

Intervention #10

Building capabilities for blended finance

Intervention point

Cities are a focal point for the decarbonisation challenge we are facing. Decarbonising cities requires immense sums of capital, which will not be provided solely by governments. To raise these funds, cities must adopt an investment strategy by leveraging traditional continuous streams of resources to access new and alternative sources of capital. Doing so requires skills and capabilities that are – so far – less commonly required in the public sector.

Current situation

Globally, the built environment produces 37 percent of energy-related carbon emissions.¹ To limit global warming to 1.5°C, as is set out in the Paris Agreement, built environment-related emissions need to be drastically reduced. Decarbonising the built environment includes fuel switching from fossil-based heating and cooling to electrified or alternatively sustainable systems. It also requires building insulation and low-to-zero carbon construction methods to reduce embodied carbon emissions. In addition, buildings should be integrated into renewable energy generation and storage grids; will require improved public transport links; and building design must be taken into account in neighbourhood and green space design for climate change adaptation.

This makes cities an important focal point for this reduction, as individual buildings and public infrastructure are heavily intertwined through energy systems at district level and intensity of public transport provision. Cities produce 70 percent of global emissions,² and with increasing global population and rural depopulation, the urban population is expected to rise to 60 percent by 2030.³ This will increase the demand for housing, public transport, water and waste infrastructure as well as liveability in urban areas in an era of climate change.

The transition of built infrastructure and energy systems towards net zero requires funding at an immense scale, from energy infrastructure and grids to social infrastructure, public buildings and built assets that are not able to finance decarbonisation activities. The Global Infrastructure Hub estimated a \$15 trillion global investment gap into infrastructure by 2040.⁴ Other estimates range from €4 trillion to €4.75 trillion annually for 10,000 cities worldwide.⁵

Considering current levels of city funding and investments are significantly lower, it is clear that municipal administrations will need to rely on redirection of increased public and private investments to achieve the necessary decarbonisation goals. These new capabilities for raising funding will need to be developed – a recent survey by LSE Cities found that, at a global level, 55 percent of municipalities identified a lack of public funding as a major barrier to sustainable urban growth.⁶

Generally, municipal activities are financed via state or national governments, as well as through their own revenue generating streams (taxes, licences and permits, service fees, etc.). However, these different streams vary across countries. For example, in Austria local governments on average account only for 14 percent of tax revenue, in Spain it is 51 percent.

Spending and investment activities also vary across the different fields of responsibility distributed between local, regional and national governments.⁷ As EIT Climate KIC's Net Zero Cities programme⁸ highlights, "understanding the exact competencies of a governmental entity or entities responsible for a city in regard to revenue generation, public spending and public investment is key to identify the levers available for climate action."⁹

If we understand cities as a locally specific actor system of stakeholders,¹⁰ then government funding is just one of multiple funding streams. Other streams providing capital for the decarbonisation transition are open for exploration. These could include, for example, philanthropic funding and sustainability programmes, but also private ESG or infrastructure funds, development banks or even national health budgets, as fewer fossil heat sources in urban areas translate into measurably better air quality.

The key to attracting funds from these diverse sources for building new infrastructure or retrofitting the existing stock, is the ability to turn these undertakings into bankable projects by setting them up as viable investment opportunities.

However, this strategy of accessing and harnessing alternative financing streams for large-scale multi-faceted projects in municipalities is neither common nor self-explanatory, and building capabilities and skill sets in cities at all levels of administration is key to unlocking the necessary funding for decarbonisation efforts. An extended discussion of the nature of these "blended finance" approaches can be found in the *C Change Intervention #4 Financial solutions*.

Recent reports by the World Economic Forum and EIT Climate KIC Net Zero Cities highlight the lack of capacity and skills to secure financing through these alternatives. This is identified both as one of the main barriers¹¹ to and as a fundamental strategic enabler¹² for financial management of cities in this period of increased need for investment. Learning the skills of capital management and allocation is time-consuming when there is potentially understaffing in municipalities of all sizes. In addition, the cultural differences between the public and the financial sector can lead to a lack of trust and engagement,

leading to alternative funding possibilities being ignored due to a lack of knowledge or understanding of certain financial instruments¹³.

This lack of skills, resources and wider capabilities for raising alternative ways of financing sustainable infrastructure means the public sector misses out on opportunities to leverage its position of being continuously well financed. On the flip side, this presents much wider possibilities for private and blended finance investments.

What is being done?

At a global level, the [City Finance Gap Fund](#) supports cities with early-stage technical assistance for low carbon and climate resilient urbanisation plans and projects, in order to help close the gap in urban-climate finance for early-stage climate strategy and project preparation.

The Global Covenant of Mayors for Climate and Energy (GCoM) is launching an [initiative](#) to support signatory cities in six regions with the preparation of bankable climate projects to access financing. This initiative is complementary to the City Finance Gap Fund, helping cities identify their needs early in project development. The objective is to help cities strengthen their projects' bankability to match with further relevant technical or financial assistance.

At a supranational level, the EU supports capacity building and provides technical assistance for energy efficiency projects and initiatives by financing legal, technical and financial support. These services are offered to cities, individuals and businesses. They include:¹⁴

- The [Sustainable Energy Investment \(SEI\) Forums](#), in close cooperation with the Energy Efficiency Financial Institutions Group (EEFIG), which facilitates dialogue between the financial sector, public authorities and all stakeholders involved in delivering investments in sustainable energy at EU and national level.
- The [InvestEU Advisory Hub](#), financed by the EU budget, which connects project promoters and intermediaries with advisory partners, who work directly together to help projects reach financing stage.

- The [European Local ENergy Assistance \(ELENA\)](#), run by the EU investment bank, provides technical assistance for energy efficiency and renewable energy investments targeting buildings and innovative urban transport
- Finally, project development assistance is available through the [LIFE Clean Energy Transition sub-programme](#)
- Additional, more specific EU administered programmes can be found [here](#).
- Planning to launch a multi module training program for capability building in cities for climate neutrality, including funding and financing.

Possible next steps

There are a number of high-quality support programmes available and in development that city administrations can access to start building their capabilities for raising diversified financing at the scale required to build and implement decarbonisation infrastructure.

Looking at sustainability-enabling organisations, the Net Zero Cities (NZC) programme is the most notable initiative of [EIT Climate-KIC](#), delivered with a [number of partners](#). At present, 112 European cities have joined a mission to transfer into climate-neutral and smart cities by 2030.

The NZC programme consists of 33 partners from 27 European countries and will act as a platform tailored to cities' sustainability needs and supported by climate practitioners. The programme includes learning around developing an investment versus budget mindset and participatory budget management. Developed from its earlier [Healthy, Clean Cities Deep Demonstration](#) activities, it will provide many European cities with the support and solutions they need to achieve their net zero goal in a socially inclusive way.¹⁵

Some tactics used by the NZC programme include:

- Facilitating a [Community of Practice](#) dedicated to carbon neutrality in cities to share learnings and best practices.
- Developing a finance guidance tool¹⁶ to help build awareness and understanding in cities for different financing and funding options that are available to them within their unique contexts (recall above discussion). The development of the tool is currently in progress and is co-led by Bankers without Boundaries and the Frankfurt School of Finance and Management.
- Building an online hub for city administrators and project managers of the 112 participating cities in which all topics on the issue of transformation have dedicated knowledge bases, seminars and peer exchange platforms.

To increase take-up of these programmes, and to accelerate the transition, there are a number of auxiliary steps that should be taken within the municipality context. These include:

- Joining forces with other municipalities, making it easier to gather expertise and respond to calls for projects.
- Building strong relationships with key national players.
- Working with the private sector to develop a collaborative financing culture and mindset within the administration.

The cultural gap between the finance and the public sector remains a key barrier¹⁷ to training and knowledge building about alternative financing streams. Possible next steps could include field building and collective intelligence work designed specifically to bring together stakeholders from the public and finance sectors, technical advisories and project management of city-scale infrastructure developments, so that learnings and best practices can be shared and applied, but also new ones can be developed.

Crucially, despite the already technically excellent programmes available, the chronic under resourcing in municipalities due to decades of systematic defunding¹⁸ is a key driver of limited take-up and consecutively slow progress in city transformation. Freeing up or bringing in adequate capacity is vital. New skills and knowledge for financing infrastructure development and transformation can only be applied on the ground if there is the resource in place to enable this.

Undertaking a city-scale net zero transformation programme ultimately requires more capabilities than diversified financing and financial planning. Multiple associated skill sets will need developing, including the ability to quantify and measure impacts, to estimate network effects, to identify and mobilise participation for proposed solutions, to reflect and learn from projects and synthesise lessons. Developing and implementing this range of skills will require a systemic, framework driven approach to change.

How to get involved

Apply for [support](#) at the City Gap Fund.

Cities in Eastern Europe are eligible for the [Global Covenant of Mayors Bankable Cities' Climate Project](#). A new call for applications was live until April 2023.

An overview of EU administered support and advice programmes can be found [here](#).

The Net Zero Cities programme community of practice can be joined [here](#).

For more updates from the Net Zero Cities programme about the financing tool, knowledge hub, or training modules, sign up to their [newsletter](#) or find out more about the programme on the [website](#).

About C Change

C Change is a ULI-led programme to mobilise the European real estate industry to decarbonise. We're a movement empowering everyone to work together for a sustainable future. We connect the brightest minds from across the value chain. We challenge barriers, share expertise, and champion innovation to move swiftly to accelerate solutions that will transform our industry and protect our planet. C Change means real change.

C Change was formed in late 2021 by a group of leading real estate players that was united in its aim to focus on collaboration to ensure companies large and small have access to practical solutions and education on decarbonisation.

About these intervention briefings

This is one of a suite of intervention points developed as part of the C Change programme. Intervention points are specific places within a system where we can target action, interrupting business as usual to drive transformation. Of course, systems are dynamic environments that are always in flux. We expect movement over time, and will update this document as prevailing and anticipated trends change shape. This briefing was researched in 2022 and published in 2023.

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- 1 [Tracking progress | Globalabc](#)
 - 2 [Green City Bonds: financing low carbon urban infrastructure](#)
 - 3 [Ibid](#)
 - 4 [Global Infrastructure Outlook](#)
 - 5 p.34 [Net Zero Cities: City climate finance landscape, barriers and best practices in city climate finance](#)
 - 6 p.1 [Global Review of Finance For Sustainable Urban Infrastructure](#)
 - 7 p.35 [Net Zero Cities: City climate finance landscape, barriers and best practices in city climate finance](#)
 - 8 [NetZeroCities](#)
 - 9 p.35 [Net Zero Cities: City climate finance landscape, barriers and best practices in city climate finance](#)
 - 10 p.35 [Ibid](#)
 - 11 p.48 [Ibid](#)
 - 12 p.54 [Rethinking City Revenue and Finance | World Economic Forum](#)
 - 13 p.49 [Net Zero Cities: City climate finance landscape, barriers and best practices in city climate finance](#)
 - 14 [Capacity building and technical assistance](#)
 - 15 [EIT Climate-KIC will help 100 European cities to achieve climate neutrality](#)
 - 16 [Net Zero Cities: Report describing Innovative Climate Finance Assessment and Knowledge Development](#)
 - 17 p.53 [Net Zero Cities: City climate finance landscape, barriers and best practices in city climate finance](#)
 - 18 [Ivana Gazibara: Investing in systems transformation in cities: notes from the field](#)

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