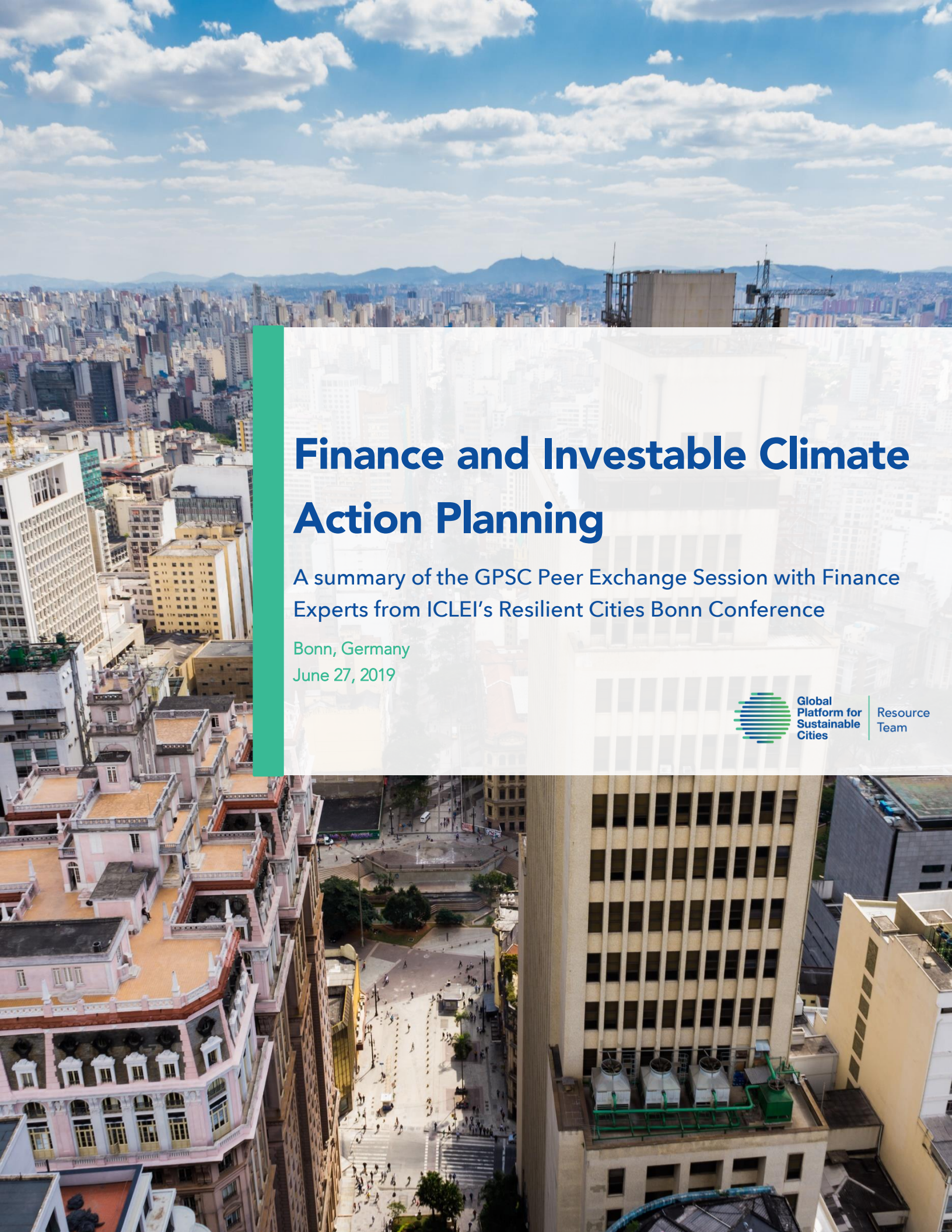

Finance and Investable Climate Action Planning

A summary of the GPSC Peer Exchange Session with Finance Experts from ICLEI's Resilient Cities Bonn Conference

Bonn, Germany
June 27, 2019

Global Platform for Sustainable Cities | Resource Team

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Context

Mobilizing investment for low-emission, climate resilient and sustainable development at the city level is an urgent priority. However, local governments are facing barriers with accessing financing for sustainable urban development infrastructure investments. Local and national governments are in fact witnessing a clear gap in communication with financing institutions: on one side there are the financial institution convinced that city representatives are not aware of the financing available and on the other side there are local governments expressing their difficulty in unlocking such financing.

The Finance Forum Day, more specifically the GPSC Peer Exchange Session with Finance Experts at ICLEI's 10th Forum on Urban Resilience and Adaptation, brought GPSC cities together with finance experts to discuss, share their experiences about how to access financing for low emissions projects in order to address the above-mentioned communication gap between financiers and cities.

The session included approximately 30 attendees, of which four GPSC cities were represented. The aim of this peer exchange was to present and explore relevant developments on accessing financing for sustainable urban development projects, and share experiences and lessons learned. The following report captures the panelist presentations and discussions that took place at the GPSC Peer Exchange Session with Finance Experts.

Financial institutions

The following experts were invited to the peer exchange because of their roles in the financial sector and their expertise in financing sustainable urban development projects at a sub-national level. The invited experts provided meaningful advice about what are the challenges with financing sustainable urban development at the city level and what the financing institutions expect from cities. The financial experts offered solutions for improved engagement with cities and detailed the products they offer to finance sustainable urban development projects.

Moderators: Maryke van Staden, Manager of the Low Emission Development Pathway and Director of ICLEI's carbonn Center, ICLEI – Local Governments for Sustainability and Aloke Barnwal, Senior Climate Change Specialist, GEF Secretariat

- Financing climate-related infrastructure
    - Tsakani Manyike, Senior Deal Originator, Development Bank of Southern Africa (DBSA)
- Ulaanbaatar Green Affordable Housing and Resilient Urban Renewal Sector Project
    - Arnaud Heckmann, Principal Urban Development Specialist, Asian Development Bank (ADB)
- Co-develop business cases for climate-resilient investments
    - Sebastiaan van Herk, Director, Bax & Company

Among the finance experts there were both representatives from development banks—DBSA and ADB—and from the private sector—Bax & Company — to discuss climate financing from their respective points of views. The general takeaway from finance institution experts was that financing for sustainable urban development that addresses climate action is available and that there are businesses and grants that offer assistance with preparing these projects. For instance, Tsakani Manyike from DBSA, highlighted the variety of financial instruments its organization offers to cities, including general infrastructure loans and bonds, concessional loans or grants, green/climate bonds and public-private partnerships. Arnaud Heckmann, from ADB, noted that incorporating climate into the urban development project makes it easier to finance though the application process can be arduous. The last expert on this panel, Sebastiaan van Herk from Bax & Company, discussed the company's project portfolio and highlighted the importance of nature-based solutions and associated co-benefits. Their business assists cities with co-developing business cases to enable financing of sustainable urban development projects.

Challenges

The greatest challenge finance institutions face with financing sustainable urban development projects in cities is with the bankability of the projects and with projects making the case through demonstrating co-environmental benefits. However, Tsakani Manyike noted that DBSA offers a roadmap to financing to help municipalities prepare bankable projects which include three major phases: (1) preliminary/planning, (2) feasibility review, and (3) monitoring and evaluation.

Financing institutions expectations from cities

Financing institutions want to finance sustainable projects that have a large impact and are transformative. They expect that the projects related to climate will have a large impact on mitigation of greenhouse gas emissions, and many of them require that the projects have a social impact as well. The key piece of advice the financing institution experts outlined was to ensure that the sustainable urban development projects are bankable, being aware, as the representative from ADB stated, that financing projects using climate funds can be arduous since they require a lot of time and effort with project preparation facilities.

Solutions for investing at city level

Green Affordable Housing and Resilient Urban Renewal Sector project in Ulaanbaatar, Mongolia

Arnaud Heckmann, Principal Urban Development Specialist at the Asian Development Bank (ADB), discussed climate finance using an example of a Green Affordable Housing and Resilient Urban Renewal Sector project in Ulaanbaatar to provide adequate housing for those living in "gers" or informal settlements. The "ger" neighborhoods are complex areas that are not only comprised of low-income populations, they include mixed-income housing, with many people

owning their land. This demonstration project offered a complete solution, because it incorporated both climate mitigation and adaptation goals while ensuring a positive social impact through its provision of affordable housing using eco-districts.

The eco-district and block development approach allowed for a holistic solution that promoted citywide sustainability and green development. Within the planned eco-districts, the affordable housing project improved roads, water, wastewater networks, heating, drainage, bridges, power telecommunication and street lighting. The developments were planned to include urban amenities such as a business incubator, urban parks, a sports complex and a school. Of the housing provided, 55% were planned to be affordable housing and 30% of the land in the eco-districts to be public space. The project integrated diverse land uses, people with varying socioeconomic statuses and green designs.

The green feature of the development included **renewable energy** through passive solar design and photo voltaic panels; **energy efficiency** through an efficiency isolation system; **efficient land use planning** through compact design, shape and building orientation; and an **energy performance monitoring system**. The design of the project was meant to be attractive for both communities and real estate developers while complying with city master and local plans and urban regulations.

This project was largely effective because it involved many stakeholders throughout both the financing and the implementation phases. These stakeholders included the Asian Development Bank (ADB), Green Climate Fund, commercial banks, developers, beneficiaries and the municipality of Ulaanbaatar. The key to their success arose from their public, private, community partnership and the involvement of all these stakeholders throughout the project lifecycle (private-public-people-partnership, PPPP).

Co-developing business cases for climate-resilient investments

With his presentation, Sebastiaan van Herk provided guidance on how to develop a strong business case in order to finance sustainable urban development projects. While van Herk stressed there is no blueprint for creating business cases for climate-resilient investments, there are general practices that should be followed, listed below:

1. Engage and acknowledge interests of various policy areas, levels of government and private stakeholders;
2. Focus on unlocking economic potential rather than on efficiency;
3. Evaluate methods and narratives for unlocking climate-resilient investments;
4. Implement short-term actions and targets that work towards long-term goals, using an adaptive approach;
5. Organize effective capacity development and city-to-city learning, such as peer exchanges for the adoption of best practices and tools.

Following this panel of experts, city representatives from GPSC discussed their respective approaches to financing climate-related projects.

Cities

The following GPSC city representatives of Johannesburg, Melaka, Recife, and Brasilia, participated in a panel to share their respective experiences with how their cities fund sustainable urban projects. Summaries of the GPSC city representatives' presentations follow below:

- Mayor Zamzuri Arifin, Alor Gajah Municipal Council, Melaka, Malaysia
- Mohamad Shafie Bin Taib, Green Engineer, Town Planning Department, Alor Gajah Municipal Council, Melaka, Malaysia
- José Neves Filho, Secretary of Environment and Sustainability, City of Recife, Brazil
- Alessandra Péres, Sub-secretary for Management Strategy, Environment Secretariat of the Federal District, Brazil
- Liana Strydom, Assistant-Director, Development Planning, City of Johannesburg, South Africa

Alor Gajah, **Melaka, Malaysia**
The mayor from Alor Gajah in Melaka, Malaysia noted that Melaka's primary financing instrument is through local taxation. However, the city has an innovative economic model that involves green investment, energy performance contracts, energy efficiency, renewable energy, public-private partnerships (PPPs) and green bonds.

Recife, Brazil
The representatives from Recife, José Neves Filho and Guilherme Cavalcanti, mentioned that Recife has a high level of vulnerability because of its geography and socioeconomic disparity. However, the city has strong technical capacity to work on environmental issues, a positive attribute when they apply for external financing. In order to finance sustainable urban development internally, Recife draws on a local taxation instrument in combination with private investment. Through private investment, Recife is able to fund green infrastructure quicker and more flexibly.

Brasilia, Brazil
Alexandra Péres, from Brasilia, noted that Brasilia uses a different approach to finance sustainable urban development – they receive environmental compensation through environmental licensing that can only be used in protected areas, it is an agreement between the environmental public agency and entrepreneurs. Additionally, Brasilia has a payment for ecosystem services policy that is in the process of being implemented. Ms. Péres explained that Brazil has strong targets in terms of data and the environments. Because of this, there are, on a national level, financing opportunities such as through the Global Environmental Facility (GEF),

with CITinova acting as the executing agency, a $ 6 million USD non-refundable fund that Brasilia is able to access. Brasilia has also accessed a variety of financing for sustainable urban development projects through the Development Bank of Latin America, Financial Development Fund of the Plata Basin, Euroclima, French Development Agency, and KfW Development Bank.

Despite Brasilia's successful access to innovative financing solutions, there are challenges with each stream of innovative financing. For instance, with environmental compensation, there is not much information about the effectiveness or impact of these investments. Non-refundable financing requires a large effort for little guaranteed money, nor is it easy to find such financing opportunities. Refundable financing requires much bureaucracy to be approved in Brasilia and a sovereign guarantee which is the case with any international financing. Finally, Ms. Péres mentioned that while PPP is useful, it is also a high-risk operation for her city.

Johannesburg, South Africa

Liana Strydom, Assistant Director of Development Planning in Johannesburg, noted that Johannesburg utilizes bilateral funding from local and international institutions, general obligations bonds, green blonds and the Export Credit Agency. While Johannesburg has accessed many funding sources, the city aims to augment its balance sheet funding through alternative sources of funding such as tax increment funding, land-based financing, pooled financing mechanism and project finance.

Some of the greatest challenges that Johannesburg has faced with accessing financing has been due to external factors such as the legislative environment in Johannesburg and restrictive international accounting standards that tends to classify off-balance sheet funding as on balance sheet funding. Internal challenges include limited project preparation capacity within the municipality to create bankable projects. In order to overcome this challenge, namely the project preparation capacity within the municipality, Johannesburg has partnered with international development finance institutions to assist with project preparation and help with creating bankable projects. Johannesburg is also working to enhance their creditworthiness and exploring the use of revenue bonds. Additionally, to overcome the balance sheet constraints challenge, Johannesburg has partnered with the private sector.

After the city panelists described their innovative financing strategies for low emissions development, ICLEI hosted a roundtable giving the audience the opportunity to engage directly with the experts and with the city representatives to discuss their experiences in more depth. This format allows the audience to choose which table, and subsequently the expert/s, with whom they would like to engage more. The discussion questions posed during the peer exchange were the following:

1. What are the main challenges your jurisdiction faced and why?
2. What are the solutions you found? What would you suggest other cities to do when facing similar challenges?
3. What type of partnership can facilitate the plans your jurisdiction faces?

Challenges local and regional governments face when trying to secure financing for sustainable urban development

First and foremost, local government representatives do not seem to be aware of what donor money is available. There is a clear disconnection between major financial institutions and local governments as if local governments and financial institutions speak different languages (Strydom 2019, June 27).

A challenge mentioned by Johannesburg and Melaka was that even if both governmental support and civil society support for sustainable urban development projects exists, it can be cumbersome. Coordination among ministries and departments was namely represented as a key challenge. Even if there is governmental support, city representatives noted that the legal bureaucracy for accepting external financing is a barrier for cities. Another challenge, specific to financial institutions, is that small cities in South Africa have to use public tender systems, however, international financing institutions indicate that they do not finance through public tenders. Finally, the Brazilian city representatives stated that their major challenge is a political one, more specifically related to how effectively build a coalition to advance a sustainable urban development project.

Other technical aspects to be considered before local governments commit to large sustainable urban development projects are: maintenance costs, procurement, and tender of the local government, cities lack adequate funding, difficulty and informality related to collecting local revenue, lack of staff capacity. Maintenance costs of such projects, for example, are costly ultimately burdening local governments in the long-term. Co-financing for large sustainable urban development projects was also highlighted as a challenge for cities. Finally, some city representatives noted that their staff lacks the capacity to carry out infrastructural projects and to create bankable projects.

Each GPSC city that participated in this event faces different challenges. However, common challenges included political challenges such as political turnover as well as political reliability. Participants also noted that operation and maintenance costs of sustainable urban development projects need to be considered up front. One group mentioned, for example, that an international platform linking projects with funding opportunities would help local governments immensely and that city networks and city-based organizations have a role to help local governments find funding for these projects.

Needs and expectations from cities

- Solutions for sub-national governments, including small cities to receive money without going through a national government;
- Assistance with maintenance and operation of sustainable urban projects.

Solutions proposed to improve city relationship / processes with the financial sector

- Access to a fund that includes project development; the construction of the project and the maintenance costs needed for the infrastructure project, suggesting a development-build-maintenance fund at the national government level;
- Exploring options that would allow local governments to reduce the costs of refundable funding. During the session city representatives expressed that the refundable funding for climate action projects is expensive for local governments and inquired if there are non-refundable options available;
- Creation of a space that connects cities with international financing opportunities in order to streamline the process and ease the communication between both parties.

Conclusion

As Sebastian van Herk, from Bax & Company, stated: "Even after bringing these stakeholders together (well done), to me it was apparent they don't understand each other, even during the session." These peer exchanges provide a valuable space for cities and financiers to learn from each other and share experiences. However, one way to improve them would be to allow all participants to have more networking opportunities and time to discuss the challenges they face with financing sustainable urban development projects. It is very important to bridge the communication gap that is blocking financing institutions and local governments to effectively work together. As Sebastian van Herk suggested it is important to "instruct financiers to think empathically of problems of cities; not just explain their process and programmes. [And at the same time] instruct cities to pose their questions to financiers, where do they struggle /need help." These peer exchanges are the perfect place to learn from one another and in future peer exchanges it is fundamental to organize a session with more networking opportunities that will help participating cities to better connect with international financiers. Participants were in fact very pleased with the session but hoped it was longer and included more tangible, in-depth case studies about how cities have concretely financed a specific sustainable urban development project. Future peer exchanges could be improved by keeping these considerations in mind and engaging with cities that have worked successfully with financing institutions on sustainable urban development projects to act as the in-depth case study for cities. For more information and resources on municipal finance and PPPs, see the GPSC knowledge library.

Figure 1. Panel of financial expert: Aloke Barnwal (GEF); Maryke van Staden (ICLEI); Tsakani Manyike (DBSA); Arnaud Heckmann (ADB); Sebastiaan van Herk (Bax&Company)

Figure 2. GPSC Peer Exchange Session with Finance Experts: participants

Figure 3. Group Discussions

Annex 1. Peer Exchange agenda

F2 GPSC Peer Exchange Session with Finance Experts

Workshop session

Date: Thursday, 27 June 2019 **Language :**English
Time: 15:30 - 18:00 **Contact:** Giulia Salvaterra, Eszter Mogyorósy
Rooms: S30-32**E-mail/web:** giulia.salvaterra@iclei.org
Organized by:ICLEI World Secretariat for the Global Platform for Sustainable Cities (GPSC)

OBJECTIVE

This Peer Exchange Session of the Global Platform for Sustainable Cities (GPSC) brings together city representatives and financial experts to share experience on how to access climate finance. What works? What is needed? How can we ease the process?

Local governments are at the frontline of climate action. They have vast potential to support achieving the Nationally Determined Contributions (NDCs), even to raise the level of ambition of the targets of the NDCs. Local climate action plans are being developed, with implementation projects seeking investors and investment. Yet, subnational governments still often struggle to access finance required for sustainable, low-to-no emission, climate resilient development.

With existing good practice, available tools and expertise specializing in guiding cities to develop robust and bankable projects, this session brings information and knowledge to city representatives - also encouraging them to share their experiences with each other. The peer-to-peer exchange will focus on approaches taken, exploring what worked well and why.

The session provides a platform where local governments can interact with financial experts, helping each other to better understand the challenges they face, and how to design transformative and investor-friendly projects, that are part of a coherent climate action plan which meets the requirements of financial institutions.

This interactive session offers a unique opportunity to showcase achievements, inspire each other, exchange ideas, and find solutions together.

OUTCOMES

Participants will leave the workshop session with:

- Information and knowledge on good practices in accessing finance.
- An improved understanding on how to design robust, transformative and bankable projects.

METHODOLOGY

Facilitator:	**Aloke Barnwal**, Senior Climate Change Specialist at Global Environment Facility (GEF) Secretariat
15:30 - 15:35	Facilitator welcomes participants and sets the scene
15:35 - 16:00	Panel 1: Tips and tools to access finance (each 8 mins)

Moderator: **Maryke van Staden**, Manager of the Low Emission Development Pathway and Director of ICLEI's carbon*n* Center, ICLEI – Local Governments for Sustainability

Panelists:

1. Financing climate-related infrastructure
   Tsakani Manyike, Senior Deal Originator, Development Bank of Southern Africa (DBSA)
2. Ulaanbaatar Green Affordable Housing and Resilient Urban Renewal Sector Project
   Arnaud Heckmann, Principal Urban Development Specialist, Asian Development Bank (ADB)
3. Co-develop business cases for climate-resilient investments
   Sebastiaan van Herk, Director, Bax&Company

16:00 - 16:35 Panel 2: City presentations on experiences to access finance (each city has approx. 8 mins)

Moderator: **Aloke Barnwal**, Senior Climate Change Specialist, GEF Secretariat

Panelists:

1. **Mayor Zamzuri Arifin**, Alor Gajah Municipal Council, Melaka, Malaysia
   Mohamad Shafie Bin Taib, Green Engineer, Town Planning Department, Alor Gajah Municipal Council, Melaka, Malaysia
2. **José Neves Filho**, Secretary of Environment and Sustainability, City of Recife, Brazil
3. **Alessandra Péres**, Sub-secretary for Management Strategy, Environment Secretariat of the Federal District, Brazil
4. **Liana Strydom**, Assistant-Director, Development Planning, City of Johannesburg, South Africa

16:35 - 16:45 *Coffee break*

16:45 - 17:40

How to find solutions and design robust bankable projects?
Facilitated four group discussions focusing on the invited GPSC cities.
Facilitators are panelists and ICLEI experts. Participants are free to choose which group to join.

17:40 - 18:00

Report back (each group 5 mins)
Evaluation of session – complete evaluation form

Further recommended reading

Global Platform for Sustainable Cities (GPSC) https://www.thegpsc.org/
Transformative Actions Program (TAP) - www.tap-potential.org

International Finance Corporation. 2018. **Climate Investment Opportunities in Cities - An IFC Analysis**. https://www.ifc.org/wps/wcm/connect/bffd2386-ff4c-454d-8366-8d801bf3b9c5/201811-CIOC-IFC-Analysis.pdf?MOD=AJPERES

CCFLA, 2018. **Summary of Good Practice of Successful Project Preparation Facilities**. Authors: Basil Oberholzer, Katharina Schneider-Roos, Charlotte Boulanger, and Maryke van Staden.

http://urbanleds.iclei.org/fileadmin/user_upload/Resources/guidance_and_tools/Climate_Finance/Summary%20of%20good%20practice%20of%20successful%20project%20preparation%20facilities%20-%202018.pdf

ICLEI - Local Governments for Sustainability, 2018. **Data speak louder than words - Findings from an initial stocktake of climate change adaptation and urban resilience efforts**. https://iclei.org/en/publication/data-speak-louder-than-words

ICLEI - Local Governments for Sustainability, 2018. **Multilevel climate action: the path to 1.5 degrees. carbonn® Climate Registry 2017-2018 report.** Bonn, Germany. Authors: Chang Deng-Beck, Dana Vigran, Maryke van Staden, Alvaro Rojas Ferreira. https://iclei.org/en/publication/multilevel-climate-action:-the-path-to-1.5-degrees

ICLEI - Local Governments for Sustainability, 2018**. Cities and Regions Talanoa Dialogues: Leveraging Subnational Action to Raise Climate Ambition.** Authors: Robert Meyer, Jisun Hwang, Yunus Arikan.

IUC, 2019: **Overview of international financial sources and institutions.** Authors: Eszter Mogyorósy, Giorgia Rambelli, Silvia Assalini, and Maryke van Staden. http://www.iuc.eu/fileadmin/templates/iuc/Documents/IUC_-_Finance_Publication_International_Financial_Sources.pdf