"To scale up transformative investments for sustainable urban infrastructure, bold action is needed to foster the integration of municipal, national and global climate and planning policies."

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Image Source: In the outskirts of Atlanta, the United States.

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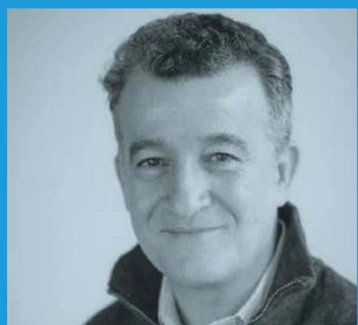

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Connecting the dots between COVID-19 recovery and net-zero. The role of National Development Banks to deliver on Future Urban Infrastructure

Fully capturing the potential of sustainable urban infrastructure

It has become commonplace to assert that 'cities should be at the forefront of the global race to net-zero'; with an infrastructure investment gap of USD 4 trillion per year between 2015 and 2030, there is enormous potential to contribute to achieving the Paris climate goals. Around 75% of global emissions are concentrated in cities, of which 90% can be cut with the provision of climate-conscious urban infrastructure. [1]

So far, however, not enough is being done to fully leverage this potential. As the 2021 State of Cities Climate Finance Report shows, investment is lagging globally, particularly in emerging markets and developing economies. The report estimates that an average of USD 384 billion was invested in urban climate finance annually in 2017/2018, far below the estimated need of USD 4.5 to 5.4 trillion annually [2]. At the same time, the latest report from the International Panel on Climate Change (IPCC) from August 2021 confirms that climate change is 'widespread, rapid and intensifying'. [3]

While plenty of private, institutional capital is looking for sustainable assets with long-term stable yields, not enough is invested in sustainable infrastructure. Increasingly strained public budgets exacerbate the problem, particularly in the face of the COVID-19 pandemic. Part of the problem lies in a well-established sustainable infrastructure truism: a lack of well-prepared, financially viable projects in public and private pipelines that meet sustainability criteria are a critical bottleneck in the transition towards climate-conscious urban infrastructure.

To fully capture the potential of sustainable urban infrastructure and scale up transformative investments, bold action is needed to improve institutional capacity around infrastructure project preparation at the city-level, as well as to foster the vertical integration of municipal, national, and global climate policies and planning approaches. Equally important are strengthened partnerships - domestic and foreign, public and private - to translate climate finance policies into local action.

Our latest research conducted with the Cities Climate Finance Leadership Alliance, GIZ, Global Infrastructure Facility, the World Resources Institute (WRI), and further exchanges with development bankers and city officials at the Asia Pacific Climate Week in July 2021 [4] show that National Development Banks (NDBs) could be game changers at the crossroads of urban climate investment, COVID-19 recovery, and multilevel governance.

What National Development Banks could achieve: strengthening mandates, developing pipelines and catalyzing investments

NDBs are uniquely positioned to play a decisive role in "connecting the dots" needed to transform this situation. Owing to their unique financing models and deep knowledge of local markets, NDBs can offer longer-term and more affordable financing than what is typically available in the market. They also serve as policy instruments and financial institutions that have longstanding relationships with both public and private sector actors and are well-connected with cities. This gives NDBs an extraordinary potential to bridge the gap between the various stakeholders to help develop adequate responses to the climate crisis and translate financing needs and opportunities to cities. Well-placed to intermediate both domestic and international finance from public and private sources, NDBs have already yielded impressive results and impact.

According to a recent report, there were 454 public development banks worldwide. [5] They represent over USD 11 trillion in assets, USD 1.9 trillion in equity, and USD 1 trillion in annual disbursements. Among them, NDBs hold the most significant shares: over 90% of the assets and around 79% of equity. In addition to their role as financiers and catalysts for public and private financing, many NDBs are already drivers for developing project pipelines in countries and cities. [6] And, perhaps most importantly, they already act as enablers, connectors across different stakeholders and institutions, and central pillars within an inter-institutional and multi-level governance approach to overcome the silos that still hamper the translation of ambitious climate action goals into sustainable infrastructure in cities.[7]

Strengthening mandates

To achieve transformation, national governments need to expand NDBs' mandates and regulatory frameworks to better reflect national and local climate ambition. Improving enabling environment conditions would facilitate more green finance towards cities for climate-conscious infrastructure. But even more importantly, it would create better chances to mobilize funding by tapping into the buoyant national and international market for sustainable and responsible finance.[8] The recent mandate expansion of Indonesia´s PT SMI is one such example. The Indonesian Government has mandated its NDB to become one of the critical entities to execute the national economic recovery program, including supporting local governments' economic recovery from the impact of the COVID 19 pandemic and infrastructure development as a central pillar of a green economic recovery. This example is important: recent research shows that only 4% of public development banks are specifically mandated to finance local governments, and even fewer NDBs have a green infrastructure mandate.[9]

Developing pipelines

NDBs can help address the lack of pipelines of bankable projects to finally overcome one of the critical bottlenecks for the financing and delivery of climate-conscious infrastructure projects - and ultimately sustainable urban development overall. Project preparation facilities like the C40 Cities Finance Facility or the Global Infrastructure Facility support cities in developing finance-ready infrastructure projects and linking them with suitable funding sources. Through the support of such facilities, public officials are thereby empowered to better plan, finance, replicate and ultimately scale climate-conscious projects. Since NDBs are often the entry point for cities to access climate finance as intermediaries of international credit lines and direct financiers, they are well-placed to play an influential role in supporting cities in preparing well-structured and bankable projects. Here, enhanced capabilities within NDBs and increased project preparation offer targeted to city clients could make a difference. By collaborating with project preparation facilities and other stakeholders, NDBs could establish themselves – or help set up – aggregation platforms for projects and create business lines tailored for urban infrastructure investment.

Catalyzing investments

NDBs can also play a role in aggregating and scaling investments. Often infrastructure projects are developed by one city, with limited replication potential in the municipality. This is especially true in small and medium-sized cities, where attracting investment is often challenging given the smaller ticket-size of infrastructure projects and higher transaction costs associated with bespoke transactions. NDBs can then have a crucial role in promoting scalability and replication of projects by leveraging standardized infrastructure project frameworks and contracts and pooling smaller infrastructure assets – thereby increasing ticket size, attracting investment, and promoting economies of scale. Here, NDBs should particularly focus on mobilizing additional private investments for urban infrastructure through early-stage and blended finance. And Indonesia again presents a compelling example through its blended finance facility "SDG Indonesia One." The platform combines public and private funds through blended finance schemes channeled into infrastructure projects in line with SDGs.

How to enable effective multi-level governance partnerships for climate action

The measures mentioned above are well-known in urban infrastructure expert communities and climate policy circles as stand-alone instruments. However, deploying merely technical solutions to individual investment projects will not suffice to truly deliver on the Global Goals and make tangible progress on the path to net-zero. A paradigm shift is required to achieve the true transformation that places NDBs at the forefront of a new multi-level governance ambition for cities' climate action and green recovery efforts.

The paradigm shift will also require a more collaborative approach among national governments, and NDBs are well placed to help drive this change. Bilateral and even triangular cooperation among NDBs already exists and has achieved extraordinary results. [10] However, a multi-actor collaboration between national, regional, and multilateral institutions remains exceptional. NDBs can work together towards a collective approach to capacity building and creating pipelines of investments at the city level, as well as to continue with existing learning exchange in the project level. Some initiatives are already leaning in this direction. Multilateral, regional, and many NDBs have already developed frameworks to guide sustainability across infrastructure project cycles, which is critical to guarantee their quality and attractiveness to "green" investment and finance. Together they can also engineer and manage funds meant to finance the origination of quality projects, mitigate financial risks, and facilitate crowding-in funding from specialized markets and institutions. Jointly, they can be effective bridges to attract and channel funds by crowding private credit, capital, and other non-conventional sources.

Moving towards reinvigorated multi-level governance and closer collaboration among NDBs does not require setting up new institutions. Instead, climate action stakeholders at the city-level and NDBs should collaborate via a more explicit mandate for NDBs to work with cities and provide them with the finance needed to deliver urban climate action. In turn, NDBs can be leveraged as key actors in platforms that bring together emerging markets and developing economies, developed economies, and multilateral organizations.

1. CUT – Coalition for Urban Transitions, 2019. Climate Emergency, Urban Opportunity: How National Government Can Secure Economic Prosperity and Avert Climate Catastrophe, 11. Available at: https://urbantransitions.global/wp-content/uploads/2019/09/Climate-Emergency-Urban-Opportunity-report.pdf,

2. See https://www.citiesclimatefinance.org/2021/06/2021-state-of-cities-climate-finance/

3. IPCC – International Panel for Climate Change, 2021, Climate Change 2021, The Physical Science Basis, August 2021, https://www.ipcc.ch/assessment-report/ar6/

4. Asia-Pacific Climate Week 2021 (APCW2021), https://unfccc.int/event/asia-pacific-climate-week-2021-apcw2021

5. See AFD dashboard on Public Development Banks. For more detailed on how the database was constructed, see Xu et al (2020).

6. For examples, see the 2020 book edited by Stephany GRIFFITH-JONES, and Jose Antonio. OCAMPO, The Future of National Development Banks, https://bit.ly/2Uvluem.

7. See Leveraging National Development Banks to Enhance Financing for Climate-Smart Urban Infrastructure, CCFLA 2021, available at: https://www.citiesclimatefinance.org/2021/03/leveraging-national-development-banks-to-enhance-financing-for-climate-smart-urban-infrastructure/

8. See STUDART, R.; GALLAGHER, K. (2016). Guaranteeing Finance for Sustainable Infrastructure: A Proposal. In: SIRKIS, A. (ed), Moving the trillions a debate on positive pricing of mitigation actions. https://goo.gl/Yfml9U.

9. https://www.citiesclimatefinance.org/wp-content/uploads/2021/03/
10. Policy-Brief-l-Directed-to-National-Development-Banks.pdf

11. See OECD, 2016. Dispelling the myths of triangular co-operation – Evidence from the 2015 OECD survey on triangular co-operation. Available in https://bit.ly/3i5dVUT.