

# CALL FOR ACTION

## ON MUNICIPAL INFRASTRUCTURE FINANCE

### A FINANCE SYSTEM FOR SUSTAINABLE CITIES



Development banks must be reformed to respond to city needs.



Cities must be granted direct access to international climate funds.



The power to control finance must be devolved to cities.



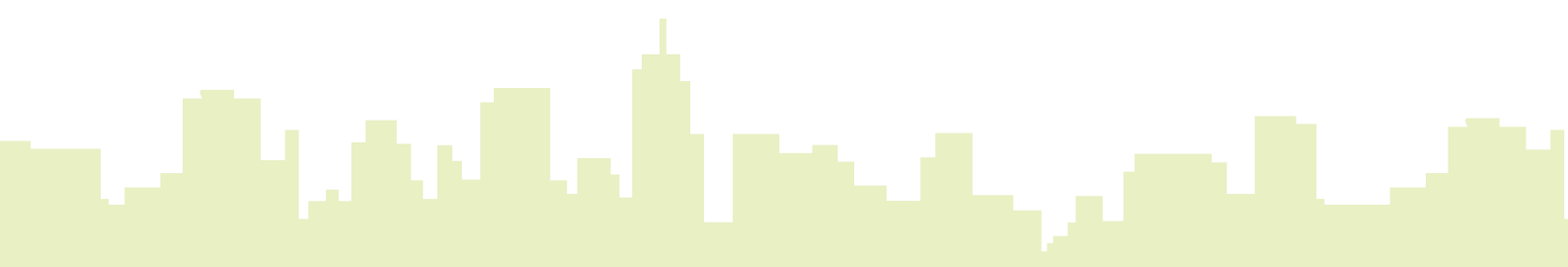
National governments must create a stable policy and regulatory environment.



Innovation, standardisation, pooling and pipelines must become the new normal.



Cities must be supported to develop their capacity to prepare and execute projects.



## C40 CITIES CALL FOR ACTION ON MUNICIPAL INFRASTRUCTURE FINANCE

The **Paris Agreement on climate change** creates the prospect that runaway climate change can be prevented, by setting a goal that global temperature rise should be limited to 1.5 degrees Celsius above the pre-industrial average.

The mayors of the world's great cities stand ready to play their part in delivering on the ambitions of the Paris Agreement, the 2030 Agenda for Sustainable Development (Sustainable Development Goals) and the New Urban Agenda. As members of the C40 Cities Climate Leadership Group (C40) and through their commitments to the Global Covenant of Mayors for Energy and Climate, mayors understand the actions that are needed and have ambitious plans for developing their cities in ways that are consistent with a low carbon future.

Yet too often cities are unable to access the finance needed to deliver on those ambitions.

C40 cities call on national governments and international financial institutions to help finance the transition to a low-carbon, resilient and economically sustainable future for millions of urban citizens.

This Call for Action builds on the work of our partners in the Cities Climate Finance Leadership Alliance (CCFLA), and the Global Commission on the Economy and Climate (New Climate Economy). The recommendations have been created through substantial engagement and consultation with C40's member cities and mayors, and have been approved by the C40 Steering Committee, made up of mayors elected by their peers to represent their region within C40.

### Endorsements of this Call for Action

The organisations listed below have indicated their support for the messages of this Call for Action.



## INTRODUCTION

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City mayors, including the 86 city leaders of the C40 network, are leading the way in tackling climate change, reducing greenhouse (GHG) emissions and building resilient cities. Cities played a crucial role at COP21, and are ready to take action to meet the ambitions of the Paris Agreement. This document outlines what is required to help mayors deliver their ambitious climate action plans to the fullest possible potential.

Recent C40 research identified the barriers that prevent member cities from achieving their full climate ambitions. One of the most pressing of these barriers is the challenge of accessing finance for sustainable infrastructure projects. It is becoming increasingly clear that a lack of access to finance is a key obstacle to delivering resilient, liveable and climate-safe cities.

C40 research has also shown that the actions taken by mayors over the next 5 years have the potential to determine whether the world is locked into a high carbon or low carbon growth pathway. These actions range from large-scale transformative infrastructure projects to small-scale investments. Each one will require financing of some kind.

Furthermore, the New Climate Economy reports have demonstrated that as well as being low-carbon and climate resilient, cities that are compact, connected and coordinated are more productive, socially inclusive, cleaner, quieter and safer.

Mayors, city leaders and C40 believe that if each of the asks in this Call for Action were addressed on the international, national and project levels, it will unlock billions of dollars of new investment, and help create the low emissions world we all wish to see. While this Call for Action is focused on sustainable infrastructure finance for cities, many of the points raised have broader benefits that support the wider goals of the New Urban Agenda, the sustainable development agenda, particularly SDG#11 - *“Make cities inclusive, safe, resilient and sustainable”* - and promote green growth in cities.

The recommendations start with the support needed to create the enabling environment that will allow cities to implement the plans they wish to take forward. Recommendations are made for the international level, including the support provided to cities by the development banks, and the need for direct city access to the growing pool of international climate funds.

National governments also have a major role to play in fostering an enabling environment in which mayors can act. This includes increasing the powers of cities to control their finances, supporting cities to build their creditworthiness, and working together in the development of climate action plans aligned with the ambitions of the Paris Agreement.

Transformative projects are within reach if capital and transaction costs can be reduced and innovative financing instruments utilised. Technical assistance to help cities build their capacity for project structuring, preparation and execution is essential.

Some overarching themes are present throughout this Call for Action: there is a pressing need for collaboration amongst all levels of government and among stakeholders; innovations are required in financing as well as technology; and the focus of policy must be on climate change adaptation as well as mitigation.

Finally, all stakeholders have a responsibility to recognise and convey the urgency of action to prevent catastrophic climate change. Every level of government and financial institutions need to understand and address the barriers that stand in the way of delivering low-carbon growth. The challenge and the opportunity begins in our cities.

## CREATING THE ENABLING ENVIRONMENT THE INTERNATIONAL LEVEL

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Action on the international level is crucial to ensure cities are able to deliver their climate action goals. The current international financial system was developed during the mid 20th century when nation states controlled most government resources. These structures have not yet adjusted to the significant devolution of powers and responsibilities to cities by almost all governments around the world. As a result, the international finance organisations, banks and funds are unwilling or structurally unable to provide cities with the support required to tackle the challenges of climate change. Addressing this is a responsibility both of these organisations' executive teams and the national governments that steer their operations.

Recognising the time required to make significant changes to global structures, C40 cities call on the international community to start the process of addressing these challenges now, to ensure our international financing system meets the needs of cities as quickly as possible.



### ***Development banks must be reformed to respond to city needs.***

Multilateral and bilateral development banks play a significant role in sustainable development and tackling climate change. Yet many have been slow to recognise the powerful role of cities in this agenda, and equally, the risks of not addressing climate change in cities. Development banks should prioritise urban low-carbon and adaptation projects that are identified in city climate action plans and aligned with city development plans, and ensure all supported projects are resilient to future climate threats.

Development banks must also develop new mechanisms to significantly increase their subnational lending and build a greater understanding of city governance structures. This includes supporting cities in becoming creditworthy; earmarking large proportions of development bank lending to subnational entities and regional/municipal banks for green infrastructure; tailoring lending products specifically to meet the needs and capacity limitations of cities; increasing local currency borrowing; developing more flexible loan products; and formally involving the largest cities in the development of country assistance strategies. When supporting institutional and sector reforms, development banks need to pay greater attention to the widespread devolution of powers to cities and the need for capacity development within cities.

If the existing development banks cannot meet this challenge, then they should support the international community to work with city leaders to create new national, regional or municipal development banks (building on positive models such as Findeter). These new institutions should be able to lend directly to urban infrastructure and support cities to implement climate action and sustainable development plans.



***Cities must be granted direct access to international climate funds.***

International climate funds are a vital source of capital, but difficult for cities to access. Existing funds such as the Green Climate Fund, the Adaptation Fund and the Global Environment Facility should identify mechanisms to enable large-scale, direct, and simplified entry routes for cities and agree at board level to earmark a proportion of their funding for city projects. This would optimise the impact of these funds, and ensure they deliver on the expectations of the donors that provided capital.

Furthermore, large cities face considerable climate threats, including rising sea levels, storms, heat waves and landslides. Many of those most at risk are the informal populations, and the poorest citizens. Addressing these challenges will require well-planned solutions, many with high capital costs. City-specific mitigation and adaptation funds should be created and other new international climate funds must be structured to allow cities direct and accelerated access, with simplified entry routes through city-designated authorities who can endorse applications directly.

## **CREATING THE ENABLING ENVIRONMENT THE NATIONAL LEVEL**

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Climate change is the greatest long-term threat to humanity; to succeed, all levels of government – national, regional (states and provinces) and local – must work in partnership to find and implement the most effective solutions. Political challenges must be overcome and constructive partnerships must be developed. There needs to be greater sharing of data and expertise and development of joint climate strategies that take into consideration the broader economic and social costs of climate change and move from short-term cost-benefit analyses to long-term life cycle assessments of climate interventions.

National and regional governments must consult with their large cities on the barriers being faced, and act quickly and collectively to create shared solutions. Good practice from across the world must be drawn upon, and ambitions and plans should align across government.



***The power to control finance must be devolved to cities.***

Across the world, national governments have devolved responsibility to city mayors over many policy areas that impact climate change. However cities often lack the crucial financial autonomy to fund the infrastructure that is needed to deliver on these responsibilities. National governments should work with their cities to understand the gaps in power, and work to address these as a priority.

Cities demonstrating sound financial management and with adequate safeguards in place should have the authority to:

- Raise and collect own-source revenues
- Borrow, issue bonds and enter into public-private partnerships

- Price externalities, such as the creation of carbon prices or trading schemes, congestion charges and climate adaptation levies
- Introduce new mechanisms including tax and investment incentives to allow cities to capture and utilise increasing land values
- Establish green funds, with support from national governments for the necessary seed capital and technical assistance for these to commence operation
- Increase their borrowing limits where debt caps are unnecessarily or artificially low

Granting these powers to cities will allow them to undertake both large and small-scale investments necessary to tackle climate change. Governments must further support cities by sharing taxpayer and utility ratepayer data and offering the assistance of tax collection agencies in city revenue collection, maximising the receipt of cities' own-source revenues.



### ***National governments must create a stable policy and regulatory environment.***

One of the most important responsibilities of national governments is to provide a stable policy and regulatory environment that can drive market demand. Government fiscal and regulatory policies should be reviewed to determine their impact on the urban investment environment, including property rates, incentives, effective institutions and stable legal and political frameworks, as well as predictability and timeliness in government fund transfers, to ensure cities can meet their financial obligations.

Creating a stable investment environment requires awareness of the decarbonisation plans being developed at the national and regional level. Cities and other levels of government should all be working towards '1.5 degrees' climate pathways, and planning accordingly. National governments can have a tremendous impact by instituting a national price on carbon and ensuring all proceeds raised are re-directed towards the development of low-carbon, climate resilient infrastructure.

As key drivers of economic activity, large cities should always be involved in the development of national and regional climate change mitigation and adaptation plans, and governments should support cities to develop their own action plans. Delivering on a '1.5 degrees' climate pathway at the country level requires an iterative, collaborative and coordinated approach that considers the roles and responsibilities of national, regional and local governments. This vertical alignment will help to ensure resources are deployed in the most efficient way possible.

Cities around the world have already made commitments to report on their greenhouse gas emissions, mitigation targets and climate risks using a common standard through the Compact of Mayors (now integrated into the new Global Covenant of Mayors for Climate & Energy). However, funding and technical assistance from national governments is needed to support development of mitigation pathways and plans that are aligned with the Paris Agreement, particularly in the global south. Development and disclosure of climate action plans can also send a powerful signal to the finance community that cities are ready for investment.

National, regional and city governments should work together to measure and develop greenhouse gas inventories and ensure that data on emissions and climate threats is as reliable and complete as possible. Collection and sharing of data on co-benefits and avoided costs from sustainable infrastructure across multiple layers of government would help build further political support.

## SUPPORTING TRANSFORMATIONAL PROJECTS

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Cities have the ambition to deliver transformational projects, however investors still lack confidence in sustainable infrastructure investments at the city level, and steps should be taken to address this. In times of extremely low interest rates, there is sufficient investor appetite and capital for infrastructure projects. The bottleneck consists in the perceived shortage of bankable projects, often resulting from the capacity of cities to prepare projects for investment, and the way projects are presented and marketed.

Cities need to deliver multiple infrastructure projects successfully to achieve their goals for low-carbon growth. The opportunity cost of a city paying too much for current projects means that future projects may become unaffordable, or the city may reach its borrowing limits. It is therefore essential that cities are supported to reduce transaction and capital costs as much as possible.

The recommendations in this section should be taken forward by governments, the private sector, international organisations, community-based organisations and NGOs, working in close collaboration with cities.



### ***Innovation, standardisation, pooling and pipelines must become the new normal.***

Overcoming finance barriers requires scale, and awareness of the size of the market, as well as standardised project structures. Such approaches can provide a greater confidence in the financial structuring, enable pooling and reduce project preparation time and transaction costs.

International partnerships that bring together the public, private and NGO sectors will allow cities to pool projects and share risks across jurisdictions and borders. They can also help fund the standardisation of uniform project investment templates and affordable climate measurement and verification mechanisms to structure infrastructure proposals, taking into account cultural and financing differences in different regions of the world. Governments should enable and encourage cities to utilise innovative financing tools such as PACE, on-bill financing, etc and address any policy or regulatory challenges to their application. Similarly, those working in the finance industry need training to support the delivery of green urban infrastructure projects.

The global pipeline of sustainable infrastructure projects should be collated and published – starting with the largest cities – to reveal the size of the opportunity and encourage more investors to engage in this market.

As the major holders of global capital, private and institutional investors, particularly pension funds and insurance companies, have a specific role and often a strategic interest in the development of sustainable cities. These funds should work harder to understand sustainable infrastructure technologies and project risk profiles, support the development of standardised project structures, and shape the creation of this new asset class in order to deploy large scale and flexible capital into projects identified in city climate action plans.

Innovation in financing is required, both innovation in the structuring and development of projects, but also the building of market confidence to use and deploy the new techniques and mechanisms developed. Governments should be fast to respond in understanding and permitting the use of new financing techniques, and city governments should be supported to find the financing structures that maximise the impact they can have.

Innovation, standardisation, pooling and pipelines will help reduce borrowing costs, however more will be required. Development banks and governments should provide credit enhancements for low-carbon and urban resilience projects at affordable and accessible terms, and made easy to access for city governments. This can make projects more financeable, reduce the costs of capital and leverage significant private investment.



***Cities must be supported to develop their capacity to prepare and execute projects.***

A major challenge for city governments is the shortage of skills and internal capacity to prepare infrastructure projects for investment and ensure their successful implementation. As cities develop their climate action plans, they require significant capacity development support to prepare finance-ready projects for investment. Governments and philanthropic organisations need to direct funding towards efforts such as the C40 Cities Finance Facility, ICLEI’s Transformative Actions Program (TAP), the R20 “100 Climate Solutions Project Campaign”, the Cities Development Initiative for Asia (CDIA) and others, aiming to increase the pipeline of finance-ready sustainable infrastructure projects.

Investment is also needed to develop the capacity of city experts to prepare these projects, scaling up this support to reach all the cities that need it. National governments should provide cities with legal, technical and financial assistance to support capacity development and implementation of innovative financing mechanisms, including guidance on pricing externalities and conducting life cycle assessments, as well as their implementation.



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