

A photograph of an industrial facility, possibly a power plant or refinery, silhouetted against a bright orange sunset sky. The sun is low on the horizon, casting a warm glow over the scene. In the foreground, there is a body of water, likely a beach or coastal area, with gentle waves lapping at the shore. The overall mood is one of transition and environmental impact.

Accelerating Climate Finance

At a Glance

Cities are at the forefront of reducing greenhouse gas emissions and addressing climate change risks. Climate finance is thus critical to support large-scale investments required to adopt measures to significantly reduce emissions and mitigate adverse effects of climate change. While multi-national development banks have oriented their technical support and loan portfolios towards climate financing and global funding facilities such as GEF, GCF, and AF have been set up, the climate finance flows by 2017/18 reached only about USD 384 billion annually; far short of the needs. It is estimated that sustainable investment opportunities in six urban sectors (waste, water, renewable energy, electric vehicles, public transport, green buildings) in emerging markets alone amount to USD 2.5 trillion annually up to 2030. Cities lack the capacities for accessing such financing instruments and for these instruments to be impactful, the readiness of cities for attracting climate financing has to be accelerated. COP 27 has further endorsed the idea of cities being the change-makers in this area. Deliberations at U20 can come up with concrete strategies for mainstreaming climate financing, particularly for cities in the developing world.

Key Facts and Figures

USD 230 Mn

COP27 commitment for Adaptation Fund

USD 600 Bn
per year

As per IPCC (2018b), developing countries' climate finance requirements in energy sector alone between 2020-50

USD 20 Bn

Mobilization through Just Energy Transition Partnership, announced at the G20 Summit 2022

60% debt
financing

Most climate finance flows in 2019-20 through debt, one-third through equity

USD 43 Bn

Climate finance pledge by multilaterals up to January 2023

10%

limited increase in total climate finance mobilized in 2019-20 as compared to 24% increase in the previous periods

USD 79.6 Bn in
2019

Climate finance mobilized by developed countries for developing countries in 2019

Accelerating Climate Finance: points to ponder

■ More investments towards mitigation rather than adaptation

Much of the climate financing goes towards mitigation as it generates return on investment. Adaptation projects on the other hand are costlier and do not usually generate a financial return. In 2020, while USD 1.6 billion was spent on mitigation only projects globally, USD 586 million was spent on adaptation only projects.

■ Cost of Climate Retrofitting is Higher:

The cost of retrofitting infrastructure due to climate change impacts is much higher in the future, leading to huge financial investments. As per World Bank (2010a), integrating climate resilience would add 1-2% to the total cost of infrastructure projects, however, the benefits of investing far outweigh the costs of retrofitting or repairing later.

■ Lack of Taxonomy to Define Green/ Sustainable Investments

In order to direct investments towards sustainable projects and activities, there is a need to define sustainable or green economic activities. This helps companies to become more climate-friendly, protect private investors from greenwashing, mitigate market fragmentation and shift investments where they are most needed.

The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities, which aims at scaling up sustainable investment and implement the European green deal. It sets out four overarching conditions that an economic activity has to meet in order to qualify as environmentally sustainable.

■ Low Municipal Funds in Cities:

In most developing countries, the city's own source revenues are made up of user charges and property taxes, which are often not very significant. While municipal funds may be sufficient for maintaining climate resilient infrastructure, these may not be adequate for one-time or initial capital-intensive investments.

'Adaptation Fund' project by South African National Biodiversity Institute with the South African National Implementing Entity- A Small Grants Facility was established for enabling local level responses to climate change. The project aimed to address financial, capacity and adaptation needs through three main components:

- Providing small grants to vulnerable communities
- Supporting local institutions to identify, develop and implement small grant projects in the context of climate change adaptation at all stages of the project cycle.
- Compiling and sharing lessons learned

■ Low Creditworthiness of Cities:

Many ULBs are a long way from credit worthiness and need to go through the unglamorous steps of keeping their books in order before entering the world of borrowing and lending or accessing funds from private financial institutions.

■ Low City Readiness:

It is important to build capacity of cities to understand, identify and implement investable climate projects. This will help in removing barriers to develop investor-oriented Climate Action Plans and projects, and unlocking large-scale financing instruments to support cities' actions.

■ Need for Policies and Regulatory Reforms:

Enabling policies for climate investments can accelerate finance flows into the city. While many such reforms may be implemented at state/ sub-national level, policies designed especially for cities are the need of the hour.

■ Low Institutional Capacities:

Cities need to project the costs and revenues of climate projects at high level of accuracy in order to develop sound financial proposals, which means cities need to calculate economic benefits and quantify non-economic benefits. Institutional decision-making and project structuring are also essential to access international funding.

■ Lack of Climate Action Plans or Roadmaps:

For cities which do not have comprehensive climate roadmaps or action plans, it is highly difficult to identify appropriate climate projects and develop coherent climate finance plans accordingly. It is important to focus on long term strategic plans rather than annual budget cycles.

Athens Urban Resilience Strategy, Greece:

Athens's 2030 Resilience Strategy is supported via a Natural Capital Finance Facility, which includes EUR 5 million in financing towards climate adaptation projects to revitalize an urban forest, stabilize water management, create green corridors and squares to lower temperatures, and improve air quality in the face of rising average temperatures.

Key Drivers for Action

ULBs play a key role in catalyzing the climate adaption process through devising innovative financing solutions that enable problem addressal at the grass roots level. Various actions can be taken to improve the current scenario of climate financing and raise requisite funds. Some actions that would be important are:

- Streamlining climate finance for cities: The flow of climate financing to cities needs to be streamlined at multiple levels: MDBs can innovate funds; National governments can set up national climate funds and national development banks; ULBs must ensure accountability, transparency, and traceability throughout the implementation of climate adaption solutions.
- City readiness: Readiness of cities towards climate adaption would act as a self-fulfilling prophecy by making them a more viable funding option. Cities can aim for the following Scalable and replicable frameworks; climate action plan and roadmap; partnerships with private sector; alternate financing like green bonds and carbon credits; and awareness among population
- Climate finance facilitation: Climate financing can be further facilitated through the following measures: standard mechanisms for project conceptualization to implementation and monitoring; rating systems including climate adaptation; enabling regulatory environment for climate finance



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