URBAN TRANSITIONS MISSION

Blending finance for net-zero, resilient and inclusive cities

Urban Transitions Mission

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1.

Context: the landscape of blended urban finance

Scaling investments in clean energy transition is both essential and urgent. Delaying large-scale financing for climate and energy transitions in cities will lock our communities in high-emission infrastructure, making net-zero targets costlier and harder to achieve, while undermining local resilience and deepening inequities for future generations.

Cities are engines of economic growth and major contributors to global emissions. They are increasingly becoming hotspots of renewed ambition towards net-zero, and are central to achieving national climate and energy goals. With direct mandates over key emissions sectors such as transport, buildings, and waste, and indirect influence across the broader local economy, cities are uniquely positioned to deliver measurable, high-impact climate outcomes that improve lives.

Yet, the 2024 State of Cities Climate Finance Report by the Cities Climate Finance Leadership Alliance (CCFLA) reveals that while urban climate finance has tripled since 2017—reaching USD 831 billion annually—it remains significantly below the USD 4.5 trillion required each year through 2030 to meet global climate targets. While public fiscal transfers, national and international funding are vital to financing the transition, they are insufficient to meet the urgency and scale of the challenge — private capital is indispensable for enabling the net-zero transition locally.

More than 13700 municipalities have signed the Global Covenant of Mayors for Climate & Energy (GCoM), committing to climate reduction targets at least as ambitious as their respective national governments. The number of cities pledging to net-zero targets has also increased in the last years, from the 112 cities which are part of the European Mission for Smart and Climate Neutral Cities, to the 1000+ committed to the Cities Race to Zero Campaign and the 1161 local governments belonging to the Japan Zero Carbon Cities.

Despite strong local ambition and the great potential of urban transitions, cities still face critical challenges in accessing capital for infrastructure and innovation aligned with climate targets. Limited project preparation capacity, regulatory barriers, and perceptions of risk continue to constrain investment flows, especially from the private sector.

The **Urban Transitions Mission (UTM)** of Mission Innovation focuses on supporting a pioneering group of cities - the UTM city "cohort" - along their net-zero pathways, enabled by clean energy and systemic innovation across all sectors and in urban governance. Thanks to its close collaboration with this growing cohort of cities, UTM provides dedicated training, needs-based capacity building and curated opportunities to test, pilot and adopt innovative solutions. The 106 cities currently part of the UTM cohort alone have the potential to reduce 180 $MtCO_2e$ annually by 2030, roughly equivalent to 1.1 million round-trip economy class flights between Buenos Aires, Argentina and Amman, Jordan by 2050.

To achieve net-zero by scaling up breakthrough clean energy innovation will require collaboration across all levels of government. — particularly to address Scope 2 emissions beyond municipal control — and significant mobilization of investment to future-proof urban infrastructures. This means funding low-carbon transport, green buildings, resilient energy systems, water and waste infrastructure, and digital connectivity.

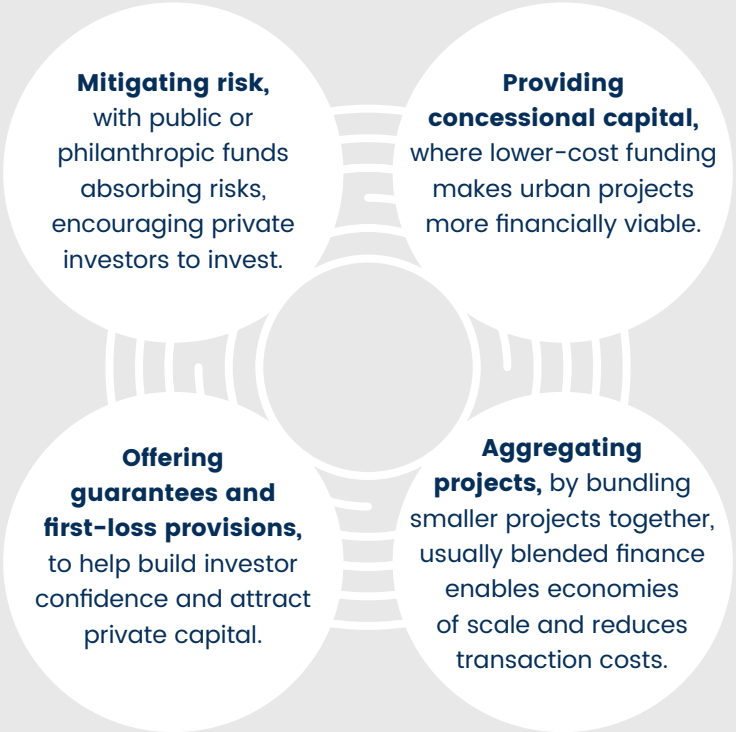
National governments play a pivotal role in enabling urban transformation by strategically deploying public and concessional resources to unlock private capital. This particularly in Emerging Markets and Developing Economies (EMDEs) where perceived financial, political, regulatory, and technical risks often discourage private investors. Unlocking this capital requires structured approaches that build investor confidence, ensure project alignment with sustainability goals. Cities require support in preparing bankable projects, improving governance, and creating stable policy environments that attract long-term investment.

> "Blended finance—combining concessional finance with commercial investment—can catalyse investment by lowering risk, enhancing project viability, and crowd in private capital by absorbing first losses, offering guarantees, or subsidizing returns in a way that makes urban infrastructure projects more attractive to institutional investors, banks, and private developers."

Investing in low-carbon, climate-resilient urban blended finance portfolios not only generates competitive returns but also advances the core vision of the Paris Agreement.

How can blended finance work for cities, in practice?

In the context of urban sustainability, blended finance mechanisms can work by:



Outline

This publication outlines practical recommendations for national policymakers to unlock the potential of blended finance and empower cities to become key drivers for the climate and clean energy transition. Drawing on the UTM city cohort as a benchmark, the publication addresses:

- The specific financing needs and structural challenges faced by cities in reaching net-zero;
- The existing and emerging blended finance models for urban climate investments;
- The critical role national governments play in supporting investment in cities—through policy alignment, co-financing, and risk-sharing mechanisms—to unlock private resources at scale.

As 2025 marks the decade anniversary of Mission Innovation and Parties prepare for the first stocktake of the intermediate results towards the achievement of the 1.5 degrees target, this publication explores the convergence between urban transition finance and blended finance, highlighting opportunities in key sectors for climate transitions in cities. Starting from real-life experiences in cities across global geographies, the publication offers targeted recommendations for policymakers on how to accelerate access to blended finance and support cities to fulfill their crucial role in achieving global climate goals.

2.

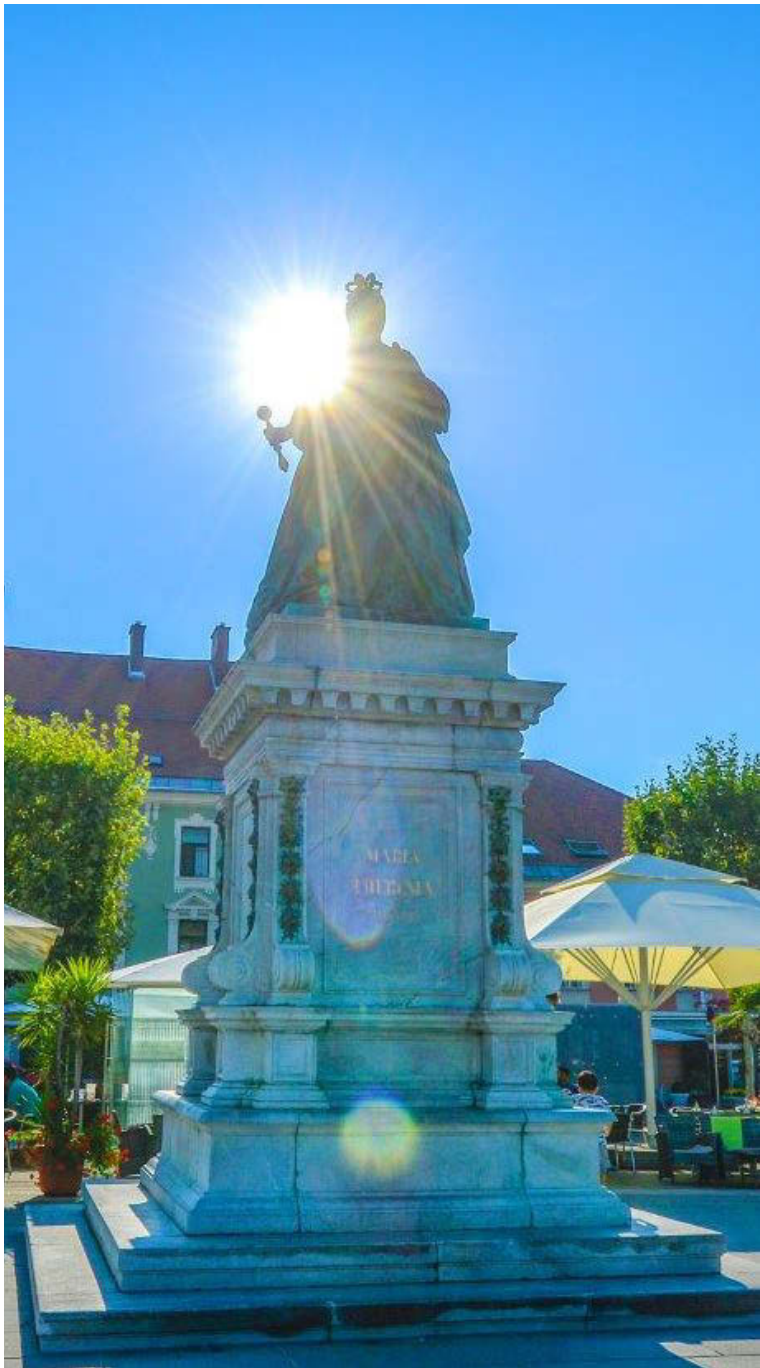
Urban Transitions: building the case for investment

The role of blended finance in climate action is growing. Overall, blended finance volumes have experienced a dramatic increase in recent years. Development finance alone has mobilized USD 249 billion in private capital through blended finance structures to date, demonstrating a consistent annual growth of approximately 20%, as tracked by Convergence. Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs) are at the forefront of utilizing blended instruments for their investments in EDMEs.

While this year-on-year progress is encouraging, it is still far from bridging the resource gap needed to meet the goals of the Paris Agreement. By integrating various financial instruments such as grants, debt, and equity, effectively mitigating investment risks in cities, blended finance catalyzes private sector participation, leading to increased returns and contributing to global economic growth and sustainable development.

Why blended finance in cities:

A **Cities can bolster blended finance structures.** Cities can be crucial actors in blended finance for clean energy. Acting as project originators and implementers for climate-resilient infrastructure, they identify priority projects, provide co-financing and policy support, and facilitate access to land and permits. Cities also support SMEs by creating supportive local policies, offering green finance and technical assistance, and promoting sustainable practices through green public procurement and support to innovation hubs. Through supportive local policies, they facilitate the integration of SMEs into climate action plans, cities help connect local enterprises with climate finance opportunities and scale impactful urban solutions. A great example of this interconnection is the development of City Climate Contracts (CCCs) in the cities participating in the European 100 Cities Mission, which encompass a strategy to leverage private capital and support local SMEs.



B **Cities can test new models and standardise financial vehicles: Blended finance is often developed on an ad-hoc, project basis.** Nonetheless, more standardised approaches are being developed through time in sectors where investments volumes are higher – such as the sustainable energy sector, while in other sectors of high importance for municipal action, such as transport, standardised models still lack traction.

National governments have a large role to play in enhancing blended finance for place-based climate action and innovation, both at country level and as part of their commitment to the Sustainable Development Goals (SDGs), in emerging economies and developing countries. Blended finance vehicles often foresee four archetypes, as outlined below:

Concessional capital
when junior capital is provided at a concessional rate to lower the overall cost of capital.

Example: Catalytic Transition Fund, a USD 5B fund investing in clean energy and SMEs.

Guarantee/risk insurance
when credit enhancement is provided to unlock either debt or equity instruments.

Example: Mirova Gigaton Fund, a USD 280M fund for clean energy and tech.

Technical Assistance funds
when the transaction is associated with a grant-funded technical assistance facility.

Example: GAIA, a fund for mitigation and adaptation, including TA in its scheme.

Design-stage grants
when the transaction design and preparation is funded via a grant.

Example: City Climate Gap Fund, provides advisory and TA for cities' projects up to pre-feasibility stage.

C **Cities can scale blended finance:** Cities combine deep local knowledge, direct control over key emissions sectors, and the ability to convene stakeholders across public and private spheres, they are uniquely positioned to make blended finance work at scale and turn capital flows into tangible, on-the-ground solutions.

Through their net-zero and climate action strategies, they are able not only to chart their trajectory of action, but to develop solid investment plans, outlining local projects pipelines, aggregating and bundling projects to make them attractive to institutional investors who prefer larger, diversified portfolios. They can create the policy frameworks and, in part, provide the initial capital necessary to leverage private investment, e.g. by making the right policy adjustments for the adoption of financially sustainable e-bus concession models.

Blended finance can be a powerful tool for financing urban transitions but its effective application requires careful consideration, such as "do's" and "don'ts" to maximize its impact and avoid common pitfalls:

Don'ts	What is at stake	Do's
Utilising granting as a default line of action for junior capital in blended finance structures.	Grants might easily distort markets or displace other private sector finance that would have instead been used.	Use granting only when genuinely addressing market failures or, as in the EBRD Green Cities programme, for the development of sound urban project portfolios.
Blended finance structure that only focuses on fiscal incentives and subsidising existing sectors, without targeting innovation or new, effective, financial structures.	Urban blended finance only works effectively when commercial capital gets mobilised towards projects of value to the local communities.	Undertake actions that eliminate specific market failures (e.g. in R&I, administrative burden, energy supply) and cut risk up to the extent needed for private capital to come into play.
Blended finance as an instrument to be used in fragile states for local stabilisation and development.	In fragile states, blended finance is less effective, as shown by this report by ODI, and therefore should not be used as an instrument towards local transition.	As political and economic instability deter commercial financing, projects might require direct, targeted grants to be more effective.
Design blended finance for adaptation in a way that mirrors the creation of blended finance vehicles already seen in the energy and mitigation sectors.	Adaptation has distinct characteristics from mitigation, with projects usually lacking e.g. direct revenues, complexity of assessing climate risks and higher uncertainties.	Successful urban adaptation vehicles exist and should be pursued, as e.g. the joint venture of the European Investment Bank (EIB) and Meridiam The Urban Resilience Fund (TURF), focused on leveraging long term value preservation and creation in coastal cities.

Urban Blended Finance instruments in the European Union

The European Investment Bank (EIB) is playing a key role in advancing blended finance to support city-level climate action. Initiatives such as the **City Climate Finance Gap Fund**, co-led by the EIB and the World Bank, and supported by GCoM, help cities in developing bankable climate projects by providing technical assistance and early-stage project preparation support.

The Emerging Market Climate Action Fund (EMCAF) is a blended finance initiative launched by the European Investment Bank (EIB) in partnership with Allianz Global Investors. EMCAF aims to mobilize institutional investments in climate change mitigation and adaptation activities in developing countries globally, with an emphasis on low- and middle-income countries.

By providing catalytic early-stage equity financing, EMCAF supports greenfield climate mitigation and adaptation projects, as well as environmental sustainability initiatives in emerging and developing markets.

The EIB, building upon the 100 Climate Neutral and Smart Cities Mission of the European Union, also works together with the Mission's Capital Hub to assess, among others, early stage blended finance instruments for the investment plans of the 112 cities in the mission.

EIB also works on adaptation finance, with the already mentioned TURF, as well as in connection with private equity and Article 9 align investors, such as Meridiam, which they have helped in successfully raising over USD 6 million for an array of impact investment funds for nature and adaptation, among which TURF.

Urban transitions: a good investment

Investing in urban development for positive returns goes hand in hand with creating more livable communities. UTM assists 106 cities in 46 countries (120M+ people) along their pathway to net-zero, providing solutions and knowledge. This diverse global cohort demonstrates effective, scalable financing solutions for urban transitions while bringing to light remaining gaps. To catalyze financing for urban transitions, UTM has established the Finance & Funding Helpdesk, collecting information on project preparation, connecting cities with investors and helping them navigate the complex landscape of financing solutions, among which blended finance and its untapped potential.

The Helpdesk acts as a **one-stop advisory service** for cities seeking to advance towards investment-ready projects. This includes light touch assistance for early-stage projects, signposting of financing opportunities coming from the wider GCoM Alliance. To date, 39 queries have been submitted to the F&F Helpdesk. This aided the UTM team to draw initial conclusions on needs and challenges faced by the cities.

UTM has collected information on the cohort's projects planned and developed for their transitions to net-zero.

225 projects in **55 cities** impacting more than **70 million people** globally

were analyzed, to unveil a financing gap of about **USD 6.4 billion**

out of which **USD 5.5 billion** to be found via blended finance.

21.4% of these cities are located in Europe;

23 of these cities are located in Member Countries of MIssion Innovation, and represent a total of 60 million people.

33.4% of the total cities surveyed are located in the MENA region.

The **55** cities surveyed are located both in the global north and EDMEs.

Mitigation remains the priority for cities committed to become climate neutral as soon as 2029, such as Turku, Finland: with more than 70% of the total projects collected in the field of Renewable energy & energy efficiency (23%); transport (17%); waste management (13%).

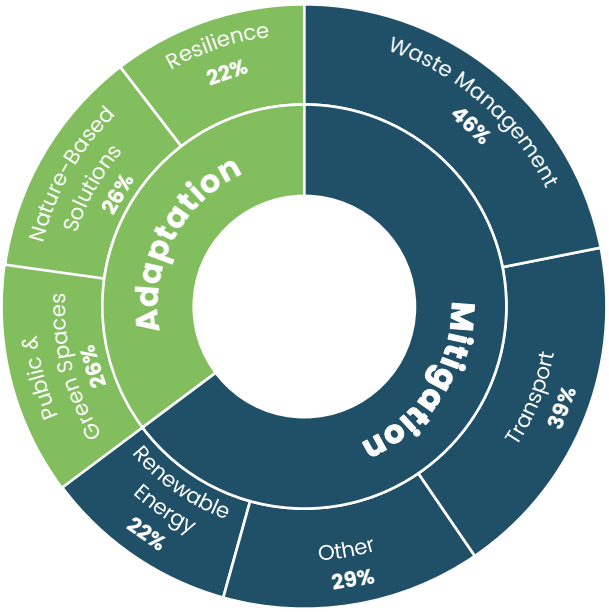


Figure 1: Projects identified by the UTM F&F Helpdesk

The sectors' prioritization mirrors the needs-assessment conducted by UTM in shaping capacity building and technical assistance offered for the cities in the cohort, and it signals how those sectors are seen as both crucial and underfunded in the context of local climate action.

Over 75% of projects in the UTM cohort (totaling USD 5.5 billion) seek partial or full funding. Cities prefer grants and public financing (31%), valuing public-private partnerships, private investments, and carbon market financing. However, 32% of cities lack a specific financing model, highlighting a need for capacity building in financial structuring. This gap may create bottlenecks in project advancement, as 55% of projects are in early stages (scoping, pre-feasibility, or feasibility) and only 35% are in structuring, implementation, or transaction preparation.

Several cities in the UTM cohort have set up structures to attract private capital, as well as to boost the competitiveness of local transition for a thriving local economy. Blended finance vehicles, built in connection with the national government, might unlock further resources to scale up such approaches.

A journey to net-zero:

Global cities are pioneering net-zero efforts, with infrastructure investment being central to their climate action plans. Many recognize the crucial role of private capital in financing this transition.

- **Lappeenranta, Finland** has committed to carbon neutrality by 2029. The municipality is spearheading investments in fossil-free district heating and digital energy solutions, with a strategy to involve private capital, especially targeting real estate investors and companies. Their plan for heating includes utilizing carbon-free electricity with private capital crowd in.

- **Miami-Dade County, USA** aims for a 50% reduction in greenhouse gas emissions by 2030 and net-zero by 2050. Its Climate Action Strategy is supported by a blended finance approach, utilizing its city budget, national funding, green bonds, and a dedicated USD 2.9 billion Building Better Communities Bond Program.

- **Greater Manchester Combined Authority (GMCA), UK,** has developed the **GM** Environment Fund, a public fund aimed at blending public and private sector funding to close the gap between corporate organisations and institutions that either wish or are required to address their negative environmental impact, and smaller, grassroots organisations, aiming to deliver schemes and projects.

- **Surat, India,** as well as other municipalities in the country, are championing the use of **green bonds** to support their climate action. The city has released several tranches of green bonds, totalling USD 23 million, with the aim of supporting wind and solar projects.

Whilst there is an interest and an understanding of the importance of activating private capital to fill the USD 5.5 billion gap across the projects collected, most cities have not been able to tap into innovative finance mechanisms, such as blended finance, at scale. Lack of capacity within the city administration, limited access to policy instruments and reliable data are among the most common challenges faced, whilst sandboxes allowing the cities to implement innovative finance mechanisms, such as green bonds, revolving funds or Public-Private Partnerships (PPPs) with the private sector are among the most successful levers for testing and implementation.

UTM cities are planning and carrying out outreach to private investors, either alone or in a mix together with other public finance institutions. Several successful examples of **blended finance vehicles** have been developed in collaboration with national governments.

Data and blended finance

In an increasingly complex urban landscape, data serve as the cornerstone for effective city transitions, enabling municipalities to make informed decisions, monitor progress, and amplify their impact. Beyond operational efficiency, reliable data are indispensable for evaluating business models and making strategic investment decisions that can attract and secure private capital.

UTM has worked to empower cities in this domain. A notable example of this commitment is our previous work exploring the pivotal role of data de-risking investments and accelerating impact finance.

This publication, based on the work with selected cities in the UTM cohort, highlights how granular, accessible data can mitigate perceived risks for investors by providing transparency and quantifiable evidence of potential returns and social impact. By showcasing successful case studies and robust financial projections underpinned by solid data, cities can create a compelling narrative that shifts private capital from caution to engagement, fostering a virtuous cycle of sustainable urban growth.

3.

State of play: the untapped potential of urban blended finance

As blended finance gains momentum globally, several challenges for funding urban transitions remain open.

Innovative finance mechanisms regularly applied by cities are able to provide seed funding, as well as to help increase cities' capacity to borrow from the market at a more advantageous rate. These mechanisms rarely cover the entirety of the funding needs for the implementation of municipal climate action plans.

Most often, cities, especially in EDMEs, incur difficulties in borrowing, or in leading innovative financing mechanisms, due, among others, to creditworthiness concerns. Cities and municipalities are also generally not considered as direct recipients: most IFIs and Development Banks dedicate most of their portfolio to finance private-sector entities, following considerations based on project size, profitability and sectors of operation.

Blended finance structures, especially when able to unlock aggregated portfolios of high-quality projects, provide a pathway to complement local investment options and expand the financial base to implement climate and energy projects in cities.

In the mix and match of funds that will be required for urban transitions across the world, the current landscape of municipal involvement in blended finance structures, can be broadly categorised in three macroareas where local governments can play a significant role in blended finance arrangements — each offering significant opportunities for local governments:

1. **Blended finance for sustainable development in EDMEs**
   This includes mechanisms designed to support climate-aligned growth and resilience in low- and middle-income countries, where concessional finance is often necessary to de-risk projects and attract private capital, amid considerations about creditworthiness.

2. **Blended finance vehicles with a thematic or geographic focus**
   These vehicles pool public and private resources to mobilize large-scale investments in climate mitigation and adaptation. They may focus on specific sectors—such as energy, transport, or nature-based solutions—or target particular regions or cities.

3. **Blended finance for large-scale infrastructure projects benefiting local communities**
   This category encompasses financing mechanisms for infrastructure that delivers local benefits—such as resilient housing, public transit, renewable energy, and water systems—while contributing to broader climate goals.

3.1 Blended finance for sustainable development in EDMEs

State of play – According to the OECD, from 2012 to 2020, official development finance interventions mobilised nearly **USD 300 billion** from the private sector. In 2020 alone, **USD 51.3 billion** was mobilised, primarily through direct investments in companies and special purpose vehicles (SPVs), as well as credit guarantees. Most of this capital flowed to African countries, with India also receiving significant investments. The **energy and banking sectors** have dominated these flows, driven in part by enhanced credit lines from the Global North to EDMEs. Despite a recent deceleration—partly due to macroeconomic uncertainty and market volatility—the overall trend shows a growing recognition of blended finance as a critical lever for development.

What works – Blended finance for development has shown notable success in crowding in private investment to traditionally underfunded sectors such as e.g. local agriculture, or transport. Blended finance has supported national development priorities and helped scale local private sector initiatives. In many cases, these arrangements have been accompanied by technical assistance and capacity building, which strengthen the long-term viability of projects and local institutions. Moreover, concessional finance has been instrumental in supporting innovation and in unlocking first-of-its-kind projects, particularly in renewable energy and financial inclusion, such as microcredit.

What does not work – Despite these achievements, significant barriers remain. Both public and private investors identify high perceived risks, low returns, and a lack of viable project pipelines as persistent challenges. In many developing contexts, markets are fragmented, making it difficult to identify investment-ready projects at the required scale. Development finance institutions often struggle with a lack of flexibility and innovation in their financial instruments and portfolios. However, there are positive examples, such as the European Bank for Reconstruction and Development's Green Cities Program. This program innovatively integrates design-stage grants to foster a pipeline of urban projects in specific cities. Another example of innovation, particularly in addressing bottlenecks at the feasibility and pre-feasibility stages. Despite that, many promising urban and community-level projects remain unfunded due to size constraints or misalignment with investor requirements, which prefer large-scale, private focused investments. Lastly, the majority of existing funds are focused narrowly on the energy sector, where models are considered more proven and straightforward, and tend to be less responsive to the full spectrum of mitigation opportunities, as well as to portfolios of projects addressing both mitigation, adaptation and social aspects of the transitions, key to make sure blended finance follows the G20 principles on effective blended finance.

What is the urban potential?

Cities in developing countries represent a largely untapped opportunity for blended finance flows. Cities are engines of economic growth, responsible for the majority of national GDP, but they often lack **fiscal autonomy,** such as restrictions on taking up debt, and **creditworthiness** to directly access private sector finance. According to a World Bank study, a BBB+ rated borrower can pay up to 2% more on an equivalent loan than an AAA rated borrower, and, according to the same report, every $1 invested in improving creditworthiness leverages $100 of additional private sector financing. To leverage this potential, innovative instruments can be considered – such as the use of contingent resilience-linked bonds, which utilize public funds to incentivise profitable bond issuance, to close that gap.

Municipalities are central to achieving development outcomes—particularly in sectors such as affordable housing, clean transport, energy access, waste management, and climate adaptation. Development institutions, among which MFIs, should seek the involvement of city governments in the design of blended finance structures—whether through policy co-design, local investment platforms, or subnational climate funds. This can increase alignment with urban development priorities, improve project implementation and ultimately, improve the overall landscape of urban finance.

Cities are already investing in their local ecosystem: from consistent mobility investments in Quelimane, Mozambique, to the support to gender inclusion in Baguio, Philippines, and slums upgrading programmes in Rio de Janeiro, Brazil. Evidence gathered in a paper by the UK government and LSE suggest that, over time, private investments in cities that have faced economic shocks, or are stagnating, can significantly reverse the economic spiral.

Going forward, the potential lies in **integrating urban actors more systematically into development finance ecosystems: this will improve** data availability, project preparation support, and the creation of instruments tailored to urban constraints and opportunities, therefore unlocking greater impact of blended finance initiatives across EDMEs. A leading example of this effort is the Subnational Climate Fund (SCF), an initiative that aims to invest in and scale mid-sized (USD 5 – 75 Million) sub-national infrastructure projects. The SCF, for example, provided technical assistance to a Waste Management Infrastructure in PortoViejo, Ecuador. The municipality wanted to develop barren land to build a modern sorting plant for its increasing quantities of municipal solid waste. The SCF delivered technical assistance to assess the project's technical and economic feasibility, developing a concept for the integration of informal waste pickers, and assessing the project's regulatory feasibility. Moreover, an Environment Social Impact Assessment was done to ensure the project met internationally recognised standards and safeguards.

3.2 Blended finance vehicles with a thematic or geographic focus

State of play – Blended finance vehicles are increasingly used to facilitate large-scale investments in climate mitigation, particularly in renewable energy. These vehicles are designed to address the financial barriers, in particular with reference to perceived risks, that often prevent private capital from entering high-impact, capital- intensive projects in emerging markets.

Examples of such investments exist across various geographies. The Climate Investor 1 (CI1) is an USD 850M, multi-tiered blended finance fund dedicated to deploying capital in emerging markets within the renewables sector, was initiated by FMO and Sanlam InfraWorks and managed by Climate Fund Managers (CFM). As a blended finance facility, CI1 makes use of donor capital to generate a pipeline of bankable renewable energy projects from development to operations. Similarly, BayernLB, in Bavaria, Germany, has been consistently investing, alone or in conjunction with other investors, in hydrogen, solar and wind energy, with more than half of their EUR 40 billion investments in Energy devoted to those technologies.

What works – Large mitigation-focused blended finance vehicles have demonstrated to be effective at different levels. By offering financial support at multiple stages, those structures help bridge the gap between early-stage project development and full commercial operation, de-risking investments across the project lifecycle. Additionally, they ensure efficient capital stacking: grouped capital structures attract different types of investors by matching risk profiles with investment preferences, at either concessional or commercial rate. The fund model allows for the bundling and standardization of projects, which improves transaction efficiency and increases the ability to scale across geographies. SPVs can be helpful for isolating the risks of a specific project: by building a SPV structure, public sector projects can be considered more stable and financially sustainable by financiers.

These vehicles have successfully mobilised significant private capital in sectors typically perceived as high-risk, particularly in low- and middle-income countries. They ensure mobilisation of capital also in the global north, especially in the field of energy transition, by incentivising RES and measures for energy efficiency in buildings, as well as investments in sectors of high value to local communities, such as social housing. In the United Kingdom, financial vehicles dedicated to social housing, such as the National Homelessness Property Fund of the Greater Manchester Combined Authority (GMCA) homes partnerships, are managing about GBP 400 million with the goal to purchase and use more than 1500 properties across the country.

Blended finance is therefore able to facilitate the deployment of innovative, energy-saving solutions - from capital investments to services. Lighting-as-a-Service is a novel approach rolled out by UTM partner Signify in numerous cities across various countries. This model allows cities to lease lighting systems and infrastructures, including installation and maintenance services, by paying services fees rather than purchasing them. This shifts costs from Capex to Opex, freeing up resources for further sustainable energy investments. An equivalent approach has been taken in the Indian city of Jaipur, where an ESCO managed the retrofitting of 70.000 street lamps to higher efficiency standard, as well as round-the-clock maintenance.

What does not work – Blended finance vehicles often require complex structuring and long development timelines, which can delay and deter the flow of capital. The lack of standardised approaches in a variety of sectors is also a major issue for scaling up financing. Transaction costs—both financial and administrative—can be high, making these instruments less suitable for smaller-scale interventions. Limited alignment with local and regional development priorities can also reduce the long-term sustainability and impact of financed projects. Additionally, while successful in attracting private capital, these vehicles sometimes fall short in achieving broad-based participation by local actors, which is critical for project ownership and context-appropriate implementation.

What is the urban potential?

The potential for involving municipalities in the application of large, mitigation focused blended finance vehicles remains significant but substantially underexploited. Municipal governments often lack the technical and financial capacity to prepare bankable projects or to aggregate investments to a scale that attracts institutional capital. Blended finance mechanisms could help bridge this gap. Whilst climate action plans and strategies are increasingly being elaborated, often they are not accompanied by dedicated investment plans outlining where and how different types of capital could be earmarked and used for related infrastructural investments. Integration with local climate plans, alignment with national funding mechanisms, and support for project preparation is essential to realize this potential.

PPPs and pooled investment vehicles can support access and derisking for early stage-funding in complex infrastructures, unlocking longer term financing options.

Most successful existing blended finance vehicles dedicated to national-level energy investments fall short of including local and regional governments in the financial architecture identified, curtailing benefits and impacts of these investments at the local level. Local governments can play key roles in blended finance vehicles as recipients of funds, guarantees or as brokers for engagement and participation of local-level actors and private capital, as well as entities capable of improving the policy environment towards greater economic stability.

3.3 Blended finance for large-scale infrastructure projects benefiting local communities

State of play – Local infrastructure development—such as transport systems, water and sanitation, waste management, energy efficiency and energy networks—plays a central role in building sustainable, climate-resilient local communities. In many cases, blended finance is used to support municipal infrastructure through instruments such as credit enhancement, guarantees, concessional loans, and technical assistance facilities. PPPs have in particular emerged as an effective instrument for local governments to leverage private sector involvement in key areas of action of the city. When structured within a blended finance framework, PPPs can reduce public budget constraints and improve service quality and innovation, as well as fostering the ecosystem of local small and medium enterprises, which count on the support of the local government to thrive.

In the urban transport space, PPPs have been used to finance metro systems, railways, and electric vehicle infrastructure, among others. These projects often rely on a mix of concessional finance, commercial investment, and public sector guarantees to reach financial close. In some cases, those projects make use of impact finance. Impact finance provides capital for projects that generate both financial returns and positive social or environmental impacts for local communities. This approach helps address critical urban challenges, such as e.g. affordable housing, clean energy, ensuring that investments contribute directly to community well-being and development. Reinvesting resources and revenues locally is also supported by regenerative finance mechanisms, as exemplified by the Clean Tech Region platform in the Netherlands, which channels funds back into local transition efforts.

What works – Well-structured PPPs, supported by blended finance, can de-risk large-scale investments and attract private partners to complex urban projects; they can also support the development of local businesses, circular economy hubs and industry. Bogotʼs TransMilenio transport system leveraged a PPP model where the city financed the infrastructure while private operators provided and managed the bus fleet. This model has been replicated in several Latin American cities, enabling rapid deployment of clean and efficient transport systems. Another example is the Resau Express Metropolitan of Quebec, Canada, where the regional government has teamed up with private investors to develop an innovative, high-speed rail system across the city of Montreal. In India, the Pune Metro Rail project integrated financing from the Asian Infrastructure Investment Bank and the European Investment Bank with private sector participation in operations and maintenance, allowing for improved transport services to the local communities. Also subnational pooled financing mechanisms (SPFMs), and the establishment of dedicated municipal agencies, has shown to be a very effective tool to channel resources to local governments in a structured way, as outlined in a paper by the Global Fund for Cities Development (FMDV). Those structures are available in particular in some European countries, such as France or Finland.

What does not work – Challenges arise when risk allocation is poorly designed, or when cities lack the capacity to negotiate and manage complex contracts. Many local governments worldwide struggle with the legal, financial, and technical aspects of structuring viable partnerships with the private sector. Unstable regulatory environments and political instability can also undermine investor confidence – especially in emerging economies, where project bankability is constrained by regulatory uncertainty, limited municipal revenue, and perceived investment risks. Without blended finance instruments—such as guarantees, viability gap funding, or concessional debt—many urban transport projects remain financially unviable or are delivered at sub-optimal scale and quality.

What is the urban potential?

Being able to structure blended finance through effective PPP frameworks, offers cities a practical path to expand transport infrastructure, improve air quality, and reduce emissions. To realize this potential, cities need targeted support in project preparation, risk assessment, and financial structuring. National governments and development partners can play a catalytic role by offering guarantees, co-financing, and offering technical assistance that enhance the bankability of urban transport projects. When aligned with regenerative finance principles, these investments can go further—restoring ecosystems, strengthening community resilience, and creating long-term socio-economic impacts beyond emissions reductions. Projects like **De Ceuvel** in Amsterdam demonstrate how regenerative, community-led design can transform neglected urban spaces into hubs of clean mobility, circular innovation, and inclusive growth. With the right enabling conditions, PPPs—backed by blended finance—can drive transformative, regenerative change in how cities move people and goods.

4.
Way forward: accelerating blended finance for cities

The Urban Transitions Mission serves as a broker of solutions for its cohort: by connecting with technical support and facilitating access to scalable innovation, UTM is accelerating the flow of climate finance for urban transitions . The UTM Finance & Funding Helpdesk bridges the gap between local governments and the financial ecosystem, helping cities navigate the complex ecosystem of financiers, investors and private capital. Thanks to the helpdesk, cities are supported in facing the increasingly complex challenges of accessing and structuring climate finance. UTM helps to significantly increase cities' readiness to engage with blended finance opportunities and build resilient, net-zero urban futures, offering not just support—but structure, scale, and strategic vision. Through partnerships with financial institutions, multilateral development banks, and national governments, UTM acts as an intermediary facilitating the alignment of local-level investment efforts with ambitious net-zero visions.

UTM collaborates with cities and partners to test, share and scale successful models across the Global Covenant of Mayors (GCoM) alliance, multiplying the impact of solutions and pilots across communities worldwide and strengthening their ability to access, absorb and channel climate finance.

To accelerate urban transitions and tap the potential of blended finance national governments can:

1. **Develop platforms for blended finance:** at the local and regional level. The creation of investment portfolios, also across communities, aligned with local transition targets (such as, e.g. a basket of mobility interventions that require private capital deployment) should also be facilitated. Those platforms can work to develop ESCO models, help issuing bonds or create the financial architecture to crowd-in private finance; when backed by national level commitment, those actions can significantly help de-risk investment, and provide investable portfolios for private sector investors. Nationally or internationally led project preparation platforms provide the necessary feasibility studies, environmental assessments, and project structuring to ensure cities are investment-ready.

2. **Accelerate the uptake of subnational pooled financing mechanisms** (SPFMs), and the establishment of dedicated municipal agencies. This is already happening in some countries, especially in Europe, with net positive results for municipal budgets. SPFMs can help establish clear policies and programmes around more innovative debit instruments such as green bonds, carbon pricing, and public-private partnerships (PPPs) that can attract private investors to sustainable urban projects.

3. **De-risk Investment through national support and patient capital,** with a special attention to cities in EMDEs. By issuing guarantees and supporting credit enhancement, national governments can facilitate access to development finance from DFIs and MFIs for cities, and raise the creditworthiness of local governments in financial operations.

4. **Strengthen the regulatory environment around financing for city climate action,** including long-term, reliable regulations that provide stability in the market. By pursuing sustainable mobility, or energy efficiency standards, national governments, and to some extent local and regional ones, can set regulatory frameworks, establish, PPPs models, SPVs structures. Regulatory sandboxes to test and try new models can also help design innovative approaches and help attract private investors by creating a stable and reliable market environment in the medium to long-term.

5. **Enhance knowledge for strengthened local capacity.** Via training and knowledge sharing, cities would be able to develop internal capacity in blended finance and investments in key areas of competence, such as e.g. in financial planning and sustainability departments. Training, peer-to-peer learning and knowledge exchange can offer significant value in that direction. Cities should also be encouraged to strengthen systematic inter-departemental coordination where useful, such as between climate and finance.

6. **Strengthen Local Government capacity on implementing innovative finance,** by providing direct assistance and standards in navigating the landscape of financial instruments that can be utilized to achieve the goals set out by local climate plans. Cities need support to implement thorough climate investment plans, closely linked to their climate action plan and strategy to reach net-zero: this should include support in structuring specific instruments on how to leverage resources coming from the private sector, such as green bonds and ESCOs. Interplay between municipalities and SMEs can also benefit from such capacity building and investment potential.

7. **Support cities to develop a strong Pipeline of Projects:** Support the creation of a thorough climate investment plan with a portfolio of bankable projects. This ensures both profitable and community-focused projects get the funding they need. By adopting a portfolio approach, cities should include projects benefitting the community activities that can be channeled into portfolios at either regional or national level, to ensure that profitable projects get funded alongside those benefitting the community. DFIs and IFIs, with targeted urban programmes, are key players in supporting municipalities in the pre-feasibility and feasibility stage.

8. **Support the right ecosystem of data that can back, inform and monitor finance towards net-zero:** Help the adoption of data standards like ESG and climate-related financial disclosures to track and advance climate finance that benefits local communities. Initiatives and standards, , climate-related financial disclosure (TCFD) and nature-related financial disclosure (TNFD) for both private and public entities, are crucial benchmarks to monitor and advance on climate finance that effectively serves local communities.

9. **Support the creation and uptake of sustainable standards:** Develop clear, national standards and technical guidance for net-zero urban development, both in infrastructure and finance. This ensures cities' efforts align with national climate goals. Thanks to nationally aligned definitions and benchmarks for net-zero urban development, national governments should provide technical guidance, data standardisation tools to help cities implement and monitor action; coordinated policies can ensure urban growth contributes effectively to national climate goals and net-zero communities.

10. **Support additional research on blended finance:** Fund research into innovative financing models, like subnational bond platforms and PPPs, SPVs and innovative financing models to foster new ideas and scale up effective solutions. Technical assistance towards bond issuance, PPPs, SPVs and innovative financing models is crucial to foster innovation. This research can provide the evidence base needed to inform policy, guide local implementation, and scale effective solutions in cities.

Factsheet:

What do we mean by blended finance?

Cities globally are looking for new ways to finance the transition and future-proofing of urban infrastructure and services. As an increasing number of people move to urban areas, this challenge grows exponentially. A wide range of models for finance are increasingly available for cities, to help navigate this complexity and make sense of how they're connected and how they differ, we help cities explore blended finance, Public-Private Partnerships (PPPs), impact investing, and catalytic finance, sharing the basics on how these instruments can pull together funding for urban transitions.

- **Blended Finance:** Blended finance refers to financial transactions that combine capital from public or philanthropic sources with private investment. A defining characteristic of blended finance is the presence of at least one party providing concessional capital—capital offered on more generous terms than market rates. This helps to reduce the risk of the investment, enhance returns, and encourage private sector participation. Blended finance can be applied across sectors.

- **Public-Private Partnerships (PPPs):** PPPs refer to legally defined agreements between a public entity and a private partner to deliver a public service or develop infrastructure. These arrangements are commonly used at the local level, particularly in infrastructure projects.

- **Impact Investing:** Impact investing involves investments made with the intention of generating measurable social or environmental benefits alongside a financial return. Private investors who explicitly pursue these dual outcomes are typically referred to as **impact investors.**

- **Catalytic Finance:** Catalytic finance specifically designed to achieve positive social and environmental outcomes in alignment with the UN's Sustainable Development Goals (**SDGs**). This type of finance often plays a pivotal role in attracting additional investment. It is considered a foundational component of many blended finance structures.

Factsheet:

State of play: the untapped potential of urban blended finance

Different types of capital can be deployed in blended finance structures, each with distinct risk appetites and return expectations. Understanding these categories is crucial for structuring effective blended finance vehicles that attract a diverse range of investors. In the following table we outline four key types of capital, from the most concessional to the most commercial, highlighting their typical providers and roles within a capital stack.

Junior/ Guarantee Capital	Junior or Guarantee capital, commercially known as "concessional capital," often includes guarantees but can also use other instruments. This type of capital can be provided by public institutions or by private entities with a high impact agenda, such as philanthropies. Junior capital investors often absorb the "first loss" and provide a guarantee role within a blended finance fund's capital structure. Local, regional, or national funds can provide junior capital, depending on the scope of the vehicle.
Mezzanine/ Catalytic Capital	Mezzanine or Catalytic capital isn't always present in a blended finance structure. This type of development capital is often provided by institutions like Development Finance Institutions (DFIs) and Multilateral Development Banks (MDBs), which play a crucial role in projects especially in cities in the Global South. Mezzanine capital is sometimes required for perceived higher-risk operations to attract senior capital.
Senior/ Institutional Capital	Senior capital targets institutional investors who have traditionally higher returns expectations and low risk tolerance. The goal of the institutional tranche is to "bail in" the vehicle, building up credibility and demonstrating robust, lower risk-adjusted returns that make blended vehicles more palatable for private investors.
Senior/ Private Capital	Private capital investors who expect higher returns relative to their risk tolerance. These investors typically include commercial banks, investment and pension funds, and individual business investors. They invest in financial ventures only after careful investigation into the effective risk rating, robust risk-adjusted returns, capital diversification and desired impact.

The structuring process of blended finance vehicles is typically guided by investor interests. The process is dynamic, adapting to stakeholders' needs arising as explorations progress and capital is raised. Four archetypical structures are identified by the blended finance watch Convergence:

Concessional capital
when junior capital is provided at a concessional rate to lower the overall cost of capital or to provide an additional layer of protection to private investors.

Capital involved: Junior, Mezzanine and Senior

Example: Catalytic Transition Fund, a USD 5B fund focused on EDMEs, Investing in clean energy, business transformation and sustainable solutions.

Guarantee/risk insurance
when credit enhancement is provided through guarantees or insurance on below-market terms, to unlock the possibility to have either debt or equity instruments being palatable for commercial investors.

Capital involved: Catalytic, Senior

Example: Mirova Gigaton Fund, a USD 280M focused on clean energy solutions in EDMEs, investing in innovative, clean tech solutions.

Technical Assistance funds
when the transaction is associated with a grant-funded technical assistance facility that can be utilized pre- or post-investment to strengthen commercial viability and developmental impact.

Capital involved: Mezzanine, Senior

Example: GAIA, a USD 1.4B fund devoted to mitigation and adaptation projects in EDMEs, that includes a technical assistance facility.

Design-stage grants
when the transaction design and preparation is funded via a grant.

Capital involved: Concessional, Junior

Example: City Climate Gap Fund, provides advisory and TA for cities' projects up to pre-feasibility stage.

Factsheet:
Blended finance instruments for cities

Investing in climate-smart urban infrastructure is crucial for cities to build resilience and transition to a low-carbon future. In this factsheet, we explore innovative financial instruments that can help cities overcome these challenges, enabling cities to pursue impactful climate action. From municipal debt swaps and crowd-based funding to green bonds and energy service companies, these approaches offer diverse avenues for financing sustainable urban development.

Municipal debt swaps are a financial arrangement where a creditor and an indebted city or municipality agree to cancel debt in exchange for climate-smart investments. Extensively used at the national level in the 1980s,. debt swaps could prove to also be a viable and attractive instrument for indebted cities and municipalities seeking to reduce their debt volumes, while local communities would benefit from the additional investments. Results-Based Financing (RBF) can be applied within a debt swap, incentivising debtors to provide debtor relief and finance more projects.

Crowd-based financing sources capital from communities, individuals and small scale investors (the "crowd"). It's a relatively new approach that has been predominantly used in the technology and innovation sector, but it could also be an alternative finance source for climate-smart urban infrastructure investments. Crowd-based financing mitigates several investment barriers that are inherent in traditional project finance, often by applying microfinance practices, and offering lower interest rates. Crowd-based financing also brings additional social and/or environmental considerations in project structuring, particularly for communities with low income and low institutional capacity.

Green and environmental impact bonds (EIBs) are an innovative finance technique that apply results based financing contracts to green infrastructure projects. EIBs are often tax-exempt, RBF instruments, allowing governments to limit their losses if projects fail thus encouraging them to try novel climate-smart infrastructure solutions. EIBs are not actually bonds as they are not a fixed income borrowing instrument with a steady stream of repayments, and cannot be traded. Instead, EIBs are a form of Public-Private Partnership (PPP) with performance-based contracting. Impact Bonds have been widely used in the US and UK and several less-developed countries,sometimes targeting social outcomes in addition to environmental ones. EIBs can leverage classic performance-based contracting to enable municipal and city governments to partner with private sector investors for infrastructure development.

Energy service companies (ESCOs) can help develop, implement, or arrange upfront, results-based energy investments. Generally, there are three different ESCO models. The "shared-savings" and the "guaranteed savings" energy performance contracting (EPC) models are the most common forms; a third model, the "chauffage" model (also known as "comfort contracting"), is predominantly used in Europe. The main advantage of the ESCO model is that the client (a city or municipality) is not required to make any upfront capital investments and is only responsible for periodic service fee payments to the ESCO based on the energy savings achieved.

Municipal bonds for climate-resilient and low-carbon development could deliver significant impact. The development of bond schemes in cities requires significant institutional and financial capacity, both of which are associated with a city's creditworthiness. Cities in less developed countries should first have the capacity to issue simple municipal bonds before moving on to bonds that tackle climate resilience and low-carbon development.

About Urban Transition Mission

The Urban Transition Mission (UTM) mobilizes decision makers across all levels of government to prioritize climate neutral and net-zero pathways enabled by clean energy and systemic innovation across all sectors and in urban governance. By accelerating capacity-building and closing the gap between research, development and deployment, the Mission will empower cities to adopt innovative solutions and help reach tipping points in the cost and scale of those solutions for urban transitions.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