URBAN TRANSITIONS MISSION

Blending finance for net-zero, resilient and inclusive cities

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.