South Asia (at USD 17 billion), the Middle East and North Africa (USD 8 billion), and sub-Saharan Africa (USD 5 billion). Limited investment in these rapidly urbanizing and developing regions highlights inequity in global climate finance flows, undermining their ability to mitigate and adapt to climate change and exacerbating urban vulnerabilities.

Further, CCFLA's estimates indicate significant urban adaptation financing gaps, particularly in EMDEs. Urban adaptation finance rose to USD 10 billion in 2021/2022, up from USD 7 billion in 2017/2018. Adaptation flows to EMDEs totaled USD 6 billion. Most tracked adaptation finance was in the water and wastewater sector (68%, or USD 7 billion). Private and public sources provided similar amounts of urban adaptation finance, about USD 4 billion each. Adaptation needs are more difficult to project due to a general lack of data, particularly from the private sector. CCFLA currently only estimates the needs of cities in EMDEs, which total USD 147 billion per year until 2030 and USD 165 billion from then until 2050.

Most urban climate finance is sourced and provided domestically, and this trend is likely to grow. Domestic sources provided 69% of overall urban climate finance (USD 570 billion). This is particularly true for private flows, where domestic sources accounted for 96% (USD 389 billion). That shows the importance of increasing local financial mechanisms and improving the local enabling environment to access urban climate finance.

Figure 2: The landscape of urban climate finance in 2021/2022 (USD billion). Reprinted from CCFLA (2024).



3. STRENGTHENING THE ENABLING ENVIRONMENT FOR SUBNATIONAL CLIMATE FINANCE

Investing in resilient cities presents an opportunity to achieve climate goals if the following systemic challenges can be overcome:

Table 1: Summary of systemic challenges to closing cities' climate finance gap; reprinted from CCFLA (2024).

Systemic challenge	Overview	Impact on Urban Climate Finance
Insufficient commitment to urban climate action	Global and national climate discussions prioritize national commitments and often overlook urban needs.	• Reduces national governments' political will to commit to long-term city funding. • Weakens the enabling environment for urban investments. • Lowers investor awareness of urban climate finance opportunities.
Weak enabling environments	Inefficient cooperation between levels of government misses the opportunity to strengthen city-level climate policy, provide predictable and stable regulatory and financial support for cities, and create a multi-level governance system that elevates cities' needs.	• Undermines climate policy, planning and investment processes, and municipal fiscal autonomy. • Hinders multi-level governance, impacting project approvals and investor confidence.
City-level capacity gaps	Cities often lack the capacity to craft climate policies, develop necessary financial and investment plans, and make data-driven climate risk and resilience decisions.	• Creates financing gaps due to a lack of targets for climate action. • Limits the ability of cities to source, prepare, and implement investable projects.
Inadequate capital mobilization	Cities struggle with poor creditworthiness, limited access to capital markets, and limited fiscal capacity. This is particularly pronounced in EMDEs, which often suffer from inadequate capital flows.	• Increases reliance on insufficient local revenues. • Deters direct investment in cities due to repayment risk.

These systemic challenges can hinder the mobilization of climate finance at the city level in EMDEs. This, in turn, can slow down the implementation of NDCs and NAPs, essential components of the Baku to Belém Roadmap. To address these challenges, targeted efforts are needed to improve cities' access to grants, concessional financing, and de-risking instruments while strengthening fiscal capacities at national and subnational levels. These efforts align with the key measures outlined in the "Message to Parties and Observers" on scaling finance within the Baku to Belém Roadmap.

4. CLOSING THE CITIES' CLIMATE FINANCE GAP – RECOMMENDATIONS FOR THE ROADMAP

The global shift to a sustainable economy will hinge on cities, and it is crucial to ensure that they receive adequate finance to achieve climate targets and undergo an equitable transition. However, closing the urban climate finance gap demands a fundamental shift in how governments and markets collaborate. With national fiscal spaces tightening and public budgets strained, especially in EMDEs, traditional public-sector financing alone cannot meet cities' USD 4.3 trillion annual mitigation needs or their growing adaptation demands. This will require cities and national governments to utilize enabling frameworks that unlock financing and help crowd in investments from various sources, including DFIs and the private sector.

Building on our analysis, CCFLA proposes four key recommendations to scale urban climate finance from public and private sources, which should be considered in the Roadmap. These recommendations are aimed at key actors, including national and subnational governments, DFIs, city networks, climate funds and facilities, and the private sector.

1. **Improve the quantity and quality of urban climate finance.** The growing flows of urban climate finance must accelerate even faster—by at least fivefold—to achieve decarbonization goals and safeguard cities from climate hazards. Enhancing the quality of finance—how it is distributed among sectors, addresses underlying inequities, and strengthens enabling environments—is also key. The limited available public finance must be used strategically to crowd private investment to fill these gaps.
2. **Strengthen domestic markets through the strategic use of public finance.** The urban climate finance ecosystem will need to bolster domestic markets so cities and local governments can better access both public and private finance.
3. **Rapidly scale urban adaptation finance, particularly in EMDEs.** The urgency of investing in urban adaptation cannot be overstated, as adaptation finance flows are far from where they need to be. Increasing adaptation finance may require building cities' capacities to assess climate risks and build infrastructural resilience. Furthermore, national and local governments should collaborate with financiers to mobilize innovative financial instruments such as blended finance, green bonds, and resilience bonds, which can attract private investments and diversify risks on adaptation finance
4. **Improve data and tracking of urban climate finance flows and needs.** There is a significant need to enhance the tracking of urban climate finance and the availability of related data across all public and private institutions. It is also

essential for reporting institutions to use harmonized taxonomies of urban climate finance to enhance the interoperability of these tools to reduce reporting inconsistencies.

CCFLA outlines four key recommendations for the Baku to Belém Roadmap to 1.3T, aligning with its **"4Cs agenda" of commitment, collaboration, capacity building, and capital mobilization**.

1. **Commitment**: increase commitment to raising urban issues on global/national climate finance agendas.
    - Integrate urban climate investment needs into national strategies and policy frameworks, such as NDCs and NAPs, while ensuring national country platforms are aligned with urban-specific needs and priorities.
    - Together, local governments, national governments, DFIs, and private finance institutions should sharpen their focus on climate-just decarbonization and resilience in key sectors, aligned with a just and inclusive transition.
2. **Collaboration:** improve collaboration between actors to improve the enabling environment for climate finance flows to cities.
    - Strengthen national and subnational frameworks to improve the enabling environment for subnational climate finance. This should include improving multilevel governance, improving fiscal, financial, and data management, promoting knowledge exchange, and increasing subnational data transparency to better track urban climate finance flows, gaps, and impacts — especially for adaptation.
    - Promote a portfolio-wide, programmatic approach to developing investable urban climate project pipelines through partnerships between project sponsors and city networks, technical assistance providers, and financiers, such as MDBs and national development banks (NDBs).
    - Institutionalize platforms like CHAMP to foster coordination between local, national, and global actors to align priorities and improve cities' access to climate finance.
3. **Capacity-building:** enhance capacity-building for public and private actors to respond to climate change in cities and achieve urban climate finance goals.
    - Leverage the efforts by city networks and DFIs to help cities develop the necessary fiscal and institutional capacity (and awareness) to advance

climate action and investment planning, strengthen domestic private capital markets, and tailor opportunities for private urban climate investment.

- Support project preparation facilities (PPFs) and DFIs in improving their urban-focused project preparation capacities, typically including technical and financial support across conceptualization, feasibility, and structuring and transaction stages.
- Strengthen NDB capacity by securing support from MDBs/DFIs to link to national and international capital markets and to strengthen their ability to utilize institutional finance at the national level. This will involve effective regulations and de-risking mechanisms, such as guarantees.

4. **Capital Mobilization:** increase capital mobilization at the city level.
    - Develop urban-focused financial mechanisms, including grants, concessional financing, and de-risking solutions, such as guarantees and blended finance tailored to city-level investment needs.
    - Support the reforms in MDB financing frameworks to improve EMDE cities' direct access to climate finance combined with technical assistance to prepare investable project pipelines.

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