CLIMATE EMERGENCY FINANCE

A CALL TO ACTION

ICLEI
Local Governments
for Sustainability

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CITIES & REGIONS
IN THE UNFCCC PROCESS

FMDV
Localizing Sustainable Finance
for Local & Regional Governments

OVERVIEW

Our world is on life support. Climate science shows that we must make deep, civilization-wide changes at the latest by 2030 to limit a planetary climate catastrophe. This is a matter of survival for people and place - for the population on Earth. While the Paris Agreement provides a framework towards a net-zero emissions and climate-resilient future, current data shows that only a few countries are actually on track to meet their climate goals (UNEP, 2021).

One of the main challenges we face is the immediate necessity for finance to flow for actions to tackle the climate emergency and avoid catastrophe. Despite significant efforts that have been made to increase the availability of funds, accessibility to finance remains a challenge for the subnational level - resulting in a growing finance gap as the urgency of action also scales up. Indeed, the share of International Financial Institutions and UN climate funds in urban and local climate finance remains marginal, ranging at 10 percent, while corporate and institutional private investors provide approximately 20 percent (Report of CCFLA, CPI, 2021). This means that more than 70% of urban climate investments are mainly shouldered by different levels of the government, especially subnational government, which is insufficient to address and cover all quantified needs identified to date - which in turn are likely to substantially increase as additional climate priorities are identified.

The financial gap can only be tapped by exploring all revenue sources, finding innovative finance mechanisms and involving the whole range of key stakeholders needed to rapidly unlock access to finance for subnational governments and territories. As traditional approaches of revenue mobilization at the national level will not meet subnational financing needs, in part also due to barriers, such as the lack of creditworthiness of subnational governments and a missing enabling environment that stimulates external investments, localization of finance becomes a necessary path to accelerate climate action, to unlock climate finance for subnational governments, and embrace them as key players in achieving local, national and global commitments.

CALL TO ACTION

Climate emergency mode means enabling fast and effective action, tackling the main operational, technical, political and administrative barriers. We are facing a global climate emergency. All actors are called to action to support subnational governments, ensuring the necessary and urgent support is provided, being mutually beneficial, realistic and accessible as a matter of urgency. The recommended approach is holistic and inclusive, seeking to maximize social, economic and environmental benefits of each intervention and action.

Financing a climate emergency must be different from a "business as usual" finance in: (i) scale, (ii) focus, (iii) type of support, (iv) rapidness, and (v) key actors.

1. SCALE

Actions should be scaled up along two dimensions:

- **Financing:** Make more funds available and ease accessibility in light of the urgency to act.
- **Replication:** Share and apply successful local-use affordable financing instruments, solutions, and best practices, also considering the local context.

2. FOCUS

Contrary to the recent tendency to favor climate change mitigation projects, financing the climate emergency requires a holistic approach that integrates mitigation and adaptation measures, considering enhanced *resilience* of local ecosystems and urban areas, protecting, preserving and strengthening people, infrastructure and place.. In turn, this should result in a proactive approach that makes financing available not only for crisis management, but also to assess and prioritize holistic resilience interventions.

Since the climate crisis has serious impacts at the social level, investments need to stimulate a *just transition* along three pillars:

- **Access:** Ensure equal access to public services and infrastructure for all local residents, independent of factors like age, gender, neighborhood, income, social group, language, etc.
- **Participation and Agency:** Design local programs that include all voices across the city, involving those affected early-on to meet local needs and generate long-term impacts.
- **Opportunity:** Offer fair perspectives for all, targeting quality education for all, providing career perspective, and diversity in employment.

3. SUPPORT

The type of support provided must address subnational governments' technical and operative limitations in terms of:

- access and collection of relevant climate information and data;
- capacity to integrate climate change into local urban planning and budgeting;
- development of robust locally identified priority projects, to prepare and develop the necessary documentation to ease project preparation.

To overcome these, it is imperative to:

- provide *tailor-made capacity building support*, instead of mass trainings;
- provide *funding options also for small scale projects*;
- make *technology and innovation available to the local level*.

4. RAPIDNESS & EFFECTIVENESS

To design solid investment plans and access finance for sustainable projects, *more and faster technical assistance (TA)* is needed. To enable this, local and regional governments and their networks, international alliances and initiatives, as well as project preparation facility providers need to work together to:

- guide local and regional governments to available facilities that are most suitable to their needs:
- build a robust value chain and support each other's projects and initiatives along the project development cycle, leading to implementation:
- shorten and ease application and selection procedures for TA and accessing funding; and
- support the alignment between national and local policy, also the vertical integration of Nationally Determined Contributions (NDCs) and National Adaptation Plans (NAPs).

5. ACTORS

Strong political and implementational backing by relevant financial stakeholders is key to facilitate access to technical support and funding/ finance for subnational governments.

National governments have the power to act on multiple fronts to make support and finance available for local climate action as:

- enablers of the necessary environment to ensure access to (climate) finance at the local level (e.g. direct access, use of innovative financing instruments);
- ensures the establishment of coordinated vertical mechanisms (e.g. through NDC, NAP, policies);

- catalyzers to promote climate action at the local and urban level; and
- funders of technical assistance for and capacity of subnational government.

Subnational governments have the mandate to address local sustainable development, urban planning and local policies. They are eager and committed to tackle climate change. They are called on to develop a holistic climate action plan and clearly define associated investment and finance needs. Further, all subnational governments are called on to contribute their own budget to the extent possible for climate action, and track climate investments

Global initiatives, such as the Cities Climate Finance Leadership Alliance (CCFLA); the Leadership for Urban Climate Investment (LUCI); the Malaga Coalition as a collaboration between UNCDF, UCLG and FMDV for a global financial ecosystem that works for cities and local governments; and FMDV's Global Alliance of Subnational Development Banks (SDBs) encompassing 2 Regional Alliances of SDBs for Latin America and the Caribbean and for Africa (under the *Finance In Common Summit* umbrella) - all represent valuable platforms to leverage opportunities towards a more resilient and sustainable development for all. To continue and intensify efforts, members of such initiatives need to be widely supported.

Development financial institutions and **climate funds** have to play a stronger role in local and urban climate finance, by offering local demand-driven facilities, simplifying application procedures and enabling accelerated access to their funds.

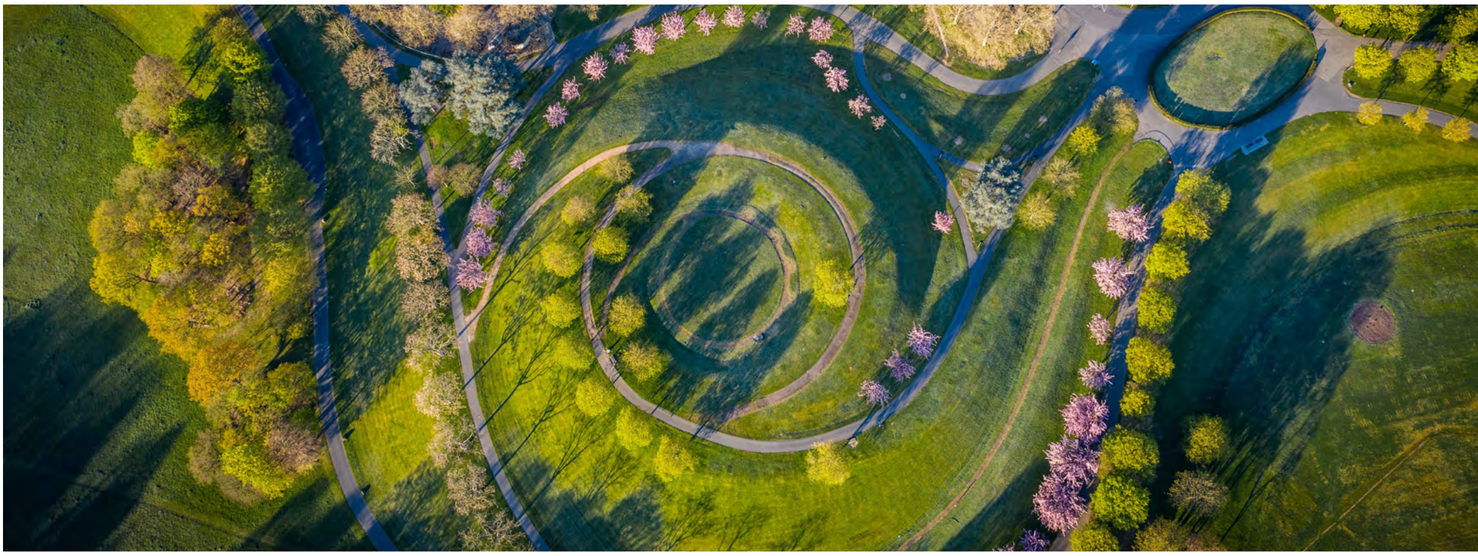
Global campaigns and platforms, such as the Race to Zero and Race to Resilience, also the Global Covenant of Mayors (GCoM) and UNDRRR's Making Cities Resilient 2030, that aim to mobilize non-state actors globally and catalyze local climate action, should be widely promoted and in turn financially support their committed members who facilitate the mobilization and provide technical assistance subnational governments to address the climate emergency.

Based on the differentiated roles of the actors, as described above, we call on all national governments and financial institutions to support the following **main drivers for change** towards financing climate emergency:

- **Pipeline of financeable locally identified priority climate projects:** Make available rapid technical assistance to accelerate local climate action planning and prioritization of projects, including the aggregation of small scale projects, also project concepts at the design and conceptualization stage, and non-commercialized solutions, adding these to pipelines that address the needs of subnational governments. Deploy capital and invest in these pipelines by applying affordable and customized instruments. For example the Transformative Actions Program (TAP) managed by ICLEI, as a local demand-driven project pipeline.
- **Subnational Development Banks (SDB):** Acknowledge the strategic importance of SDBs as key actors with a solid understanding of the local context, that can act both as Policy Makers and Market Makers for just local urban transitions, provide support, and act as financial intermediaries, also enabling the SDBs to reach their full potential.
- **Urbanization as a Non–Market Approach (NMA) under the Paris Agreement:** Acknowledge integrated and sustainable urban and territorial development as a Non-Market Approach under Article 6.8 of the Paris Agreement, and support NMAs that enhance multilevel and cooperative action to enable systematic, scalable local climate responses. For example, the LoCAL Climate Adaptive Living Facility which is a standard and country-based mechanism in 30 countries provides local governments access to climate finance.

Article 6.8 of the Paris Agreement

The Article 6.8 of the Paris Agreement provides guidance for facilitation and coordination of non-market approaches (NMAs) to be undertaken by countries and other stakeholders to drive emissions reduction. It opens room for cooperation between the public and private sectors and voluntary carbon activities.



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