Survey Results

Financing

Barriers to financing urban climate action and significance of SDGs and third party certification

Funded by: Climate-KIC
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About

About Low Carbon City Lab (LoCaL)

This report was written through support from the Low Carbon City Lab (LoCaL).

LoCaL aims to reduce 1 Gt of CO_2 and mobilize € 25 billion of climate finance for cities annually by 2050. It is an innovation platform aiming to provide cities with better tools for assessing greenhouse gas emissions, planning, investing and evaluating progress. Started in 2015, LoCaL is a growing community of more than 20 organisations dedicated to unlocking climate finance for cities. This report was realized as part of the project Closing the Gap through Transformative LoCaL Action (CGTLA) under LoCaL. LoCaL is a Climate-KIC flagship programme.

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About Climate-KIC

Climate-KIC is the EU's largest public private partnership addressing climate change through innovation to build a zero carbon economy. We address climate change across four priority themes: urban areas, land use, production systems, climate metrics and finance. Education is at the heart of these themes to inspire and empower the next generation of climate leaders. We run programmes for students, start-ups and innovators across Europe via centres in major cities, convening a community of the best people and organisations. Our approach starts with improving the way people live in cities. Our focus on industry creates the products required for a better living environment, and we look to optimise land use to produce the food people need.

Climate-KIC is supported by the European Institute of Innovation and Technology (EIT), a body of the European Union.

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1. Introduction

This report provides the results from a number of surveys and semi-structured interviews carried out by Gold Standard with staff at World Bank (WB), International Finance Corporation (IFC) Agence Française de Développement (AFD) and Cities (Ahmedabad, Cali, Lome, Chengdu and Abidjan). This report laid the foundation for developing a result based financing certification standard for sustainable cities through the Climate-KIC funded project in 2016.[1]

Please note, the opinions expressed by individuals were in their individual capacity and do not represent the views of their respective organisations.

The key objectives of the survey and interviews were:

- To understand the barriers faced by the development banks for investment into urban projects
- To understand the barriers faced by the cities for preparation of urban projects
- To assess the willingness of investors and cities to opt for third party audit and certification of urban projects to evaluate project design and actual performance

2. Methodology

Gold Standard (GS) used surveys prepared by one of our project partners, ICLEI, to form the basis of our approach and further customised them to meet the above-mentioned objectives. The Gold Standard approached the World Bank, IFC, AFD and Cities to complete the surveys[2]. The Gold Standard team carried out semi-structured interviews with the survey respondents, who agreed to have a more detailed discussion.

3. Result and Analysis

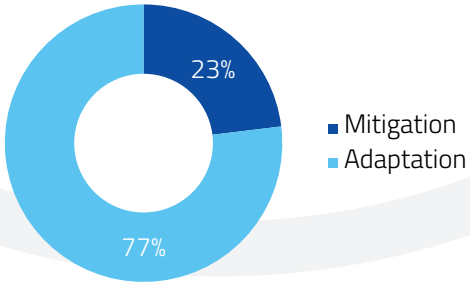
The results of the surveys and interviews have been compiled in the following section. The responses are summarised in four sub-sections i.e., project financing, climate change mitigation, sustainable development benefits and third party certification.

3.1 Project Financing

The survey responses and interviews conclude that mitigation and adaptation actions are equally important to address climate change issues (Fig. 1). Note that investors opted mitigation action or both including mitigation and adaptation, since only one option was allowed to select. Since, investment decisions are made based on both current and future development needs of cities, an integrated approach is adopted for evaluating projects for investment decisions. Also, the near and long term socio-economic and environmental impacts of the projects are taken into account when aligning the investment preferences at the time of decision-making.

Projects from a range of sectors including energy, transportation, infrastructure, urban planning, disaster risk management, health, tourism etc. are financed through city schemes (Fig. 2). The typical financing preference for urban projects suggests that the immediate focus is on climate change mitigation actions across the sectors. Climate change mitigation actions like energy efficiency and renewable energy generation top the list of typically financed actions.

Fig. 1:
Which climate action focus does your organization typically finance in the urban context?



[1] For additional information on Climate-KIC funded project *"Result Based Finance for Cities"*, please write to m.stadelmann@thesouthpolegroup.com or abhishek.goyal@goldstandard.org

[2] The respondents include six WB staff member, four IFC, one AFD and two others. Out of total thirteen, five agreed for follow up discussion. In total, six cities that include Ahmedabad, Cali, Lome, Chengdu and Abidjan provided feedback through surveys.

The survey result indicates that development banks target national and subnational governments along with local governments for project financing (Fig. 3). During the discussion, it was highlighted by several respondents that most of the development banks deal with the national governments, while further down the line, the sub-national, local governments and private players can be financed based on bankability and ownership of projects. The development banks prefer to deal with the national governments as they act as guarantors for the investment. Similar to CDM projects, the bundling of small projects was also highlighted as an opportunity in an urban context. For example; energy saving lighting, solar rooftop etc. are measures which individually have small climate change mitigation potential but cumulatively can lead to significant emission reductions. Bundling will also help to save transaction costs for Monitoring, Reporting and Verification (MRV).

In most cases the cities are aware of the variety of financing mechanisms and options available, such as grants, subsidies, loans, Public private partnership (PPP), Build operate and transfer (BOT) etc. The cities also confirmed an awareness of result based financing[3] mechanisms, however a very small percentage could arrange financing for urban projects till now.

The cities also highlighted the following as key barriers faced when applying for/seeking financing for urban projects.

- Lack of resources including funds and human resources
- Political willingness
- Lack of awareness about climate change issues
- Lack of coordination between national and local institutions

Fig. 2: Which of the following sector(s) does your organization typically finance in urban context?

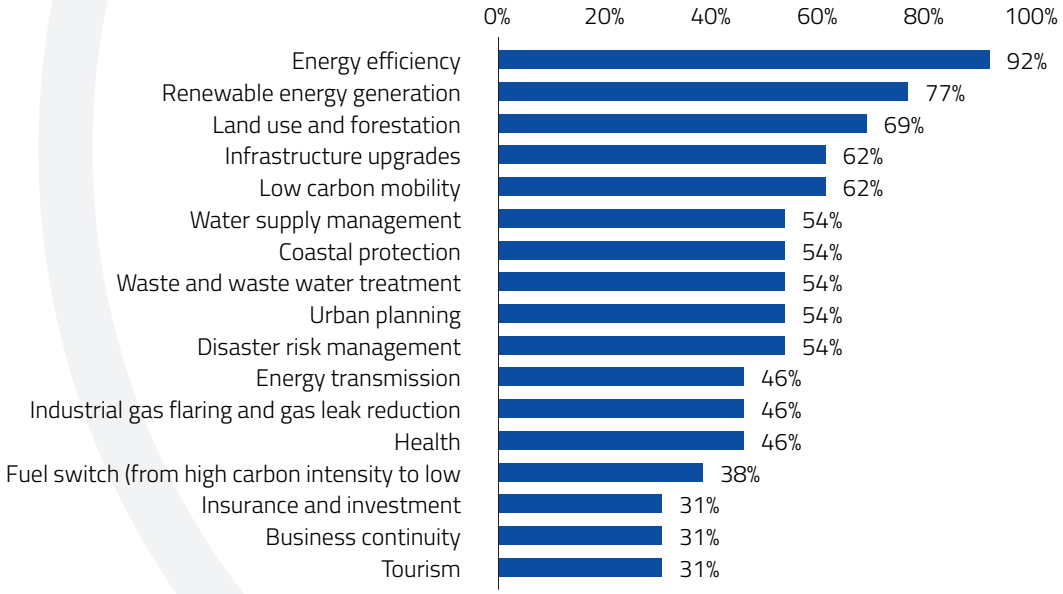
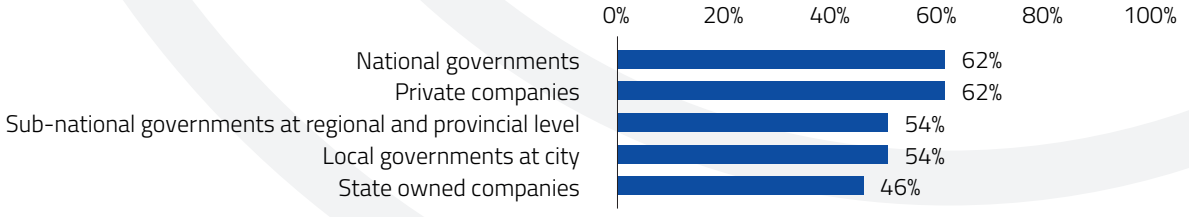


Fig. 3: Who is the target group for financing urban projects?

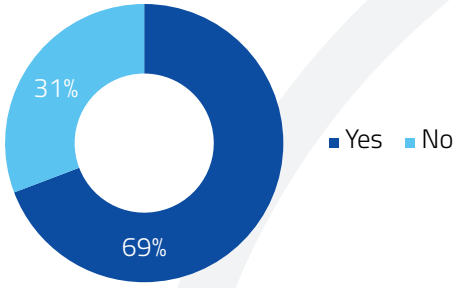


[3] The Result Based Financing (RBF) is an umbrella term, which covers all financing approaches those are based on fundamental principal of providing a payment or financing or financial incentives on delivery of predetermined measureable and verifiable result(s). In recent past, it is being considered as of one of the effective means for financing GHGs mitigation and adaptation actions across the sectors. The Gold Standard carried out the feasibility of using results-based finance approach in urban context. For further details, please refer to full report available at "Financing Cities of the Future: Tools to Scale-up Clean Urban Development"

3.2 Climate Change Mitigation

The result shows that the climate change mitigation potential of the urban projects are an important and crucial factor when making a decision on funding (Fig. 4).

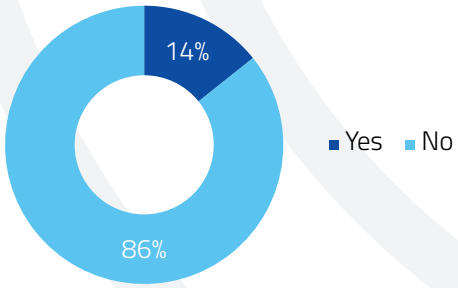
Fig. 4:
Is quantified climate change mitigation potential a decisive factor for urban project selection?



During the discussion, it was highlighted that the mitigation potential are quantified and measured for all urban projects to assess the contribution level. The investors rely on tools (either in-house or which are available in the public domain) for GHGs quantifications. However, most of them highlightedthe problem of collecting information and lack of capacity to use these tools at a city level.

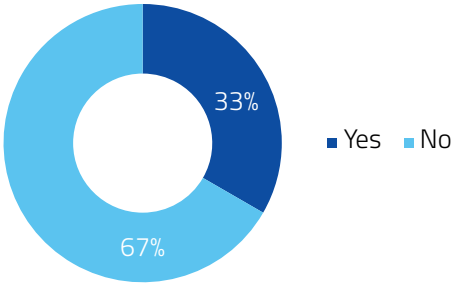
The cities also indicated the limited awareness and access to the tools for quantifying the GHGs emissions reduction potential of urban projects/sector (Fig. 5).

Fig. 5:
Do you have awareness/access to tools to quantify the GHGs emissions for urban projects/sectors?



The cities highlighted the need for external assistance to quantify GHGs emissions of urban project/sectors, which corresponds with the investors' opinion (Fig. 6).

Fig. 6:
Do you require external assistance to quantify GHGs emission of urban projects/sectors?

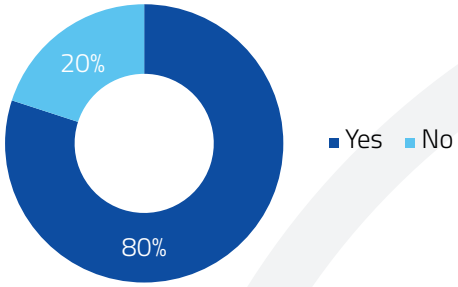


3.3 Sustainable Development Benefits

When it was asked how critical the sustainable development benefits of the projects are in terms of investment process and decision-making, the respondents acknowledged the importance of sustainable development benefits of urban projects and confirmed that the sustainable development co-benefits play a critical role in decision-making. A respondent stated that *"it is a must to articulate the sustainable development impacts including climate change mitigation potential of the projects, in absence of clear development impacts, the projects are not considered for financing"*. However, the others also indicated the lack of user-friendly tools to assess the co-benefits of the projects.

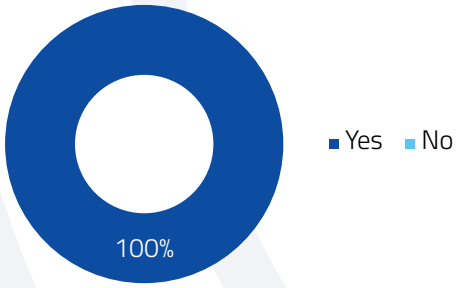
The investors showed interest in early stage assessment of potential environmental, social and economic impacts of the projects (Fig. 7). The investors also confirmed that Identification of the full range of benefits of urban projects; including improved health, improved air quality, energy savings, job growth, labour productivity, and economic growth would certainly improve the project design. Among others, the lack of awareness on how to assess the co-benefits and accounting the economic value of these benefits in an urban context is identified as a key barrier.

Fig. 7:
Would you be interested in early stage assessment of potential environmental, social and economic impacts of the projects and its contribution to *"Sustainable Development Goals"*?



The investors are also equally interested in evaluating a project's contribution to *"Sustainable Development Goals"* (SDGs) (Fig. 8). During the discussion, it was indicated that the monitoring of the projects contribution to the SDGs, including the GHGs quantification would be a point of great interest.

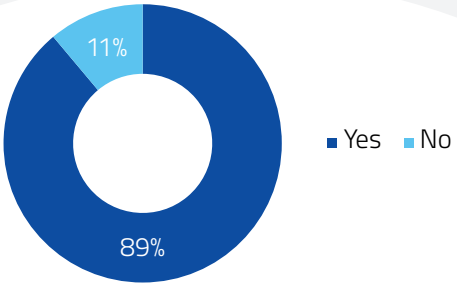
Fig. 8:
Would you be interested in monitoring and reporting of GHGs emission reductions and sustainable development co-benefits outcome from the urban project?



3.4 Third Party Certification

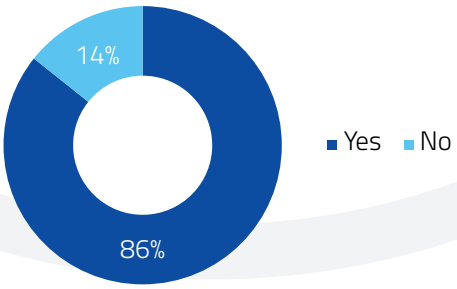
The investors' response concluded that third party involvement for the certification and verification of GHGs emission reductions and sustainable development co-benefits outcomes would be welcomed (Fig. 9). Where credit worthiness of the local government, accountability, MRV of project outcomes are critical for decision-making, a third party involvement would bridge the gap and be helpful for boosting investor confidence.

Fig. 9:
Would you be interested in third party verification and certification of GHGs emissions reduction and sustainable development co-benefits outcome from the urban project?



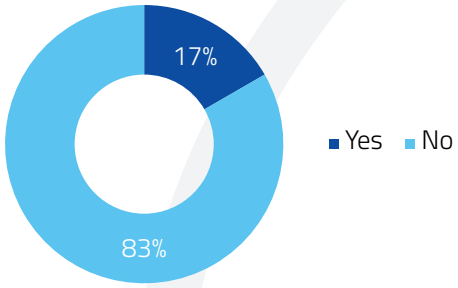
During the interview, the idea of developing a standard for auditing and certifying urban projects was discussed in detail with the respondents. All welcomed the idea and confirmed that it would be helpful in improving the project design, providing transparent information and ensuring the progress and outcomes of the urban projects are achieved as planned. It was further stated that since the development banks follow well-defined standards to ensure project quality and the identification and mitigation of potential project risks an integrated city-based standard might help to avoid any duplication of efforts at a city level. The respondents were in agreement that like CDM, a result based financing approach would be helpful in an urban context. The majority of cities are also of the opinion that third party verification and certification of GHGs emission reduction and sustainable development outcome of the urban projects would add value to the projects (Fig. 10).

Fig. 10:
Do you think third party verification and certification of GHGs emission reduction and sustainable development outcome would be a value addition for urban projects/sectors?



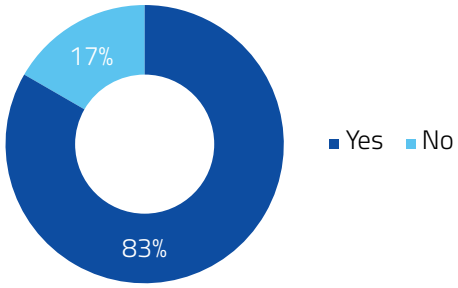
Although the majority of cities are familiar with the importance of project co-benefits, with special reference to the Sustainable Development Goals (SDGs). They were not as aware or do not have access to the tools required to assess a projects' co-benefits and thus contribution to the SDGs (Fig. 11).

Fig. 11:
Do you have awareness/access to tools to assess sustainable development outcomes for urban projects/sectors and its contributions to Sustainable Development Goals (SDGs)?



The cities confirmed that they require external assistance for evaluating the development impacts of projects and for preparation of monitoring plans (Fig. 12).

Fig. 12:
Do you require external assistance to assess sustainable development outcome and preparation of the monitoring and reporting plan of urban projects/sectors?



4. Conclusion

The survey results demonstrate that the global development agenda and climate agenda are starting to converge after two big UN meetings in 2015; The UN Summit in New York in September and the Climate Summit in Paris in December, 2015.

Respondents suggested that although GHG mitigation potential would continue to play an important role in mobilizing finance for urban climate action, there would be an increase in the significance of contributions to sustainable development goals when making a decision on a project. In this regard feedback from investors clearly demonstrates interest in early stage assessment of potential environmental, social and economic impacts of the projects and further monitoring and reporting of actual outcomes achieved.

Poor preparation of bankable projects by cities is a major barrier in mobilizing finance for urban projects. In many cases these projects can be made investment-grade by using financial experts to properly package the projects. In other cases, identification and monetization of sustainability benefits can be used as a means to improve economic returns from the projects, making them more attractive for financing. Cities lack capacities to make technical ideas look attractive for financing by public/private investors.

Capacity building and assistance in assessing financial returns, GHG mitigation potential and contribution to SDGs can help cities prepare project applications demonstrating sound financial and economic returns to investors. Third party audit and certification can provide the required assurance to investors of outcomes achieved through a result based finance framework and survey results clearly demonstrate preference from investors and Cities to go for third party verification and certification of GHG mitigation and sustainable development outcomes.

To present a solution to the barriers identified in this report, a standard for results-based financing for city-level sustainable development actions is under development in year 2016. This project, funded by Climate-KIC, aims to develop a Result Based Financing certification scheme that will allow cities to attract additional financing for their climate actions, based on development benefits and GHG emission reductions, while offering funders transparent, impact-based results.[4]

[4] For additional information on the Climate-KIC funded project *"Result Based Finance for Cities"*, please write to m.stadelmann@thesouthpolegroup.com or abhishek.goyal@goldstandard.org