First ever study looking at multilateral development bank financing to cities in the Global South reveals a significant shortfall in financing for urban climate projects

- As COP 28 begins, a landmark new report is making the case for including urban climate finance as a strategic component of multilateral development bank (MDB) reform and makes recommendations for action.
- Despite rising global urbanization, this new report finds the share of urban climate-related MDB finance to low- and middle-income countries between 2014 and 2022 remained stagnant at an average of 21%. Cities still face a systemic climate finance gap, with only 1% of the needed annual global climate finance reaching cities (up to US$5.4 trillion annually to 2030).
- Cities are responsible for 70% of global energy use and 75% of total CO2 emissions and are on the frontline in facing climate hazards. MDB climate strategies need to account for the critical role of cities’ in sustainable development.
- Recommendations for MDB reform include prioritizing concessional funding that would de-risk investment, supporting cities to access private finance, and addressing issues of low creditworthiness, limited technical capacity, and regulatory barriers. MDB must also develop operating models and instruments tailored to cities’ needs in coordination with National governments.

London, December 2, 2023 – Cities are responsible for 75 per cent of global greenhouse gas emissions and are at the forefront of climate action. They hold enormous investment potential, with climate-related opportunities in urban areas in low- and middle-income countries (LMICs) projected to exceed USD 29.4 trillion by 2030. Yet there exists a significant shortfall in funding in the urban context with only 1 per cent of the needed annual global climate finance reaching cities.

This new report reveals that the proportion of financing from multilateral development banks (MDBs) dedicated to urban-related finance has remained stagnant at 21 per cent in recent years despite rising climate investments and rapid urbanization across the globe. The finding is part of a new study carried out by the Cities Climate Finance Leadership Alliance (CCFLA) in collaboration with the C40 Cities Climate Leadership Group and the Global Covenant of Mayors.
The study, “Accelerating Urban Climate Finance in Low- and Middle-Income Countries: An Important Strategic Dimension of MDB Reform”, represents the first-ever overview of urban climate finance volumes and initiatives in the context of LMICs from 10 major MDBs, including the Asian Development Bank, African Development Bank, European Investment Bank, Inter-American Development Bank, and World Bank Group.

Covering the period of 2015 to 2022, data from 815 urban climate-related projects financed by the 10 MDBs were analyzed to identify financing flows. Over the seven-year period, MDBs collectively provided USD 62 billion in urban climate-related finance, out of a total of USD 287 billion invested in climate-related finance.

Sub-Saharan Africa, the Middle East and North Africa received a relatively low share of urban climate-related financing despite being among the most climate vulnerable and fastest urbanizing regions globally. Common barriers for LMICs to access urban climate finance include low creditworthiness, limited fiscal decentralization, revenue uncertainty, and restricted access to capital markets.

MDBs, which are tailored to primarily finance National Governments, with a strong aversion to risk, must develop strategies and instruments to better prioritize urban and subnational climate investment.

Building on the research findings, the study identified five key areas of focus for MDBs that would help scale up their investment for urban climate finance. Recommendations put forward include increasing volumes and share of urban climate finance in the total climate finance mix of MDBs while maintaining their steadfast commitment to prioritizing adaptation, with a specific focus on cities that are most vulnerable to climate change; leveraging existing MDB concessional funding and partnering with international climate funds to develop operating modes and instruments tailored to subnational investment needs; provision of technical assistance aimed at supporting national policy reform and closing cities’ planning-to-investment gaps; and promoting risk-mitigation instruments to increase private sector engagement, among others.

In implementing these recommendations, the study emphasizes the importance of close collaboration between MDBs, national governments, and cities.

"Cities are defining ambitious climate plans but lack the funds to implement them, particularly in low- and middle-income countries. Prioritizing urban climate investment in these countries will
require collaboration between MDBs, their shareholder governments, and local stakeholders to systematically address urban needs. As CCFLA secretariat, we will foster an open dialogue between MDBs and cities on practical steps towards implementing this report’s recommendations.” – Barbara Buchner, Global Managing Director, Climate Policy Initiative, Cities Climate Finance Leadership Alliance Secretariat

“MDBs have a crucial role to play in helping cities in Latin America and the Caribbean to fight the climate crisis and access climate finance. Despite the numerous steps taken towards this goal, we realize that it is not sufficient. We are eager to learn from the findings of this new report and understand how MDBs can promote financial instruments tailored to cities’ needs.” – Tatiana Gallego Lizon, Chief, Housing and Urban Development Division (HUD), Climate Change and Sustainable Development Sector (CSD), Inter-American Development Bank (IDB).

"Cities in many Asian countries face multiple barriers to accessing climate finance. MDBs can play a pivotal role in addressing these barriers by working alongside national governments. We are eager to see the recommendations of the report on how MDBs can strengthen existing best practices and develop new solutions to increase urban climate finance.” - Norio Saito, Senior Director, Asian Development Bank

“All over the world, City governments are engaged in bold climate action, with three-quarters of C40 cities cutting per-capita emissions faster than their respective nation-states. However, bridging the city climate financing gap is an urgent prerequisite to achieving the Paris Agreement goals. That’s why the international community and MDBs must prioritize investing in cities and urban resilient infrastructure as a key lever to act simultaneously on climate and development. As the needs of cities are often overshadowed by competing priorities on the global MDB agenda, we hope this report will shine a spotlight on the crucial need for urban finance to tackle the climate crisis at the subnational level.” - Mayor Yvonne Aki Sawyerr, Mayor of Freetown, Sierra Leone and Co-Chair of C40 Cities

“The path to achieving net zero extends through the world’s urban centers, where the critical climate battle is expected to unfold predominantly. Thus, the empowerment of local communities and the assurance of their commitment, particularly among vulnerable sectors, will play a pivotal role in promoting sustainable urbanization. Many local governments have crafted ambitious climate action plans and set targets for reducing emissions, underscoring their dedication to both mitigation and adaptation initiatives. Nevertheless, a significant challenge persists, particularly in the global south, as many lack the essential funding for the effective implementation of these plans. Given that the needs of cities often take a backseat to competing global MDB agenda priorities, this report aims to
highlight the crucial requirement for urban finance to address the climate crisis at the subnational level. MDBs should seize the opportunity to transform into "Banks for Cities" and expedite progress toward the objectives outlined in the Paris Agreement.” - Abigail Binay, Mayor of Makati, Philippines

Learn more and download the full report, here.

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About the COP28 Local Climate Action Summit:
The COP28 Local Climate Action Summit will be the first Summit hosted by the COP Presidency in recognition of the critical role local leaders play in reducing emissions, addressing climate risk, and supercharging national efforts to move further and faster on climate progress. Hosted by the COP28 Presidency and Bloomberg Philanthropies, the Summit aims to bring together national and subnational climate leaders to transform climate finance, enhance global action, fast-track the energy transition, and strengthen resilience and adaptation at the local level. This Summit is backed by world-leading networks of local leaders, including the C40 Cities Climate Leadership Group, the Global Covenant of Mayors for Climate & Energy, ICLEI – Local Governments for Sustainability, United Cities and Local Governments (UCLG), US Conference of Mayors, the Under2 Coalition, the World Resources Institute (WRI), and others.

The LCAS will unite subnational and national leaders to establish a new paradigm for fully-integrated climate action between governments at all levels across four core themes:

- **Transforming Local Climate Finance:** Strengthen sustainable financial mechanisms to mobilize the trillions of dollars in public and private investment needed globally at the subnational level to deliver real change.

- **Integrating Local Contributions to Enhance Global Action:** Incorporate local implementation into national and international climate policy design and determine how best to factor subnational action into future national and global climate goals, including for 2030.
- **Fast-tracking the Local Energy Transition**: Propel rapid advancements across pivotal sectors and surface new strategies to deliver ambitious results locally.
- **Strengthening Local Resilience and Adaptation**: Protect residents and infrastructure from immediate and future climate risks.

For more information about the Summit, please visit [www.cop28.com/LCAS](http://www.cop28.com/LCAS).