Going to town: How the Green Climate Fund can support a paradigm shift in cities

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1 Introduction

The year 2015 has laid new political foundations for a transition towards a more sustainable, low-carbon and climate resilient world. Considerations concerning a great transformation and the need for a paradigm shift in development policies have become part of international political fora discussions. While these concepts are generating valuable visions and ideas, they have been kept to a fairly broad level and only offer limited tangible approaches. One of the thematic areas that surfaced in several debates is the issue of urban areas. The fact that 60% of the area projected to be urban in 2030 is yet to be built, and that decisions on urban planning made today will pave the way for a city's appearance well into the next century, emphasise the importance of this sector.[1] In other words the connection between urban planning and the potential for reducing greenhouse gas emissions and reducing the vulnerability of highly populated informal settlements is undisputable.

At the same time the past few years have seen a growing amount of international climate finance increasingly reflecting the trend towards transformative efforts and paradigm shift developments. However, the means of access for cities to those funds are not ideal. The limited capacity local authorities have impedes the fulfilment of the requirements set by funding institutions on fiduciary standards and

State of Play: Cities and the Green Climate Fund

Officially established in late 2010 and in operation since late 2015 the mandate of the Green Climate Fund (GCF) is to promote a paradigm shift towards low-emissions and climate-resilient development pathways. In order for an urban transformation to take root, such a paradigm shift is required.

According to its initial results management framework the GCF aims to achieve a "reduction of emissions from buildings and cities" while at the same time "increasing the resilience of infrastructure and the built environment to climate change threats" (GCF, 2014). Funding modalities under the GCF currently do not allow cities to access funding directly but require national level entry points and government approval. Clear operationalisation pathways for the GCF to reach the subnational level are still lacking to date.

Out of eight projects approved by the GCF, one centres around tackling climate change in the urban arena, namely in the greater Suva area in Fiji.

[1] CBD, 2012

social and environmental safeguards. Thus, the gap between the availability of financial resources and cities' municipal expenditure needs, in view of looming climate change, is widening at a fast rate.[2]

The Green Climate Fund (GCF) has reached full operationalisation and is resourced with over US$ 6bn (with more than US$ 10bn pledged). This publication offers some suggestions on how to shape the GCF so that its finance flows better suit the needs of cities.

2 Challenges and opportunities of a paradigm shift in cities

With the majority of the world's population residing in cities and those residential areas being responsible for more than 70% of the world's energy related greenhouse gas emissions, the necessity for cities to become a central player in addressing climate change is unquestionable.[3] Realising a paradigm shift in cities towards an urban transformation is not a one-off undertaking but an ongoing process whose technical realisation and visual appearance is dependent on local conditions. In real terms, it requires a transformation of urban structures, its organisation, and its resident's lifestyles. Defining the priorities of a paradigm shift, specifying actions and formulating a long-term strategy to, in due course, commence with its implementation requires adequate time, human resources, and governmental capacities, as well as financial investment. However, many cities in the developing world, particularly second-tier cities, often have significant deficiencies in these areas.

One structural problem is the limited technical and institutional capacity in many cities. While local authorities often have a good understanding of the problems and have potentially transformative local solutions to hand, turning them into (bankable) project concepts is a challenge. It is a fact that a number of cities lack experience in dealing with climate change issues, have a narrow technical understanding of (transformative) green technologies or limited proficiency in accessing sources of financing.[4] Furthermore, local authorities often do not have the technical expertise to mainstream climate goals into urban planning processes, which would be a necessity in order to operationalise a paradigm shift. Whilst synchronising low-emission and climate resilient projects with city planning is generally already difficult, incorporating this approach into relevant agencies and the ministries responsible for planning can prove very challenging.[5]

Another problem lies with cities' restricted access to funding which would help to encourage local authorities to engage in and ultimately start implementing transformative action. Driven by many local authorities' limited control over budgets or their lack of capacity to collect and effectively spend local revenues such as taxes, cities are often not perceived as creditworthy by investors.[6] Furthermore, there is reluctance among funding entities to directly invest in new domains such as cities.[7] To date, international funds such as the GCF or the Adaptation Fund (AF) have not had much experience in providing grants or loans to subnational entities because their main gateways for channelling funding have been national ministries or specialised agencies.[8] For funds or other investors, the policy uncertainty or perceived risk of political instability in cities is also higher compared to going through national investment entry points. This in turn

[2] UN-Habitat, 2016
[3] The Global Commission on the Economy and Climate, 2014
[4] Cities Climate Finance Leadership Alliance, 2015
[5] ibid.
[6] World Bank, 2013.
[7] Cities Climate Finance Leadership Alliance, 2015
[8] Canfin- Granjean Commission, 2015

increases transaction costs for the investors, further obstructing the path for cities to receive funding directly.[9]

Regardless of those constraints, the need for cities to respond to climate change is distinct. According to the World Bank more than US$ 1 trillion annually is needed to close the climate infrastructure gap in low and middle income countries, with half of the cost arising in urban areas.[10] Funding for a paradigm shift in cities can be derived from international, domestic and local sources. The sheer scale of investment needed to transform cities into climate compatible urban spaces makes all three channels relevant. While locally raised funding is important to strengthen ownership and safeguard the sustainability of interventions as well as the stability of revenue, it will take time to establish governance structures that ensure a steady flow of local revenue dedicated to climate change work.[11] Local revenues are therefore not suitable for initiating transformative projects but rather for sustaining their operation in the long-term. At the same time, it is a national responsibility to direct funding to subnational entities, however domestic financial markets are often insufficiently equipped to provide adequate resources for cities to engage in transformational projects. Driven by the imperative of a low-emission development, international funds and investors are thus needed to, on the one hand, encourage cities to take their first transformative steps and, on the other hand, unlock and leverage domestic and local sources of finance. From an equity point of view the different levels of vulnerability of countries need to form the basis for decisions on international support, i.e. cities in least developed countries are likely to require more long-term assistance.

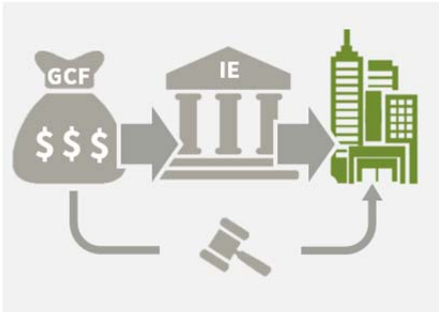
Generally, a variety of financial instruments such as grants, (concessional) loans, insurance products, guarantees, equity, and microfinances are needed to help local authorities to blend existing sources, steadily improve creditworthiness through the set-up of financial management structures and generate start-up finance for projects with a longer return-on-investment period. The GCF in particular can play a crucial part in this, taking a leading role in tackling some of the barriers outlined above. Figure 1 illustrates the entry points for the GCF when supporting a paradigm shift in cities.

Figure 1: Achieving an urban transformation: Entry points for GCF engagement

[9] Cities Climate Finance Leadership Alliance, 2015
[10] World Bank, 2015
[11] Junghans/ Dorsch, 2015

3 Financing a paradigm shift in cites: Access modalities under GCF

3.1 Driving the city agenda under existing access structures



The typical project set-up that has prevailed under the AF and which the GCF will build on involves the funding institution, the implementing entity (IE) tasked with the implementation of the project, and the project beneficiary. Under these circumstances it is already possible to have a particular urban focus on an AF or GCF funded project, however in practice this is rarely the case (2 urban AF projects, 1 urban GCF project). One option for advancing climate compatible development in cities within the GCF portfolio can thus be the promotion of project components that particularly address the challenges of a specific city. This may include elements such as improved urban drainage systems to reduce run-off and flooding or the protection of coastal city districts through mangrove trees or a breakwater.

A general shortcoming of a typical project scheme is that most IEs are UN institutions, multilateral development banks or governmental agencies, many of which have a banking background or solid experience in dealing with larger investments. While they are capable of meeting high fiduciary standards they are sometimes disconnected from local realities. The accreditation of rather unconventional IEs, be it health or social development ministries, decentralisation agencies or civil society organisations that have profound knowledge of local needs and demands, can help to address this weakness. Under the AF there are already some promising national IEs that do not follow the conventional IE set-up, such as Centre de Suivi Ecologique in Senegal or the South African National Institute for Biodiversity. If countries were to endorse the accreditation of more IEs of this kind, this could lead to projects becoming more focussed on local needs and vulnerable people. In the case of cities, for example, a health ministry is likely to have a track record concerning the reduction of air pollution. Putting them in the driving seat of an IE can yield the benefit of an experienced party taking up the issue. So far, IEs with an unconventional set-up are in the minority. By putting an emphasis on the track record of each IE seeking accreditation regarding their delivery of meaningful impact in the fund's initial result areas, the GCF can promote such set-ups. Aided by capacity support through the fund's readiness or preparatory support programme, such set-ups can help IEs to reach out to cities and urban communities much more.

3.2 Cities as implementing entities

A second modality for cities to access funding from international sources is the possibility for them to become an accredited IE themselves - an option put forward in the GCF's governing instrument.[12] Under those circumstances local authorities would develop a project proposal, with the advantage of being well informed about what sectors or localities to address as a priority. Whether this entity is to be the city administration or a certain department in the city has to be determined by the GCF. So far, no city has been accredited by the AF or the GCF. The authors believe that this is due to the predominantly national entry points that international climate funds require. The past has shown that international funds have not offered any direct access modalities for cities, while national governments have neither promoted nor

[12] GCF, 2011

endorsed cities to become IEs themselves. A reason may be the limited territorial scope of impact that a city has on a country's overall low-carbon and climate resilient development. Furthermore, high requirements regarding fiduciary standards and social and environmental safeguards of international funding institutions can often not be met by local authorities. While it is a valid concern that some local authorities lack financial accountability and are at times involved in deceptive practices, capacity building through readiness of support can help cities to overcome those barriers and receive international assistance directly. The current setting under the GCF to downscale fiduciary standards and social and environmental safeguards for smaller IEs is a step in the right direction. Generally, this access modality gives cities the advantages of being able to act independently and not being managed by a national or multilateral entity.

3.3 Enhanced direct access and cities

A third option that should be taken into consideration centres on an Enhanced-Direct-Access (EDA) approach under the GCF. EDA will be fostered through a pilot programme during the course of this year with the intention of enhancing country ownership as well as simplifying and accelerating the funding process. Its key distinction, compared to direct access, is that funding decision-making and the management of funds is devolved from the fund to the national level.[13] Under an EDA scheme an IE would submit a proposal to the GCF and after approval would then issue a national call for proposals, among others also to cities. While this would offer cities the possibility to receive funding, the scope may be limited as only very few cities may be selected in view of other national priorities. A more urban focussed option would be to establish a National City Facility that under an EDA scheme has the mandate to disburse the funding only to cities. In other words, cities would independently develop project proposals and apply for funding under the National City Facility under the IE. The IE would then select the most suitable ones and transfer funds to the city for implementation. To date the only EDA project in place is an AF-funded small-scale facility in South Africa that supports rural farmers on adaptation. Under its objective to promote EDA more widely, the GCF could consider issuing a call towards countries encouraging them to employ an urban perspective regarding the EDA approach.

3.4 The role of executing entities

The three access pathways have centred on the set-up of the IE and how it is best placed and structured to direct funding towards paradigm shifting developments in cities. Another determining factor is the executing entity (EE) - the body responsible for the execution of projects on the ground. Based on project designs under the AF and the GCF the EE can take on different forms, from being the same institution as the IE, to being a civil society organisation, to being a ministry or a governmental agency. With regard to

[13] Murray et al., 2015

the three access modalities described above the EE could also be a city or city institution itself. Generally, the type of EE chosen in the project design phase has an influence on the overall implementation of the project but is not necessarily the decisive factor when it comes to directing funding flows from an international to a local level.

4 Outlook

This paper demonstrates that there are different entry points for the GCF to achieve its mandate of financing low carbon and climate resilient development in cities.[14] These entry points particularly lie in the provision of readiness support to strengthen urban governance structures and in providing initial financing to encourage cities to take their first steps towards achieving a paradigm shift in the urban arena, thereby unlocking and leveraging other funding sources. The three access modalities illustrated in this paper indicate concrete pathways for how this can be achieved. At the same time, this paper shows that given the sheer scope of investment needed, the bulk of the financing cannot come from an international level. Particularly with regard to ownership and the sustainability of the projects, locally raised funds are imperative. At the same time, the responsibility of supporting climate compatible planning in cities also lies with the national government of each country.

In order for the GCF to fill the right finance gaps, the authors recommend projects to be predominantly carried out in secondary cities that under normal circumstances do not get much attention domestically and internationally, yet their climate compatible development is becoming key to solving the climate crisis. To meet the needs of different cities, all financial instruments including grants, loans, guarantees, and equity should be offered. Moreover, the GCF should not compete with development banks that typically finance large-scale urban infrastructure projects but rather look at alternatives that are not yet catered for. In this regard it can be useful to develop clear criteria for EDA projects, ensuring that they correspond to GCF's overall objectives.

[14] GCF, 2014

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