U20
CLIMATE FINANCE WORKING GROUP

JOINT STATEMENT

2023

The 2020s represent a key decade for climate action, to achieve the United Nations Sustainable Development Goals, and reform global financial architecture. Without quick, effective and immediate action, the key 1.5°C global warming target of the Paris Agreement will be overshot by 2027, according to the **Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Synthesis Report.** And as the world becomes more urban, the vast majority of climate action required to tackle the global climate crisis needs to happen in cities.

The potential of city climate action is strong - some 90% of urban emissions could be reduced with existing technology and practices. Cities often set their own ambitious climate targets and are also in charge of implementing the key climate interventions that are needed to achieve countries' Nationally-Determined Contributions (NDCs) and Long-Term Strategies at the national level. In fact, research *(1)* shows that in some countries city action alone can deliver on more than half of the NDCs. Cities - as the level of government closest to their citizens - are also best placed and informed to effectively address climate change because of their ability to connect directly to the social and human dimension of the transition. This makes cities key partners to national governments to help meet national and global targets. However, at the moment, they do not have adequate financial resources to support implementation on the scale that is needed and urban finance is not recognised as a central subject matter in international finance dialogues. Further challenges such as lack of technical expertise, legal ability and impactful partnerships exacerbate the problem, particularly in the Global South.

(1) C40 Knowledge Hub, Oct 2021, Creating local green jobs: the United States, Italy and South Africa

In 2017/2018, on average, only 384 billion USD were invested in city climate action annually. However, **2-5 trillion USD are urgently required by cities annually to meet the urban infrastructure needs. That is why accelerating climate finance, in scale, volume and speed, is a U20 2023 priority.** Cities' own-source revenues are not sufficient to support the implementation of the interventions needed to deliver the objectives of the Paris Agreement nor to provide basic public services that are often affected by climate change. At the same time, cities face many challenges in securing stable intergovernmental fiscal transfers and accessing funding from international financial institutions.

To address this urgent issue, the **U20 Climate Finance Working Group calls on national leaders, development finance institutions and private sector to work with cities to accelerate availability and access to urban climate finance** to unlock effective and impactful climate action at the local level as an integral strategy to achieving NDCs, the SDGs, and long-term mitigation and adaptation goals. We welcome the efforts of the SDSN Global Commission for Urban SDG Finance to recognise and validate these issues and promote effective solutions to the urban climate finance challenge.

Specifically, the U20 Climate Finance Working Group recommends the following:

1. **National and regional policies need to prioritise the design and implementation of a systemic urban climate finance architecture and ecosystem** as referred to in their commitment to implementing the historic paragraph 34 of the Addis Ababa Action Agenda and **enable and support climate action in cities, led by cities.** Cities are implementers of the key climate interventions that are needed to achieve national governments' NDCs and Long-Term Strategies and supporting their financial, political and administrative ability to fund and finance these interventions is critical to ensure NDCs are enhanced by 2025, as required by the COP process. This includes increasing the involvement of local and regional governments in NDC development and implementation, including by soliciting their input into the planning stages and ensuring cities are empowered with financial engineering capabilities to conducive finance regulations to deliver their share of the NDC objectives.

2. **Cities need a mix of incentivised, facilitated, direct and intermediated access to funds and guarantees** as part of their national government's strategies to fund long-term climate action and their NDCs, including access to finance mechanisms under the UNFCCC such as the Global Environment Facility, and from Development Finance Institutions (DFIs) - particularly Multinational, National and Subnational Development Banks (MDBs, NDBs and SDBs), through grants, concessional loans, subnational pooled financing mechanisms (SPFMs), risk mitigation and credit enhancement mechanisms that will allow to accelerate the delivery of impactful actions on the ground.

Facilitating and accompanying this access to finance may require incentives for DFIs and private investors to boost the urban climate finance market and a review and reform of national fiscal and regulatory frameworks as well as setting up dedicated urban climate finance programmes nationally and within financial institutions. It includes the strengthening of intermediary finance institutions set at domestic level (such as SDBs, green banks, SPFMs) and specifically dedicated to the subnational level of action.

3. **Financial institutions and banks with public development mandates need to consider urban climate action in their own climate strategies and develop clear, integrated and dedicated urban finance programmes.** Integrating urban climate strategy across financial institutions' programmes is essential to making urban climate investment a priority across development finance actors and sectors. Additionally, and in coordination with national governments, these institutions should be encouraged to integrate urban climate action into their national-level strategies and country partnership frameworks, to actively engage with cities and their networks as key stakeholders and empower them with financial engineering capacities.

4. **Cities need support in attracting private sector investment for the benefit of their local communities.** Cities often lack technical capacity and expertise to prepare and present well-structured projects, especially climate-smart projects that have the potential to attract investment.

It is critical that national governments facilitate cities in developing robust pipelines of projects, especially through project preparation facilities and technical assistance for small-scale projects. National governments should also play a role in aggregating viable projects across municipal boundaries to help attract investment.

5. **Cities' own-revenues are not sufficient to support the scale and pace of climate interventions needed** but they represent an important source of revenue that provides flexibility and allows for local decision-making. National governments should facilitate cities' ability to explore innovative ways to raise their own revenues through fiscal decentralization, such as through payment for urban services or land-value capture.

6. **Cities must be involved in the establishment of improved systems of intergovernmental fiscal transfers**, as these represent the main source of revenue for most local and regional governments in the world on average. Stable and predictable transfers can make it a reliable source of revenue and allow local and regional governments to plan and manage their budget correctly, as well as define robust capital investment plans. Regular amounts should be allotted at a steady and timely frequency through transparent distribution formulas, including climate earmarked subsidies, in order to cover the devolved functions of government and climate transition.

7. **Green bonds are an important financial tool that cities can use to raise funds** for large or small-sized pooled projects, eg. for infrastructure investments. However, meeting ESG certification criteria can be a challenge particularly for cities in the Global South who find ESG criteria do not always adequately reflect conditions in their part of the world. **Including more Global South institutions into ESG certification processes** will help facilitate access, improve compliance and reflect different development trajectories and local contexts. Moreover, ensuring the depth and liquidity of the domestic or regional market for urban finance is key to allow for this diversification of climate finance sourcing and incentives provided to private and institutional investors are a helpful leverage for this mindset change.

8. **Adaptation finance at the local and regional level is a crucial challenge** to be tackled through a multilevel and multi stakeholder effort. Local adaptation projects tend to lack revenue-generating potential and provide limited direct financial returns. This constrains the 'bankability' of these projects at a local level necessitating more reliance on public finance, blended finance or innovative finance mechanisms. It is crucial that national governments, financial institutions and donors place greater resources and focus on urban adaptation and resilience through increased technical assistance, stronger integration at the national level and increased financing to enable cities to implement effective adaptation measures at the local level. Local (or domestic) carbon markets and carbon taxes with a clear redistribution/reallocation strategy and mechanism can ensure a steady sourcing of funding for adaptation and resilience projects.

9. **International development and public funds must be disincentivised** from activities and infrastructure that cause the climate crisis, including fossil fuels, and directed in priority towards sustainable industries and green technologies, digitalisation and people-centered projects that create new, good green jobs while protecting the planet.

PARTNERS