OECD Regional Development Papers

Harnessing city-to-city partnerships to finance urban development



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Achieving global agendas such as the Sustainable Development Goals requires substantial investment. As the level of government closest to citizens, subnational governments are uniquely positioned to direct investments toward sustainable development that aligns with local needs. However, many face financial constraints and lack the necessary expertise to secure funding and financing for sustainable urban development. City-to-city partnerships, a form of decentralised development co-operation, can offer a solution. By fostering peer-to-peer learning, facilitating knowledge exchange, and creating investment-friendly environments, these partnerships can help subnational governments overcome financial and capacity challenges. This paper explores how city-to-city partnerships can unlock funding and financing for sustainable urban development. It documents their role in strengthening local government capacity to enhance their investment readiness and mobilise financial resources. The paper also provides guidance on how national governments can create enabling conditions for city-to-city partnerships to thrive, ensuring these remain a critical tool for advancing global development goals.



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Abbreviations and acronyms

ANCI	*Associazione Nazionale Comuni Italiani*, National Association of Italian Municipalities
BMZ	*Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung*, German Federal Ministry for Economic Cooperation and Development
CFE	OECD Centre for Entrepreneurship, SMEs, Regions and Cities
CRIC	Climate Resilient and Inclusive Cities
DAC	OECD Development Assistance Committee
DDC	Decentralised development co-operation
DG DEVCO	EC Directorate-General for Development Cooperation
DG INTPA	EC Directorate-General for International Partnerships
EC	European Commission
ECoGobTur	Empowerment of Rural Communities and Governments through Sustainable Tourism in El Carchi, Ecuador
EFSD+	European Fund for Sustainable Development Plus
EU	European Union
FMDV	*Fonds Mondial pour le Développement des Villes*, Global Fund For Cities Development
G20	Group of 20
GDP	Gross domestic product
GIS	Geographic information system
GSS	Green, social ad sustainability
ICMA	International City/County Management Association
ICT	Information and communication technology
LRG	Local and regional government
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PIFUD	Programme on Integrated Local Finances for Sustainable Urban Development
PPP	Public-private partnership
PV	Photovoltaic
REBUILD	Research and Education Building Urban Institutions for Local Development
SDG	UN Sustainable Development Goal
SMEs	Small and medium-sized enterprises
TVET	Technical and vocational education and training
UCLG	United Cities and Local Governments
UN	United Nations
UNCDF	United Nations Capital Development Fund
USD	United States Dollar

Executive summary

Substantial investments are needed to advance global agendas such as the UN Sustainable Development Goals (SDGs). Subnational governments, responsible for 55% of public investment in OECD countries, have a key role in delivering 65% of the 169 SDG targets and will be at the centre of a green and just transition. Being the closest level of government to citizens, they are well-positioned to prioritise investment choices that promote sustainable development in a way that responds to local needs. However, these governments often face financial constraints and limited access to the necessary expertise required for financing sustainable urban development.

City-to-city partnerships, as a form of decentralised development co-operation (DDC), can help strengthen local capacity and thereby mobilise financial resources. Through peer-to-peer learning, knowledge sharing and fostering conducive investment environments, these partnerships can help subnational governments overcome some of the financial and capacity barriers to sustainable development, while contributing to solidarity and reinforcing global co-operation efforts. The benefits of these partnerships also extend to cities in donor countries, in particular by improving local public services through mutual learning, capacity building and exchange of technology, typically translating into better social outcomes, including citizen satisfaction and trust in local administration.

Key findings

City-to-city partnerships can unlock access to financial resources for sustainable urban development

- City-to-city partnerships can help catalyse financial flows for sustainable urban development by enhancing subnational financing capacity and expertise, improving access to funding and financial planning, promoting local economic development to expand the tax base and strengthening local governance, thereby creating a conducive investment environment.
- An estimated USD 6.9 trillion annual investment will be required by 2030 to achieve the SDGs. Specifically, SDG 11, which focuses on “Sustainable cities and communities”, will necessitate investments ranging from USD 20-50 million in smaller municipalities in developing countries to USD 5 billion in larger cities like Kuala Lumpur, Malaysia. These substantial amounts cannot be financed solely by the public sector or official development assistance (ODA) and will therefore require significant private sector involvement. In this context, every policy measure that strengthens the enabling environment at the local or national level to catalyse such finance is of critical importance, including city-to-city partnerships.
- There is growing global momentum to address infrastructure and investment needs. For example, the EU Global Gateway Strategy, launched in 2021, aims to mobilise up to EUR 300 billion by 2027 to develop sustainable and high-quality infrastructure investments in the EU’s partner countries worldwide in the areas of digitalisation, climate and energy, transport, health, and education and research. These investment priorities have a strong place-based dimension requiring tailored solutions that are adapted to local contexts. City-to-city partnerships are important in this regard, as they provide a platform for local governments to collaborate, exchange knowledge and leverage

their unique insights to create enabling environments that facilitate the successful implementation of these investments.

Subnational governments must navigate urban development challenges, while addressing barriers to securing financial resources

- Cities and regions worldwide face diverse and complex development challenges, including rapid urbanisation, climate change, housing affordability, sustainable mobility and inequality. In OECD member countries, at least 40% of regions and 11% of cities have not achieved any of the SDG targets. Subnational governments frequently encounter financial constraints, including limited access to borrowing in 56% of countries worldwide, unfunded mandates and weak capacity to attract private investment.
- More than 60% of the 40 surveyed municipalities engaged in city-to-city partnerships reported high project risks or uncertain returns as a major challenge in securing private finance. Capacity gaps in project design, financial management and investor engagement further hinder the ability to develop bankable projects, especially in low-income contexts. Additionally, 86% of respondents identified bureaucratic hurdles and procedures as the primary challenge in mobilising public investment.
- To address these barriers, municipalities employ various strategies, including strengthening project management and financial planning capacity through peer-to-peer learning (88%), partnering with commercial and development banks to secure financing solutions (54%) and simplifying regulatory procedures for project approvals (50%). Additional mechanisms include issuing municipal bonds, leveraging urban planning or setting up public-private partnerships (PPPs) to attract investment.

City-to-city partnerships can support subnational governments in overcoming urban financing challenges

- DDC financial flows, which include spending on city-to-city partnerships, have increased by 61% between 2015 and 2023, from USD 2.10 billion to USD 3.38 billion. From 2020 to 2023, the most targeted sectors by DDC activities were government, civil society and peace (17.5% of total cross-border DDC), followed by multisector DDC, encompassing training, scientific research and other social areas (17%), health (13.7%), agriculture (9.1%), education (8.9%) and water (6.4%).
- While DDC flows represent only 3.5% of total ODA with USD 3.4 billion in 2023, they can account for a larger share in some countries – reaching 24% of total ODA in Spain, 23% in Czechia and 11% in Austria in 2022-23. In addition, DDC activity remains underestimated, as only 14 out of the 32 Development Assistance Committee (DAC) members currently report on ODA distributed through local and regional governments (LRGs); most importantly, these figures do not account for the significant non-financial and in-kind contributions arising from city-to-city partnerships.
- City-to-city partnerships are particularly focused on climate action, with over 70% of surveyed partnerships supporting climate-related initiatives, along with capacity building and knowledge exchange on solid waste and sustainable mobility.
- Approximately 75% of surveyed municipalities indicated that their city-to-city partnerships helped generate public and/or private finance for urban development. More specifically:
    - City-to-city partnerships improve **framework conditions** for mobilising financial resources by facilitating knowledge exchange on financial management, revenue generation and tax collection. Peer-to-peer learning is essential, with 86% of respondents highlighting its role in sharing best practices on financing sustainable urban development.
    - Partnerships enhance **urban planning** through skills transfers, leveraging technologies such as geographic information systems (GIS) and climate risk modelling. This, in turn, strengthens

local governance and increases access to international financing opportunities. In fact, 65% of respondents noted that their partnerships enabled them to secure larger pools of funding from national or international sources.

- Engaging the **private sector** in city-to-city partnerships can mobilise private financial resources, improve the business environment and foster local economic growth by attracting investment and employment opportunities. However, only 11% of surveyed partnerships reported proactively engaging the private sector, indicating untapped potential.

Ways forward

- **Strengthen framework conditions to mobilise financial resources for sustainable urban development through city-to-city partnerships.**
  - Enhance institutional capacity to mobilise resources by establishing city-to-city partnerships focused on financial capacity building. These partnerships facilitate peer-to-peer learning between municipalities, enabling the sharing of best practices in areas such as tax administration, revenue collection and expenditure management. By fostering direct collaboration, city-to-city partnerships help strengthen financial and project management skills needed for local governments to better align their projects with investor expectations. This, in turn, enhances the ability to attract co-financing opportunities and develop new revenue streams, positioning cities to effectively tap into diverse funding for sustainable development.
  - Use city-to-city partnerships to strengthen urban planning through peer exchanges on advanced planning tools and strategies, thereby improving governance, service delivery and trust in local governments. By leveraging urban planning tools like master plans, zoning regulations and development guidelines, cities enhance their capacity and generate upfront capital through fees and charges to fund urban infrastructure and projects. For example, zoning regulations could help charge developers fees when approving new projects, master plans can guide urban development, generating capital through land sales or leasing, while development guidelines can help ensure that private sector investments align with a city's vision.
- **Foster legal and financial frameworks that support city-to-city partnerships.**
  - National governments should strengthen legal frameworks to support city-to-city partnerships and integrate them into financial mechanisms, such as national co-financing schemes for municipal partnerships to increase transparency and accountability. Seed funding programmes could be established to scale up successful partnerships and align development priorities across different levels of government.
- **Encourage private sector involvement in city-to-city partnerships.**
  - Governments should facilitate private sector engagement through collaborations with chambers of commerce, match-making events for local businesses and the development of PPP frameworks. Providing tax incentives for private contributions and exploring blended finance vehicles can also further attract investment.
  - Governments should also highlight the benefits for the private sector, such as new business opportunities, access to diverse talent pools where possible and strengthened intercultural knowledge, to encourage participation in city-to-city initiatives.
- **Invest in monitoring and evaluation frameworks to attract future investments**.
  - Establish user-friendly monitoring and evaluation systems for city-to-city partnerships to track successes, demonstrate impacts and build credibility with investors. Robust data systems and well-structured evaluations can help secure further financial resources for urban development initiatives.

- **Mainstream a place-based perspective in the EU Global Gateway's investment priorities.**
  - The EU Global Gateway five priority areas manifest differently across regions, reflecting diverse needs and challenges of partner countries in Africa, Asia and Latin America. A more systematic appraisal of these territorial differences should be integrated upstream in investment planning to ensure projects align with local priorities and maximise impact, for example by assessing the extent to which existing and future Global Gateway investment projects entail a place-based dimension, could benefit from the involvement of local and regional governments and their respective city-to-city partnerships by leveraging their expertise and enabling capacities.
  - The Global Gateway Civil Society and Local Authorities Advisory Platform could play a stronger role in facilitating this process by proactively engaging LRGs, including in countries of the Global South, where Global Gateway projects are being implemented, to identify place-specific opportunities and constraints and ensure that investment strategies are both responsive and effective.

1 Introduction

Significant financial resources will be needed in cities and regions in the coming years to drive a green and just transition. In view of rapid global urbanisation and climate change, many urban areas will need to undertake substantial investment in both existing and new infrastructure (OECD, 2022[1]). Achieving climate and development objectives by 2030 will require a global annual investment of USD 6.9 trillion in sustainable infrastructure (OECD, 2024[2]). Subnational governments, who are responsible for 58% of total public investment in OECD member countries with a key role in delivering on 65% of the 169 SDG targets, will be at the centre of such a transition (OECD, 2024[3]; 2020[4]). Being the closest level of government to citizens, local and regional governments have a vital role to play in prioritising investment choices and delivering public services that respond to local needs in a globally uncertain context. However, LRGs often face institutional, fiscal and regulatory hurdles, along with administrative limitations to borrow funds, increase taxes or attract private investment to undertake such investments (OECD, 2022[5]). Other challenges include asymmetric capacity across cities of different sizes as well as the lack of bankable projects and funding models for cities to sufficiently address sustainable development challenges (OECD, 2022[5]).

Engaging in development co-operation activities with peers can help LRGs develop skills and capacity to finance and fund sustainable urban development. Decentralised development co-operation (DDC) relates to international development co-operation carried out by subnational governments, including in-kind peer-to-peer learning, capacity building and knowledge exchange, but also financial contributions such as in-donor spending and ODA that cross borders (Box 1.1). DDC provides local governments with a tool to work with their peers on addressing development challenges (OECD, 2023[6]). While the overall volume of DDC flows represents a rather low share of total ODA, its significance has been growing in recent years with total DDC volumes going up by 61% between 2015 and 2023, from USD 2 100 million to USD 3 383 million, thereby accounting for 3.5% of total ODA. In recent years, DDC also significantly expanded beyond financial support to include non-financial partnerships that promote peer-to-peer learning, knowledge sharing, capacity building and best practice sharing among subnational actors (OECD, 2023[6]). Examples of such activities include facilitating technology exchange or strengthening subnational finance and planning skills, which can in turn increase the capacity to attract additional public and private financial resources for sustainable urban development.

This policy paper examines how city-to-city partnerships, a modality of DDC focusing on local government partnerships between developed and developing countries, can help mobilise financial resources for sustainable urban development. It begins by outlining global urban development challenges and financing flows and explores policy instruments available to address them. The paper further analyses how city-to-city partnerships can attract public and private investment, including opportunities to mainstream a place-based lens in the European Union (EU) Global Gateway strategy - the EU's primary initiative to reduce the global infrastructure investment gap and accompany EU partner countries in their twin green and digital transition. Finally, it offers policy recommendations for governments at all levels as well as donors and cooperation agencies. Finally, it offers policy recommendations for governments at all levels to support city-to-city partnerships as vehicles to catalyse financial flows for sustainable urban development.

Box 1.1. Typologies of Decentralised development co-operation (DDC)

Decentralised development co-operation refers to international development co-operation carried out by subnational governments, or cities and regions from one (often developed) country partnering with cities and regions from another (often developing) country. DDC definitions have several common characteristics, including common principles of reciprocity (i.e. mutual benefits), subsidiarity (i.e. locally led or place-based) and multi-stakeholder (i.e. territorial) approaches. The OECD defines DDC as international development co-operation (including in-kind peer-to-peer learning, capacity building and knowledge exchange) and financial contributions (including in-donor spending as well as resources that cross borders) extended by subnational governments and eligible to count as ODA.

In recent years, DDC has shifted from a donor-recipient model focused on financial aid to a more equal, partnership-based approach and also increasingly encompasses south-south and triangular types of cooperation.

DDD can take several forms, including:

- Regional – National Government DDC: The region supports DDC activities in partner countries by funding the national government through ODA. Activities can be implemented by multilateral organisations and NGOs. Implementing partners receive funding and provide technical support to local authorities. In some cases, funds are channelled through multi-donor trust funds to align with national priorities.
- Territorial partnership DDC: The region leads DDC activities in collaboration with local territorial actors, forming direct partnerships with LRGs in partner countries. These are mainly non-financial initiatives focused on peer learning, best practice exchange, and twinning. The region and selected territorial actors (e.g. municipalities, NGOs, universities) jointly implement activities based on their expertise.
- City-to-city partnerships: City-to-city partnerships are a modality of DDC undertaken by municipalities from developed and developing countries to initiate and develop co-operative actions to their mutual benefit. These partnerships usually rely on a peer-to-peer exchange and learning based on good practice and follow the principle of reciprocity.
- Region to NGOs DDC: This approach involves indirect cooperation, with NGOs serving as intermediaries and local NGOs implementing activities on the ground. Other actors like universities and trade unions may also be involved, but often without direct engagement with local governments. Activities are primarily funded through ODA via calls for proposals.

Source: OECD (2018[7]), *Reshaping Decentralised Development Co-operation: The Key Role of Cities and Regions for the 2030 Agenda*, OECD Publishing, Paris, https://doi.org/10.1787/9789264302914-en; OECD (2023[6]), "Decentralised development co-operation: A global policy toolkit and guidance for practitioners", *OECD Regional Development Papers*, No. 46, OECD Publishing, Paris, https://doi.org/10.1787/3cb22851-en

The analysis and guidance presented in this policy paper stem from a variety of sources, ranging from desk research to a survey targeting 40 city-to-city partnerships, 2 multi-stakeholder workshops and a dozen expert interviews. An OECD survey aimed to unpack the main challenges that local governments are facing in attracting financial resources and the role of city-to-city partnerships in strengthening governance and capacity, and private sector engagement, as enablers of greater mobilisation of financial resources for sustainable urban development (see Box 1.2 for more information about the survey and Annex A for more information about the EU-funded programme "Partnerships for Sustainable Cities", which provides financial support for most of the city-to-city partnerships surveyed).

Box 1.2. OECD survey on the role of city-to-city partnerships to mobilise financial resources for sustainable urban development

Between 25 June 2024 and 29 October 2024, the OECD conducted a survey across several municipalities engaged in city-to-city partnerships to scope their urban development challenges and related investment priorities, assess how they finance sustainable urban development and identify critical challenges and how they are overcome, notably through city-to-city partnerships (Table 1.1). Respondents include 28 of the 57 city-to-city partnerships supported by the EU and municipalities from an additional 10 city-to-city partnerships outside EU-funded ones European Commission (EC) and municipalities from an additional 10 city-to-city partnerships outside EU-funded ones. They span a wide diversity of geographical contexts, from Africa to Asia, Europe and Latin America and embracing cities of all sizes from small municipalities to cities with large metropolitan areas with a population of 1.5 million and more such as Kampala in Uganda or Madrid in Spain. The full survey can be found in Annex B.

Table 1.1. Survey structure

Main topic	Subtopic
Urban development challenges and investment priorities	Key sustainable urban development challenges
	Key investment priorities for sustainable urban development
Financing sustainable urban development	Enhancing access to finance for sustainable urban development
	Leveraging private investment in sustainable urban development
	Challenges in securing public investment for sustainable urban development
	Challenges in securing private investment for sustainable urban development
	Addressing the gap between urban finance flows and needs
	Overcoming financing challenges for urban development
City-to-city partnerships	Challenges addressed through city-to-city partnerships
	Contribution to key areas of the EU Global Gateway
	Monitoring of city-to-city partnerships
	Effectiveness of city-to-city partnerships in addressing urban development challenges
Role of city-to-city partnerships to help mobilise financial resources	Mobilising public and private investment through city-to-city partnerships
	Mobilising resources for urban development through city-to-city partnerships
	Supporting private sector contribution
	Support mechanisms from the national government

2 Urban development challenges around the world

Globally, only 17% of SDGs are on track to be reached by 2030. In OECD countries, at least 40% of regions and 11% of cities have not achieved any of the targets for 2030. Urbanisation is accelerating with over 55% of the global population projected to live in functional urban areas with more than 50 000 inhabitants by 2050. The urbanisation trend comes with a multitude of territorial development challenges ranging from climate change to housing supply, affordability and quality, inequality, mobility and the provision and upkeep of urban infrastructure. While some challenges are common, others are of particular prominence in certain parts of the world. Europe faces demographic challenges notably ageing, while North America faces car-dependent urban sprawl, Latin America grapples with stark income inequality and many Asian cities contend with informal employment, notably in South Asia, and air quality.

Global overview

The world is far from achieving the SDGs by 2030. Globally, only 17% of SDG targets are on track to be reached by 2030, while 83% show limited progress, stagnation or even regression (UN, 2024[8]). The OECD localised indicator framework for measuring distance to achieving the SDGs in cities and regions shows that at least 40% of OECD regions and 11% of OECD cities have not achieved any of the targets for 2030. SDGs where cities made the least progress – namely, reaching only halfway, on average, towards the 2030 targets – include, but are not limited to, SDG 13 "Climate action", SDG 9 "Industry, infrastructure and innovation", SDG 5 "Gender equality" and SDG 12 "Responsible consumption and production". Table 2.1 shows the wide diversity of urban development challenges across continents

Urbanisation and sustainable development are deeply interconnected. As cities grow, they drive economic development, innovation and social progress, but they also present challenges such as housing shortages, infrastructure strain and environmental degradation. It is projected that by 2050, 55% of the world population will live in cities (functional urban areas above 50 000 inhabitants) (OECD/European Commission, 2020[9]). Currently, most cities around the world experience an increase in population with large metropolitan areas of more than 5 million people, witnessing the fastest population growth rates (OECD/European Commission, 2020[9]). Overall, low-income countries account for the highest rate of urban population growth (OECD, 2019[10]). Urban population growth in least developed countries reaches on average 3.9% compared to 1.3% in the rest of the world (OECD, 2022[5]). It is estimated that over 90% of the future urban population growth until 2030 will take place in Africa, Asia and Latin America (Mohd Sharif, 2023[11]). The associated expansion of urban land consumption currently already outpaces population growth by about 50%, putting pressure on land and natural resources (World Bank, 2023[12]).

Mitigating and adapting to climate change is one of the biggest challenges facing urban development in cities worldwide. Globally, cities are responsible for nearly two-thirds of global energy demand and account for 50% of solid waste and 70% of greenhouse gas emissions (OECD, 2024[13]). Eighty percent of cities are experiencing climate-related risks like heatwaves and floods, with 70% anticipating these hazards to intensify (OECD, 2024[14]). More than 1.8 billion people live in high-risk flood zones, with exposure being particularly high in densely populated and rapidly urbanising river plains and coastlines in developing countries. Close to 90% of the world's flood-exposed population lives in these areas (World Bank, 2023[12]). Nevertheless, globally, financing from multilateral development banks dedicated to urban-related climate finance has remained stagnant at 21% between 2015 and 2022, despite rising climate investments and rapid urbanisation (CCFLA, 2023[15]). Water and sanitation are another crucial urban development challenge in many parts of the world. At the global scale, around 844 million people do not have access to drinking water, while 2.3 billion cannot access latrines or other basic sanitation facilities (UNICEF, 2023[16]).

Urban inequality is a challenge, both globally and in OECD countries. Globally, urban areas tend to have higher income inequality (Gini coefficient) than rural regions. This is the case in about 86% of countries with available data (UN DESA, 2020[17]). In OECD countries, metropolitan regions had a gross domestic product (GDP) per capita about 32% higher than other regions in 2020. However, while the largest metropolitan regions have experienced stronger growth, they are also grappling with significant challenges associated with their success, such as housing affordability, traffic congestion and increasing intra-regional inequality (OECD, 2023[18]). In half of OECD countries, capital cities exhibit the highest income inequalities in terms of disposable income (OECD, 2022[19]).

In particular, many countries and cities face a multi-faceted, systemic housing supply, affordability and quality crisis. In 2022, about 25% of the global urban population were living in slums or informal settlements, 6% less than 20 years before, but stagnating since 2016 (UN-Habitat, 2024[20]). Furthermore, housing is the single-largest spending item in household budgets across all income groups. In 2021, households in OECD countries spent nearly one-fourth of their income on housing (OECD, 2024[21]). As housing costs continue to rise, the housing affordability crisis is worsening in most OECD countries,

particularly in large cities. Over the past decade, housing prices have surged in most cities, with large cities (functional urban areas) experiencing the sharpest increase at nearly 68%. Midsize cities saw a 50% rise, followed by small cities at 37% and very small cities at 16%. These trends have widened the gap in housing prices between cities by size, with housing prices in large cities now 86% higher than in very small cities (OECD, 2024[22]). This has made access to homeownership increasingly challenging. Across OECD countries, the rate of outright homeownership has remained around 46%, showing no significant increase over the past decade (OECD, 2024[21]). At the same time, buildings, including residential dwellings, which are responsible for nearly 40% of global energy-related carbon dioxide (CO_2) emissions, are key to the low-carbon transition. Their decarbonisation through improved energy efficiency and renewable energy supply can help to cut emissions, but also provide health benefits, lower energy costs and create jobs (OECD, 2022[23]).

Urbanisation also brings significant challenges in sustainable mobility and the management of urban transport systems. In 2021, road transport accounted for about 30% of global CO_2 emissions from end users (IEA, 2023[24]). On average, across more than 850 cities in OECD countries, 73% of people commute to work by private car (OECD, 2024[22]). To get on track for net zero by 2030, these emissions will need to fall by close to one-third (IEA/IRENA/UN Climate Change High-Level Champions, 2023[25]). However, many countries still lack good quality public transport infrastructure to provide credible alternatives to individual cars and thereby reduce traffic congestion, which results in economic losses due to increased travel times, reduced economic efficiency and health impacts amongst others, costing countries like the United States up to USD 87 billion per year (WEF, 2019[26]). Furthermore, ensuring road safety can be challenging in many urbanised areas. About 1.2 million people die each year in road traffic accidents, 92% of them in low- and middle-income countries (WHO, 2023[27]).

Advanced economies face the challenge of renewing ageing urban infrastructure, while developing and emerging economies must invest in new infrastructure to achieve the SDGs. Globally, an annual infrastructure investment of USD 6.9 trillion is needed until 2030 to align with the needs of the SDGs and the Paris Agreement (OECD, 2024[28]). The annual financing gap for the SDGs in developing countries alone is estimated at around USD 3.9 trillion, requiring shifts of financial resources towards sustainable development (OECD, 2022[29]). According to United Nations Human Settlements Programme (UN-Habitat) estimates, achieving SDG 11 “Sustainable cities and communities” could cost between USD 20 million and USD 50 million annually for a small city in a developing country. For medium-sized cities in countries such as Bolivia, Colombia or India, the cost ranges from USD 140 million to over USD 500 million annually. For large developing cities, like Bogotá in Colombia or Kuala Lumpur in Malaysia, the annual cost could be from USD 600 million to more than USD 5 billion (UN-Habitat, 2020[30]). Housing alone will require annual investments of up to USD 4 trillion globally to achieve the settlement-related targets of SDG 11 (Mohd Sharif, 2023[11]).

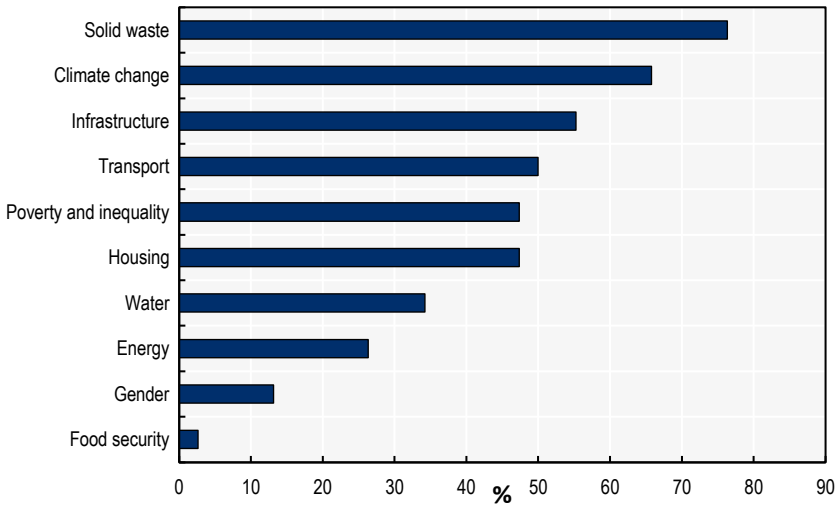
Table 2.1. Overview of urban development challenges across the world

	Europe	North America (United States and Canada)	Latin America	Africa	Asia
Demographic change and urbanisation	Ageing population (30% over 65 by 2050); and migration challenges due to the Ukraine conflict (EC, 2020[31]; CoR, 2023[32])	Ageing population (23% over 65 by 2050) and urban population decline in core areas (United States Census Bureau, 2023[33]; UN-Habitat, 2022[34])	Rapid urbanisation: projected 88% urban population by 2050, with over 20% in informal settlements (UN, 2018[35])	Urban population tripled since 1990, with informal settlements housing 50% of city dwellers (OECD/UN ECA/AfDB, 2022[36]; OECD, 2021[37])	Explosive urban growth, with 3.5 billion people in cities by 2050, putting pressure on housing, services and infrastructure (ESCAP, 2022[38])
Housing	Housing affordability crisis with 47% increase in prices (2010-22); and low renovation rate (1% per year) (Eurostat, 2023[39]; EEA, 2023[40])	Housing cost burden, with 19.7 million people spending over 30% of income on housing (JCHS, 2024[41])	Severe housing shortages, with a significant portion of the population with inadequate housing (Lincoln Institute of Land Policy, 2024[42])	High housing costs, where urban residents pay 55% more for housing than global counterparts (Madden and Gutman, 2020[43])	Unaffordable housing, with 16 of the 20 most expensive cities globally are in Asia-Pacific (Yoshino, Helble and Aizawa, 2015[44])
Transport and infrastructure	Traffic congestion, air pollution and heavy reliance on private vehicles (EC, 2020[45])	Urban sprawl, high suburbanisation and high car dependency; low public transport use (3.1%) (CanU, 2023[46]; United States Census Bureau, 2024[47])	35% of energy-related CO_2 emissions come from transport; increasing car dependency due to inadequate mass transit systems (IEA, 2023[48])	Weak urban planning, and unreliable and poor transport infrastructure leading to congestion and air pollution (Kamana, Radoine and Nyasulu, 2024[49])	Urban sprawl, inefficient land use and transport congestion (ESCAP, 2022[38])
Inequality	Social segregation and disparities in urban areas (EC, 2020[45])	Disparities in economic opportunities and social inequalities (OECD/UN-Habitat, 2022[50])	High inequality, with top 10% earners making 12 times more than the bottom 10%; urban Gini coefficient at 0.449 (IDB, 2024[51]; ECLAC, 2023[52])	82% of workers in informal employment, limiting economic development (AUC/OECD, 2024[53])	High informality, with informal employment exceeds 90% in some countries notably in South Asia, with 600 million people living in slums (OECD/ILO, 2019[54]; ESCAP, 2022[38])
Environment and climate	Extreme weather events (heatwaves, floods, wildfires) requiring EUR 40-120 billion annually for adaptation (EEA, 2023[55])	Increasing climate-related disasters, where billion-dollar disasters rose from 3 per year (1980s) to 28 in 2023 (JCHS, 2024[41])	High exposure to climate change, rising sea levels, hurricanes and environmental degradation (del Castillo and Peciña-López, 2023[56])	Deforestation, desertification and worsening urban air pollution (Elmqvist et al., 2018[57])	55% of global greenhouse gas emissions and faces increasing natural disasters (ESCAP, 2022[38])

Responses to the OECD survey extended to municipalities engaged in city-to-city partnerships reflect the scope of challenges previously outlined, with waste management and climate change identified as the two main urban development issues. Approximately 75% of respondents identified waste as a primary challenge, followed by climate change (66%), which were both mentioned by municipalities from all continents and respondents across different city sizes. Housing (47%), a challenge particularly frequently mentioned by respondents from Europe, poverty and inequality (46%) and access to clean water (34%), were also frequently cited (Figure 2.1).

Figure 2.1. Key urban development challenges – Results from the OECD survey

What are the key sustainable urban development challenges in your municipality? (Select up to 5 options)



Note: Total number of respondents: 38.
Source: OECD survey - Harnessing city-to-city partnerships to finance urban development.

Global investment initiatives: The case of the EU Global Gateway strategy

Against the backdrop of urban development challenges, there has been a growing global momentum to address investment needs. For example, the Group of Seven (G7) countries launched the Partnership for Global Infrastructure and Investment in 2022 to mobilise up to USD 600 billion by 2026 to address infrastructure investment needs – including urban infrastructure – in partner countries. Furthermore, the United Nations Joint SDG Fund, is a multi-partner trust fund designed to accelerate progress towards achieving the SDGs by supporting governments and local communities in fostering transformative policies and strategic investments, using United Nations (UN) resources as a catalyst for larger financing flows, which has so far mobilised USD 1.5 billion for SDG investments (UN, n.d.[58]). In addition, UN-Habitat set up the multi-stakeholder initiative Cities Investment Facility in 2020 to facilitate capital flows for sustainable urban projects. Through three pillars – i) a Cities Investment Portal; ii) a Cities Advisory Platform; and iii) Cities Investment Vehicles – it supports project promoters by marketing projects to global investors, providing guidance on project preparation and offering grant and private capital to enhance investment readiness (UN, n.d.[59]). In addition, knowledge initiatives increasingly address the importance of local investment needs. The Cities Climate Finance Leadership Alliance, for example, brings together multiple stakeholders from public and private sectors and different levels of governments to bridge the financing gap for urban climate projects and infrastructure at the subnational level through knowledge exchange and

co-operation among members (CCFLA, n.d.[60]). Similarly, the Sustainable Development Solutions Network (SDSN) Global Commission on Urban SDG Finance, established in 2023, aims to elaborate ideas and solution to enhance urban SDG finance to address local investment needs in different geographies and contexts (SDSN, n.d.[61]). Its members are composed of mayors, climate and finance experts and urban practitioners.

Looking specifically at the EU, the European Commission launched the Global Gateway strategy in 2021. This Strategy aims at mobilising investments of up to EUR 300 billion from existing and new national and regional programmes between 2021 and 2027 to develop sustainable and high-quality infrastructure worldwide and thereby contribute to narrowing the global investment gap.[1] The key investment areas of the Global Gateway are: i) digitalisation; ii) climate and energy; iii) transport; iv) health; and v) education and research, many of which relate to the urban development challenges outlined above. The investments carried out in the framework of the Global Gateway need to follow the key principles of: i) democratic values and high standards; ii) good governance and transparency; iii) equal partnerships; iv) green and clean; v) security-focused; and vi) catalysing private sector investment (EC, 2021[62]). The Global Gateway is also the EU's principal contribution to the above-mentioned G7 Partnership for Global Infrastructure and Investment.

The Global Gateway is implemented using a "Team Europe" approach, mainly through Team Europe Initiatives and Global Gateway flagship projects. This means that the strategy involves and scales up resources from the European Commission, European External Action Service (EEAS), EU Member States, including their implementing agencies and public development banks, as well as the European Investment Bank and the European Bank for Reconstruction and Development. Moreover, EU institutions, member states and European financial institutions are encouraged to collaborate with European companies, as well as with governments, civil society and the private sector in partner countries (EC, 2024[63]). The implementation of the Global Gateway is led by the president of the commission, the high representative/vice-president and relevant commissioners, with strategic guidance from a Global Gateway Board. A Business Advisory Group involves the private sector to assist the EC in the implementation of the strategy and strengthening cooperation with European businesses.

A Civil Society and Local Authorities Advisory Platform was established in October 2023 with the main objective to assist the European Commission in ensuring that Global Gateway contributes to sustainable investments, delivering on its goals in line with its principles. The platform currently has 57 members, including 42 networks of civil society organisations, 4 professional and business associations as well as 11 local government associations. The role of the platform is to provide recommendations on the Global Gateway strategy roll out with a focus on engaging and benefitting local communities, ensuring a diversity of views, enhancing knowledge and capacity, and improving transparency and communication (EC, 2023[64]). Co-ordination and implementation of projects are supported by EU delegations, member state embassies and project offices (EC, 2024[65]).

The main risk-sharing instrument, designed to mitigate or spread out the risks associated with large-scale investments of the Global Gateway, is the European Fund for Sustainable Development Plus (EFSD+). The EFSD+ is the first investment framework for EU external actions, launched in 2017. It is expected to cover EUR 53 billion in guaranteed volume between 2021 and 2027 and aims to leverage EUR 232 billion of sustainable investments to promote global connectivity, trade and growth. Under the EFSD+, the European Commission employs blending, which combines grants with other forms of finance like loans or equity, to support projects in sectors, markets and operations where the guarantee alone does not resolve specific challenges. This approach can be used for both public and private sector operations to enhance financial support and leverage additional investments (EC, 2025[66]). The support enables European and international financial institutions to conduct lending operations with commercial sub-sovereign entities and the private sector (EC, 2024[67]). One example is the Guarantee Facility for Sustainable Cities, managed by the United Nations Capital Development Fund (UNCDF), which received EU-funding of EUR 154 million

to support innovative urban infrastructure financing solutions in Africa and Southeast Asia as part of the EU Global Gateway. The facility offers guarantees to the financial institutions that will derisk the financing of infrastructure projects in cities located in those areas with a first call for expression of interest launched in December 2024. This financial instrument aligns with the Malaga Coalition, which aims to unlock finance for cities in the developing world (UNCDF, 2022[68]) (see Chapter 4 for more details). However, overall, an evaluation of the EU external financing instruments (2014-20 and 2021-27) found limited evidence to date of the EFSD+ achieving a significant mobilisation of European private sector investments (EC, 2024[67]).

The Global Gateway's first large-scale investment initiative was the Africa-Europe Investment Package, dedicating approximately EUR 150 billion to enhance the co-operation with African partners. Additionally, over EUR 45 billion in global investments were announced for Asia, the Pacific, Latin America and the Caribbean (EC/CoR, 2023[69]). In 2023 and 2024, more than 170 projects were ongoing worldwide across the 5 key investment priorities, several of them labelled as flagship projects to showcase prominent examples of activities (EC, 2024[70]). Some of the projects currently implemented under the Africa-Europe Investment Package include the construction of a 10 000-kilometre regional fibre-optic backbone in Central and Eastern Africa, connecting schools, hospitals and government institutions across multiple countries, the construction of a hydropower plant (Ruzizi III) serving Burundi, the Democratic Republic of the Congo and Rwanda as well as the extension of the tramway network in Rabat-Salé-Témara, Morocco. In Asia-Pacific, the Global Gateway supports the construction of a new energy-efficient hospital in Darkhan city, Mongolia, and the development of school physical infrastructure and teacher education in Nepal amongst others. In Latin America, projects aim to electrify social infrastructure in remote rural areas in Colombia and increase Internet connectivity to reach 85% of Colombians, expand and upgrade Santo Domingo's urban transport system in the Dominican Republic and construct a technical and vocational education and training school in Haiti. Other projects target the EU Eastern and Southern Neighbourhood as well as the Western Balkans and Türkiye. An overview of projects is available via a digital map on the webpage of the EU Global Gateway strategy with additional information for a sample of projects.[2] As of now, there is no information about whether projects involve, or are led by, subnational actors, although work is ongoing to determine which Team Europe actors are involved in each project. Chapter 4 provides a dedicated section about the place-based dimension of the Global Gateway and the relevance of local and regional governments.

3 Local challenges and instruments to finance and fund sustainable development

Subnational governments play a crucial role in financing sustainable urban development, yet many are facing significant challenges in mobilising resources. While they are responsible for delivering essential services, regulatory barriers and funding constraints hinder their ability to meet the growing demands from urbanisation. Many cities are challenged by unfunded mandates, restricted borrowing capacity and a lack of expertise in designing bankable projects, making it difficult to attract private investment. To bridge the financing gap, cities can leverage diverse mechanisms, including municipal bonds, PPPs, own-source revenues and innovative urban planning tools. Sustainability bonds, public procurement and SDG budgeting can align financial flows with long-term development goals. However, strengthening financial capacity to enable investment is critical to unlock the potential of local governments to support sustainable urban development.

Key challenges

Subnational governments are key players in financing and funding sustainable development because they are closest to the communities they serve. They are often responsible for implementing policies and projects that directly impact daily life, from infrastructure and housing to public services and environmental management. Their ability to mobilise resources, whether through local taxes, bonds or partnerships, allows them to fund essential sustainable development initiatives, such as renewable energy projects, sustainable transport systems and climate resilience efforts. Additionally, subnational governments are often better equipped to address local challenges and tailor solutions to specific regional needs, ensuring that sustainable development is both practical and context-specific.

Subnational governments play a crucial role in public spending, investment and revenue generation. In OECD countries, they accounted for 37% of total public spending in 2021, mainly on public services, education and social protection, with notable variations, particularly in areas like health and transport (OECD, 2023[71]). Subnational governments also contribute significantly to public investment, responsible for 58% in OECD countries and 40% globally (OECD, 2023[71]). Their revenues rely heavily on grants (51.5%), followed by taxes (31.5%) and fees, with substantial regional differences in tax dependency. Subnational debt is relatively low, making up 9.8% of total public debt in 2020 (OECD, 2022[29]).[3] Annex C provides granular data on subnational government expenditure, investment, revenue and debt, building on data produced by the OECD-United Cities and Local Governments (UCLG) World Observatory on Subnational Finance and Governance. Box 3.1 explains the differentiation between funding and financing, while Tables 3.1 and 3.2 provide an overview of different funding and financing sources.

Box 3.1. Mobilising funding and financing – Definitions

Funding

Funding refers to money used to pay for an investment, sourced from subnational government revenues or specific user charges. While not required for upfront payments, it is a necessary component to pay for operation, maintenance and repayment of financing. Funding is crucial for investment, operations and maintenance and it also helps to mobilise financing, while insufficient funding is often a key investment barrier for subnational governments. Subnational governments can obtain funding through grants, subsidies, taxes and user charges or via private operators under concession agreements.

Financing

Financing refers to money from private or public financiers needed for upfront investment costs, which might otherwise be unaffordable or strain budgets, with an obligation for future repayment. Financing is typically used for investment needs and repaid from funding sources. The use of finance allows subnational governments to undertake necessary projects and distribute the payment burden across future beneficiaries. Financing primarily involves debt instruments like loans and bonds but can also consider equity.

Source: OECD (2022[1]), *G20-OECD Policy Toolkit to Mobilise Funding and Financing for Inclusive and Quality Infrastructure Investment in Regions and Cities*, https://doi.org/10.1787/99169ac9-en.

Table 3.1. Overview of potential subnational government funding sources

	Explanation	Tools
Grants and subsidies	Financial transfers from upper-level governments, international organisations and sometimes philanthropic sources, which can cover either current or capital expenditures for infrastructure investment by subnational governments. Capital grants form a small and volatile portion of subnational revenues.	Regional development funds Viability gap funding Competitive grant programmes Matching grants Conditions on grants
Taxation	Taxes on income, commercial activities, wealth or property and the production of goods or capital. These taxes may be own-source or shared with other government levels, commonly including personal income tax, corporate income tax and value added tax.	Property taxes Tax increment financing Carbon taxes Tourism taxes Mobility/transport taxes
User charges and fees	Payments required from users of public infrastructure or services (e.g. waste collection), collected by a subnational government or an operator.	Utility charges Parking fees and urban congestion charges
Asset revenues	Subnational governments can manage their assets strategically to maximise long-term public benefits, including increasing revenue and asset utility or reducing overall life-cycle costs.	Public property or land leasing Asset recycling

Source: OECD (2022[1]), *G20-OECD Policy Toolkit to Mobilise Funding and Financing for Inclusive and Quality Infrastructure Investment in Regions and Cities*, https://doi.org/10.1787/99169ac9-en.

Table 3.2. Overview of potential subnational government financing sources

	Explanation	Tools
Loans	Loans are the simplest form of financing for local governments to access. They are offered by either public or private financial institutions to fund investment projects or large investment programmes.	Project loans Concessional loans Green loans
Bonds	Bonds are a type of debt that is issued through an underwriter and sold in domestic or international capital markets. In certain countries, local governments can issue various types of bonds to finance their investments.	General obligation bonds (municipal bonds) Revenue bonds and project bonds Thematic bonds (e.g. green bonds)
Equity	Equity involves at-risk capital provided in exchange for an ownership stake in an asset or entity, with the potential for financial gain. This type of investment may be made in PPPs, partially owned state-owned enterprises or private infrastructure firms.	Impact investing Equity in PPPs Blended finance
Guarantees	Guarantees are not a form of financing on their own but they enhance or replace credit for a debt instrument, such as a loan or bond. These instruments help improve the creditworthiness of local government debt for investors.	Performance guarantees Financial guarantees

Source OECD (2022[1]), *G20-OECD Policy Toolkit to Mobilise Funding and Financing for Inclusive and Quality Infrastructure Investment in Regions and Cities*, https://doi.org/10.1787/99169ac9-en.

Many local governments face protracted challenges to access finance and funding to deliver efficient public services and contribute to the SDGs. In an OECD-Sustainable Development Solutions Network-European Committee of the Regions survey to more than 240 LRGs and territorial stakeholders from various, mainly EU, countries, most respondents (64%) reported a lack of financial resources as a main challenge for localising the SDGs and fostering sustainable urban development (OECD, 2024[72]). The specific challenges, which are further outlined in the sections below, range from limited financial resources due to constrained budget and limited access to capital, to debt limits set by national governments or credit rating agencies, lack of expertise to design, implement and manage complex projects, fragmented governance creating co-ordination challenges, short political cycles, regulatory uncertainty and fluctuating market conditions, which make it difficult to attract long-term investment and the private sector. Regulatory barriers represent the main challenge for public investment, which is defined as “capital expenditure on physical

infrastructure (e.g. roads, government buildings) and soft infrastructure (e.g. human capital development, innovation support, research and development) with a productive use that extends beyond a year" (OECD, 2014[73]) extended by governments. High project risks and uncertain returns are hindering the mobilisation of private investments and private flows, which in the development context encompass "financial flows for development at market terms financed out of private sector resources (changes in holdings of private, long-term assets held by residents of the reporting country) and private grants (grants by non-government organisations, net of subsidies received from the official sector)." (OECD, 2025[74]).

Unfunded mandates

Unfunded mandates arising from the mismatches between responsibilities assigned to subnational governments and the resources at their disposable are a common challenge (OECD, 2019[75]). Many subnational governments face challenges due to inadequate fiscal decentralisation, leading to mandates that are either unfunded or underfunded (OECD, 2019[75]). In relatively centralised OECD countries such as France, the Netherlands, New Zealand, Poland and the Slovak Republic, there is a greater tendency towards unfunded mandates at the regional level, measured as the mismatch between regional political autonomy and regional expenditure as a percentage of general government expenditure). Such unfunded mandates are also more common in regions with lower GDP per capita (e.g. Colombia, Poland), except Germany. Furthermore, they are more prevalent in OECD European and Latin American countries than in Australasia and Northern America (Rodríguez-Pose and Vidal-Bover, 2022[76]). Findings of the OECD report on the *Global State of National Urban Policy* based on a sample of 78 countries, show that most urban development projects linked to national urban policy implementation are funded through direct national investments, as subnational governments often lack sufficient own-source revenues and effective financial instruments to attract private investment (OECD/UN-Habitat, 2024[77]). Leveraging own-source revenue in an effective and efficient way is challenging for many local governments, notably in low-income countries, which generate around USD 12 per capita per year from own-source-revenue systems as opposed to USD 2 944 in high-income countries[4] (UN-Habitat, 2021[78]). Increasing spending autonomy can be challenging, as subnational governments often act under national directives with limited decision-making power. Furthermore, in many developing countries, fiscal decentralisation is less extensive than in advanced economies (OECD/UCGL, 2019[79]; Kim and Dougherty, 2018[80]), leaving municipalities with fewer competencies, administrative capacities and revenue collection abilities (UNCDF/UN DESA, 2017[81]).

Borrowing capacity

In many countries, some level of subnational government borrowing is considered appropriate given local and regional investment responsibilities (IMF, 2020[82]). It can improve resource allocation over time, support intergenerational equity, and expand fiscal space for investment. Fiscal frameworks help define appropriate borrowing levels, with the "golden rule" commonly used to allow debt only for investment, reducing the risk of over-indebtedness (OECD, 2023[83]). However, many cities face restricted access to borrowing, hindering their ability to finance large-scale urban development projects. Research indicates that 56% of countries globally prohibit local governments from engaging in any form of borrowing, including issuing municipal bonds, although there are examples from OECD member countries (Canada, France, Germany, Mexico, Sweden and the United States, amongst others) and non-OECD countries (Argentina, Brazil, India and South Africa) where local governments have issued such bonds (World Bank, 2012[84]; Ahmad et al., 2019[85]; OECD, 2022[1]). Furthermore, regulatory restrictions in OECD and non-OECD countries limit the use of bond issuances by LRGs (OECD, 2023[83]). In many low-developed countries, cities face barriers to financing urban development projects due to the requirement that local borrowing must be approved by the national ministry of finance or other supervisory authorities (OECD, 2022[5]). Even when borrowing is allowed, cities frequently encounter major challenges, including the lack of creditworthiness and inefficient resource management, among other issues (OECD, 2022[1]; GIZ, 2017[86]).

In 2013, less than 20% of the 500 largest cities in developing countries were considered creditworthy in their local financial markets, and fewer than 4% met creditworthiness standards in international markets (World Bank, 2013[87]). In addition, the availability and depth of local-currency capital markets in many countries across the globe can constrain access to affordable finance, as local investors may be hesitant to invest in subnational bonds and international investors face currency risks (OECD, 2022[1]).

Project bankability

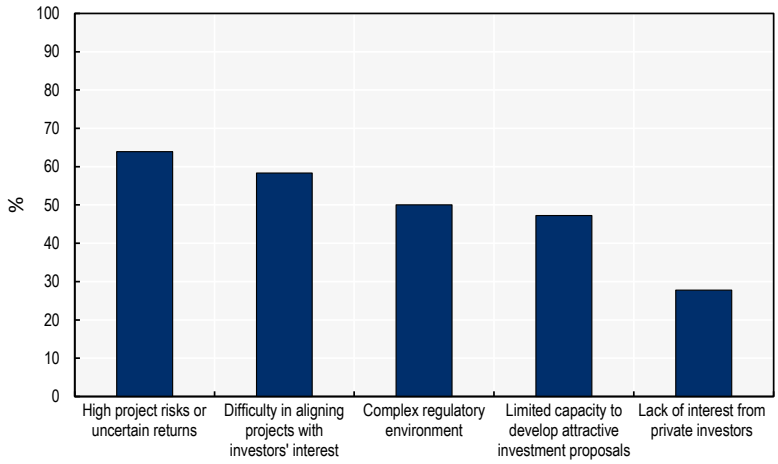
Another challenge for LRGs is the design and implementation of bankable projects. Globally, the ability of governments to fund quality urban infrastructure investments, already strained before recent shocks, has become even more difficult due to monetary policy tightening in major markets and global fiscal challenges (OECD, 2023[83]). Furthermore, implementing innovative funding and financing tools demands significant capacity from subnational governments, including the ability to comply with regulations, secure external financing, conduct procurement processes and design project delivery methods (e.g. PPPs). Many subnational governments, particularly smaller municipalities in OECD and non-OECD countries, face significant challenges due to insufficient human resources and expertise. Attracting skilled professionals can be difficult, especially when competing with the private sector, potentially leading to an imbalance in knowledge between public and private actors (OECD, 2021[88]). Many LRGs lack the capability to present a strong business case and fully understand investor requirements as was also highlighted in the OECD survey. Key capacity gaps include insufficient continuity and foresight in strategic planning, difficulties in producing reliable feasibility studies, limited expertise in financial modelling and a lack of maturity in using internal controls and financial management systems (UN-Habitat, 2021[78]).

While private finance can help cover upfront costs and spread investment expenses over time, it also generates future funding obligations (OECD, 2021[88]). Private investors are therefore often hesitant to finance urban development projects without clear or sufficient repayment sources (OECD, 2021[88]). If private financing depends on projected funding that fails to materialise, it can furthermore become a financial liability for governments, especially when revenue guarantees are involved (OECD, 2021[88]). This adds to challenges such as low returns on investment portfolios, lack of project pipelines and bankable/sizeable investment opportunities in thin markets, and lack of financial innovation in institutions' portfolios. The limited liquidity of these assets and extended pay-off periods increases risks, hindering the flow of capital from other asset classes into urban infrastructure (UN-Habitat, 2023[89]). These issues are particularly pronounced in countries and sectors most in need, affecting projects' commercial viability and return profiles, even for those with impact goals. Consequently, the share of private finance mobilised in these contexts is rather small. Additionally, the low financial returns and small investment opportunities, coupled with a general lack of incentives for private actors to invest in climate adaptation and other urban development challenges, result in this area accounting for only 4% of providers' total mobilised private finance (OECD, 2023[90]).

Among cities responding to the OECD survey, high project risks or uncertain returns are also frequently reported as a challenge to secure private investment for sustainable urban development. Almost two-thirds of respondents to the OECD survey highlighted high project risks and uncertain returns as a main challenge, followed by difficulties in aligning projects with investors' interests (58%) and a complex regulatory environment (50%) (Figure 3.1). Close to half of respondents emphasised a limited capacity to develop attractive investment proposals (47%), while a general lack of interest from private investors posed challenges in only 28% of responding municipalities. The results emphasise that better risk mitigation, capacity to attract investment proposals and a suitable regulatory environment could help mobilise private investment more effectively.

Figure 3.1. Main challenges in securing private investment for sustainable urban development – Results from the OECD survey

What are the main challenges in securing private investment for sustainable urban development in your municipality? (Select up to 3 options)



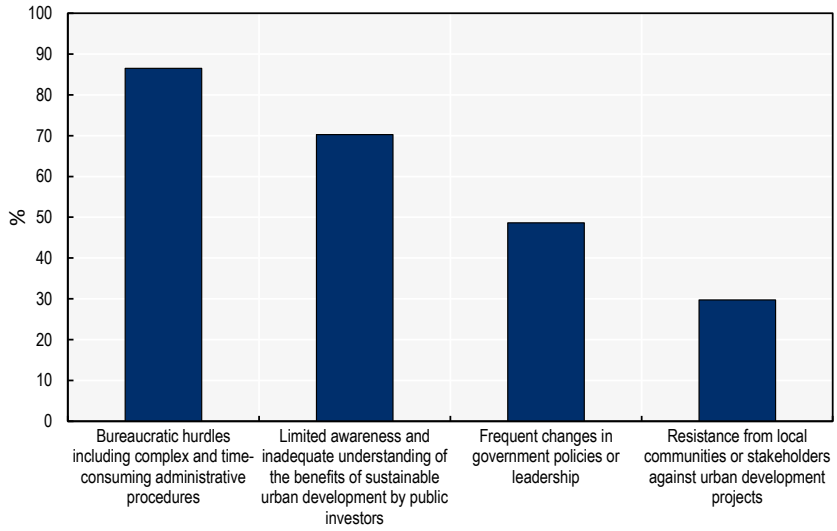
Note: Total number of respondents: 36.
Source: OECD survey - Harnessing city-to-city partnerships to finance urban development.

Regulatory barriers for public investment

Among the respondents to the OECD survey, bureaucratic hurdles and procedures are identified as the primary challenge (86%) in leveraging public investment for sustainable urban development (Figure 3.2). These challenges relate primarily to the regulatory and administrative roles of the public sector, including complex and time-consuming administrative procedures, which delay project approvals or access to funding. Furthermore, around half of the respondents pointed out frequent changes in government policies or leadership, which can challenge policy continuity and shift investment priorities. On the public investment side, respondents also pointed to difficulties in mobilising national or regional grants, co-financing programmes, public development banks, and development finance institutions. One key barrier in this regard is limited awareness or understanding of the benefits of sustainable urban development among public investors, which was noted by 70% of respondents. Lastly, resistance from local communities or stakeholders to investment projects poses less of a challenge for the mobilisation of public financial resources for sustainable urban development, although it was still reported by 30% of respondents. These results suggest that streamlining administrative processes and increasing awareness among public investors could considerably improve public investment flows into sustainable urban projects. City-to-city partnerships can help partly address such challenges through capacity-building activities and improving governance at the local level.

Figure 3.2. Main challenges in securing public investment for sustainable urban development – Results from the OECD survey

What are the main challenges in securing public investment for sustainable urban development in your municipality? (Select up to 3 options)



Note: Total number of respondents: 37.
Source: OECD survey - Harnessing city-to-city partnerships to finance urban development.

Key strategies and instruments to access subnational financing and funding

Survey overview

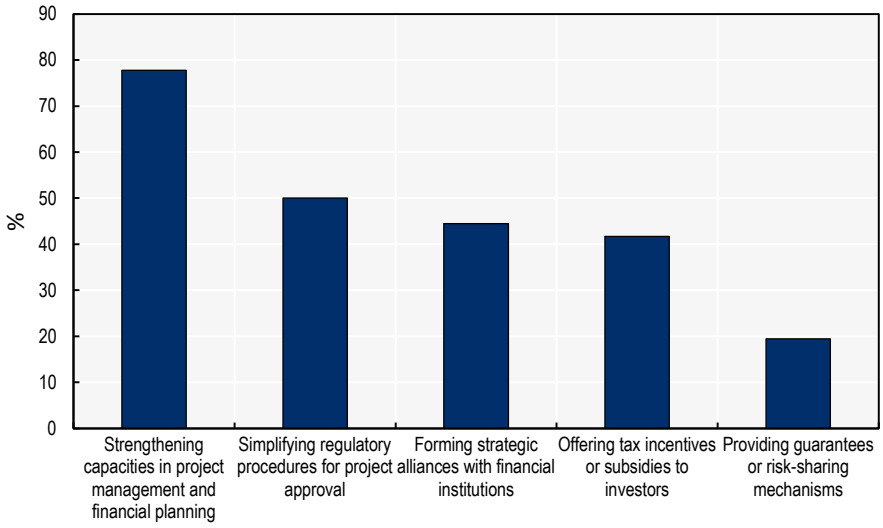
Strategies to overcome financing challenges for urban development

To overcome the above-mentioned challenges, cities need to devise strategies to better access financing tools, develop stronger governance frameworks and enhance capacity for project development and management. Collaboration with international organisations, the private sector and other cities – notably through city-to-city partnerships – can help pool resources and expertise to address these complex issues. Among respondents to the OECD survey, several municipalities have put in place dedicated strategies to overcome financing challenges for urban development in their territory. In particular, 88% are strengthening capacities in project management and financial planning through peer-to-peer learning activities, knowledge sharing or targeted training programmes. For example, optimising own resource revenue through capacity building can be a critical lever to enhance cities' financial capacity. Optimising own-resource revenue involves streamlining tax policy and enhancing compliance, and relies on strong political leadership (UN-Habitat, 2021[78]). In Uganda for example, the government of Kampala enhanced its revenue collection from approximately USD 1 million in the 2010/11 financial year to USD 25 million (24% of the local budget) in the 2018/19 financial year through digitalisation, extensive taxpayer education, training for revenue collectors, revenue audits and instalment payments for taxpayers (UN-Habitat, 2021[78]). Furthermore, more than 50% of the surveyed municipalities form alliances with financial institutions in support of sustainable urban development projects (Figure 3.3). In Kitakyushu, Japan, the city's SDGs Club supports companies by providing consulting and capacity-building services in collaboration with 20 financial institutions, including local banks and insurance companies. This initiative helps businesses integrate sustainable development principles into their business models (OECD,

2022[91]). Mannheim in Germany leveraged its local green deal engaging banks, local businesses and educational institutions to commit to and support projects centred around climate protection, renewable energy, sustainable mobility, green economy and environmental quality both financially and in kind (OECD, 2023[83]).[5] In addition, more than half of surveyed respondents (54%) have simplified regulatory procedures for project approvals and another half offer tax incentives or subsidies to investors. Guarantees and risk-sharing mechanisms are less common among respondents (less than 20%)

Figure 3.3. Strategies put in place to overcome financing challenges for urban development – Results from the OECD survey

Which strategies have you put in place to overcome financing challenges for urban development in your municipality? (Yes/No)



Note: Total number of respondents: 36. Percentage value indicates the share of respondents selecting "Yes".
Source: OECD survey - Harnessing city-to-city partnerships to finance urban development.

Public-private partnerships

Most surveyed municipalities are using PPPs to finance sustainable development. Among responding municipalities, around three-quarters are actively developing and participating in PPPs to enhance access to finance for sustainable development, notably respondents from Europe and Latin America (Figure 3.4). PPPs are generally understood as long-term contracts between private parties and government entities to provide public assets or services, where the private party bears significant risk and management responsibility, and remuneration is performance-linked (World Bank et al., 2017[92]). PPPs can involve various assets (greenfield, brownfield) and roles (design, build, finance, maintain, operate). They also use different funding models: user-pays PPPs are funded by user charges, while government-pays PPPs are funded through government revenues such as grants, taxes or property income (OECD, 2022[1]). In OECD countries, PPPs account for about 5% of total public infrastructure investment, reaching up to 10% in some of them (OECD, 2018[93]; 2019[94]). Although PPPs represent a small portion of overall public investment, they are crucial for subnational governments, which manage a larger number of PPPs despite higher average PPP investment volumes at the national level (OECD, 2022[1]). For instance, approximately 90% of PPPs in Australia and 80% in Germany are managed at the subnational level (OECD, 2018[93]). Among the surveyed municipalities, the development of PPPs is the most common instrument to leverage private

investment in sustainable urban development. Around 75% of municipalities reported developing PPPs to leverage private sector investments and expertise in sustainable urban development projects.

Subnational capacity to assess the potential benefits, costs and risks of PPPs, as well as to manage their development, approval, procurement, award and contract management is crucial to the success of PPPs. However, as outlined above, the lack of subnational capacity to engage in PPPs is one of the main obstacles for city governments that want to use them (OECD, 2022[1]; 2018[93]). This is notably the case since urban (infrastructure) projects are often smaller than larger PPP projects. Research indicates they are usually feasible only for large projects exceeding USD 50 million due to their high transaction costs (UN-Habitat, 2021[78]). Similar to other investment structures, PPPs require the capacity to develop bankable projects while addressing issues such as user fee affordability and community resistance. Their success also highly depends on the city's stage of development.

Blended finance, bonds, impact investment and crowdfunding

The majority of surveyed municipalities uses blended finance is to mobilise financial resources for sustainable urban development, while impact investing, green, social and sustainability (GSS) bonds, and crowdfunding are less common. Fifty-six percent reported to use blended finance, combining public and private funds to reduce investment risks and attract private finance towards SDG-aligned urban projects. A third of municipalities surveyed leverage social finance and impact investment, which is defined as the provision of "finance to organisations addressing social and/or environmental needs with the explicit expectation of measurable social and financial returns" (OECD, 2019[95]). Twenty-two percent of survey respondents use GSS bonds to enhance access to finance for sustainable urban development (Box 3.2). Crowdfunding, a method of securing external finance from a broad audience instead of relying on a limited group of specialised investors (such as banks, business angels or venture capitalists), where each contributor donates a small portion of the total required amount (Robano, 2015[96]), does not play a major role for the surveyed municipalities being only used by 8% of them.

Box 3.2. Green, social and sustainability (GSS) municipal bonds

One way for subnational governments to mobilise financing can be through municipal bonds,[6] which account for 27% of subnational government debt in Group of Twenty (G20) countries and 12% globally. The use of bonds by local governments varies widely across and within countries. Governments of larger cities often issue bonds as a financing method, while, for smaller ones, they can be less appealing due to high transaction costs (e.g. independent credit ratings, improvements in financial management systems) If legally permitted, municipal bonds offer several benefits over loans from financial institutions, including potentially more affordable financing due to lower premiums and larger, longer-term financing.

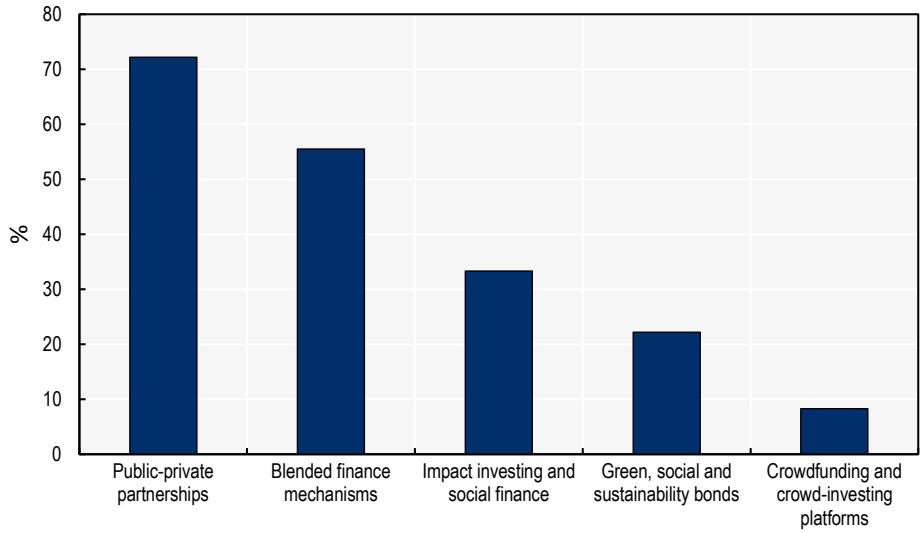
One type of bonds in pursuit of sustainable development are GSS bonds. These direct the proceeds to specific green, social or sustainable projects and come with additional requirements for project evaluation, selection, management and reporting. In 2022, the global market for green bonds reached approximately USD 493 billion in annual issuances, the social bond market reached USD 168 billion and the sustainability bond market USD 145 billion. However, so far, subnational governments accounted for only a small percentage – about 5.5% of total green bond, 9% of social bond and 8.7% of sustainability bond issuances – but their share almost tripled between 2017 and 2022. Benefits of GSS bonds include potentially more affordable financing, demonstrating policy actions for sustainable development to stakeholders, increased transparency and better alignment with policy priorities. However, challenges include reduced budget flexibility due to earmarking, the need for additional financing for other projects, increased internal co-ordination and higher management and reporting

costs. Another financing option for subnational governments are GSS loans. They are similar to GSS bonds but are provided by financial institutions instead of the capital market.

Sources: OECD (2022[5]), *2022 Synthesis Report World Observatory on Subnational Government Finance and Investment*, https://doi.org/10.1787/b80a8cdb-en; OECD (2023[83]), *Financing Cities of Tomorrow: G20/OECD Report for the G20 Infrastructure Working Group under the Indian Presidency*, https://doi.org/10.1787/51bd124a-en; Environmental Finance (2023[97]), *Sustainable Bonds Insight 2023*, https://www.environmental-finance.com/assets/files/research/sustainable-bonds-insight-2023.pdf.

Figure 3.4. Mechanisms used by municipalities to enhance access to finance for sustainable urban development – Results from the OECD survey

Which mechanisms does your municipality use to enhance access to finance for sustainable urban development (Yes/No)



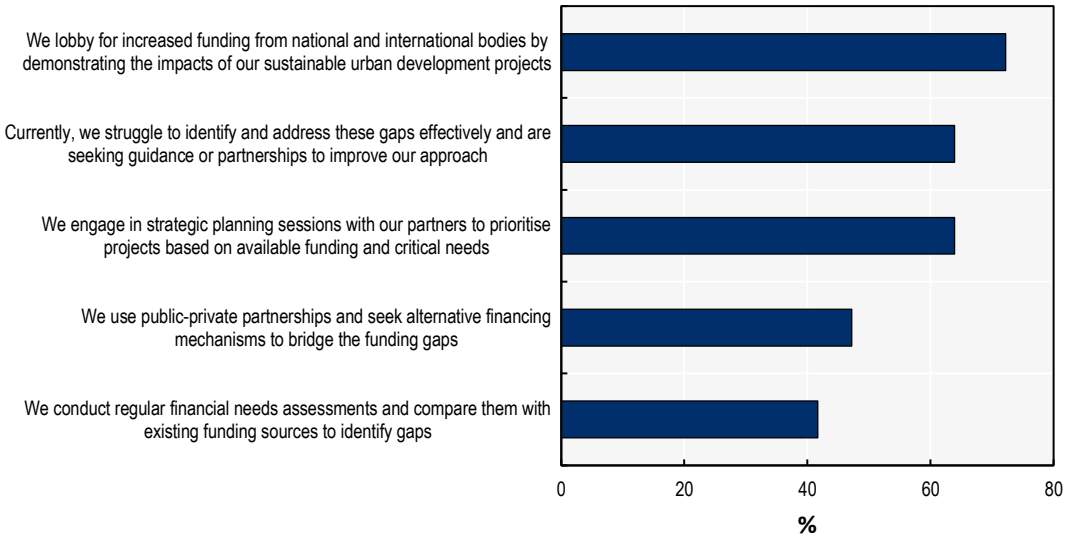
Note: Total number of respondents: 36. Percentage value indicates the share of respondents selecting "Yes".
Source: OECD survey - Harnessing city-to-city partnerships to finance urban development.

Addressing the gaps between finance flows and needs

Surveyed municipalities use a variety of tools to address the gaps between the flows of urban finance and the financial needs required to achieve sustainable urban development. More than 70% actively advocate for increased funding from national and international bodies by demonstrating the impacts and benefits of their sustainable urban development projects (Figure 3.5). Furthermore, 64% engage in strategic planning sessions with their partners to prioritise projects based on available funding and critical needs. Forty-seven percent use PPPs and seek alternative mechanisms to bridge the funding gaps. Only 42% of surveyed municipalities conduct regular assessments of financial needs and compare them with existing funding sources to identify gaps. About 64% struggle to identify and address such gaps effectively and are seeking guidance or partnerships to improve their approach.

Figure 3.5. Addressing the gaps between the current flows of urban finance and the financial needs required for sustainable urban development – Results from the OECD survey

How does your municipality address the gaps between the current flows of urban finance and the actual financial needs required to achieve sustainable urban development? (For each option, specify Yes/No)



Note: Total number of respondents: 36. Percentage value indicates the share of respondents selecting "Yes".
Source: OECD survey - Harnessing city-to-city partnerships to finance urban development.

Leveraging urban planning

In addition to the above-mentioned funding and financing sources, urban planning can be a valuable tool to help mobilise financial resources for sustainable urban development. Possible tools at the disposal of subnational governments include master plans, zoning regulation and development control guidelines. Master plans in urban planning serve as comprehensive blueprints for the long-term physical development of cities, typically covering 15 to 20 years and addressing aspects like land use, transportation, infrastructure, housing and environmental sustainability. The design or renewal of a city's master plan can be an opportunity to attract private financing for sustainable urban development projects by providing a forum to discuss requirements and enable private developers to contribute ideas. This can ensure compliance with market standards, reducing investment risks by addressing existing challenges to develop attractive investment proposals and aligning projects with investors' requirements (OECD, 2023[83]). It can for example include transit-oriented development, which promotes compact, mixed-use, pedestrian-friendly development around transit stations to increase transit usage and non-motorised travel (Suzuki et al., 2015[98]), potentially attracting private investment due to revenues emanating from a transport system, higher property values and enhanced living environment (OECD, 2023[83]). In addition, zoning can be a crucial urban planning tool organising land use within a city by dividing it into districts, each with specific regulations. It supports the controlled redevelopment of areas like brownfield sites or former industrial areas by including incentives and rules in strategic plans to attract private investment in eco-friendly and energy-efficient projects (OECD, 2023[83]).

Building on their urban planning prerogatives, cities also use levies, fees and charges to finance urban development projects. These fees provide upfront capital from landowners or real estate developers before or at the start of an urban development project. This ensures that cities have access to funds earlier than by waiting for incremental service charges or tax revenues, potentially reducing the risks of urban sprawl and associated challenges such as traffic congestion. This instrument assumes that private sector

contributions can be offset by increased property value, but pooling these collected fees with public capital is necessary in areas with weak investment demand. Among respondents to the OECD survey, 42% scale up the use of development charges (e.g. charges for building rights or biodiversity offsetting) and promote their flexible use as a tool to leverage private investment in sustainable urban development. Another instrument are charges for building rights, used in at least 20 countries, which allow private investors to develop additional building space in exchange for contributions, providing cities with revenue for further infrastructure investment (OECD/Lincoln Institute of Land Policy, PKU-Lincoln Institute Center, 2022[99]). Additionally, cities must ensure long-term environmental sustainability, with mechanisms like biodiversity offsetting compensation for biodiversity loss through development, which can finance green infrastructure and encourage nature-positive urban development (OECD, 2023[83]).

SDG budgeting and sustainable procurement

Integrating the SDGs in budgeting processes can help allocate resources for the implementation of the UN 2030 Agenda and foster policy continuity across political cycles. The OECD (2020[4]) argues that governments should allocate resources based on their local development challenges and use the framework of the SDGs to support multi-sectoral policies and programmes. By doing so, cities can also address limited awareness and inadequate understanding of the benefits of sustainable urban development, one of the main challenges identified in the OECD survey to mobilise financial resources from the public sector.

Priority budgeting such as green or SDG budgeting can help mainstream climate and environmental action within budgetary decisions and broader policy making (OECD, 2022[100]) Linking resource allocation directly to measurable SDG targets can make the benefits of such initiatives more tangible and transparent to both policy makers and the public. The Basque Country, Spain, and the city of Strasbourg, France, for example evaluate how various budget items contribute to each of the 17 SDGs. This helps identify the direct and indirect effects of public spending on these goals. In Strasbourg, the analysis showed that more integrated spending significantly enhances the city's progress towards sustainable development (Marta et al., 2024[101]).

Another option is to mainstream sustainability criteria in public procurement to achieve economic, social and environmental outcomes aligned with the SDGs. Public procurement accounts for about 12% of GDP on average in OECD countries, nearly 30% of total government expenditures, and as much as 25-30% of GDP in developing countries (OECD, 2020[4]). Sustainable public procurement involves incorporating social and environmental considerations into procurement criteria, alongside value-for-money. In the OECD, most countries have established procurement policies that incorporate broader policy objectives, for example through green procurement or procurement favouring small and medium-sized enterprises (SMEs) (OECD, 2020[4]). By establishing and extending support structures to enable and promote sustainable public procurement at the local level, national governments can act as positive examples and directly promote and support local sustainable public procurement practices and help support policy coherence for sustainable public procurement across levels of government (OECD, 2020[4]).

4 Leveraging city-to-city partnerships to mobilise financial resources

City-to-city partnerships are a modality of DDC, through which municipalities from developed and developing countries collaborate for mutual benefit. Through peer-to-peer learning, enhancing technical competencies to deliver basic services, sharing new technologies, strengthening subnational financing and planning, promoting local economic development and building capacities in climate and disaster risk reduction, city-to-city partnerships can help set suitable framework conditions to mobilise financial resources in support of sustainable urbanisation. By strengthening local governance, they also increase cities' attractiveness for public and private financial resources in support of urban development projects.

City-to-city partnerships – An overview

City-to-city partnerships are a modality of decentralised development cooperation (DDC) where municipalities from developed and developing countries collaborate for mutual benefit (OECD, 2023[6]). DDC relates to broader development co-operation activities conducted by subnational governments in general. Common DDC characteristics include principles of reciprocity (mutual benefits), subsidiarity (locally led or place-based) and multi-stakeholder (territorial) approaches. DDC actors encompass various subnational governments like cities, regions, provinces, city-states, federal states and inter-municipal co-operation bodies, as well as non-governmental entities such as civil society, academia and the private sector.

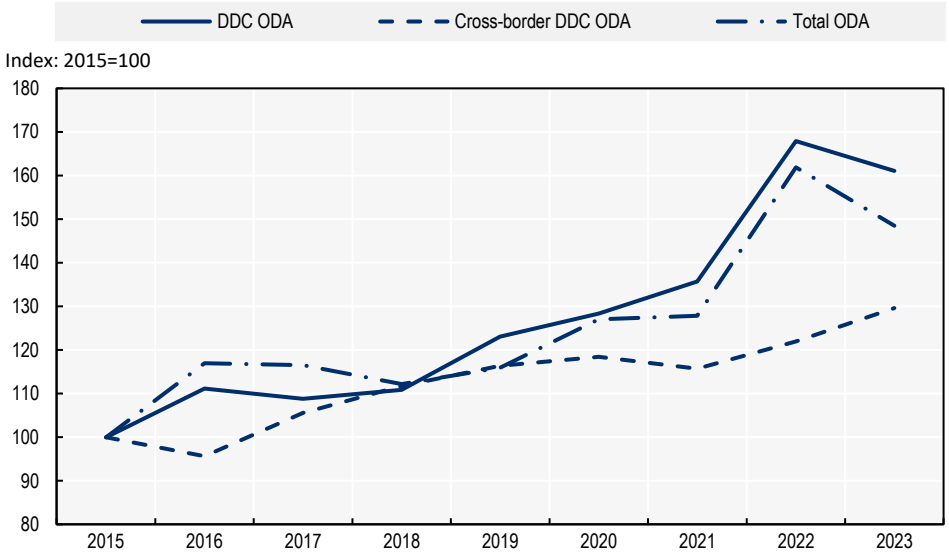
DDC can be an important contributor to sustainable development, including by providing a platform for LRGs from the Global North and the Global South to exchange on urban development policies and public services delivery and enable mutual learning. In recent years, the scope and volume of DDC have grown (see below for more information), reflecting an increasing contribution of LRGs to global agendas. Many national and subnational governments, both in OECD member and non-OECD countries, have revised their development co-operation strategies to align with the SDGs, as seen in Belgium, Germany, the Netherlands and Portugal (OECD, 2018[7]; 2023[102]). In line with that, a growing number of DDC actors determine the geographical focus of their DDC activities depending on global priorities and agendas, in particular the SDGs. In Germany for example, more than 90% of federal states and two-thirds of municipalities responding to an OECD survey stated that the SDGs shape their DDC strategies (OECD, 2023[102]). As part of the EU 's Partnerships for Sustainable Cities programme, 57 city-to-city partnerships were selected based on their contribution to sustainable development, with a particular focus on SDG 11 "Sustainable cities and communities" and SDG 17 "Partnerships for the goals".

The G20 Rome High-Level Principles on city-to-city partnerships for localising the SDGs encourage governments to leverage city-to-city collaboration as a driver for achieving the 2030 Agenda. One of the ten principles explicitly targets the area of financing by calling on "local and regional to develop effective financing and efficient resource mobilisation strategies and instruments in collaboration with national governments as appropriate, through existing mechanisms to support the implementation of the 2030 Agenda through city-to-city partnerships, including by integrating the SDGs in budgeting processes." (G20 Development Working Group, 2021[103]).

DDC financing flows

DDC is a tool that can enhance the governance and capacity of LRGs to fund urban development policies and projects around the world. In recent years, DDC spending, which includes funding for city-to-city partnerships, has increased substantially. Between 2015 and 2023, total DDC volumes grew by 61%, from USD 2 101 million to USD 3 383 million, representing 3.5% of total ODA. In certain countries, however, DDC-related flows represented a significantly larger share of total ODA, reaching 24% in Spain, 23% in Czechia and 11% in Austria in the 2022-23 period. In 2023, the largest DDC donors were subnational governments from Germany (60%),[7] Spain (13%), Canada (11%), France (5%) and Switzerland (3%). Cross-border DDC flows[8] have gone up by 30% between 2015 and 2023, driven mainly by Spain, which accounted for 49% of cross-border DDC (USD 322 million) in 2023, followed by Switzerland (17%) and Belgium (12%) (Figure 4.1, for more details see Tables 4.1 and 4.2).

Figure 4.1. Trends in ODA, DDC ODA and DDC ODA Cross-border, 2015-23



Note: Cross-border estimates were computed following the methodology developed by the Country Programmable Aid (OECD, 2025[104]). Based on 15 DAC countries with available DDC data.
Source: OECD (2025[105]), *CRS: Creditor Reporting System (flows)*, http://data-explorer.oecd.org/s/1b1.

Table 4.1. Trends DDC ODA by country, 2015-23

In USD millions

Donor	2015	2016	2017	2018	2019	2020	2021	2022	2023	Change 2015-23 (%)
Austria	188.64	268.37	72.22	31.53	21.01	22.38	32.16	158.58	112.58	-40.32
Belgium	96.79	87.56	90.44	85.37	79.96	107.75	86.75	152.06	98.81	2.09
Canada	310.23	339.65	339.14	245.58	279.10	211.09	202.85	381.15	373.95	20.54
Czechia	0.37	0.41	1.16	NA	NA	NA	NA	168.28	NA	NA
Estonia	NA	NA	NA	NA	NA	NA	NA	0.13	0.31	NA
France	66.91	94.38	115.36	132.72	137.04	134.36	137.14	183.25	182.71	173.07
Germany	1 094.85	1 156.79	1 264.38	1 388.74	1 585.61	1 758.73	1 903.32	1 932.45	2 019.11	84.42
Italy	22.08	17.34	6.63	12.68	10.77	7.00	7.75	12.98	25.20	14.13
Japan	3.14	2.90	2.31	2.45	2.79	1.30	0.93	4.84	4.00	27.46
Latvia	NA	0.05	0.05	0.07	0.10	0.01	NA	0.03	0.34	NA
Lithuania	0.04	0.00	0.03	0.09	0.01	NA	NA	8.16	3.97	9 899.66
Portugal	0.13	0.22	0.53	1.10	1.56	1.60	0.68	4.10	0.84	521.81
Spain	235.12	270.69	299.59	342.70	376.06	363.85	379.43	438.83	424.47	80.53
Switzerland	64.79	78.39	72.06	68.96	68.94	68.24	61.03	60.27	117.13	80.79
United Kingdom	17.76	18.58	21.33	16.97	21.73	19.62	38.20	21.91	20.07	13.01
Total	2 100.85	2 335.34	2 285.21	2 328.95	2 584.69	2 695.91	2 850.25	3 527.01	3 383.49	61.05

Source: OECD (2025[105]), *CRS: Creditor Reporting System (flows)*, http://data-explorer.oecd.org/s/1b1.

Table 4.2. Trends in cross-border DDC ODA by country, 2015-23

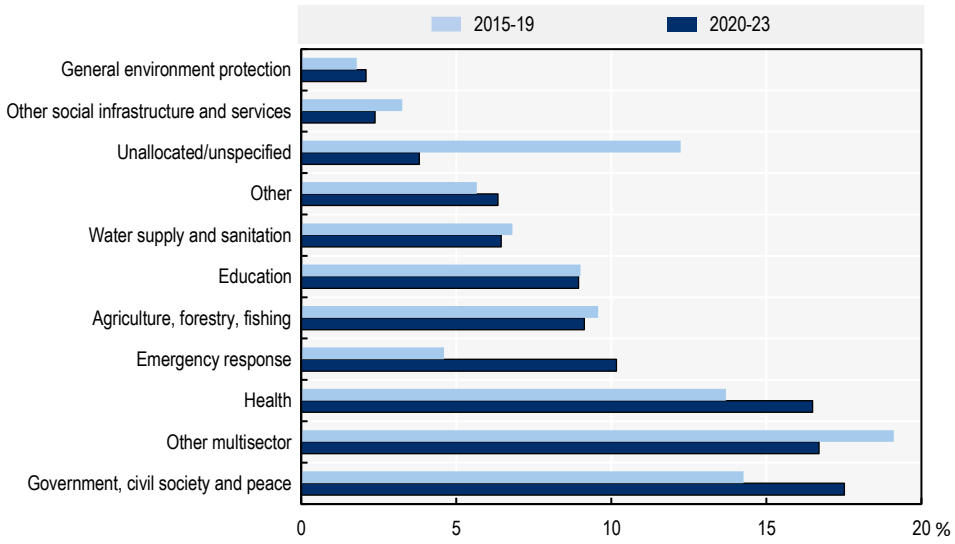
In USD millions

Donor	2015	2016	2017	2018	2019	2020	2021	2022	2023	Change 2015-23 (%)
Austria	8.34	5.86	6.04	5.84	7.27	9.26	7.36	8.70	7.45	-10.66
Belgium	88.54	80.11	85.72	80.84	76.08	104.98	83.15	78.18	77.94	-11.97
Canada	22.28	19.82	28.41	23.80	24.50	23.32	12.20	26.69	22.41	0.60
Czechia	0.37	0.41	1.16	NA	NA	NA	NA	NA	NA	NA
Estonia	NA	NA	NA	NA	NA	NA	NA	NA	0.31	NA
France	62.60	47.36	49.06	47.91	49.93	51.87	43.15	49.04	46.94	-25.01
Germany	28.88	32.01	39.99	42.40	37.67	41.31	38.54	43.58	38.52	33.40
Italy	21.63	16.73	6.14	12.55	10.71	6.85	7.69	9.76	7.35	-66.01
Japan	1.60	1.67	1.82	2.12	2.46	1.11	0.80	1.09	0.66	-58.77
Latvia	NA	0.03	0.05	0.07	0.10	0.01	NA	0.03	0.34	NA
Lithuania	0.04	0.00	0.03	0.09	0.01	NA	NA	3.35	1.89	4 650.35
Portugal	0.13	0.09	0.10	0.30	0.84	0.84	0.02	0.69	0.08	-35.18
Spain	203.03	216.53	245.05	284.67	307.62	287.69	304.16	321.58	322.43	58.81
Switzerland	57.40	50.49	54.59	54.32	56.65	57.91	55.68	58.31	115.35	100.97
United Kingdom	15.91	17.30	21.10	15.92	20.68	19.56	38.20	21.91	20.07	26.17
Total	510.74	488.43	539.27	570.83	594.52	604.70	590.95	622.90	661.75	29.57

Note: Cross-border estimates were computed following the methodology developed by the Country Programmable Aid (OECD, 2025[104]).
Source: OECD (2025[105]), *CRS: Creditor Reporting System (flows)*, http://data-explorer.oecd.org/s/1b1.

DDC flows cover a wide range of sectors related to urban development, including local governance, education, health and water. From 2020 to 2023, the largest sector in cross-border DDC was government, civil society and peace, averaging 17.5% of total flows, up from 14.3% in 2015-19. Multisector DDC, encompassing training, scientific research and other social areas, accounted for over 17% of cross-border DDC. Health became the third-largest sector, rising from 13.7% in 2015-19 to 16.5% in 2020-23, likely driven by the Coronavirus Disease 2019 (COVID-19) pandemic. Other key sectors in 2020-23 included emergency response (10.2%), agriculture (9.1%), education (8.9%) and water supply and sanitation (6.4%). In contrast, environmental protection accounted for just 2% of total cross-border DDC in the same period (Figure 4.2) (OECD, 2023[106]).

Figure 4.2. Sectoral allocation of cross-border DDC ODA, 2015-19 and 2020-23



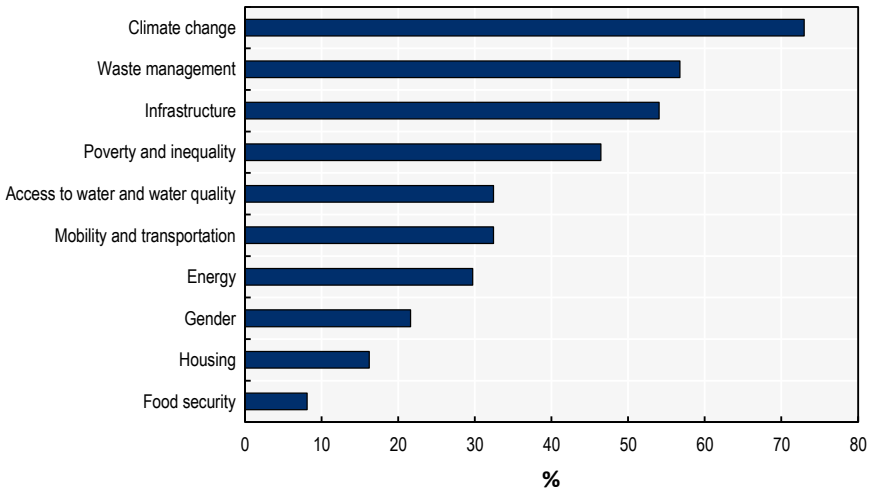
Note: Cross-border estimates were computed following the methodology developed by the Country Programmable Aid (OECD, 2025[104]). Based on 15 DAC countries with available DDC data.
Source: OECD (2025[105]), *CRS: Creditor Reporting System (flows)*, http://data-explorer.oecd.org/s/1b1.

Harnessing city-to-city partnerships for sustainable urban development

Among the surveyed municipalities, climate change and waste management are the primary urban development challenges addressed through city-to-city partnerships over the past five years. Seventy-three percent of respondents target challenges related to climate change through their city-to-city partnerships (Figure 4.3). About 57% have been working on issues related to waste management and 54% focus their partnership on infrastructure. Other relevant challenges addressed through city-to-city partnerships include poverty and inequality (46%), access to water and water quality (32%), mobility and transport (32%) as well as energy (30%). Those policy areas that municipalities targeted the least in their city-to-city partnerships are gender (22%), housing (16%) and food security (8%). 78% of the partnerships supported by the EU relate to the Global Gateway priority of climate and energy, 47% to digitalisation, 44% to education and research, 33% to transport and health equally. Examples can be found in Table 4.3.

Figure 4.3. Urban development challenges addressed through city-to-city partnerships – Results from the OECD survey

Which of the following challenges has your municipality addressed through city-to-city partnerships in the past 5 years? (Select up to 5 options)



Note: Total number of respondents: 37.
Source: OECD survey - Harnessing city-to-city partnerships to finance urban development.

Table 4.3. Examples of city-to-city partnerships addressing key sustainable urban development challenges

Policy area	Action	Partnerships
Urban planning	Development of an urban agenda that enables strategic planning for municipal action	Inclusive and sustainable development of the Peace Frontier *(Atlantic Axis of the Northwest Peninsular, Municipality of Sant'Ana do Livramento)*
	Shift towards people-centred urban development, moving away from car-centric priorities	Sustainable Mobility, Urban Planning, Equipment, Valuation of Public Space, and Greening and Equity *(National Union of Local Governments Costa Rica, Fomento de San Sebastián, VNG International)*
	Setting up participatory processes for the co-creation of public policies	MAISPEMBA – a city-to-city and multi-stakeholder approach for an integrated, sustainable and inclusive urban development of the city of Pemba *(Reggio Emilia Municipality, Municipality of Milano, IREN Spa, Eduardo Mondlane University, Pemba Town Council, National Council of Architects, Planners, Landscape Architects and Conservationists, MM Spa)*
Waste management	Setup and implementation of waste sorting infrastructure, education and awareness-raising activities on waste prevention and reduction by small grants and awards for schools	Capital Cities Collaborating on Common Challenges in Hazardous Waste Management-Yerevan, Warsaw, Tirana *(Yerevan Municipality, Municipality of Tirana, City of Warsaw)*
Climate and environment	Community-led co-design of urban regeneration projects to establish new green urban areas	GenerACTOR – Community gardens for good governance, active citizenship and participation *(Lazio-ANCI Lazio Regional Association of Municipalities, Resources for Rome, Special, Industrial and Port District of Barranquilla, Replay Network aps, Siembramas)*
Mobility	Re-organisation of the public transport department and legal framework for transportation and creation of a traffic monitoring centre	MOVE IT like Lublin – a Chisinau public transport sustainable development initiative *(City Hall of Chișinău, Municipality of Lublin)*

	Pilot projects to promote the usage of electric motorcycles	Programme on Integrated Local Finances for Sustainable Urban Development in the Greater Kampala Metropolitan Area (PIFUD) *(Kampala Capital City Authority, FMDV – Global Fund for Cities Development)*
Poverty and inequality	Promotion of social inclusion initiatives for vulnerable groups	Inclusive and sustainable development of the Peace Frontier *(Atlantic Axis of the Northwest Peninsular, Municipality of Sant'Ana do Livramento)*
Energy	Upgrade of public lightning to a more energy-efficient system	Edinet – insights into tomorrow cities *(City Hall of Edinet, Alba Iulia Municipality)*
	Provision of photovoltaic panels on public schools to help students access lighting for their studies	PIFUD *(Kampala Capital City Authority, FMDV – Global Fund for Cities Development)*
Digitalisation and innovation	Research partnerships to gain access to data to inform evidence-based decision making, and research and innovative technologies for local problems	Twin-Cities in Sustainable Partnership: Co-creation of an integrated urban governance for the green, sustainable and inclusive development of Sekondi-Takoradi, Ghana *(Sekondi-Takoradi Metropolitan Assembly, Municipality of Palermo)*
	Digitisation of public services for the secure archiving of data	Strengthening administrative and financial skills in the North Kivu Province in the Democratic Republic of Congo *(Municipal Administration of Woluwe-Saint-Pierre, North Kivu Province)*
Education	Capacity-building activities, organisation of expert panels to share best practices and lessons learned across cities	Climate Resilient and Inclusive Cities (CRIC) Project *(UCLG Asia-Pacific, Association of Cities and Regions for Sustainable Resource Management, University of Paris-Est Marne-la-Vallée, Pilot4Dev, Ecolise, All India Institute of Local Self Government)*
Funding	Automation of local revenue collection	PIFUD *(Kampala Capital City Authority, FMDV – Global Fund for Cities Development)*
Private sector development	Establishment of a start-up innovation and incubation hub to provide challenge-based seed funding	FRIENDSHIP - Strengthening EU-Mongolia friendship through equitable, resilient and innovative growth in Darkhan-Uul province *(Darkhan-Uul Province, Network of Associations of Local Authorities of South-East Europe)*

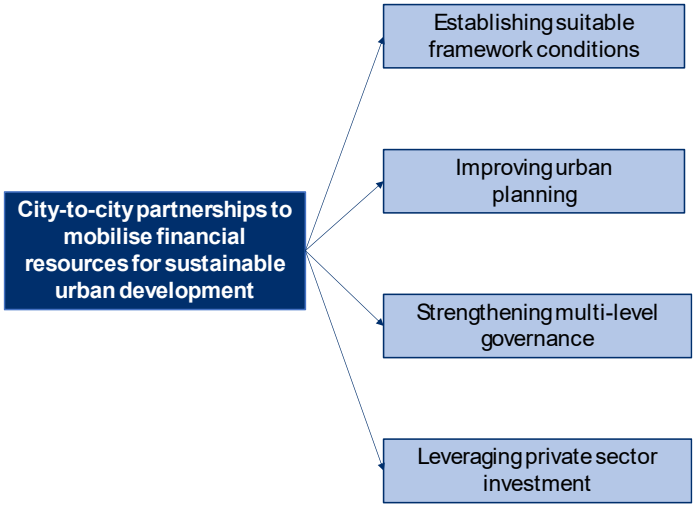
Source: OECD survey - Harnessing city-to-city partnerships to finance urban development.

About one-third of municipalities view their city-to-city partnerships as effective in addressing their urban development challenges. Assessing the effectiveness of city-to-city partnerships is important to most of the municipalities, considering that 55% of them have a dedicated monitoring framework. Overall, only 34% of municipalities reported that their city-to-city partnerships led to substantial improvements in addressing identified urban challenges, which indicates considerable space for improvement. About 37% considered them somewhat effective, although outcomes varied across policy areas. For 16% of municipalities, it is too early to assess the effectiveness, or the results have been mixed, without clear progress or setbacks. Another 11% declared that the partnerships had difficulties to make a meaningful impact on the identified challenges. Lastly, 3% assessed their partnership to be not effective at all.

City-to-city partnerships as enablers

City-to-city partnerships are an important vehicle to strengthen local capacity, knowledge and expertise and thereby enable the mobilisation of financial resources for sustainable urban development. Through their focus on enhancing technical competencies to deliver basic services, sharing new technologies, strengthening subnational financing and planning, promoting local economic development and building capacities in climate and disaster risk reduction, among other areas, city-to-city partnerships can notably help bring in additional public and private financial resources (OECD, 2019[10]) (Figure 4.4).

Figure 4.4. How city-to-city partnerships can help mobilise financial resources for sustainable urban development



City-to-city partnerships can help mobilise public and/or private investment for sustainable urban development in diverse ways. For instance, cities can collaborate on large-scale infrastructure projects, such as green energy initiatives, sustainable public transport systems or waste management solutions by pooling resources, expertise and investments from both the public and private sectors to make such projects more financially viable. Some cities can partner with peers in different countries to access climate finance mechanisms, such as green bonds, climate adaptation funds or development banks that offer low-interest loans for sustainable development projects. PPPs can co-finance renewable energy projects, such as wind farms or solar panel installations on public buildings. Cities can also involve residents and businesses in financing urban projects by using crowdfunding platforms and leverage city-to-city partnerships to access platforms that support these community-driven funding efforts and enhance their capacity to attract finance. Among respondents to the OECD survey, 75% of surveyed municipalities reported that their city-to-city partnerships helped to mobilise public and/or private investment for sustainable urban development. Another 36% reported the mobilisation of both public and private investment through their city-to-city partnerships, 36% public investments only and 3% private investment only. A quarter of municipalities stated that their city-to-city partnership did not help secure additional funding. Some examples of how city-to-city partnerships helped mobilise financial resources for sustainable urban development are provided in Box 4.1.

Box 4.1. City-to-city partnerships to help mobilise financial resources for sustainable urban development

The OECD survey responses indicate that there are several ways through which city-to-city partnerships can be managed to help mobilise public and/or private investments for sustainable urban development:

- Setting up PPPs with local private investors and academia to strengthen the regional economic ecosystem (*Promotion of inclusive, innovative and sustainable integrated urban development of the city of Avellaneda and the region*).
- Mobilisation of 1.2 EUR million of additional public investment by the national government to foster smart city developments in Darkhan Uul as a result of enhanced cooperation across levels

of government through the city-to-city partnership *(FRIENDSHIP - Strengthening EU-Mongolia friendship through equitable, resilient and innovative growth in Darkhan Uul province)*

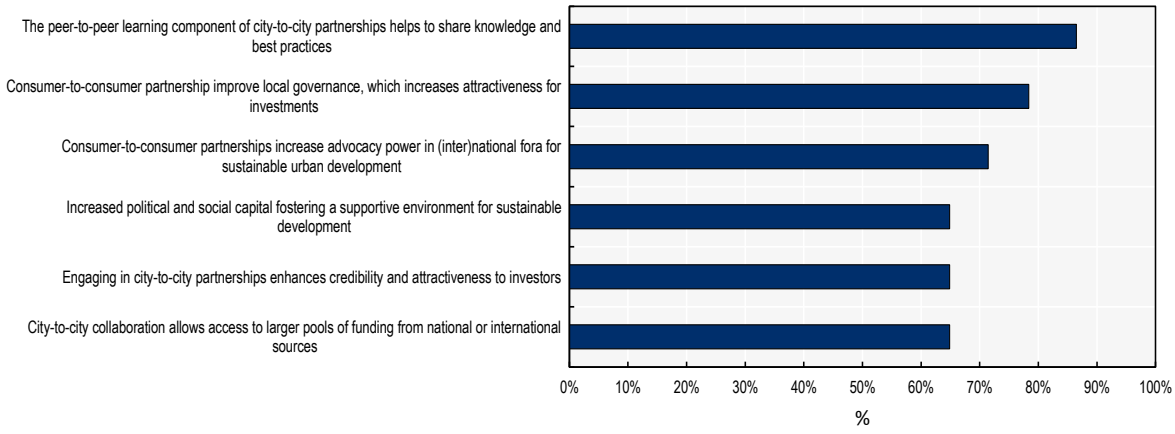
- Urban infrastructure improvements and modernised public services increased city attractiveness, which in turn resulted in the creation of five new businesses in the hospitality sector on the municipality's main street in the year following the intervention (*Edinet - Insights into Tomorrow Cities*).
- Leverage international co-operation funds of EUR 150 000 by the partner region in the Global North in addition to the EC-support and special conditions (favourable payment terms and delayed payments) offered by local construction companies to finance the renovation of fishery ports in a Tunisian municipality alongside in-kind contributions – local fishery entrepreneurs provided their facilities to the municipalities for training purposes (*Research and Education Building Urban Institutions for Local Development, REBUILD*).

Source: OECD survey - Harnessing city-to-city partnerships to finance urban development.

Among the surveyed municipalities, peer-to-peer learning activities have been the most commonly used mechanism for mobilising resources for urban development. Overall, 86% of responding municipalities reported that peer-to-peer learning helped them share knowledge and best practices between cities on financing sustainable urban development. For 78% of municipalities, their city-to-city partnerships helped improved local governance, thereby increasing attractiveness for the mobilisation of public and private financial resources. Seventy-three percent reported that city-to-city partnerships increase visibility, recognition and influence in national and international fora for sustainable urban development. Two-thirds noted an increase in political and social capital fostering a supportive environment for sustainable development projects. The same share of municipalities reported that engaging in city-to-city partnerships enhanced their credibility and attractiveness to investors by pooling expertise and resources. Lastly, 65% noted that city-to-city collaboration allows to access larger pools of funding from national or international sources. That means that more than 60% of all respondents considered all 6 options proposed in the survey as relevant to help mobilise resources (Figure 4.5).

Figure 4.5. How city-to-city partnerships enabled the mobilisation of resources – Results from the OECD survey

Which of the following options helped you mobilise resources for urban development through city-to-city partnerships? (For each option, specify Yes/No)



Note: Total number of respondents: 37. Percentage value indicates the share of respondents selecting "Yes".
Source: OECD survey - Harnessing city-to-city partnerships to finance urban development.

Establishing suitable framework conditions to mobilise financial resources

Although the implementation of DDC activities is generally dependent on the regulatory frameworks of each country, city-to-city partnerships can help improve the necessary local framework conditions to mobilise financial resources for sustainable urban development. First, city-to-city partnerships can increase own-source revenue generation potential. Second, they can improve institutional, data collection and monitoring capacity through peer-to-peer learning, training and knowledge sharing. These monitoring and evaluation systems can in turn help governments to analyse the outcomes of their city-to-city partnerships and derive success factors. Highlighting successes is particularly important to demonstrate the efficient use of financial resources. Moreover, robust data and monitoring and evaluation systems can help generate a track record of effective project implementation, while providing transparency and accountability, which is crucial for mobilising additional financial resources for future urban development projects.

City-to-city partnerships can help improve capacity to generate LRG revenues. City-to-city partnerships focused on enhancing financial capacities can help strengthen tax administration (Scheerens and Van Ongevalle, 2018[107]), improve revenue collection and improve control over expenditure as the example of Kampala shows. The EU-supported programme on integrated local finances for sustainable urban development (PIFUD) implemented by the Kampala Capital City Authority and the Global Fund for Cities Development in collaboration with Johannesburg in South Africa, Paris and Strasbourg, France, is an example of a city-to-city partnership focused on strengthening municipal revenue collection and financial management. Through the creation of an automated revenue administration system, the introduction of an online tax payment system, the update of information and communication technology (ICT) infrastructure and training for municipal staff in ICT skills and revenue administration, the partnership was able to substantially increase taxpayer registrations and more than double revenue collection across Kampala and 3 neighbouring municipalities within 24 months of the partnership's inception. These increased revenues enabled the three municipalities to invest in urban infrastructure, e.g. acquiring road grading equipment to improve local road maintenance.

City-to-city partnerships can also help strengthen the institutional and operational capacities to design and implement public policies and investments. They can for example help enhance financial and project management skills and ensure the effective and efficient use of funds, at large through peer-to-peer learning activities, ideally capitalising on existing projects, which in turn can help improve the outcome of city-to-city partnerships and generate interest in potential follow-up projects. They can also build the development of knowledge in subnational finance through practice and experience sharing (OECD, 2019[10]). Further efforts in this area are needed, since in terms of ODA, only a small portion provided by central governments is allocated to providing upstream capacity and institutional support for subnational governments in developing countries, aimed at improving their access to financing (OECD, 2023[6]).

National and international support programmes can help city-to-city partnerships in developing the institutional capacity to attract and manage investments. One way to build the relevant institutional capacity for cities and regions to be able to successfully manage the financial aspects of their partnerships is through national and international support programmes. Box 4.2 provides concrete examples of national and international efforts to highlight the value of collaboration and dedicated financial support in overcoming the resource constraints that many cities face, enabling them to implement transformative urban development projects. These activities can be complemented by LRG associations in both developed and developing countries, which can support their member cities and regions through dedicated trainings to help share knowledge on financial management across members or short-term assignments to support city-to-city partnerships through dedicated staff, In Germany for example, the Service Agency Communities in One World offers financial support to German municipalities through a dedicated initiative to fund personnel dedicated to coordinating municipal development co-operation activities.

Box 4.2. Initiatives dedicated to help mobilise financial resources for subnational governments

France

In 2023, the French Ministry for Europe and Foreign Affairs launched a call for projects on local finances, designed in collaboration with the UCLG. This project encourages joint efforts by French and foreign local governments with the aim of improving their capacities in managing local finances. The project seeks to support them in accessing new financing opportunities to contribute to and accelerate the implementation of the SDGs, more specifically by: i) providing support for local governments in partner countries to seek public and private co-financing; ii) fostering the mobilisation and diversification of government resources; iii) strengthening management and financial capacities; and iv) assisting local governments in expenditure management. The projects last between 12 to 36 months and involves co-financing from the *Délégation pour l'action extérieure des collectivités territoriales* covering 30% to 70% of the total project cost, depending on the country's eligibility for ODA.

Germany

In Germany, the Connective Cities platform offers financial advisory services to support urban transformation projects in the framework of city-to-city partnerships. Its goal is to facilitate access to funding for responsible officials managing city reform projects, especially in municipalities that lack sufficient own resources and rely on third-party funding. It provides detailed information about potential funding sources for urban transformation projects, by country and region specificities. This includes information on funding priorities, requirements and application procedures. During the project preparation phase, the focus is on supporting project planning and compiling the necessary documents and data.

The Malaga Coalition

At the international scale, the Malaga Coalition, led by Malaga City Council, the UNCDF and UCLG, promotes a network of cities from the Global North and South to exchange municipal finance experiences. The main goal of the coalition is to contribute to a global financial ecosystem that enables local governments to strengthen local revenue systems, while also incorporating safeguards to mitigate the impact of sovereign credit rating risks. It builds on a policy agenda centred around five key elements: i) intergovernmental fiscal transfers, ii) own source revenue, iii) domestic capital markets for long-term debt financing, iv) city friendly equity finance, and v) a guarantee fund for cities.

Sources: PLATFORMA (2023[108]), "First call for projects in support of decentralised cooperation in the field of local finances", https://platforma-dev.eu/france-first-call-for-projects-in-support-of-decentralised-cooperation-in-the-field-of-local-finances/ (accessed on 28 June 2024); UCLG (2023[109]), *Unlocking Local Finance for Global Impact: Highlights from the 3rd Conference of the Malaga Coalition*, https://uclg.org/new/unlocking-local-finance-for-global-impact-highlights-from-the-3rd-conference-of-the-malaga-coalition/ (accessed on 27 June 2024); UCLG (2023[110]), *First Call for Projects for Decentralized Cooperation in the Field of Local Finances*, https://uclg.org/new/first-call-for-projects-for-decentralized-cooperation-in-the-field-of-local-finances/ (accessed on 1 July 2024); Connective Cities (2024[111]), *Financial Advisory Service*, https://www.connective-cities.net/en/services/financial-advisory-service (accessed on 27 June 2024).

Improving urban planning through city-to-city partnerships

City-to-city partnerships can help improve urban planning through skills transfers and capacity building. Peer-to-peer learning activities, e.g. through short-term secondments and study visits, including in South-South and triangular partnerships, can enhance local governance and service delivery, which in turn increases trust in local governments. More generally, engaging in city-to-city partnerships can demonstrate a city's commitment to international collaboration and good governance, thereby becoming more attractive

for international financing opportunities such as grants and loans. Peer-to-peer exchange in city-to-city partnerships can include leveraging advanced technologies and tools, such as GIS mapping for zoning, real-time data for urban mobility or climate risk modelling, to improve the master plan's implementation and ideally fostering an integrated urban development approach. In a partnership between five Catalan institutions, including the city of Barcelona, and Lebanese municipalities for example, capacity-building tools on solid waste management helped local governments in Lebanon enhance medium-term planning and develop cost-effective, innovative solutions by aligning waste management with humanitarian efforts and integrating it into national infrastructure and programmes (OECD, 2023[6]). Likewise, the International City/County Management Association (ICMA) CityLinks project in the United States supported municipalities in the Dominican Republic through training and knowledge exchange and improved their urban resilience and reduced climate risks through improved land-use planning capacity (ICMA, 2018[112]). Engaging municipal companies and their expertise in city-to-city partnerships can be a valuable resource to help foster knowledge exchange and expertise development as the case of Germany shows (Box 4.3).

Box 4.3. Engaging municipal companies in city-to-city partnerships to foster knowledge exchange – The case of Germany

In Germany, the Federal Ministry for Economic Cooperation and Development (BMZ) promotes collaborative partnerships between German municipal enterprises and those in the Global South. To do so, the BMZ together with several co-operation partners has launched the pilot project Utility Platform for Strengthening Partnerships of Municipal Enterprises Worldwide. It brings together municipal water operators from Germany, Jordan, South Africa, the United Republic of Tanzania, Ukraine and Zambia in pilot partnerships aimed at enhancing sustainable water supply and wastewater management.

The partnerships focus on addressing shared challenges through peer-to-peer knowledge exchange at both the technical and managerial levels, encompassing topics like infrastructure maintenance, energy efficiency, financial management and pandemic response strategies. By doing so, the project aims to establish long-term structures to support future partnerships between municipalities and municipal enterprises worldwide. Potential benefits include: i) knowledge and experience exchange, e.g. benefitting from insights gained in other regions, such as dealing with extreme weather events or operating infrastructure under challenging climatic conditions, ii) enhanced employer attractiveness; iii) skills development; and iv) improved reputation.

Sources: GIZ (2024[113]), *Background and Objectives*, https://www.utility-platform.de/en/about-us/background-and-objectives (accessed on 1 July 2024); GIZ (2024[114]), *Our Offer for Utilities*, https://www.utility-platform.de/en/our-offer (accessed on 1 July 2024).

Strengthening multi-level governance

Leveraging conducive national legal frameworks for city-to-city partnerships can foster investments in sustainable urban development. An OECD analysis on DDC in Germany highlighted that short-term one-year funding arrangements are a major obstacle for the medium- and long-term sustainability of DDC programmes (OECD, 2023[102]). Setting up legal frameworks that allow for multi-annual funding arrangements could therefore provide an opportunity to ensure that partnerships are maintained over a longer period, thereby making them more attractive for additional investments. In France for example, the Oudin-Santini Law from 2005 allows municipalities, public institutions of inter-municipal co-operation as well as *syndicats mixtes* (i.e. joint associations) responsible for drinking water and sanitation service delivery to voluntarily allocate up to 1% of their financial resources to co-operative actions with foreign local authorities. These actions may include investments in infrastructure, capacity building, technical assistance or the protection of water ecosystem services (OECD, 2023[6]).

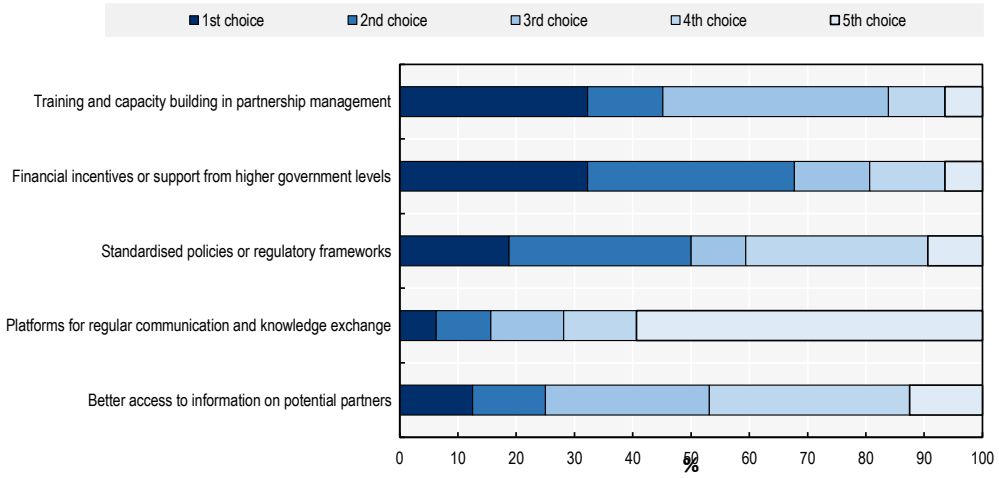
Impactful city-to-city partnerships can, in turn, help strengthen multi-level governance. As reported above, more than 70% of surveyed municipalities noted an increase in recognition and influence in national and international fora for sustainable urban development as a result of their partnership(s). Showcasing the tangible benefits of city-to-city partnerships can establish evidence-based dialogues with other levels of government and strengthen financial support schemes for DDC, aligning local development cooperation activities with national bilateral co-operation priorities and fostering potential synergies and economies of scale. An example is Germany, where the federal government provides co-financing schemes for the federal states through the German Government and Federal States Programme (*Bund-Länder-Programm*), which contributes a maximum of 60% of financial resources, and federal states in the field of development co-operation (GIZ, 2024[115]). At the municipal level, the Service Agency Communities in One World provides up to 90% of co-financing for municipal DDC implementation projects (OECD, 2023[102]). Furthermore, political leadership at the local level and the commitment of a mayor or city council to DDC activities can help mobilise municipalities' own-funding or in-kind contributions, particularly when the development impact of previous activities is visible (UCLG/PLATFORMA, 2021[116]).

The pooling of resources and expertise can help finance sustainable urban development through larger DDC projects. One way to foster horizontal co-ordination in DDC is by pooling financial contributions from various subnational governments into joint funds spanning multiple jurisdictions for projects having indirect impacts on neighbouring municipalities. Pooling can generate larger resource pools, enabling bigger projects beyond the capacities of individual municipalities. In Spain, for example, LRGs in Catalunya have established a joint fund, the *Fons Català*, which pools financial contributions from both smaller and larger subnational government to facilitate DDC by administering and managing funds as well as identifying and financing projects (VNG International/PLATFORMA, 2019[117]). Furthermore, pooling can facilitate larger-scale partnerships and increase the visibility of DDC. Creating DDC portfolios that are financially significant can also make them more attractive to private and institutional investors. This enhanced visibility and scale can in turn attract external funding for sustainable urban development projects from donors such as development banks or private sector partners. Beyond financial resources, pooling staff can facilitate the sharing of technical expertise and improve access to specialised knowledge.

Training and capacity building in partnership management are effective national support for leveraging city-to-city partnerships to attract investment for urban development. Thirty-two percent of municipalities responding to the OECD survey ranked training and capacity building in partnership management as the most valuable support mechanism, equal to financial incentives or support from subnational or national governments (32%) (Figure 4.6). Standardised policies or regulatory frameworks follow as the third-most selected option (19%). Additionally, respondents frequently identified financial incentives and standardised policies as their second choice, with 35% favouring standardised policies and 31% favouring financial incentives, underscoring their importance.

Figure 4.6. Support mechanisms from the national government that can help leverage city-to-city partnerships to attract investment for sustainable urban development – Findings from the OECD survey

What support mechanisms from the national government could enhance your municipality's ability to leverage city-to-city partnerships for attracting public and private investments for sustainable urban development? (Rank from top (could help the most) to bottom (could help the least))



Note: Total number of respondents: 32.
Source: OECD survey - Harnessing city-to-city partnerships to finance urban development.

Another way through which city-to-city partnerships can help mobilise financial resources is crowdfunding. Although not being frequently used by most of the city-to-city partnerships responding to the OECD survey, crowdfunding provides the opportunity to draw funds from various sources, including philanthropy into community-scale projects that are common to DDC projects, e.g. solar parks (C40 Knowledge Hub, 2024[118]). The city of Bruges for example established an innovative financing mechanism in 2021, through which residents who celebrate a marriage, legal cohabitation or 100th anniversary, for which they receive a gift from the city, can donate this gift to a drinking water project in its partner municipality Ebolowa, These contributions have financed the realisation of a solar-powered water point in Ebolowa (OECD, 2023[6]). While broadening the pool of potential financing sources, setting up crowdfunding platforms as part of city-to-city partnerships can secure greater local support and ownership, which is a success factor for the long-term sustainability of these projects. Furthermore, engaging the local stakeholders, including residents, civil society organisations, academia and the private sector, in the design and implementation of city-to-city partnerships can enhance their impact (OECD, 2018[7]). For example, in the EU-supported project Twin Cities in Sustainable Partnership between Sekondi-Takoradi, Ghana, and Palermo, Italy, the collaboration with local civil society organisation and media outlets helped leverage additional knowledge, expertise and perspectives to design awareness campaigns on youth and gender issues, while the collaboration with local universities provided access to data to inform evidence-based policies to address local urban development challenges.

Mobilising private resources through city-to-city partnerships

The private sector has emerged as a relevant actor in development cooperation. Following an upward trend over the years, close to USD 300 billion were mobilised from the private sector by official development finance interventions between 2012 and 2020, mostly through direct investment in companies, special purpose vehicles and guarantees (OECD, 2023[90]). Generally, there are different types

of private sector actors that can contribute to and be involved in development co-operation activities and do so in different ways. These encompass SMEs and larger companies from the Global North and the Global South, as well as commercial finance, including institutional investors, banks and other financial institutions.

The main types of private sector engagement in development co-operation activities include knowledge and information sharing (e.g. through multi-stakeholder networks), the engagement in policy dialogues, technical assistance (e.g. through the support of project design), capacity development and finance. The latter can include leveraging or raising private sector finance and investment promotion, harnessing expertise and market-based solutions to development challenges through private sector instruments including grants, debt instruments, equity and shares in collective investment vehicles, guarantees and other unfunded liabilities (OECD, 2016[119]). Knowledge and information sharing and policy dialogues can involve SMEs and larger companies from both developed and developing countries, whereas technical assistance and capacity development are activities usually undertaken by companies from the developed country. While local SMEs in developing countries often have greater knowledge of local development challenges, they also typically face larger financing gaps and need more government support than bigger firms. In contrast, multinational and large domestic companies usually have more capacity and can more easily meet the requirements of DDC projects such as city-to-city partnerships (OECD, 2016[119]). The instruments mentioned under the finance category are typically used by development finance institutions and bilateral and multilateral development banks. Furthermore, one important type of private sector engagement involves institutional capital within the developing country itself, such as local pension funds and investors, which can be leveraged for development co-operation activities. A recent example from Tanzania shows how domestic capital markets and domestic bonds can help mobilise financial resources for urban development. In the municipality of Tanga, the Urban Water Supply and Sanitation Authority issued a domestic water infrastructure green revenue bond on the national capital market to finance upgrades in the water supply and sanitation infrastructure, avoiding reliance on foreign borrowing (UNCDF, 2024[120]).

For companies from the Global North, the involvement in city-to-city partnerships can provide access to diverse talent pools and strengthened intercultural knowledge as well as new business opportunities. For example in Germany, the state of Bavaria leverages its DDC activities not only to create a network with private sector actors on the African continent and promote economic growth, but also to support Bavarian companies abroad (OECD, 2023[102]). In Switzerland, Geberit supports a project implemented by the Swiss Agency for Development and Cooperation to improve vocational training for plumbers in Ukraine with the objective to boost young people's job prospects and income while facilitating better access to skilled workers for the company (OECD, 2024[121]). Since city-to-city partnerships often start with small scale projects, they can serve as a testing ground for private companies from the Global North to pilot new technologies before scaling them up. Cities can benefit from the involvement of these companies in city-to-city partnerships. Potential benefits include enhancing local government's capacity for a better business environment, promoting awareness for sustainable development and creating connections for commercial exchange. Notably, city-to-city partnerships can help enhance local governments' capacities by improving the business environment, fostering the growth of micro, small, and medium-sized enterprises in the partner country and attracting and managing investments and creating employment (Fernández de Losada Passols and Calvete Moreno, 2018[122]). The EU-supported partnership between Alba Iulia in Romania and Edinet in Moldova, for example, led to the creation of new businesses as a result of targeted urban revitalisation and infrastructure projects in the municipality of Edinet (Box 4.4). Chambers of commerce and professional associations in both developed and developing countries play a crucial role in supporting local production systems and commercial exchanges, particularly for SMEs. They can bring extensive networks, international knowledge and co-operation programmes. In recent years, these entities have collaborated with LRGs in developed countries to enhance capacities in developing countries, benefitting

both their counterparts and the LRGs by creating supportive environments and new development opportunities for the private sector (Fernández de Losada Passols and Calvete Moreno, 2018[122]).

Box 4.4. Improving urban planning and mobilising investments through partnerships: The case of the Edinet – Insights into Tomorrow Cities project

The Edinet – Insights into Tomorrow Cities city-to-city partnership between Alba Iulia in Romania and Edinet in Moldova supported by the European Commission combined different urban development interventions. These included the development of a digital urban plan, including a smart mobility plan, introducing a new smart public transport system, alongside five neighbourhood pilot projects to enhance urban infrastructure and public spaces and revitalise green spaces using modern equipment to manage city parks and recreational areas. Local companies from the private sector contributed to the partnership by providing smart city solutions tailored to the specific small-town context of Edinet.

Over EUR 3 million initially invested in public infrastructure within 2 years were complemented by additional local investments exceeding EUR 1 million in infrastructure connected to the project's interventions, while building the capacity of 9 local experts to manage public funds and implement infrastructure projects. The city-to-city partnership also attracted private sector investments, leading to the establishment of businesses in the hospitality sector, including five new cafés and shops that opened on the main street as a direct result of the partnership's intervention. In addition, enhanced trust in Edinet's local administration as a result of the partnership's impact attracted national and international follow-up funding, including EUR 6 million for a wastewater treatment plant and EUR 2 million for a regional multi-functional sports centre.

Source: Presentation given during the 1st OECD workshop about the role of city-to-city partnerships in mobilising public and private investments for sustainable urban development on 20 September 2024.

City-to-city partnerships can work together with the private sector to mobilise additional financial resources for their activities. In particular, including private sector actors like SMEs in city-to-city partnerships has the potential to foster the development of various mechanisms such as knowledge transfer and innovation and training programmes for local government staff, entrepreneurs and professionals. It can also provide the necessary capital and talent to bridge gaps in finance and technical capacities needed to achieve the SDGs at the local level. In particular, if companies from the partner in the developed country see a tangible benefit in contributing to a city-to-city partnership, they may be able to leverage their own financial resources and contribute to the project budget of the city-to-city partnership (UCLG/PLATFORMA, 2021[116]). In addition to providing a source of financial resources, companies from both the Global North and the Global South can also bring in knowledge and innovative technological solutions that government officials alone cannot provide. For instance, working together with local companies can help advance smart city solutions, leverage digital know-how to strengthen public services, and expertise across various policy areas as well as cross-sectoral know-how for example through dedicated capacity-building programmes.

Some city-to-city partnerships can strengthen the capacity of municipalities to collaborate with the private sector. Many LRGs in developing countries lack the capacity to establish effective PPPs with large corporations, infrastructure developers and financial institutions. City-to-city partnerships can act as enablers for experienced local governments and companies from municipalities in the developed country to share financial, legal and technical expertise to negotiate, implement, monitor and enforce PPPs effectively, while also fostering an enabling environment for such partnerships (CPMR/PLATFORMA, 2017[123]). Partnerships can help local governments exchange knowledge and experiences in the following areas of PPPs (Fernández de Losada Passols and Calvete Moreno, 2018[122]):

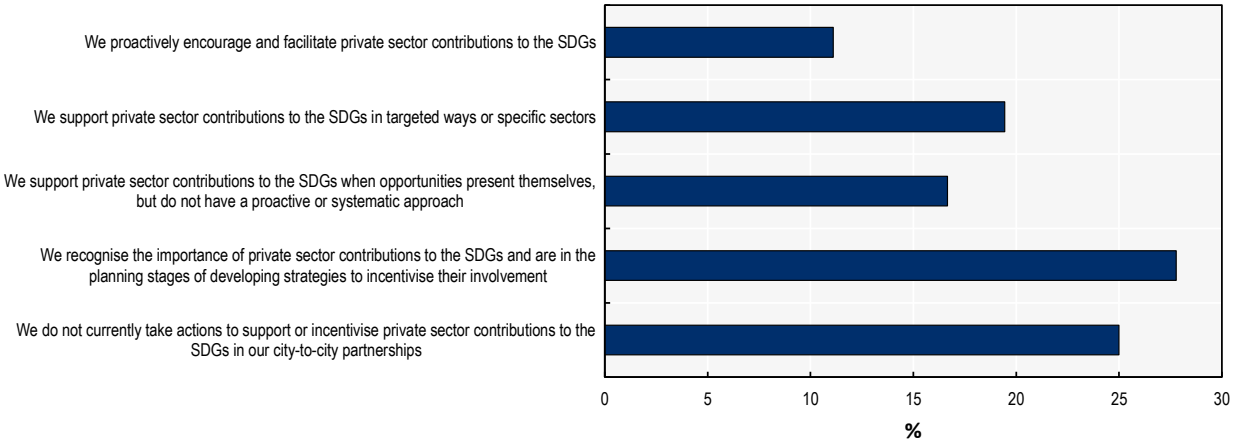
- legal and regulatory frameworks (e.g. PPP regulation, fair bidding, dispute resolution)

- institutional frameworks (e.g. contract quality, expropriation risk)
- operational maturity (e.g. planning and oversight of PPPs and sector-specific concessions)
- investment climate (e.g. business environment, political will)
- financial facilities (e.g. private financing, government support, affordability for low-income users).

Only one in nine partnerships surveyed by the OECD proactively facilitates the involvement of the private sector in its activities. There are different ways through which municipalities can support private sector contribution to sustainable development in their city-to-city partnerships. Among those responding to the OECD survey, however, only 11% reported proactively encouraging and facilitating private sector contributions to the SDGs (Figure 4.7). About one in five partnerships takes a targeted approach to private sector contributions to the SDGs through their city-to-city partnership by focusing their incentives and activities on those areas where they are the most effective. Another 17% support private sector contributions to the SDGs when opportunities present themselves, but do not have a proactive or systematic approach. The most common response (28%), however, was that municipalities were still in the planning phase of developing strategies to encourage private sector contributions. Furthermore, an additional 25% of responding municipalities reported currently not taking any actions to support or stimulate the contribution of the private sector to the SDGs in their city-to-city partnership.

Figure 4.7. Support for private sector contributions to sustainable urban development in city-to-city partnerships – Results from the OECD survey

How do you support private sector contribution to sustainable urban development in your city-to-city partnerships? (Please select one response)



Note: Total number of respondents: 36.
Source: OECD survey - Harnessing city-to-city partnerships to finance urban development.

Although not common, there are examples of partnerships that leverage private sector knowledge and financial resources. For example, the collaboration between the cities of Bruges in Belgium and Ebolowa in Cameroon is centred around cacao, based on Bruges' heritage as a chocolate-producing city and Ebolowa's activities in cacao production. The Bruges Guild of Chocolatiers supports the city-to-city partnerships through the establishment of an urban cocoa processing hub in Ebolowa. Upon completion in 2025, the hub will produce chocolate and other cocoa-derived products for regional markets, thereby providing employment opportunities and fostering local economic development in Ebolowa.

Mainstreaming a place-based lens in the EU Global Gateway strategy's investment priorities

Urban development and financing challenges are context-specific and effective solutions require a place-based approach. The multitude of urban development challenges confronting the various macro regions of the world, notably climate change, housing supply, affordability and quality, inequality, mobility and the provision and upkeep of urban infrastructure, presents very strong place-specific differences. Similarly, local financing obstacles like unfunded mandates due to inadequate fiscal decentralisation, restricted access to borrowing, project bankability and bureaucratic hurdles, vary consistently within and across countries. As highlighted above, LRGs account for 58% of public investments in OECD countries and 40% globally, including in key areas such as economic affairs, housing and climate protection (OECD, 2023[83]). Effective solutions therefore require a place-based approach that considers the context-specific challenges and opportunities to finance urban development.

Mainstreaming a place-based lens in the EU Global Gateway strategy can help better reflect context-specific challenges. The Global Gateway aims to establish comprehensive partnerships that extend beyond physical connectivity, focusing on creating a supportive environment for sustainable development investments. While investment planning and decision-making processes are often centralised at the national and EU level, urban development projects are implemented within the jurisdictions of subnational governments. The effectiveness and impact of these investments therefore depend significantly on the presence of a supportive local environment and the active participation of territorial actors, including local governments, private sector entities and civil society organisations in their design and implementation (OECD, 2023[83]; Bossuyt and Sabourin, 2024[124]). A systematic place-based lens could help better target the investments to the specific needs and context of different territories for greater impact, which aligns with the objective of Global Gateway investments to benefit local communities (EC, 2021[62]). It could also help strengthen multi-level governance frameworks to improve access to financing tools and address bureaucratic hurdles.

The challenges underlying the five key investment areas of the EU Global Gateway, namely digitalisation, climate and energy, transport, health, and education and research, have a strong place-based dimension. Digitalisation is transforming how people live, work and travel. This shift accelerated during the pandemic, significantly altering lifestyles, but the effects of technological change differ across regions with broadband download speeds being on average 25% faster in cities than in rural areas located in the same country (OECD, 2024[14]; 2024[22]). For example, in terms of climate and energy, cities account for nearly two-thirds of global energy demand and 70% of greenhouse gas emissions (OECD, 2024[13]). Closely linked to this is the issue of transport, as urban planning strategies, land-use policies and urban infrastructure – including road networks, cycling and pedestrian pathways and public transit systems – shape mobility patterns and transport choices in cities. Globally, road transport accounted for about 30% of global CO_2 emissions from end users in 2021 (IEA, 2023[24]) and up to 35% in Latin America, which is marked by an increasing car dependency due to inadequate mass transit systems (IEA, 2023[48]). Furthermore, health outcomes also have a strong territorial dimension, as illustrated by the COVID-19 pandemic, which revealed substantial regional disparities within countries. For example, in Italy, mortality rates during the first months of the pandemic reached 5.5 deaths per 100 000 inhabitants in Calabria against 171 per 100 000 inhabitants in Lombardy (OECD, 2020[125]). Similarly, territorial disparities in education and research will affect local economic development and local labour markets. Education and research account for 20.2% of subnational government spending, globally representing the second-largest type of subnational government expenditure (OECD, 2023[71]).

Other key global urban development challenges beyond the five Global Gateways key investment priorities, such as inequality and housing, also have a place-based dimension. In OECD countries, per capita GDP in metropolitan regions exceeds that of other regions by more than 30%. However, metropolitan regions are confronted with challenges such as housing affordability, notably in large cities,

where housing prices increased by close to 70% over the past decade (OECD, 2024[22]). At the same time, a quarter of the urban population globally and up to 50% in African countries lived in slums of informal settlements as of 2022, underscoring the necessity of targeted responses tailored to specific local contexts. To deliver on its objective to "deliver benefits and protections for […] partners, empower local communities and tackle today's most pressing global challenges" (EC, 2021[62]), the Global Gateway strategy therefore needs to take into consideration the heterogeneity of local realities and needs.

Likewise, many local finance challenges and instruments depend on territorial contexts. As highlighted in Chapter 3, challenges such as unfunded mandates and borrowing capacity vary across countries, while the latter also depends on regions and cities' creditworthiness. Furthermore, implementing innovative funding and financing tools requires significant capacity from subnational governments such as regulatory compliance, securing external funding, managing procurement and designing projects, which poses challenges especially for smaller municipalities lacking sufficient expertise and resources. These funding and financing challenges need to be addressed through locally tailored interventions, e.g. through fostering suitable framework conditions or leveraging urban planning tools like master plans, zoning regulations and development guidelines to attract private investment by aligning projects with market standards and investor requirements or using levies, fees and charges – such as development charges, building rights fees and biodiversity offsetting – to generate upfront capital for infrastructure investments. Supporting investments for sustainable urban development, including through the Global Gateway, will therefore need to take these local specificities into account.

So far, local and regional considerations have had little profile in policy documents related to the Global Gateway as well as the implementation of projects. While LRGs are recognised as essential stakeholders in the Neighbourhood, Development and International Cooperation Instrument, the European Union's primary funding mechanism for external action, a recent evaluation of the EU's external financing instruments indicated that a dedicated budget line for local governments has been discontinued (EC, 2024[67]). Global Gateway projects are developed and implemented by the European Union and its member states with their diplomatic networks, implementing agencies, development finance institutions, export credit agencies, the European Investment Bank, the European Bank for Reconstruction and Development and private sector actors (EC, 2024[126]). The 2021 European Commission High Representative of the Union for Foreign Affairs and Security Policy Joint Communication on Global Gateway points out that the design, development and implementation of Global Gateway projects are undertaken in close co-operation and consultation with partner countries, while "infrastructure projects will be based on the needs and opportunities that they identify for their local economies and local communities" (EC, 2021[62]), albeit without specifying the role that local governments play in this process. During the Cities and Regions for International Partnerships 2023 Forum, the European Commission and the European Committee of the Regions highlighted the importance of territorialising the Global Gateway. Several recommendations from participants emerged during the forum, such as supporting LRGs in designing and implementing large-scale projects in a more effective and innovative way (EC/CoR, 2023[69]).

In this respect, the Global Gateway Civil Society and Local Authorities Advisory Platform could help strengthen the role of subnational governments in the implementation of investment projects. Established in 2023, two years after the initiation of the Global Gateway strategy, the advisory platform aims to engage LRGs among other actors in providing their views and recommendations on the implementation of the strategy (EC, 2023[64]). Its terms of reference do not define a specific role for local governments in the actual implementation of Global Gateway projects. However, some of these projects recently involved local governments. For example, as part of the Green Deal for Ecuador Global Gateway project, the EFSD+ FAST-Cities financial guarantee in Latin America and the Caribbean provides EUR 25 million through the French Development Agency to support integrated management of solid waste and green areas of the city of Cuenca, Ecuador, in collaboration with the city government (Delegation of the European Union to Ecuador, 2024[127]). Key barriers to subnational governments' involvement include sectoral (rather than place-based) investment planning, ineffective or incomplete decentralisation processes and limited

financial management skills and capacity to develop bankable investment projects at the local level (Bossuyt and Sabourin, 2024[124]).

City-to-city partnerships can be a mechanism to target Global Gateway investments to the different local needs in partner countries. City-to-city partnerships can help implement a place-based approach to the Global Gateway through capacity-building, peer-to-peer learning and knowledge exchange for the implementation of the different investment priorities of the Global Gateway (e.g. in projects on the digitalisation of the public sector, renewable energy projects, sustainable mobility infrastructure), taking into account local needs and capacities. For example, through their engagement in city-to-city partnerships, LRGs from the EU can bring in the necessary expertise to support specific Global Gateway investments in partner countries in collaboration with local partners on the ground. Beyond providing thematic expertise in climate and energy, mobility and health, among others, city-to-city partnerships have the potential to act as enablers for improved financial capacities in partner LRGs as the examples of the different EU-supported partnerships above has shown. This can help them prepare bankable investment proposals, increase investor confidence, improve regulatory frameworks in partner countries, and address other barriers to engagement in Global Gateway investment projects. The next chapter will provide suggestions on how the Global Gateway strategy can better integrate and mainstream the place-based dimension into its key investment priorities and leverage the potential of city-to-city partnerships.

5 Ways forward

Moving forward, local, regional and national governments can improve the capacity of city-to-city partnerships to harness public and private financial resources for sustainable urban development. Possible actions range from strengthening suitable framework conditions such as institutional capacity to mobilise financial resources and improving urban planning to fostering conducive legal and financial support frameworks for city-to-city partnerships. Cities could also invest in monitoring and evaluation frameworks to showcase the positive impact of their partnerships to become more attractive for future investments and facilitate the involvement of private sector actors in city-to-city partnerships to leverage their expertise and resources.

Moving forward, there are several ways through which governments across all levels can foster the ability of city-to-city partnerships to unlock public and private financial resources for sustainable urban development. Based on the analysis presented in the previous chapters, this part of the paper outlines policy recommendations to help local, regional and national governments, donors and cooperation agencies support city-to-city partnerships in generating financial flows to strengthen sustainable urban development. These recommendations are based on three pillars: i) policies, strategies and programmes; ii) multi-level governance and financing; and iii) data, monitoring and evaluation.

Policies, strategies and programmes

- **Strengthen framework conditions to mobilise financial resources for sustainable urban development through city-to-city partnerships:**
  - *Foster institutional capacity at the local level to mobilise financial resources*: Enabling the mobilisation of financial resources requires sufficient institutional capacity. Subnational governments must be empowered to hire and manage staff and systematically build internal capabilities through training, including on how to develop attractive investment proposals. Enhancing financial capacity of subnational governments involves improving control over expenditure and leveraging savings within existing budgets. The OECD Council Recommendation on Effective Public Investment Across Levels of Government suggests developing "a strong fiscal framework adapted to the different investment policy objectives pursued" (OECD, 2014[73]) to enhance the creditworthiness of subnational governments, addressing one of the key challenges that municipalities face in accessing capital markets. To build this capacity, local governments could enhance institutional capacity to mobilise financial resources by establishing city-to-city partnerships dedicated to financial capacity building. This includes improving tax administration, revenue collection and expenditure management, as showcased by the EU-supported programme on integrated local finances for sustainable urban development in Kampala, Uganda, while aligning projects with investor expectations to attract co-financing opportunities and develop new revenue streams. LRG associations in both developed and developing countries could further enhance those skills through dedicated trainings to help share knowledge on financial management across members or finance short-term assignments to support city-to-city partnerships through dedicated staff.
  - *Strengthen urban planning*: Local governments should leverage city-to-city partnerships further to strengthen urban planning through peer-to-peer exchanges on technologies and tools, such as GIS mapping for zoning, real-time urban-mobility data and climate-risk modelling, thereby improving governance, service delivery and trust in local governments. Local experts from municipal companies could be engaged in this peer-to-peer exchange to share their knowledge in a range of relevant urban policy areas such as waste management, circular economy, water, energy and mobility as practiced for example by the German Utility Platform for Strengthening Partnerships of Municipal Enterprises. Strengthening local governance and improving service delivery through these exchange activities could enhance their appeal for international financing opportunities like grants and loans and help generate upfront capital through levies, fees and charges. For example, zoning regulations can specify land use and enable cities to charge developers for permits and infrastructure contributions (such as impact fees or development charges) when new projects are approved. Master plans can guide urban growth and development, generating capital through land sales or leasing, particularly in areas designated for commercial or residential use. Development guidelines can help ensure that private sector investments align with the city's vision to generate upfront revenues while improving long-term urban infrastructure.

- **Mainstream a place-based dimension of the EU Global Gateway's key investment priorities:** The EU Global Gateway's five priority areas – i) digitalisation; ii) climate and energy; iii) transport; iv) health; and v) education and research – manifest differently across regions, reflecting diverse needs and challenges. A more systemic appraisal of these territorial differences should be integrated upstream in investment planning to ensure projects align with local priorities and maximise their long-term impact and sustainability, for example in terms of economic development, poverty reduction or digital transformation. The Global Gateway Civil Society and Local Authorities Advisory Platform could play a stronger role in facilitating this process by engaging LRGs to identify place-specific opportunities and constraints. In particular, the platform could be further leveraged to support the design of Global Gateway projects that incorporate knowledge exchange and capacity building activities based on the different territorial needs in EU partner countries (e.g. infrastructure management and maintenance, climate resilience, digitalisation of the tax and revenue collection system), and ensure that investment strategies are both responsible and effective.
- **Strengthen the connection between city-to-city partnerships and the roll out of the EU Global Gateway strategy.** In particular:
  - Analyse the extent to which existing and future Global Gateway investment projects entail a place-based dimension and could benefit from the involvement and contribution of EU LRGs and their city-to-city partnerships. This could relate to harnessing relevant LRG expertise needed for specific Global Gateway projects, for example specialised knowledge and skills in areas related to the five key investment priorities such as health or infrastructure management and maintenance for sustainable mobility. Global Gateway investments should leverage the enabling capacities that LRGs can offer through knowledge exchange and peer-to-peer learning, in particular in terms of improving regulatory frameworks at the local level, strengthening the financial management skills and developing bankable investment proposals.
  - Prior to engaging new investment projects as part of the Global Gateway, a mapping of existing DDC projects, including city-to-city partnerships, in the relevant partner countries could help leverage existing local expertise, institutions and capital, and co-ordinate and maximise Global Gateway activities to leverage such projects and complement them while avoiding the duplication of activities.

Multi-level governance, engagement and financing

- **Foster legal and financial frameworks that support city-to-city partnerships:** To increase their impact, city-to-city partnerships require vertical co-ordination to strengthen the efficiency, effectiveness and complementarity of development co-operation. This should be supported by legal frameworks that specify the competencies for subnational governments to carry out external actions and promote their engagement in development co-operation activities such as the French Oudin-Santini Law, which allows municipalities, to voluntarily allocate up to 1% of their financial resources to co-operative actions with foreign local authorities in the area of water and sanitation. In particular, national governments should strengthen legal frameworks to support city-to-city partnerships and integrate them into financial mechanisms, such as co-financing schemes managed by development co-operation agencies, to increase transparency and accountability. In addition, national governments could establish seed funding programmes to incentivise the initiation and scaling up of partnerships and align development priorities across different levels of government. This could be complemented by an online portal, in which local governments from OECD member countries and the Global South can express their interest in city-to-city partnerships, including by pointing out the policy areas and their capacities (e.g. the types of technical co-operation), in which they can offer expertise or seek collaboration and to identify

potential partnerships based on common priorities and interest. This alignment could help achieve intended benefits and identify shared investment opportunities, manage responsibilities, minimise contradictory investments and pool funds.

- **Support city-to-city partnerships through technical assistance mechanisms to design and prepare pooled projects:** Since many urban development challenges such as mobility, climate change adaptation or water extend beyond the boundaries of individual jurisdictions, local governments should pool financial contributions from multiple subnational governments into joint funds for DDC activities to generate larger resource pools as for example practiced by the Fons Català in Spain. This can enable the implementation of city-to-city partnerships that surpass the financial and operational capacities of individual municipalities. Effective co-ordination can promote efficiency by harnessing economies of scale and enhancing policy synergies. It can be facilitated through financial and non-financial incentives and agreements, such as inter-municipal co-operation arrangements. Combining resources and establishing shared governance structures can enable local governments to generate economies of scale and address common obstacles, such as high transaction costs and regulatory uncertainty, which frequently deter institutional investors. Increasing the scale and coherence of city-to-city partnerships through the pooling of financial resources can enhance the bankability of projects, making them more attractive to commercial finance and private companies interested in contributing. To facilitate the design and preparation of pooled projects, national governments, multilateral organisations or associations of subnational governments could establish technical assistance mechanisms to provide a wide range of support mechanisms such as capacity building on joint fund management or the establishment of co-operation frameworks.
- **Encourage the involvement of different private sector actors in city-to-city partnerships:** SMEs can support city-to-city partnerships through knowledge sharing and pilot-testing technologies, while commercial investors and financial institutions can provide co-financing through blended finance, PPPs and impact investments. Local, regional and national governments should therefore tap into this potential and facilitate private sector engagement through collaborations with chambers of commerce, match-making events for local businesses, alongside the potential provision of tax incentives for contributions from SMEs and larger private sector companies. Furthermore, city-to-city partnerships could develop PPP frameworks together with private service providers, infrastructure developers and financial institutions. and explore the use of blended finance vehicles (e.g. guarantees) to incentivise institutional investors to direct financial flows to development co-operation activities. The Kampala Principles for Effective Private Sector Engagement in Development Co-operation[9], which provide guidance for effective private sector engagement in development co-operation, can serve as a framework for subnational governments to develop partnerships with the private sector. In addition, the OECD DAC Blended Finance Principles[10] can help align city-to-city partnerships with local development priorities and foster a supportive environment for responsible borrowing. LRGs should also highlight the benefits for the different private sector actors such as new business opportunities, financial returns, access to diverse talent pools and strengthened intercultural knowledge, to encourage their participation in city-to-city initiatives.

Data, monitoring and evaluation

- **Invest in monitoring and evaluation frameworks to attract future investments:** In view of scarce resources and constrained public finances, governments should assess the outcomes and impact of their city-to-city partnerships to learn from failures and derive success factors. To achieve that objective, governments involved in city-to-city partnerships should therefore establish user-friendly monitoring and evaluation frameworks to track progress demonstrate impacts and build

credibility with investors. Well-established data and monitoring and evaluation systems can further demonstrate a history of successful projects, which is essential for attracting further financial resources for future urban development initiatives. These frameworks should ideally be developed by LRGs in cooperation with their associations or supported by the national level to ensure comparability and enable an exchange of lessons learned, while leaving sufficient leeway to adjust them to the specific local needs. Beyond that, the partnerships' impacts, e.g. improved water and sanitation infrastructure, increase in tax revenues, expansion of green spaces, improved access to public transport, or digitalisation of public services both in partner and promoter countries need to be made public and disseminated, e.g. through public events, social media and dedicated webpages to generate further interest by both public and private actors to financially support city-to-city activities in the future. The Flemish Development Agency in Belgium for example uses external evaluators and financial audits, and compiles all reports, covering indicators, results, and financial data, in a centralised database to provide transparency and raise awareness of its development co-operation impacts.

- **Establish digital knowledge sharing platforms featuring databases of funding and support programmes for city-to-city partnerships:** To help local governments access financial resources to fund sustainable urban development projects through their city-to-city partnerships, national governments through their development cooperation agencies should establish digital DDC knowledge sharing platforms to help facilitate access to relevant information. This could include user-friendly databases of funding and support programmes, focusing on subnational, national and international funding and support opportunities for cities and regions. By providing a one-stop-show overview of funding opportunities, the database could help LRGs identify and apply for the funding sources that are most relevant to their existing or upcoming partnerships, thus generating public investments into sustainable urban development. The platform could also feature training and capacity-building modules and existing and replicable good practices with a particular focus on financial management for successful DDC projects. In France for example, the creation of a digital data platform has shown to enhance engagement by subnational governments and strengthen whole-of-government policies by improving awareness of the benefits of DDC activities and providing guidance on their implementation.

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Notes

[1] The sum includes up to EUR 135 billion in investments from EFSD+ – including a new European Investment Bank initiative potentially adding EUR 25 billion –, EUR 18 billion in grant financing from other EU external assistance programmes and EUR 145 billion in planned investments by European financial and development finance institutions (EC, 2021[62]).

[2] For more information, see: Global Gateway - European Commission

[3] It has thereby to be considered that subnational tax revenues are composed of both shared taxes and own-sources taxes, whose shares can vary. The size of tax revenue therefore does not necessarily reflect the level of discretion subnational governments have over it, as their ability to set tax bases and rates varies by country, with greater autonomy in own-source taxes compared to tax sharing arrangements (OECD, 2022[5]).

[4] After accounting for GDP per capita, low-income countries generate roughly one-tenth of the own-source revenue in high-income countries.

[5] The examples from Germany and Japan are not based on OECD survey results.

[6] Municipal bond is a general term for subnational bonds that includes state, regional and local bonds.

[7] A large share of German DDC was imputed student costs, which are defined as indirect or "imputed" costs of tuition in donor countries.

[8] Cross-border DDC flows exclude scholarships and student costs in donor countries, debt relief, administrative costs not included elsewhere and other in-donor expenditures (OECD, 2025[104]).

[9] For more information: Kampala Principles for Effective Private Sector Engagement in Development Co operation

[10] For more information: OECD DAC Blended Finance Principles

Annex A. The European Commission programme Partnerships for Sustainable Cities

In 2018, the EC Directorate-General for Development Co-operation (then DG DEVCO, now International Partnerships, DG INTPA) launched its Partnerships for Sustainable Cities programme. The programme fosters partnerships between EU municipalities and those in the Global South (Africa, Asia/Pacific, Latin America/Caribbean and the EU Eastern and Southern Neighbourhood, with a specific focus on fragile states), aiming to harness the interconnectedness of the SDGs, improve the partnerships effectiveness and impact and contribute to sustainable development. In addition to contributing to the achievement of SDG 11 “Sustainable cities and communities” and SDG 17 “Partnerships for the goals”, the four main objectives of the programme, within which the municipalities can determine their own priorities, are:

- Strengthen urban governance, such as through urban planning and land-use management.
- Ensure social inclusiveness in cities by addressing issues like gender gaps in urban planning and enhancing safety and security in urban environments.
- Improve urban resilience and sustainability by initiating projects focused on environmental and climate resilience policies.
- Promote prosperity and innovation in cities by fostering job creation and entrepreneurship.

Between 2018 and 2021, DG INTPA conducted 3 consecutive calls for proposals, ultimately selecting 57 city-to-city partnership projects and allocating over EUR 160 million to support them These projects are jointly implemented by partners from both within and outside the European Union, alongside EU delegations in the respective countries where the actions occur. Activities may include peer-to-peer exchanges or DDC activities that align with the programme’s four main objectives. Within these partnerships, municipalities collaborate on areas of mutual interest under the umbrella of integrated urban development. Their goal is to act as “laboratories” to generate innovative solutions to urban challenges. A dedicated co-ordination facility team systematically monitors progress and promotes cross-fertilisation across the partnerships (EC, 2024[128]).

Annex B. Harnessing city-to-city partnerships to finance urban development - Survey

Table A B.1. Survey structure and questions

Section	Question	Options
Urban development challenges and investment priorities	What are the key sustainable urban development challenges in your municipality? (Please select at most 5 options)	Poverty and inequality
		Climate change
		Housing
		Food security
		Access to water and water quality
		Infrastructure
		Gender
		Mobility and transportation
		Waste management
		Energy
	What are your city's key investment priorities for sustainable urban development? (Please select at most 3 options)	Digital technology and connectivity (Global Gateway Key Priority I)
		Climate resilience and green energy (Global Gateway Key Priority II)
		Health (Global Gateway Key Priority III)
		Sustainable transport and mobility (Global Gateway Key Priority IV)
		Education, research, and innovation (Global Gateway Key Priority V)
		Affordable and sustainable housing
		Waste management and circular economy
		Water and sanitation
Financing sustainable urban development	How is your municipality enhancing access to finance for sustainable urban development? (Yes/No)	Public-private partnerships (PPPs): We actively develop and participate in PPPs to leverage private sector investments and expertise in our sustainable urban development projects
		Green, social, and sustainability (GSS) bonds: We have issued bonds focused on environmental, social or sustainability goals to finance urban development projects
		Impact investing and social finance: We attract impact investors interested in generating social and environmental impacts alongside financial returns through specific urban development projects
		Blended finance mechanisms: We use blended finance, combining public and private funds to reduce investment risks and attract private finance towards SDG-aligned urban projects
		Crowdfunding and crowd-investing platforms: We engage with crowdfunding or crowd-investing platforms to mobilise smaller-scale investments from a broad investor base for specific urban initiatives
	What instruments do you use to leverage private investment in sustainable urban development? (Yes/No)	Scaling up the use of fees and charges (e.g. charges for building rights or biodiversity offsetting) and promoting their flexible use
		Attracting private urban investment by reducing project risks and increasing profitability for urban development
		Using subsidies and/or tax incentives to direct private investment towards local policy priorities such as the green transition or affordable housing
		Developing PPPs to leverage private sector investments and expertise in sustainable urban development projects
	What are the major challenges in securing public investment for	Bureaucratic hurdles including complex and time-consuming administrative procedures
		Frequent changes in government policies or leadership
		Resistance from local communities or stakeholders

	sustainable urban development in your municipality? (Please select at most 3 options)	Limited awareness and inadequate understanding of the benefits of sustainable urban development
		Other pressing issues taking precedence over sustainable urban initiatives
	What are the main challenges in securing private investment for sustainable urban development in your municipality? (Please select at most 3 options)	Lack of interest from private investors
		High project risks or uncertain returns
		Complex regulatory environment
		Limited capacity to develop attractive investment proposals
		Difficulty in aligning projects with investors' interest
	How does your municipality address the gaps between the current flows of urban finance and the actual financial needs required to achieve sustainable urban development? (Yes/No)	We conduct regular financial needs assessments and compare them with existing funding sources to identify gaps
		We engage in strategic planning sessions with our partners to prioritise projects based on available funding and critical needs
		We use PPPs and seek alternative financing mechanisms to bridge the funding gaps
		We actively lobby for increased funding from national and international bodies by demonstrating the impacts and benefits of our sustainable urban development projects
		Currently, we struggle to identify and address these gaps effectively and are seeking guidance or partnerships to improve our approach
	Which strategies have you put in place to overcome financing challenges for urban development in your municipality? (Yes/No)	Providing guarantees or risk-sharing mechanisms
		Offering tax incentives or subsidies to investors
		Simplifying regulatory procedures for project approval
		Strengthening capacities in project management and financial planning
		Forming strategic alliances with financial institutions
City-to-city partnerships	Which of the following challenges has your municipality addressed through city-to-city partnerships in the past 5 years? (Please select at most 5 options)	Poverty and inequality
		Climate change
		Housing
		Food security
		Access to water and water quality
		Infrastructure
		Gender
		Mobility and transportation
		Waste management
		Energy
	To which of the key areas of the EU Global Gateway initiative do your city-to-city partnerships contribute? (Please select at most 5 options)	Digitalisation
		Climate and energy
		Transport
		Health
		Education and research
		None of them
	Do you have an indicator or monitoring framework to assess the effectiveness of your city-to-city partnerships?	Yes
		No
		Do not know
	In your opinion, how effective have your city-to-city partnerships been in addressing the key sustainable urban development challenges in your own municipality?	Very effective: Our partnerships have significantly addressed and led to substantial improvements in the identified challenges in our municipality
		Somewhat effective: Our partnerships have made progress in addressing some challenges but the outcomes have varied across different policy areas
		Neutral: It is too early to assess the effectiveness or the results have been mixed without clear progress or setbacks
		Not very effective: Despite our efforts, the partnerships have struggled to make a meaningful impact on the identified challenges

		Not effective at all: Our partnerships have not addressed the challenges effectively, with little to no improvement observed
	Can you please provide up to three concrete examples how your city-to-city partnership has helped address key sustainable urban development challenges in your municipality?	
The role of city-to-city partnerships to help mobilise investment	Have your city-to-city partnerships helped mobilise mobilising public and private investment for sustainable urban development?	Yes, public and private investment
		Yes, public investment
		Yes, private investment
		No
	If yes, how/through which mechanisms? If not, what were the main reasons/barriers? Please provide concrete examples	
	Which of the following options helped you mobilise resources for urban development through city-to-city partnerships? (Yes/No)	The peer-to-peer learning component of city-to-city partnerships helps to share knowledge and best practices between cities on financing sustainable urban development
		City-to-city collaboration allows to access larger pools of funding from national or international sources
		Engaging in city-to-city partnerships enhances credibility and attractiveness to investors by pooling expertise and resources, demonstrating regional commitment and increasing the scale of potential impact
		Participation in city-to-city partnerships improves local governance, which increases attractiveness for public and private investments
		Increased political and social capital fostering a supportive environment for sustainable development projects
		City-to-city partnerships increase advocacy power and influence in national and international fora for sustainable urban development
	How do you support private sector contribution to sustainable urban development in your city-to-city partnerships? (Please select the most appropriate response)	We proactively encourage and facilitate private sector contributions to the SDGs, including incentivising both PPPs and direct engagement of private companies in our city-to-city partnerships
		We support private sector contributions to the SDGs in targeted ways or specific sectors, focusing our incentives and engagement efforts where they are most effective
		We support private sector contributions to the SDGs when opportunities present themselves but do not have a proactive or systematic approach
		We recognise the importance of private sector contributions to the SDGs and are in the planning stages of developing strategies to incentivise their involvement
		We do not currently take actions to support or incentivise private sector contributions to the SDGs in our city-to-city partnerships
	What support mechanisms from the national government could enhance your municipality's ability to leverage city-to-city partnerships for attracting public and private investments for sustainable urban development? (Rank from top (could help the most) to bottom (could help the least))	Better access to information on potential partners
		Training and capacity building in partnership management
		Financial incentives or support from higher government levels
		Standardised policies or regulatory frameworks
		Platforms for regular communication and knowledge exchange

Table A B.2. EU-supported city-to-city partnerships responding to the survey (sample)

	Name of the partnerships supported by the EC responding to the survey
1	MOVE IT like Lublin – a Chișinău public transport sustainable development initiative
2	A Sustainable Urban Marketplace: Participatory urban governance for safe, green and inclusive fresh market management in Indonesia
3	Adapting Local Integrated Urban Development Plans to the Sustainable Development Goals through Multi-Stakeholder and Multi-Governance Approaches" - C. No. 2019/408-957
4	Breathe Córdoba: "Recovering the historical, heritage and landscape value of the Central Area through urban governance"
5	Capital Cities Collaborating on Common Challenges in Hazardous Waste Management-Yerevan, Warsaw, Tirana
6	Climate Resilient and Inclusive Cities (CRIC) project
7	Edinet – Insights into Tomorrow Cities
8	Empowerment of Rural Communities and Governments through Sustainable Tourism in El Carchi, Ecuador (ECoGobTur)
9	Erongo Sustainable Governance LAB: Participatory urban governance for resilient, safe and inclusive multi-functional public spaces in Namibia
10	FRIENDSHIP – Strengthening EU-Mongolia friendship through equitable, resilient and innovative growth in Darkhan-Uul province
11	GenerACTOR – Community gardens for good governance, active citizenship and participation
12	Havana's Historic Center towards a smart city model with emphasis on the promotion of the creative economy, in the framework of the 500th Anniversary of the City's Foundation
13	HORESD: Holistic reinforcement for sustainable development
14	Improving Solid Waste Management in Windhoek/Namibia
15	Inclusive and sustainable development of the Peace Frontier
16	Local Energy and Climate Service: a tool for energy and climate transition of integrated urban development
17	MAISPEMBA
18	Metro Resilience Guadalajara
19	MUDAR: Mozambique integrated Urban Development by Actions and Relationships: Empowering Local Governance
20	mUEve – *Movilidad Sostenible, Urbanismo, Equipamiento, Valoración del Espacio Público, y Enverdecimiento y Equidad*
21	Programme on Integrated Local Finances for Sustainable Urban Development in the Greater Kampala Metropolitan Area (PIFUD)
22	Projeto InovaJuntos – *Cooperação Urbana Triangular para a Inovação e Sustentabilidade* - CSO-LA/2019/408-982
23	*Projeto Parceria para o Reforço da Governação Urbana, Inclusão Social e Promoção do Empreendedorismo em Díli, Timor-Leste*
24	Promotion of inclusive, innovative and sustainable integrated urban development of the city of Avellaneda and the region
25	REBUILD – Research and Education Building Urban Institutions for Local Development
26	REHDES: Holistic Strengthening for Sustainable Development
27	Strengthening administrative and financial skills in the North Kivu Province in the Democratic Republic of Congo
28	Twin-Cities in Sustainable Partnership

Table A B.3. List of experts interviewed

Name	Title	Institution
Frederic Audras	Head of the Territories and Enterprises Division	*Agence française de développement*
Jean Bossuyt	Team Leader, City-to-City Coordination Facility	European Centre for Development Policy Management (ECDPM)
Fiona Ramsey	Head of Unit, Effective Development Policy and Team Europe (INTPA.D.1)	European Commission
Lars Gronvald	Head of Cities Section, DG INTPA	European Commission
Bastien Revel	Policy Officer	European Committee of the Regions
Marko Davila	Senior Social Development Specialist	European Investment Bank
Carlos de Freitas	Executive Director	Global Fund for Cities Development (FMDV)
Anja Wagner	Head of Unit for Local Authorities	German Ministry of Economic Cooperation and Development
Felicity Spors	Senior Director, Sustainable Finance and Innovation	Gold Standard Foundation
Katharina Rochell	Consultant	United Nations Human Settlements Programme (UN-Habitat)
David Jackson	Director, Local Development Finance	United Nations Capital Development Fund (UNCDF)
Mauricio Rodas	Visiting Fellow, Penn Institute for Urban Research	University of Pennsylvania

Annex C. Global trends in subnational government finance and investment

Subnational expenditure across policy areas

Subnational governments play a significant role in public spending. In OECD countries, subnational government spending accounted for 37% of total public spending in 2021 (OECD, 2023[71]). This share was higher in federal countries, where subnational governments represented 49% of public spending. In contrast, among the 135 countries in the World Observatory on Subnational Government Finance and Investment, 58 have LRGs with limited responsibilities, constituting 20% of public spending. Based on a sample of 81 countries with available data, public services, education and social protection were the largest areas of subnational spending in 2020, accounting for 23.4%, 20.2% and 10.7% of total expenditure respectively (OECD, 2022[5]).

Subnational spending varies significantly across continents. Public services represent the largest expenditure globally but their share varies considerably, ranging from 33.9% in Latin America to 15.6% in Europe and North America. In education, subnational governments in Africa, Asia, Europe and North America allocate between 21% and 23% of their total expenditure, whereas, in Latin America, this share is below 10%. Subnational expenditure for economic affairs and transport account for 13.9% of total subnational spending in Europe compared to 16.2% in Latin America, 17.2% in Asia and 17.4% in Africa. Differences are more pronounced with Asia dedicating 6.9% of its total subnational expenditure to health, far below Latin America (10.5%), Europe and North America (11.4%) and Africa (15.8%). The largest differences exist in social protection. Subnational governments in Europe and North America spend 15.6% on social protection, while no other region exceeds 10% with values ranging from 2.8% in Africa and 7.2% in Asia to 9.8% in Latin America.

Subnational investment priorities

Subnational governments play a key role in public investment, with notable variations across regions and countries, particularly in federal and high-income economies. Subnational governments are responsible for 58% of public investments in OECD countries and 40% globally (OECD, 2023[71]). In 29 countries among the global sample, this share reached more than 50% and in 14 of them exceeded 65%, most of them high and upper middle-income economies (OECD, 2022[5]). Asia-Pacific has the highest share of subnational government investment as a percentage of public investment, reaching 47.2%, followed by Latin America (45.1%) and Europe and North America (42.2%) (OECD, 2022[5]).

Subnational public investment represents just 1.5% of global GDP. Subnational governments in Asia-Pacific invested about 2.4% in 2020, considerably more than subnational governments in other parts of the world. In Europe and North America, their share reached 1.7%, followed by Euro-Asia (1.5%) and Latin America (1.1%). The Middle East and West Asia (0.9%) and Africa (0.7%) exhibit values below 1%. These figures are relatively low in comparison to the investments needed to achieve the SDGs. To illustrate, the annual investment gap across all SDGs exceeds USD 4 trillion annually (UN DESA, 2024[129]). In 2021, among a sample of 31 OECD countries with available data, economic affairs accounted

for 38.6% of subnational investment. The second most targeted policy area was education, with 20.7% of total subnational investment. General public services accounted for slightly more than 10%, followed by housing at 9.1% and environmental protection at 5.5% (OECD, 2023[71]).

Climate resilience and waste management are the top investment priorities for municipalities responding to the OECD survey. Sixty-eight percent of respondents reported climate resilience and green energy, which corresponds to the second of the priorities of the EU's Global Gateway strategy, as a key investment priority, followed by waste management and the circular economy (63%). Other notable priorities include sustainable transport and mobility (37%), digital technology and connectivity (32%) and water and sanitation (29%). The first two also align with the Global Gateway's key priorities. While close to 50% of responding municipalities reported housing to be among the key urban development challenges, affordable and sustainable housing is a key investment priority for only 24% of them. Lastly, the 2 other Global Gateway Key Priorities education, research and Innovation (18%) and health (3%) were the 2 least frequently reported priorities.

Subnational revenue

Subnational governments account for one-fourth of total public revenue, equivalent to about 8% of GDP. Subnational governments largely depend on grants, which constitute 51.5% of their revenue. Other sources include taxes (31.5%), user charges and fees (10.3%) and property income (3.1%) (OECD, 2022[5]). Overall, subnational tax revenues are equivalent to 2.9% of GDP on average. However, on the one hand, they accounted for less than 1% in close to 50% of countries. On the other, they exceeded 8% in about 13% of countries. Subnational tax revenue makes up around 14.5% of total public tax revenue with variations across regions ranging from than 50% to less than 5% (OECD, 2022[29]).[1]

Grants and subsidies are the primary source of subnational revenue across regions, with Europe and North America having the highest subnational revenue share relative to GDP. Grants and subsidies account for the largest share of subnational revenue in all 4 regions, ranging from 47% in Asia to between 53% and 54% in the other 3. Tax revenues represent the second-largest revenue source of subnational governments. However, while subnational governments in Africa generate 24% of their revenues through taxes, the corresponding shares in Latin America (30.4%), Europe and North America (31.3%) and particularly Asia (36.8%) are considerably larger. In terms of tariffs and fees, subnational governments in Latin America use them to generate 8.4% of their revenues compared to 9.6% in Africa, 10.2% in Asia and 12.1% in Europe and North America.

Debt

Subnational debt is relatively limited compared to central government debt, representing 9.8% of total public debt in 2020.[2] Subnational debt declined from 11.5% to 9.8% of total public debt between 2016 and 2020 (OECD, 2022[5]). The level of outstanding subnational debt varies considerably across countries ranging from close to zero to 53.6% of total public debt in Canada (OECD, 2022[5]). Loans constitute most subnational government debt at 53.4%, followed by "other accounts payable" at 29.2% and "bonds/securities" at 11.4%. Subnational debt as a share of general government debt is the highest in Europe and North America (12.9%), followed by Asia (6.6%) and Latin America (5.7%). In comparison, the share of subnational debt in African countries is very low (0.9%).

Notes

[1] It is thereby to be considered that subnational tax revenues are composed of both shared taxes and own-sources taxes, whose shares can vary. The size of tax revenue therefore does not necessarily reflect the level of discretion subnational governments have over it, as their ability to set tax bases and rates varies by country, with greater autonomy in own-source taxes compared to tax sharing arrangements (OECD, 2022[5]).

[2] Based on a sample of 75 countries.

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