

# CLIMATE INVESTMENT FUNDS

Joint CTF-SCF/TFC.22/4.2

March 10, 2020

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Joint Meeting of the CTF and SCF Trust Fund Committees

Washington D.C. (Virtual)

March 24-25, 2020

Agenda Item 4

## **CLIMATE-SMART URBANIZATION PROGRAM (SUMMARY)**

## 1. Overview

1. The **Climate-Smart Urbanization program** will support cities in developing countries to accelerate implementation of ambitious and transformative investments and policy actions that significantly contribute to transitioning to low-carbon and climate-resilient urbanization pathways. It will pilot-test and demonstrate new urban development investment approaches that harness both strategic urban planning and scaled-up financing solutions to reduce barriers to urban climate action and enhance private sector participation.

## 2. The Challenge

2. Unprecedented urbanization is transforming the world and the way we live. For the first time in history, more people live in cities than in rural areas. According to the UN, around 55 percent of the world's population live in urban areas and that share is expected to increase to 68 percent by 2050. An additional 2.5 billion people are projected to be added to the world's urban population by 2050 in the rapidly expanding cities and in new secondary cities. If managed well, urbanization can help reduce poverty and increase prosperity by improving access to land, basic services, and jobs, as cities can accelerate growth, attract investment, spur innovation, and enhance productivity. However, a large share of urban growth in developing countries is unplanned and unstructured with significant economic, social, and environmental costs. Cities are characterized as crowded with people and dwellings, disconnected due to a lack of transport and other critical infrastructure, and costly for both households and firms because of their inefficient spatial forms.
3. While confronted with pressing development issues, cities and urbanizing areas are also heavily exposed and vulnerable to climate change risk and their impacts. Rising sea levels, increased precipitation, inland and coastal flooding, more frequent and intense cyclones and storms, landslides, heat stress, drought, and water scarcity will all have significant adverse impacts on urban infrastructure systems and services and urban economies and population. This is because most countries' vital economic and social infrastructure, government facilities, and hard assets are sited in cities. Climate change will negatively impact infrastructure and reduce access to basic urban services (e.g., safe drinking water, sanitation, drainage, and health and education services), and thus quality of life in cities. In fact, many major coastal cities are already under threat from climate change and seeing increased flooding and property damage. And the impacts of climate change will only be exacerbated in coming decades, with the expansion of urban settlement and land use in areas of increasing vulnerability to extreme climate events.
4. With dense populations and a diverse range of emitting industries, activities and services, as well as being a locus of consumption of good and services by their residents, cities are the origin of considerable GHG emissions. New and rapidly urbanizing areas present a unique opportunity to plan, develop, build, and manage cities that are ecologically and economically sustainable. Rapidly urbanizing areas, especially small to medium-size cities in developing countries, where urban form and urban infrastructure are not yet locked-in hold the largest mitigation opportunities with respect to human settlements and built infrastructure and systems. It is urgent to act on these priority areas, given that over 60% of the land projected to become urban in 2030 has yet to be developed, and smaller cities are growing faster than mega-cities.

## 3. Climate-Smart Urbanization program seeks to provide a Solution

5. Cities are primary engines of economic development and can contribute significantly to bridging the global emissions gap and strengthening urban resilience to climate-related impacts. However,

innovative approaches that rely both on planning instruments and on improved access to financing are urgently needed. Concessional finance will be critical in helping address the key barriers faced by public and private actors in ensuring climate-smart urban development.

6. The Climate Investment Funds and its multilateral development bank (MDB) partners propose the establishment of Climate-Smart Urbanization program. Through a programmatic approach, the program will utilize scaled concessional finance to overcome barriers and scale-up support to cities' climate action. The concessional finance will be deployed both: (i) as an *upstream* support to the creation of policy-enabling environment and preparation of city-level climate-informed strategic investment plans, and (ii) as a *downstream* support to investments to help overcome barriers, close the financing and information gap, and cover higher up-front costs and risks of low-carbon, resilient urban infrastructure.
7. A coordinated engagement of MDBs through the CIFs aims to provide longer-term support at scale and leverage MDBs convening power to foster strategic partnerships that bring together key stakeholders from national government, private sector to civil society. These partnerships will help mobilize institutional and political support to urban climate action, enable a coordinated and effective mobilization of resources from MDBs, other financial institutions and private sector, into strategically-aligned demand-driven transformational investment portfolios. The scale, predictability and flexibility of resources available for implementation will help to increase cities ownership, remove barriers and bring plans to action. The catalytic effect of policy-enabling environment supported by concessionality is expected to maximize the leverage of climate finance by crowding in commercial finance.
8. To operationalize its agenda, the Climate-Smart Urbanization program intervention strategy encompasses three main components which may be undertaken simultaneously, concurrently, or on an as-needed basis depending on the stage of each city's development and its need for support. The initial components may be undertaken during the investment plan preparation stage, during project preparation stage, or during project implementation. This will ensure that comprehensive but targeted support is provided to cities to cover the key elements of their transformative change, from strategic planning to implementation of investment and policy actions. These components are:
  - **Rapid City Diagnostic:** This aims to identify and engage with beneficiary cities through a rapid city diagnostic to assess the current situation and projected trend of cities, their exposure to climate risks, current level of preparedness including in terms of gender-responsive disaster preparedness, and gaps to mainstreaming climate-related considerations into mid-term urban planning and investment pipeline development. The diagnostic will identify existing barriers in finance, policy, regulatory, planning outreach, and economic incentive structures at the city level that may prevent effective climate actions and limit private investment into catalytic urban projects.
  - **Preparation of climate-informed strategic spatial planning and other climate action plans and project pipeline development:** This involves preparing climate-informed spatial plans and other climate action planning at the city level, appropriate to context-specific circumstances and needs, gender-responsive, and reflecting the outcomes of the effective stakeholder's engagement, including necessary interactions at the national level. It also includes multi-year, strategically-linked capital investment plans, with a focus on developing a project pipeline for implementation.
  - **Implementation of catalytic investment projects:** This focuses on financing and implementing key catalytic investment projects identified by cities and relevant project pipelines. Priority will be given to strategically-aligned projects or policy interventions that are both ambitious and transformational and where concessional climate finance is needed to overcome barriers to meaningfully achieve the program's objectives.

#### **4. Expected Outcomes**

9. The Climate-Smart Urbanization program will demonstrate a new climate-smart model of urban development that is coordinated, compact, and connected. A shift toward more compact urban growth, connected infrastructure, and coordinated governance can not only boost long-term urban productivity and yield environmental and social benefits, but also reduce urban infrastructure capital requirements by more than USD 3 trillion over the next 15 years. It will provide significant opportunities for cities to benefit from the economic and social opportunities associated with transformational low-carbon and climate-resilient choices.
  
10. The main expected outcomes of the program include: (i) strengthened policies/regulatory frameworks for climate-smart urbanization; (ii) enhanced knowledge and technical /institutional capacities; (iii) improved cities' access to finance and budgeting for climate-smart projects; (iv) climate-resilient urban infrastructure and communities; (v) prevented loss from climate-related shocks and stressors; (vi) fostered innovation through enhanced support for early-stage ventures, technologies and business models with high impact potential; and (vii) demonstration of more efficient, compact and accessible urban forms for climate-smart socio-economic growth.