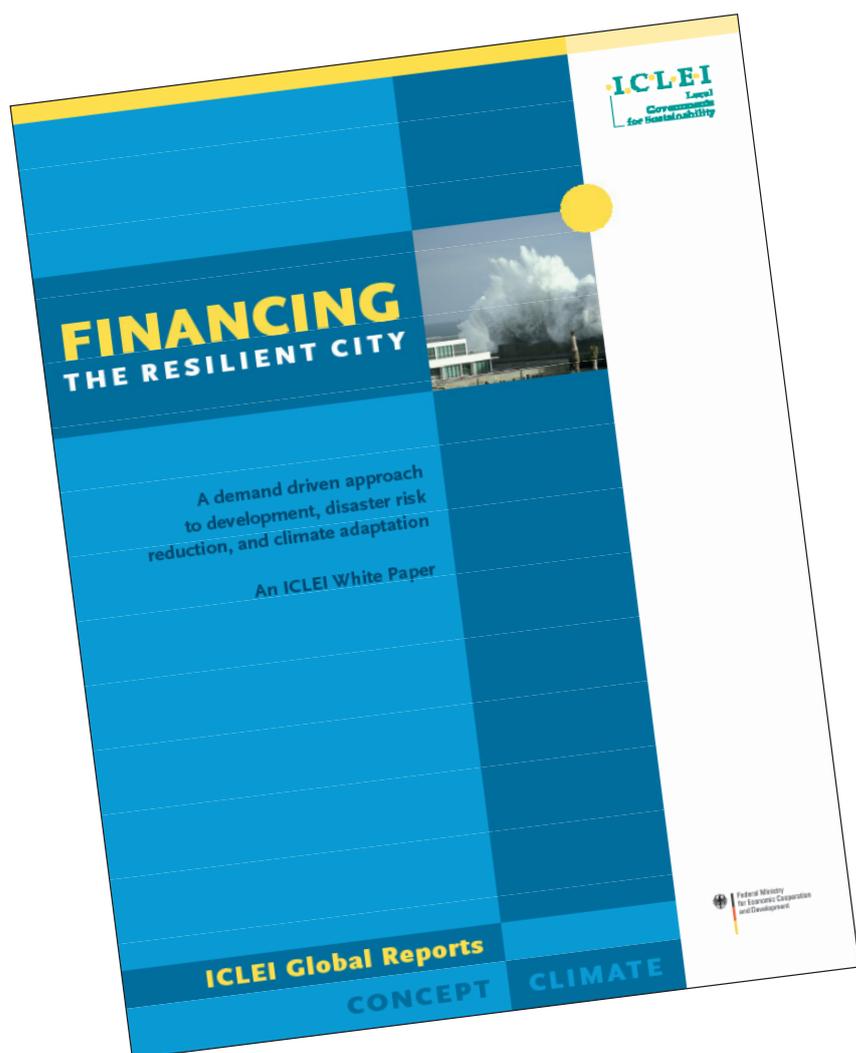


ICLEI Global Report

Financing the Resilient City, An ICLEI White Paper

It is estimated that up to 80 percent of the expected US\$80-100 billion per year in climate change adaptation costs are to be borne by urban areas.



ICLEI's latest Global Report, 'Financing the Resilient City', offers answers on how climate financing for adaptation can be mobilized, leveraged and innovated for the local level.

Authored by **Jeb Brugmann**, Managing Partner of The Next Practice Ltd. and ICLEI's Founding Secretary General, the report argues that we need a *bottom-up* approach to funding resilience and adaptation to climate change. It also supports the idea of resilience as a coherent approach to future urban planning.

The report answers questions such as: *How can local governments finance resilience sustainably? Where does the money come from? How can the money be spent effectively?*

We look towards the 'inversion' concept being taken up by governments and finance institutions. The 'how' and the 'which' of financing is as important as the 'how much'.

Konrad Otto-Zimmermann, ICLEI Secretary General

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Overview of the report

Climate finance has become an intense talking point around the world, especially for urban areas who will bear up to 80 percent of the US\$80-100 billion per year in climate change adaptation costs.

Instead of relying on the top-down approach to climate financing, cities need to design infrastructure projects that are optimized according to a set of local criteria. Meanwhile, finance institutions need to fund what is needed on the ground rather than determine what local projects should look like.

The report presents locally responsive climate financing investment strategies and instruments. It argues that finance for resilience and adaptation need to be demand-driven, rather than having conventional global financing mechanisms determining which local actions are eligible for funding.

Content overview

Executive summary

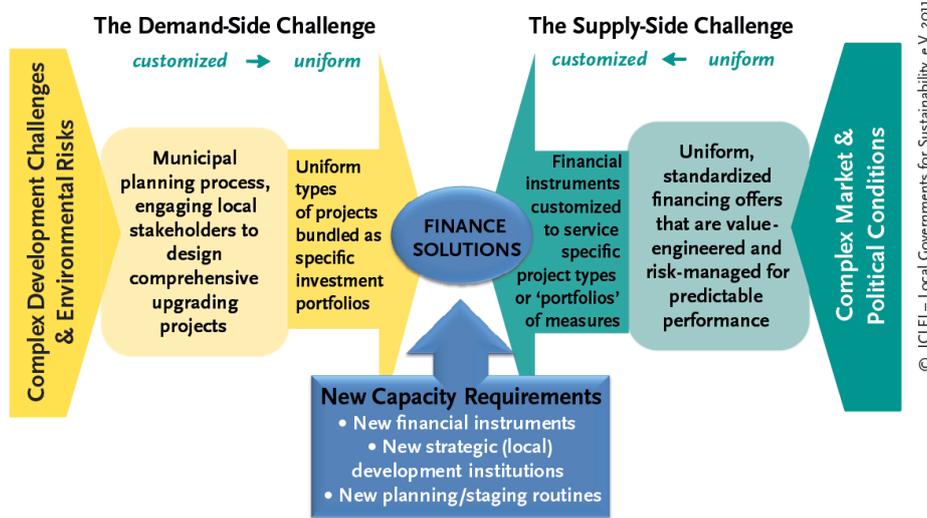
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Key challenges to financing the resilient city

1. International development assistance strategies are failing to marshal sufficient funds relative to the scale of required financing.
2. Funds are used inefficiently due the top-down nature of fund administration and the often siloed application in single purpose projects.
3. By focusing solely on risk reduction rather than the broader, revenue-generating opportunities for investment, little incentive is created to attract private investment into adaptation and other risk reduction projects.

Framing the demand-driven strategy

In mobilizing funds for resilience, an efficient *bottom-up* demand needs to match with a responsive finance supply.



The **local demand-side** requires:

1. a *bottom-up planning processes* for identifying vulnerabilities and risks, and linking the related risk mitigation solutions with priority performance enhancements in relevant areas or systems;
2. a *bottom-up technical and institutional capacity* for designing comprehensive resilience upgrading projects; for managing and staging complex project execution; and for preparing the different investment propositions related to different components of these projects; and
3. a *bottom-up procurement of investment* through managed, competitive sourcing mechanisms and processes.

The **supply of finance** needs to consider:

1. The market for resilience finance requires a *high degree of responsiveness to differentiated demand*, so that the projects themselves can be locally responsive.
2. Markets require a considerable *degree of standardization of the investment propositions* and predictability about the pipeline and subsequent performance of the propositions.
3. Industry needs to learn how to *integrate resilience as a new design* and project performance element into the front-end of project planning and product design. Until then there will be a likely need for new, non-conventional financing instruments to support initial resilience upgrading.

With the right bottom-up capacity local demand can advance a large project as quickly as or perhaps more quickly than in a conventional top-down project planning and financing cycle of an international development institution.

Creating a market for resilience

On the basis of such a demand-driven approach to investment planning, design, and finance sourcing, the different measures required in comprehensive resilience upgrades can be identified. The different risk-reward profiles and the performance of these resilience measures in reducing risks (within the context of different types of conventional urban re-development or upgrading projects) can be established. On this basis, financial services providers would be in a position to bundle similar measures, across large numbers of projects, into portfolios. Specific financing instruments could be designed to create diversified, scaled pools for investment. The instruments could each be tailored to a targeted class of measures that share a similar risk-reward profile.

The instruments might take the form of portfolio-based loans, catastrophe bonds, re-insurance, securitization, or other structured finance instruments. In this way, much larger private capital flows could be sourced for adaptation and other kinds of disaster risk reduction.

Way forward

To lead this kind of financial innovation, resources should be channeled to:

1. Developing local institutional capacity to prepare, structure and manage large scale redevelopment;
2. Mainstreaming climate and disaster risk reduction as factors in conventional planning processes, project design and development decision making;
3. Supporting the development of specialized financial instruments for the risk-oriented components of these projects that cannot be addressed via mainstreaming measures; and
4. Broadening financial mechanisms to allow more private investments.

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