INVESTING IN SUSTAINABLE CITIES
However, rapid urbanization also poses social and environmental challenges. An estimated 2 billion people will reside in slums by 2030, with limited access to basic services. Cities consume over 60 percent of global energy and contribute 70 percent of global waste and 70 percent of global greenhouse gas emissions (UN 2016a). Despite the challenges, well-managed urban development could give rise to cities that are more conducive to economic growth and social inclusion and more environmentally sustainable and resilient to climate change.

New opportunities
The concept of sustainable urban development (SUD) envisions urban development that adheres to principles of social equity and poverty eradication, inclusive economies, and environmental sustainability. A common SUD definition is not established at the global level, but the concept is recognized as a core component of the UN’s 2030 Agenda for Sustainable Development. Sustainable Development Goal No. 11 seeks to “make cities and human settlements inclusive, safe, resilient, and sustainable.” Sustainable development and climate change are also closely linked, as reflected by Sustainable Development Goal No. 13: “Take urgent action to combat climate change and its impacts.” Cities have an important role to play in responding to the climate challenge. In recognition of this, the Paris Climate Agreement called on cities to scale up their efforts in this area (UN 2016b). Cities will be critical in helping countries achieve the goals laid out in their climate plans, known as Intended Nationally Determined Contributions, for example, through actions on transportation, land use, and building energy efficiency.

As a group, the International Development Finance Club (IDFC) loosely defines SUD as urbanization that is underpinned by social, economic, and environmental sustainability. SUD is about developing basic shelters and infrastructures, delivering social services, and encouraging economic activities, including productive transformation at the individual firm level, all with due consideration to issues such as inclusiveness, security, energy, and cli-
mate change, among others. SUD is also about creating livable cities, designed for people and created with community participation.

Global recognition and support for SUD is growing. The agreed draft of the New Urban Agenda, an “action-oriented document that will set global standards of achievement in SUD,” will be adopted at the UN’s Habitat III Conference (UN 2016a). International stakeholders and donors are working to set standards for SUD and raise awareness about the implications for our global future—a process that also creates new markets and business opportunities.

Introduction to the IDFC: A set of actors responding to these challenges and opportunities

The IDFC is a cooperative association of 23 national, bilateral, and regional development banks from Africa, Asia, Europe, and Central and South America. Formed in 2011, the IDFC aims to address the major obstacles facing long-term development finance today by joining forces on the issues currently defining the global development agenda.

With combined 2014 total assets of more than US$3,055 billion, total 2014 financing commitments of about US$636 billion, and a focus on sustainable development, IDFC has an important role to play to shift resources into areas such as sustainable infrastructure, renewable energy, energy efficiency, social and economic inclusion, sustainable urban development, climate finance and cooperation for development, among others.
KEY PRINCIPLES

The members of the IDFC represent decades of work in the field of global development. Our mission reflects and conveys our experience, our hope, our commitment, and our belief in a better life for everyone. We believe that in our changing world there is an increasing role for national and subregional development banks. We assert that like-minded development banks should collaborate to face global challenges. By joining our forces (funding capacities, local and international experience, market and product know-how), we aim to complement each other’s needs and objectives.
HOW THE IDFC IS SUPPORTING SUSTAINABLE CITIES

The IDFC is in a unique position to support and promote models of urban development that integrate all facets of sustainable development to promote equity, welfare, and shared prosperity.

IDFC members can draw upon their specialized knowledge of sectors and regions, experiences as advisers and implementers of projects, and a long history of collaboration to address challenges and assist stakeholders in mobilizing resources for SUD. The IDFC has a strong track record in supporting policy and strategy formulation and city planning, setting coordination mechanisms, helping to set mechanisms to increase access to finance, and capacity development.

The IDFC collaborates and coordinates with central and local governments, international institutions, and private-sector actors. Building on the club’s extensive partnership network, members provide technical assistance and other tools to guide policy reform, urban strategy formulation, and capacity development. Members also directly finance SUD projects all over the world, from mass transit systems and eco-cities to violence prevention and corporate social responsibility recycling programs. IDFC members mobilize a wide range of resources at both the international and domestic levels through the promotion of public-private partnerships and the advancement of joint financing endeavors, providing partial risk coverage and other cost-reduction mechanisms to help attract private capital to SUD projects in developing countries.

In 2013, the IDFC created the Sustainable Urban Development Working Group, in order to help government officials, development agents and other stakeholders identify bottlenecks and propose policy solutions to tackle the common challenges of rapid and growing urbanization. CAF-Development Bank of Latin America (CAF), the Japan International Cooperation Agency (JICA), and Agence Française de Développement (AFD) lead the SUD Working Group. In 2014, the SUD Working Group published a report, Investing in Sustainable Cities: Challenges and Opportunities, to promote more comprehensive dialogue and solution-oriented actions for SUD (IDFC 2014).
The role of DFIs in addressing challenges and capitalizing on opportunities

Cities have complex histories, unique political systems, and varied development needs. Despite these differences, there are some common barriers to SUD:

• **Developing comprehensive urban development plans:** Given the complex nature of SUD planning, particularly in under-resourced urban areas, it is often difficult to plan in a way where cities can adapt to incorporate new technologies and avoid making decisions that lock cities into harmful long-term infrastructure. Coordinating with diverse and dynamic stakeholders and ensuring inclusive participation in urban development planning is also challenging.

• **Access to finance:** This is particularly challenging for smaller, subnational entities, for example, municipalities. Municipalities are often dependent on transfers from central governments. At times, municipalities are constrained in their ability to raise taxes on their own, and many are limited in their ability to issue bonds to access international capital markets.

• **Securing resources for early-stage project preparation:** In general, early-stage project preparation to create pipelines of bankable projects requires significant and high-risk, up-front resources for planning, feasibility studies, research, and advisory services. Municipalities also need to build their own capacities to manage such processes. In the SUD context, this is often more complex as there are many competing priorities and many different stakeholders involved.

• **Administrative, technical, and financial capacity limitations:** Cities often are constrained in their ability to absorb significant financial resources and develop specific sector solutions due to systemic administrative and/or technical capacity constraints.

• **Policy and strategy formation:** Navigating the trade-offs inherent in many SUD decisions and making priorities clear among economic, social, and environmental impacts are also difficult. This includes decisions on whether and how to endorse certain technologies over others.
Government spending and official development resources are insufficient to meet global SUD needs. Development financial institutions (DFIs) “play an important role in correcting market inefficiencies by providing specialized instruments and catalytic mechanisms for leveraging public and private funds” (IDFC 2015).

DFIs bring unique perspectives and capabilities to SUD and can support cities throughout the city life-cycle process from creating urban development plans to revising policies and regulatory frameworks, from structuring finance for SUD projects to providing implementation and advisory support. In particular, DFIs can—

- **Bridge the gap between public and private actors**, which reduces risk, improves investment attractiveness, and can support policy and legal framework changes to improve the investment environment;

- **Cofinance, pool, and leverage financial resources**, which can reduce transaction costs for individual projects and improve access to finance for small and medium cities through partnerships;

- **Develop and share tools and instruments**, such as project preparation, selection, implementation, and monitoring tools; and

- **Bring experiences and insights from different sectors and geographies**, which can help with knowledge transfer to different actors, including donors, city planners, and governments.
SNAPSHOT OF IDFC INITIATIVES

Over the past two to three years, IDFC members have launched several initiatives to support SUD. IDFC members bring various skills and areas of expertise to this field. The following illustrative examples show how IDFC members have supported cities to address some common challenges.
Helping municipalities access finance
Local governments play an important role in planning, securing resources, and implementing SUD projects. However, subnational entities often face challenges accessing capital from international markets.

KfW Bankengruppe (KfW), Tamil Nadu Urban Infrastructure Development, India: KfW partnered with the Tamil Nadu Urban Development Fund of India to invest €260 million in municipal projects. The project also helps municipalities issue bonds so that they can raise additional funding on the capital market to improve, for example, water supply and sanitation.

Development Bank of Southern Africa (DBSA), conditional grant transfers, South Africa: DBSA works with various national and provincial departments (including the National Treasury and the Departments of Energy and Cooperative Governance and Traditional Affairs) to accelerate service delivery by providing bridging finance (conditional grant transfers) to municipalities for projects that will be funded through municipal infrastructure grants and the Integrated National Electrification Programme grants, ahead of infrastructure grants payment by the National Treasury.

Project preparation funds
Cities often struggle to prepare a strong pipeline of bankable projects, adding to challenges in financing SUD. IDFC members have provided support to address this specific early-stage project gap.

AFD, 100 Cities/100 Climate Projects, Global: Launched at COP 21, this program aims to support 100 cities around the world with regional project preparation funds to convert their climate strategies into concrete investments.

DBSA, Cities Project Preparation Facility, South Africa: In 2015, the National Treasury appointed the DBSA to manage and host this facility to support infrastructure planning in metropolitan and large cities in South Africa. The facility targets 18 municipalities and helps them develop a pipeline of integrated infrastructure projects, develop key partnerships, and access service providers and the required preconstruction preparation and planning support.

JICA, Master Plan and Preparatory Survey Scheme, Global: At the request of developing countries, JICA helps partner with governments in formulating master plans for SUD. These plans forecast short-, mid-, and long-term needs to develop 20-year or 30-year planning visions for SUD through detailed discussions based on comprehensive data collection and scenario analysis. Based on these plans, JICA can also offer support through its preparatory survey to prepare individual projects, including public-private partnership urban infrastructure projects. The preparatory survey enables JICA to optimize combinations and synergistic effects of JICA’s technical cooperation, official development assistance (ODA) loans, and grant aid.
On-lending to financial institutions
On-lending can encourage local or subnational financial institutions to develop knowledge about a new sector and improve access to finance for smaller entities.

KfW, Promotional Loan for Findeter, Colombia: KfW will lend US$100 million to the Colombian development bank, Findeter, to on-lend to local banks who are in contact with local municipalities. In this way, banks can grant loans to reach about 30 SUD projects in small- and medium-sized cities. The World Bank’s Multilateral Investment Guarantee Agency (MIGA) also guaranteed this loan, the first time MIGA has guaranteed a loan to a public-sector company.

Cofinancing
Cofinancing can reduce project transaction costs and make finance more accessible to smaller projects and/or other geographical regions. IDFC members have pooled and leveraged financial resources to enhance impact.

KfW and AFD, Metro Nagpur Transit, India: In this €1.24 billion project, KfW is providing a €500 million promotional loan, AFD is providing a loan, and the two shareholders—the State of Maharashtra and the Government of India—are funding equity portions through a special-purpose vehicle, Nagpur Metro Rail Cooperation Limited. The project will develop an integrated, climate-friendly sustainable and modern metro system for Nagpur City in India.

KfW and AFD, Tunis rapid transit system, Tunisia: KfW and AFD, along with a syndicate of European donors, including the Neigh-
public policy actions promoting the development of sustainable cities, urban mobility, and territorial connectivity to enhance urban-rural integration and bolster economic growth.

**Tools**

*Tools and instruments developed based on the knowledge and experiences of IDFC members can assist other actors in implementing and scaling similar solutions in their own contexts.*

JICA, UrbanScope: JICA has developed a comprehensive urban diagnosis tool named UrbanScope to assist cities with planning and prioritization of projects.

CAF, Cities with a Future Program (Programa Ciudades con Futuro): was created to meet the development needs of cities in Latin America under the framework of social inclusion and productive transformation, which are not only cross-cutting themes but fundamental axes for planning an integrated territory. CAF’s work is organized around five thematic areas: (1) strengthening connectivity through multimodal public transportation systems; (2) increasing social cohesion through public spaces; (3) bolstering capacity through education and training; (4) universalizing public services in water, sanitation, and the environment; and (5) supporting institutional strengthening. This integrated approach is applied to CAF’s credit operations, facilitating the development of comprehensive urban projects with real impact.

CAF, Observatory of Urban Mobility: Developed by CAF, this tool produces current data on the status of transportation and mobility in 25 major cities in the Latin America and the Caribbean region. The tool provides information for policymakers and others to make data-driven decisions to improve public transportation.

AFD, Direct loans to cities without state guarantee: Often subnational entities are asked to provide a sovereign guarantee in order to access international sources of finance; however, AFD provides direct loans to local authorities without the central government’s guarantee.

**Research, data, knowledge transfer, and technical assistance**

*SUD stakeholders can also benefit from the knowledge, research, and expertise that IDFC members have developed or supported over the course of their SUD projects and experiences.*

JICA and CAF, Investing in Sustainable Cities: Challenges and Opportunities: This 2014 publication discusses the definition of SUD and the challenges and opportunities facing cities and gives examples of IDFC member projects to enhance SUD around the world. The paper offers concrete recommendations on how to improve SUD.

AFD, JICA, CAF, and KfW, Cities Climate Finance Leadership Alliance (CCFLA): IDFC members played a leading role in the first year of the CCFLA; AFD in particular helped to ensure the publication of the first State of City Climate Finance Report, released for COP 21.

Banco Nacional de Desenvolvimento Econômico e Social (BNDES), Study on mobil-
ity: BNDES provided support for a study on urban mobility with diagnosis and solutions for 13 municipalities in the metropolitan region of Florianópolis (Santa Catarina state), using nonreimbursable resources from the BNDES Project Structuring Fund. The study is the result of a technical collaboration agreement with the state of Santa Catarina. Solutions will benefit approximately 950,000 inhabitants, improving standards of living by upgrading public transportation and integrating urban projects with a long-term metropolitan vision. The project has the potential to be a model for other metropolitan areas in Brazil.

CAF, Report on Urban Development Policies and Tools: “Pro-inclusion Policies”: The report outlines a methodology that incorporates inclusion as a cross-cutting goal for city development throughout Latin America. Aimed at being implementable, the methodology underscores territorial aspects and the relationship between the spatial structure of urban areas, especially slums, and inclusion. The report also highlights the urgent need to make evidence-based decisions from available, systematized information, for example, in the form of maps, which can indicate access to opportunities and services and their effect on human development on a micro-local level.
SELECTED CASE STUDIES
IDFC members are leading a range of efforts to support SUD, as illustrated in the previous section. The following case studies take a closer look at a few examples of how IDFC members are promoting more sustainable cities.
CAF: Promoting Sustainable Tourism in Fortaleza

Fortaleza, the coastal capital of the northeastern Brazilian state of Ceará, is a densely populated city with 2.45 million inhabitants. The city’s Aldeia da Praia program aims to promote the tourism potential and competitiveness of Fortaleza and create conditions to improve the population’s social and economic development. The program’s integrated and multisectoral investments incorporate principles of sustainability, including environmental management strategy, social inclusion, cultural diversity, and productive capacities as pillars of sustainable urban development of the city.

CAF agreed to the city’s proposal for the bank to finance 50 percent of the US$166.5 million program; the Municipality of Fortaleza provides the other half. CAF also provides support through equipment, studies, consulting, construction supervision, environmental monitoring, external audits, and a program support coordination unit. The program, which is executed by the municipality’s tourism secretariat, Secretaría Municipal de Turismo de Fortaleza, integrates investments around the following axes: (1) management policy and long-term urban development, including expanding coverage and access to basic services and housing; (2) social and territorial integration of the coastline of the city; (3) promotion of productive investment and employment; (4) environmental improvement and preservation of natural resources; and (5) security.

The program components are integrated urban development, productive transformation, environmental sustainability, institutional strengthening and public security, and program management. Other stakeholders in the program include local residents, local government agencies, and the tourism sector.

CAF’s close relationship with its clients and actors involved in the process, as well as knowledge of proven best practices (particularly through its Cities with a Future Program), has contributed to the program’s implementation. The program should help boost tourism in the area. Tourism is one of the major economic and social driving forces for successful cases of urban revitalization of degraded, underused, or abandoned areas. Tourism can also create new working conditions, housing, transportation, culture, and leisure for the population living there and promote the development of the city.
JICA: Fostering Sustainable Urban Growth in Ulaanbaatar

Ulaanbaatar City is rapidly expanding with population of 1.3 million, nearly half of the total population of Mongolia. As a result, urban transportation and infrastructure related to public services, such as electricity and water supply, require maintenance and improvement. The tendency toward disorderly expansion of the city deteriorates the urban environment, causing air pollution, soil contamination, waste, and disparity in social services. To help address these challenges, JICA has been cooperating with the Government of Mongolia to enhance capacities of urban planning and urban development project implementation, which will contribute to improving the environment for the city’s population.

JICA collaborated with Ulaanbaatar to help formulate its urban development master plan in 2009 and since then has supported several projects to help realize the master plan. These included technical assistance to establish the Urban Redevelopment Law and the implementation plan for the master plan, as well as finance, for instance: a YEN 33 million grant for a water supply development program, a YEN 42 million for thermal power plant optimization, and a YEN 657 million loan to support the construction of an international airport. JICA also collaborated closely with other entities providing grants, loans, and technical cooperation toward various projects that support the city’s environmental management and urban planning, including trust funds from the Government of Japan and the World Bank, the Asian Development Bank, and the European Bank for Reconstruction and Development. JICA also provided capacity development through studies, training, and policy advice.

JICA’s long-term relationship with the City of Ulaanbaatar has been a key to the success of this collaboration. The national assembly approved the Ulaanbaatar Master Plan 2020 and the Development Policy 2030 in February 2013; the Urban Development Law was enacted in June 2015; and the cabinet approved the Implementation Plan of Ulaanbaatar MP 2016–2020 in March 2016. Through its assistance with the master plan, JICA contributed to Ulaanbaatar’s sustainable urban development, helping to define a long-term vision and prioritize projects to achieve urban development in a well-coordinated manner. Projects have been planned and implemented by various stakeholders, such as the Government of Mongolia and private parties, and development partners like JICA. The project enhanced legal frameworks on urban development, which would facilitate investment by private parties for urban redevelopment and housing.
KfW and BNDES: Cooperating to Finance Climate-Friendly Urban Mobility in Brazil

Brazil has a great need for local public transportation that is not just environmentally friendly but also eases road congestion. Earlier urban mobility programs promoted individual means of transportation, resulting in cities with ever growing traffic. As a response to this, KfW and BNDES, which have a history of long-term cooperation, are working together to provide climate-friendly public urban mobility (transportation) solutions in urban and metropolitan regions in Brazil.

In 2015, KfW committed a development loan of €265 million to BNDES. BNDES then awarded loans to public and private establishments that implement climate-friendly transportation projects. The first project in the program, a tram in Rio de Janeiro, was completed on budget and on time for the 2016 Summer Olympic Games. In addition to financial support, KfW shares technical expert knowledge, including selecting projects in line with climate criteria, overseeing the implementation process, and performing checks to assess whether climate targets are actually being reached (monitoring).

This ongoing cooperation enables BNDES to strengthen its ability to select and support projects in the field of urban mobility while including criteria of climate mitigation. The project supports Brazil’s efforts to efficiently use its energy resources and thereby supports the reduction of CO2 emissions and global climate mitigation.
BancoEstado and KfW: Financing Mortgages for Energy-Efficient Housing

Access to quality and affordable housing is a challenge in Chile, particularly for low-income households. BancoEstado, already the country’s leading mortgage lender, aims to encourage the purchase of energy-efficient homes through a new program introduced in 2016. The program will finance low-cost-mortgage loans for newly constructed energy-efficient housing.

BancoEstado is cooperating with KfW as a partner on the project. KfW provided a €133 million loan to BancoEstado to then finance mortgages in local currency. The mortgages provide a fixed interest rate over terms of 8, 12, 15, and 20 years and a six-month grace period. The properties must be newly constructed residential housing with efficient energy consumption. The mortgages under the program have significantly lower rates than BancoEstado’s other current rates. KfW’s low-cost financing and technical support were critical to helping BancoEstado take the program forward.

In addition to supporting access to quality and affordable housing, the program will educate the Chilean population and market players like real estate companies about energy efficiency and environmental issues. The program has helped build BancoEstado’s appetite for developing new products in response to current dynamics and challenges.
AFD: Creating a Sustainable Johannesburg

Although much has been achieved in revitalizing and transforming Johannesburg, South Africa’s economic capital, since the end of apartheid in 1994, significant challenges remain. The inner city still grapples with unresponsive institutional mechanisms, crime and grime, unsustainable urban services, an underperforming economy, and poor quality of life and exclusionary practices. Meanwhile, many communities are marginalized at the outskirts of the city, away from economic opportunities and access to jobs and growth. AFD is supporting the City of Johannesburg’s (CoJ) efforts to improve the living conditions of its citizens by transforming the urban form of the city through two major initiatives: the Inner City Roadmap and Corridors of Freedom.

The former focuses on growth and development of Johannesburg’s inner city area. The latter is an initiative that seeks to build a new city along and around mass transit movement lines in selected areas of the city to create housing, jobs, and social opportunities in proximity to each other. The collaboration between CoJ and AFD began in 2014 after a research program led by the University of Wits and the Urban Morphology Institute on Johannesburg urban design. Regular meetings between AFD and CoJ teams between March 2014 and May 2015 helped elaborate the design of AFD intervention.

AFD’s support is based on two pillars: (1) a ZAR 1.5 billion (€120 million) budget loan to CoJ, disbursed in 2015, to finance capital expenditures related to the Corridors of Freedom and Inner City initiatives, in particular, for essential services (electricity, water and sanitation, waste management), urban public transportation, and social housing and (2) a €700,000 grant technical cooperation program for 2015–2018, aimed at ensuring that CoJ’s spatial transformation policy results in higher social inclusion and a reduced carbon footprint and that CoJ can measure its impacts. AFD structured the loan to meet the needs of CoJ (non-earmarked budget loan, 15 year tenor, one tranche) and with respect to local regulation (the loan was in local currency). The technical cooperation is provided in partnership with the Urban Morphology Institute, City of Paris and C40, Metropole Europenne de Lille, and Wits University. AFD intends for its support to help deliver clear outcomes, such as higher numbers of public transportation users, the rehabilitation or upgrade of housing units in deprived areas, and building or renewal of buildings with higher environmental norms. Other South African cities have expressed to AFD their interest in replicating this type of intervention in their territories.
LOOKING AHEAD
IDFC support goes beyond financing. Technical expertise, long-term and trusted relationships, and willingness to collaborate contribute to enhanced impact in the area of SUD.

Pooling or leveraging IDFC resources can provide financial solutions in a range of sectors. The cooperation among IDFC members and their relationships with local institutions helps to reduce transaction costs for individual projects and opens financial access for smaller and medium-sized cities. The focus on sustainability and development allows IDFC members to provide types of financing that unlock key bottlenecks in project implementation—whether that is project preparation funds or bridge financing provided to municipalities or on-lending to local banks to reach smaller cities. IDFC members also bring to the table long-term institutional relationships and a rich network of partners, which have eased implementation of many otherwise difficult projects.

IDFC members can draw from rich experiences in different sectors. Multisectoral and integrated approaches promote more inclusive, competitive, eco-efficient, and sustainable cities. IDFC members are also key to bridging the gap between public and private actors, reducing potential risks, raising attractiveness of investments, and assisting cities in prioritizing and making decisions in more efficient and transparent ways. IDFC members bring a rich diversity of expertise and perspectives to SUD and have demonstrated how joint action can mobilize finance for SUD and help create healthier, greener cities that promote equity, welfare, and shared prosperity.

IDFC members support each other in further developing tools and instruments for project preparation, selection, implementation, and monitoring in order to secure sustainability and impacts. These tools can also be tailored to specific contexts, with targeted technical support depending on the cities’ needs.
REFERENCES


PHOTO CREDITS