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# The City Climate Finance Gap Fund



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The Gap Fund paves the way  
for low-carbon, resilient  
and livable cities.

Cities too often struggle with developing climate-friendly and resilient infrastructure. Especially in the global south, cities frequently lack the capacity, finance and support needed for the early stages of project preparation. This leads to impasses where cities cannot move project ideas to late-stage preparation and implementation. The Gap Fund paves the way for cities to deliver ambitious infrastructure development for low-carbon, resilient and livable cities. It provides technical assistance for early-stage planning and project preparation. It unlocks a pipeline of financially viable urban investments that contribute to local transformation, global climate goals and green recovery. The Gap Fund was announced at the United Nations Climate Action Summit 2019 and will be operational under the lead of the World Bank and the European Investment Bank in September 2020.

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## Partners

The City Climate Finance Gap Fund is a joint initiative of the World Bank, the European Investment Bank (EIB) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

The Global Covenant of Mayors for Climate and Energy is a key partner in the Gap Fund. Donors include Germany's Federal Ministry for the Environment, Nature Conservation and Nuclear Safety and the Federal Ministry for Economic Cooperation and Development, and Luxembourg's Ministry of the Environment, Climate and Sustainable Development.

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## Why the Gap Fund?

**Cities are central to meeting some ambitious targets such as the Paris Agreement, Nationally Determined Contributions and the UN's Sustainable Development Goals (SDGs). As the world strives to recover from the coronavirus pandemic, investments in infrastructure presents a huge opportunity to rebuild in a way that is climate friendly.**

Cities are home to more than half of the global population, consume over two-thirds of the world's energy and account for more than 70% of global CO<sub>2</sub> emissions. Urban centres' share of emissions is expected to grow as 2.5 billion people migrate from rural to urban areas by 2050. Much of that migration – an estimated 90% – will happen in Africa and Asia, where climate change will push tens of millions of people to move (see Figure 1). Cities' rapid and often haphazard growth, especially in developing countries, will drive greenhouse gas emissions and increase residents' vulnerability to climate change and other shocks, such as heatwaves, flooding and health emergencies.

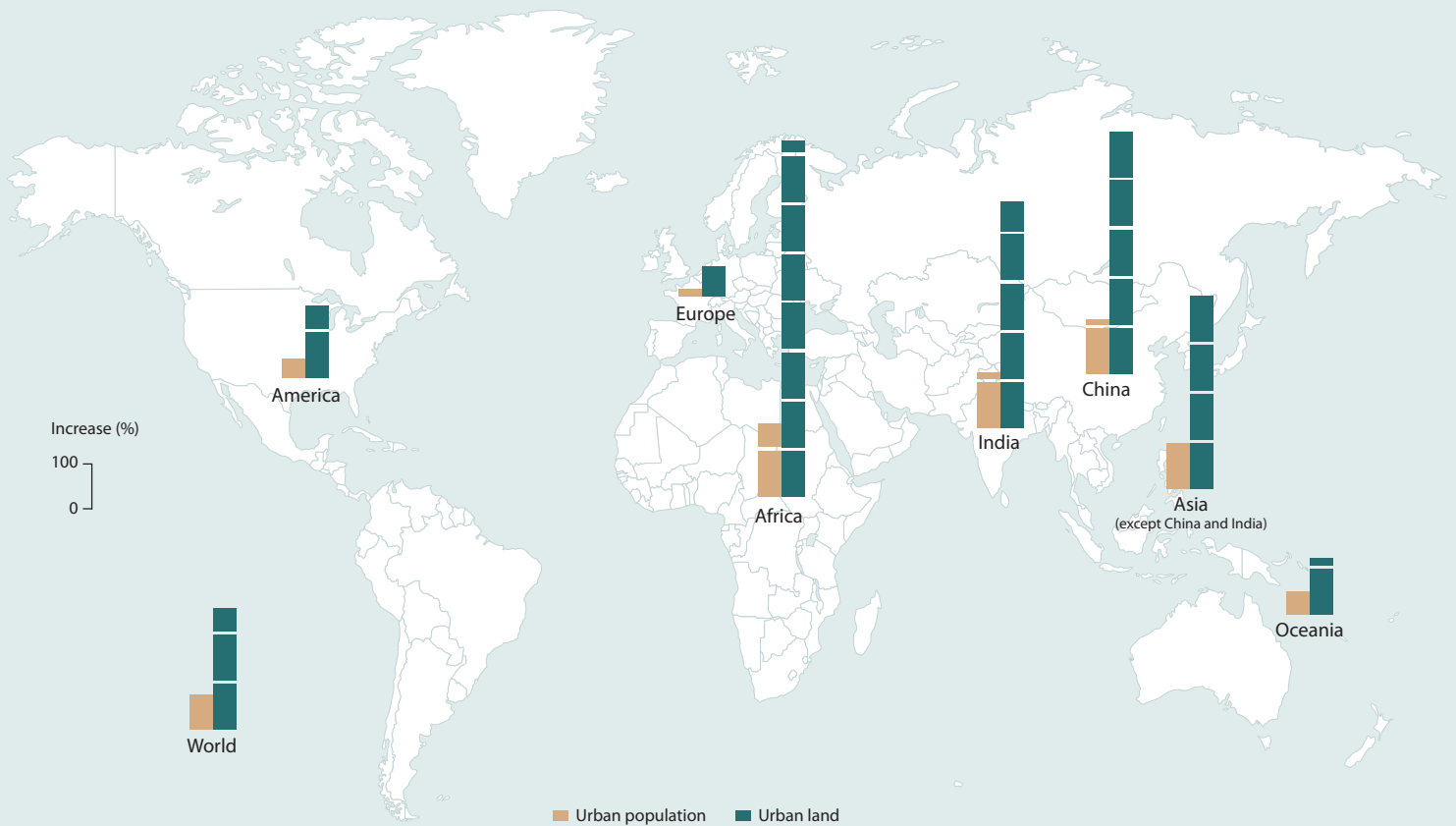
To respond to these challenges and encourage innovation and leadership, an increasing number of cities are developing climate action plans and tracking their own locally determined contributions to national and global goals. By becoming climate-smart, cities can avoid locking in development that encourages emissions and leaves the population vulnerable, while at the same time improving quality of life, safety and competitiveness. **Creating low-carbon, resilient cities – through investments that improve air quality and support sustainability with the circular economy, green buildings, clean transport and open spaces – is key to achieving the goals of the Paris Agreement.**

Figure 1 illustrates the rapid urbanisation occurring in Africa and Asia, where there is a substantial risk of locking in high-carbon, high-vulnerability urban development. If done right, cities can present a huge opportunity to lower emissions per capita.

**However, turning cities green requires massive investment and local governments face a number of obstacles.** An estimated \$93 trillion of sustainable infrastructure needs to be built by 2030, and up to \$4.5 trillion will be needed to effectively prepare investment projects. Cities in developing countries often lack the capacity, the access to finance and the enabling national and local policy environment needed to turn their climate action ambitions into sustainable urban development plans that meet the Paris Agreement targets. A critical gap exists in particular in the early stages of project preparation and in determining the feasibility of sustainable infrastructure projects.

The Gap Fund was announced at the UN Secretary General’s Climate Action Summit in September 2019 as a key component of the Leadership for Urban Climate Investments (LUCI) – a broad coalition of stakeholders including national governments, international finance institutions and funds, development banks, international organizations and city networks like the Global Covenant of Mayors for Climate and Energy, ICLEI and C40. LUCI is committed to significantly accelerating access to climate finance for cities in low and middle-income countries by 2025.

Figure 1: **Urban land expansion in rapidly urbanising cities**



Source: UN World Population Prospects (2010 revision) and Elmqvist, T., et al., Urbanization, Biodiversity and Ecosystem Services (2013).

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## What are the Gap Fund's objectives?

**The Gap Fund aims to close the financing gap for urban planning and infrastructure faced by cities in the developing world. Greater access to finance will help cities adopt the low-carbon, resilient initiatives needed to meet the Paris Agreement targets.**

The Gap Fund has **three main objectives**:

- **Provide technical assistance and capacity building.** Enhance cities' and local authorities' capacity to plan for low-carbon, climate-resilient development while also seeing high-quality project ideas through to later-stage project preparation.
- **Build a high-quality urban investment pipeline for later-stage technical assistance.** Put together a solid portfolio of projects that are ready to apply for funds from other project preparation facilities and potentially attract additional financing.
- **Share knowledge on project preparation with developers and financiers.** Help to standardise project preparation.

The Gap Fund will step in during the early – and complex – stage of project preparation, when cities often lack the capacity and financial resources required to turn ideas into real projects. Intervening at the early stages of project preparation is the most effective way to help shift urban investment towards climate-smart projects. Early-stage interventions also provide an opportunity to align COVID-19 recovery stimulus packages with low-carbon, climate-resilient urban development, favouring investments that will help build liveable, safe and competitive cities for the future. From its inception, the fund was designed to address the needs of cities while supporting the Paris Agreement commitments.

*“Cities often lack critical resources and the capacity to advance concrete infrastructure projects from an idea to a robust business case. As a result, a multibillion euro pipeline of high-quality infrastructure project ideas that can contribute to climate change mitigation and adaptation never reaches the stage of investment readiness and implementation.”* [Global Covenant of Mayors for Climate & Energy, September 2019.](#)



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## Structure and focus

The Gap Fund will contain **two pools of funds, one managed by the EIB in partnership with GIZ, and the other managed by the World Bank**. The EIB and the World Bank are committed to supporting the transition to low-carbon, climate-resilient development, and they bring a unique mix of long-standing expertise in sustainable development, climate finance projects and urban renewal. The institutions have a global reach with operational teams on the ground in different regions and large financial firepower.

The combined experience of the EIB and the World Bank will provide a broad spectrum of early-stage technical assistance for projects, from planning and strategic development to pre-feasibility studies. Both institutions will provide technical support directly to cities and local authorities. Cities and local governments will be able to apply for Gap Fund support via one common application process. Selected projects will receive technical assistance from one implementing partner, depending on the type of assignment required, prior relationships with the partners involved and the availability of the required expertise.

**The Gap Fund will establish a platform for exchanging ideas and knowledge on early-stage project preparation and support through the Partnership Forum.** The forum will connect a range of participants from the various stages of infrastructure investment and project planning. Initially, the forum will consist of donors and implementing agencies, as well as city networks such as the Global Covenant of Mayors for Climate and Energy, ICLEI and C40, and the Cities Climate Finance Leadership Alliance.

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## Eligible sectors and regions

The Gap Fund provides technical assistance to facilitate low-carbon, climate-resilient urban development and project implementation. The Gap Fund aims to:

- **Strengthen interventions in urban planning and financial management** to reduce cities' carbon footprint and improve climate change resilience. The fund will support projects that help transition cities towards efficient, low-carbon urban development. Projects will rely on climate data, in-depth analytics, and policy and institutional reforms.
- **Provide preparation that supports investment in projects compatible with limiting temperature rises to 1.5-degrees, through emissions reduction and carbon sequestration.** Those projects could include investments in energy efficiency, green buildings, sustainable cooling, nature-based solutions, local renewable energy, sustainable mobility, the circular economy, and wastewater and water management. The fund will also support **climate change adaptation activities that enhance resilience (in urban water and wastewater systems, energy, urban transport, public spaces and other infrastructure).**

**Projects supported by the Gap Fund will result in secondary social and environmental benefits**, such as improvements in quality of life, clean air, health, social inclusion, the circular economy and job creation. **The Gap Fund will support projects in cities in low and middle-income official development assistance countries, as defined by the Development Assistance Committee**, in East Asia and the Pacific, Europe and Central Asia, Latin America and the Caribbean, the Middle East and North Africa, South Asia and the rest of Africa.

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## Why contribute to the Gap Fund?

**To date, €55 million has been pledged to the Gap Fund.** The German Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) has pledged €25 million, the German Ministry of Economic Cooperation and Development (BMZ) €20 million and the Luxembourg Ministry of the Environment, Climate and Sustainable Development €10 million.

The Gap Fund has a target size of at least €100 million and aims to unlock more than €4 billion in investment for bankable climate action projects in cities.

**Donors to the Gap Fund can help improve the lives of millions of people and shift the world towards the low-carbon, climate-resilient urban development needed to achieve the Paris Agreement commitments and the SDGs,** notably SDG 11 (Sustainable Cities and Communities), 13 (Climate Action), 6 (Clean Water and Sanitation), 7 (Affordable and Clean Energy) and 8 (Decent Work and Economic Growth).

**A Partnership Forum (see more on page 6) will give donors a unique opportunity to team up with other institutions** on projects that will put cities across the world in a better position to plan for and deal with climate change. Combining climate-smart investment with the pandemic response will enable donors to contribute to the green recovery of cities hit by the coronavirus pandemic.

National governments and philanthropic organisations are **invited to provide financial support to the fund.** To express interest and discuss the next steps, kindly contact:

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