FORUM ON GREEN FINANCE AND INVESTMENT 2019

SESSION NOTE

Financing Sustainable Cities

30 October 2019, 16:45-18:15

Regions and cities are critical actors in the global response to climate change for at least four reasons. First, cities are part of the climate change problem. Home to around 55% the world's population, they consume 66% of the world's energy and are responsible for 70% of greenhouse gas emissions, globally. Second, cities, their residents and economies, are particularly vulnerable to the impact of climate change. With a large share of the world's urban population residing in low-lying coastal areas that are susceptible to flooding, and with infrastructure and facilities that are ill-adapted or inappropriately constructed to withstand climate-related events, people and local economies are constantly at risk. Third, in most countries, regions and cities are responsible for activities and services with an incidence on the environment and climate change, including transport, energy, waste management, energy, and water networks. Finally, regions and cities bear the brunt of the economic and human costs of climate change. They manage, and often fund, the rebuilding and recovery efforts that follow climate-related disasters, as well as the pre-emptive investments that support climate mitigation and adaptation.

Regions and cities are major contributors to climate-related spending and investment. A pilot study carried out by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities in cooperation with the OECD Environment Directorate highlighted that, between 2000-2016 in 30 OECD countries, subnational governments were responsible for 55% of public spending and 64% of public investment in selected sectors with a direct impact on climate change. The same OECD pilot study also showed that subnational climate-related spending represented 1.3% of GDP on average, and subnational climate-related investment, 0.4%. This involvement is far from enough given the scale of the investment needed. With more and more people projected to live in cities in the coming decades and constantly increasing greenhouse gas emissions worldwide, subnational authorities face additional pressure to make the right spending and investment choices – for the purchase and delivery of goods and services, and for infrastructure. To make effective choices, subnational governments need more financial support from their national government and the international community, as well as greater ability to dedicate more own-revenue to climate-related priorities.

Public funding alone will be insufficient to cover the investment spending necessary to meet the ambitions of the Paris Agreement and to support the transition to a low-carbon, climate-resilient society. Private financing must be mobilised, and banks and private institutional investors, such as pension funds and insurance companies, are key to closing the climate-related funding gap. While attracting private investment at the subnational level can be difficult, there are a number of potential instruments, such as green bonds, equity funds and mechanisms to pool financing that can be activated to increase private financing in support of urban greening and the Sustainable Development Goals. Further action from the international community, national governments, subnational authorities, private actors and institutional investors is fundamental if regions and cities are to make the most of these innovative financing instruments.

The session will discuss concrete actions and recommendations to hep policy makers make more effective spending and investment decisions for financing climate-related objectives at the subnational level.

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