

An aerial photograph of a wind farm with several white wind turbines scattered across a green landscape. The sky is filled with white clouds. Overlaid on the right side of the image is a series of concentric white circles, resembling a target or a bullseye, centered over the wind turbines.

# Green digital and inclusive cities in 21 centuries: financial risk management for urban infrastructure investments

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# Introduction 1/2

Cities are central to greening urban infrastructure. 2% of the world's landmass but more than two-thirds of global energy use and greenhouse gas emissions (IEA, 2008). A majority of the world's population lives in cities (is expected to reach two-thirds by 2050.)

Within the next decade, there will be 500 cities of more than a million people, including several "megacities" with population over 20 million (OECD, 2011).

Decentralisation of government has put most of the operational decision making in the hands of cities.

Cities are key engines for economic growth but also a major contributor to global warming and environmental problems. Should be part of the solution to the climate crisis.

## Introduction 2/2

Meeting the objectives of Paris agreement means mobilising massive amount of capital : around \$2.4 trillion every year for climate investments between 2026 and 2030 in particular in emerging economies (OECD).

Developing countries need an estimated USD 1–1.5 trillion to bridge their infrastructure gap by 2030. About 43% of investment needs concentrated in transport, followed by energy (34%). Other important areas include water and sanitation, and telecommunications.

Large urban agglomerations concentrate social inequality and development issues and are often located in places more specifically exposed to climate physical risks/degraded ecosystem (eroded coastal areas, river mouths...).

The challenge is therefore to mobilise capital to finance sustainable/climate resilient infrastructures while ensuring a fair access to all and an inclusive project governance.

# 1. Mobilising capital for climate resilient infrastructures

At macrolevel: how to go from “money in the bank” to “shovels in the ground?”

Financing new infrastructures in large urban areas, in particular in emerging economies faces some well-known challenges (Stern reports, G20 IWG...): governance, operational risk management, credit rating, liquidity, currency risks, poor project preparation, lack of “bankable project” pipeline...

**Governments, MDBs and DFIs, as well as national development banks and private sector are joining forces to meet infrastructure gaps**

Technical assistance, de-risking investments through guarantee schemes, increasing the capitalisation of MDBs, local currency financing...

# 1. Mobilising capital for climate resilient infrastructures

But financing solutions need to be “tailor-made” at local/cities level

- public-private partnerships (PPPs), in which long-term risk is transferred to the private sector.
- tax increment financing, future tax revenues are used to attract private finance.
- development charges (impact fees) and value capture (taxes that capture the value increases of real estate due to new infrastructure development nearby).
- loans, bonds and carbon finance are instruments used to attract private finance in well-functioning capital markets.

# 1. Mobilising capital for climate resilient infrastructures

Climate physical risk prevention should be embedded from the start of the project into climate resilient infrastructures

Climate-related physical risks is already there: (natural disasters caused global economic losses of about **USD313 billion in 2022 (WB)**. **Less than half (USD132 billion)** of is insured. Insurance protection gap of 58%, closer to 90% in some geographies)

Need to reflect mitigation **and** adaptation. Doing so require a strong partnership at cities level as climate vulnerabilities are very much related to local ecosystems.



## 2. Ensuring a fair and inclusive project governance for a just transition

Considering the demand side as much as the supply side of an infrastructure project: infrastructures financing should be part of the broader LTS and NDCs of a country and be consistent with its overall strategy. No “white elephant” unrelated to NDCs. Need for country/city ownership.

Making sure a proper and inclusive governance is in place to reflect the needs of the users and local government (coordination within authorities and between authorities and the local population), role of citizen councils besides city councils.

Making sure fairness/social justice consideration are embedded in the design of the project (quality infrastructures charter, reference). Only way to foster social acceptance.

## 2. Ensuring a fair and inclusive project governance for a just transition

Best practices:

- Need for Paris alignment as a good governance practice.
- Infrastructure investments need to support developing countries achieving the Sustainable Development Goals (SDGs) and match environmental sustainability, inclusiveness, and resilience objectives.
- It is important to consider a forward-looking perspective when talking about investment in infrastructure
- Sustainability and social inclusivity need to be part of the whole project value chain, and not an afterthought.



# Conclusion

Adaptation and Loss and Damages: are DFIs going to step in and replace insurance companies.

How to fund resilience/fund and damages through alternative financing means?



# Thank you!



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