Summary Report: High-Level Meeting on Financing Sustainable Urban Development

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Glossary of Terms

Cities Investment Facility (CIF)- A multi-stakeholder initiative providing project preparation assistance to cities from concept stage through feasibility and financial close.

Environmental Social Governance (ESG) framework- This framework assesses the environmental, social and governance dimensions of a project to ensure they maximise on their positive impact especially in relation to ethical concerns.

Gross Domestic Product (GDP)- The measure of the market value of all final goods and services produced in a specific time period by a country.

International Energy Agency (IEA)- An autonomous intergovernmental organisation that provides policy recommendations, analysis and data on the entire global energy sector.

Local Finance Framework- An evidence-based matrix to guide decisions regarding which types of funding/financing mechanisms should be used to improve the financial position of local governments in developing countries and deliver public services/infrastructure.

Public-Private-Partnership (PPP)- A mechanism for the government to procure and implement public infrastructure and/or services using the resources and expertise of the private sector.

UN-Habitat- The United Nations (UN) focal point for all urbanisation and human settlement elements.

Own Source Revenue (OSR)- This relates to the internal revenue sources raised by a city government from local taxes, fees, and charges.

Sustainable Development Goals (SDGs)- These are a collection of shared goals that serve as a blueprint for peace and prosperity for the entire planet.

United Nations Conference on Trade and Development (UNCTAD)- An intergovernmental organisation within the United Nations Secretariat that promotes the interests of developing countries in world trade.

Waqf- An Islamic endowment of property to be held in trust and used for a charitable purpose.

Zakat- An Islamic finance term referring to the obligation that an individual has to donate a certain proportion of wealth each year to charitable causes.

Abstract

The World Cities Day High-Level Meeting Summary Report is part of a vision to increase advocacy and crowd in industry experts worldwide to discuss the current global financing landscape of sustainable urban development and provide recommendations for strategic action to enhance existing financing mechanisms to catalyse sustainable urban development.

In recognition of this, UN-Habitat, Borsa Istanbul, and Think City jointly hosted a High-Level Meeting: A Dialogue on Financing the Sustainable Development Goals (SDGs) on October 30, 2023, under the Global Observance of World Cities Day 2023. This High-Level meeting gathered prominent figures from the global financial, construction, infrastructure, consulting, governmental, academia, and multilateral agencies to discuss the current financing landscape for the SDGs and provide recommendations to Ms. Maimunah Mohd Sharif, the Under-Secretary-General for the United Nations and Executive Director of UN-Habitat.

As the first iteration of many dialogues to come on the topic of sustainable urban finance, this summary report sets the foundation for future reference and represents the commitment of Ms. Maimunah Mohd Sharif to this cause of ensuring a sustainable urban future for all.

Authors:

UN-Habitat – Neil Khor, Edlam Yemeru, Dyfed Aubrey, Erastus Njuki, and Mark Gallagher
Think City – Hamdan Majeed, Melissa Chin, and Sean Lee

Foreword from Ms. Maimunah Mohd Sharif, Executive Director, UN-Habitat

Ms. Maimunah Mohd Sharif
Under-Secretary-General and Executive Director, United Nations Human Settlements Programme (UN-Habitat)

My sincerest gratitude to the Municipality of Istanbul for hosting the first-ever iteration of the World Cities Day High-Level meetings in observance of World Cities Day. This year's theme — Financing a Sustainable Urban Future for All, highlighted that financing sustainable urban development is not a choice but a necessity to build the sustainable cities and communities that we aspire to. Rapid urbanisation is an undeniable reality, and it is imperative that we steer it towards sustainability.

To ensure a sustainable urban future for all, success stories highlight the importance of aligning all government levels, establishing regional commitments, and involving local communities. Better integrated systems in which federal, local, and regional governments can work together in cohesion need to be created. Urban policies need to shift away from an urban-rural dichotomy and consider urban-rural continuums that encourage the understanding of places as interconnected and interdependent with their adjacent regions.

The outcomes from this High-Level Meeting highlighted that the issue of cities is solvable. The critical importance of aligning our efforts with the SDGs in our urbanisation journey is imperative, and national ministries should work collaboratively to ensure policy and planning documents align holistically.

In my own experience as the Mayor of Seberang Perai, Malaysia has set a beautiful example of how its national plans integrate spatial and geographical elements into consideration for integrated urban planning. Through my experience in UN-Habitat, I have come to know that this scenario, in which national plans take into consideration financial and spatial considerations, is not a common practice globally. Thus, this has been one of the key agendas that I wish to drive and see this best practice adopted globally.

Clear actionable priorities for cities have been provided, including the adoption of a local finance framework and a renewed focus on urbanisation and SDG11. UN-Habitat remains committed to accelerating progress towards SDG achievement in cities through financing for urban development.

The foundations for the continuation of this conversation have been established; the next steps are to formalise and continue these discussions to be compiled into an executive report that the world can reference. The work to empower the voice of the local government needs to be at the forefront and centre of multilateral action.

This year's High-Level Meeting has tone and urgency on our path towards achieving the SDGs by 2030. The SDGs, especially SDG 11, set the ambitious path for the kind of cities and lives we desire.

Foreword from Tan Sri Azman Mokhtar, Keynote Speaker – High-Level Meeting on Financing Sustainable Development

Azman Mokhtar
High-Level Meeting Special Keynote Address
Chairman, Lembaga Tabung Haji Malaysia
(Hajj Pilgrims Fund Board)

Assalamualaikum Warahmatullahi Wabarakatuh,

I am honoured to be the Special Keynote Address Speaker for the first-ever iteration of the World Cities Day High-Level Meetings held in observance of World Cities Day globally.

The next steps on this path towards a sustainable future must come from the lens of authenticity, and its ideas and value innovation need to hit at the 3-feet level.

The world is now experiencing fractured and seismic times, with recent overlapping crises and challenges in the global macroeconomic landscape. Solving the world's issues will not be as simple as aiming for economic prosperity and climate sustainability, as other poly-crises such as inequality, unsustainability, and conflicts reflect the crisis of humanity that also needs to be addressed.

As we move towards the halfway point towards achieving the SDGs, interventions and initiatives will require greater precision and focus to accelerate our current progress. Despite the confluence of genuine initiatives, funding is needed to ensure the momentum of these initiatives is sustained.

In my experience as the Managing Director of Malaysia's National Sovereign Wealth Fund, it is my view that sovereign wealth funds have the potential to play the role of the nation's sovereign development fund, both to ensure financial returns while delivering strategic, economic, and societal development outcomes.

The state holds the power to prioritise and mobilise resources towards the right initiatives and must ensure that this power is distributed equitably. Likewise, with the abundance of resources in the private sector, the rise of enlightened leaders has the potential to mobilise breakthroughs and further accelerate the rate of progress towards the SDGs.

Traditionally, there is much conversation about Public-Private Partnerships (PPP). The 4th official P should be people—the power of people, social capital, and civic society. Cities should invest in initiatives that incorporate the well-being of their people for economic development. The power of the community is strong and should be harnessed for a sustainable urban future.

The 5th P should be Philanthropic Capital—the role of participatory finance such as Islamic finance and social finance. As this High-level Meeting takes place in the city of Istanbul, we must reflect on the Ottoman history, where at some point a third of the state's funds came from waqfs—the "third sector."

Financing sustainable urban development provides a way forward in this current reality. The answers are in cities. Exploring the demonstrative concepts and success cases that have been tried and tested worldwide is key to informing the next steps of this global journey. As important as choosing what to do is, we also have to be aware of what not to do.

Introduction

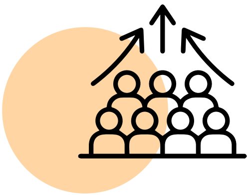
Cities are here to stay, and the future of humanity is undoubtedly urban. Cities are the engine of global economic development, accounting for more than 80% of global GDP. Cities are also the source of some of the current existential challenges that the world is facing – being responsible for over 70% of the world's energy consumption and its associated greenhouse gas emissions and being the biggest source of pollution in the world. The current urban population accounts for 56% of the total global population and is expected to grow to 68% in 2050. This translates into an increased population of 2.2 billion people that will almost be entirely absorbed by cities.

This rapid urbanisation, together with the impacts of current global existential threats, is adding significant strain to existing infrastructure and demands considerable investments into increasing its current capacity, i.e., infrastructure in waste management, water and sanitation, transport and mobility, and new energy. The United Nations (UN) Sustainable Development Goals (SDGs) address these global challenges and set up guidelines by which this sustainable urban future can be realised. To achieve the UN SDGs, there is a great need for financing at scale for sustainable urban development globally, especially in emerging markets and developing economies.

How this immense population growth in cities is managed can contribute to vastly contrasting future urban outcomes. Sustainable urban growth that focuses on a healthy concentration of economic activity can produce urban futures that unlock agglomeration benefits such as increased economic productivity, greater exchange and spillover in knowledge capital, and more efficient management of resources. On the opposite end, inefficient urbanisation resulting from the lack of sustainable development financing can result in diseconomies of scale and negative externalities, further exacerbating current issues that contribute towards decelerating current progress towards achieving the UN SDGs, such as poverty, climate change, and pollution.

As we approach the halfway mark in this Decade of Action, recent overlapping crises and challenges in the global macroeconomic landscape have created an increasing divergence in global progress towards the UN SDGs. An increasingly VUCA (volatile, uncertain, complex, and ambiguous) global landscape coupled with the focus on the economic recovery from COVID-19 is exacerbating the differentiated capacities of countries to respond to this multi-faceted issue. Fiscal constraints remain a key driver in this widening "pandemic recovery gap" as developing economies are met with financing at higher volatility, borrowing costs, and shorter maturities. This finance divide has contributed to diminished capacity to finance appropriate recovery initiatives from the pandemic in developing countries and has the potential to translate into further reduced infrastructure development capacities if left unaddressed, setting back progress towards.

As the focus on economic recovery from COVID-19 coincides with the urgency to accelerate the achievement of the SDGs in this Decade of Action, cities are now more dependent than ever on private capital to support the scale, finance, and implementation of



The current urban population accounts for **56% of total global population** and is expected to grow to **68% in 2050**. This translates into an increased population of **2.2 billion people** that will almost be entirely absorbed by cities.

city development projects. Traditionally, infrastructure construction within cities has been predominantly financed by the public sector. This scenario is rarely adequate for achieving the full scope of investments needed to fund its completion. Private equity across the globe has access to levels of capital that are more than capable of closing this financing and infrastructure gap. Tapping into a fraction of the global private sector market alone is sufficient to fund all investments needed to achieve the UN SDGs.

However, private capital is often reticent to invest in less established markets due to the expense and inherent risks associated with such activities. Perceived risks such as political instability, regulatory changes, currency fluctuations, and institutional capacity are examples of associated risks that translate into higher borrowing costs and shorter maturities, further constraining the ability of governments to sustain large-scale public investments. Infrastructure investments from private equity predominantly flow into operational infrastructure projects within developed markets, and very rarely do the remains of these potential funds find their way into construction infrastructure projects in developing economies. Multilateral interventions and incentives are needed more than ever to position sustainable urban development projects to tap into the extensive global private capital market.

The SDG Cities Global Initiative provides a response towards the need for accelerated action on the local implementation of SDGs during this Decade of Action. While many varying factors contribute to this infrastructure funding gap, one of the primary obstacles centres around the lack of quality-prepared projects. The initiative aims to catalyse international commercial capital and blended finance interest for late-stage project preparation and, ultimately, construction once the preparation phase is complete. Through this mechanism, the SDG Cities Global Initiative aims to support over 1,000 cities to accelerate their progress towards the UN SDGs and the impact this would have on around 1 billion lives.

While the SDG Global Cities Initiative centres on increasing the institutional capacities of cities and governments to prepare projects that are viable and appropriate for private sector investments, strategic reforms in the fiscal, regulatory, and systemic environments are equally important factors contributing towards securing private sector investments that need to be considered. The challenge of facilitating private capital in sustainable urbanisation in emerging markets and developing economies, though multifaceted and complex, provides a clear path and establishes its integral role in accelerating current progress towards achieving the UN SDGs by 2030.

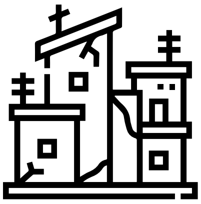
Sustainable Cities and Communities: Financing the Ambition

The global economic outlook remains fragile amid a convergence of crises that are threatening to further reverse progress on the Sustainable Development Goals. The United Nations World Economic Situation and Prospects 2023 project that global growth will decelerate to 1.9 per cent in 2023.

For economic growth and recovery to be sustainable, we need cities that can absorb, recover from, and prepare for future economic shocks. Yet, they can only do so if they are well planned and managed to drive prosperity, inclusion and sustainability. The good news is that the world is committed to achieve this by 2030 through Sustainable Development Goal 11 which sets several targets to improve housing and basic services, sustainable transport systems, and air quality in cities, among others. The bad news is that the world is off track in achieving most of these targets. The 2023 review of progress with Sustainable Development Goal 11 was sobering[1]. It showed that 2.8 billion people are affected by housing inadequacy, with 1.1 billion people living in slums and informal settlements, with an increase of 165 million additional slum dwellers observed over the last 20 years[2]. Also, an estimated 318 million people are homeless globally[2]. Further, 3.4 billion people lack safely managed sanitation services, 1.9 billion people lack basic hygiene services, and 2.3 billion metric tonnes of municipal solid waste were reported in 2020, with 40% of this waste in uncontrolled facilities[1]. Only 51.6% of the global population has access to public transport while 99 per cent of the world's urban population lives in areas that exceed the 2021 World Health Organization guidelines on air quality. In addition, just 45.2% of urban dwellers have convenient access to open public spaces[2]. Clearly, these deficits undermine the potential of cities to offer a better quality of life for all, leaving far too many people and communities behind.

1 UN-Habitat. (2023).SDG 11 Synthesis Report: Rescuing SDG 11 for a Resilient Urban Planet. Retrieved from https://shop.un.org/books/sdg-11-synthesis-report-2023-25688

2 United Nations. (2023). The Sustainable Development Goals Report: Special Edition. New York: United Nations. Retrieved from https://unstats.un.org/sdgs/report/2023/



2.8 billion people are affected by housing inadequacy, with **1.1 billion people living in slums** and informal settlements

3.4 billion people lack safely managed sanitation services, 1.9 billion people lack basic hygiene services

Addressing these challenges in our cities and communities is costly, but doable. The UN estimates that roughly $2.6 trillion is required every year until 2030 to meet the Sustainable Development Goals (SDGs) and stay on course towards a net-zero society by 2050 [3]. Ensuring we meet our commitments to sustainable cities and communities will also require substantial financing, with UN-Habitat estimating that 96,000 new housing units are needed every day to meet the demand for adequate housing by 2030. This amount may appear huge but compared to annual global savings and other large financing markets, it is achievable. The availability of capital is large enough to solve global infrastructure needs [4].

To unlock this capital, a paradigm shift is essential to inform the way in which the financing of sustainable cities and communities is pursued in two regards— external and endogenous financing.

First, in terms of external financing deployed in low-to-middle-income countries, a significant drop in development grant funding and an increase in public investment is a clear signal that a change from a granting model to a financing model is crucial in keeping up the pace towards attaining the SDGs. This requires greater focus on leveraging both public and private investments to finance the development of cities and enhance the productivity and growth of urban economies. Channelling investments to cities requires close collaboration between different levels of government to ensure coherence and maximise returns.

Second, the financing of sustainable cities and communities must also better leverage endogenous resources. Centering cities and urbanisation as a driver of economic transformation in national development plans and priorities is key. There is no doubt that investing in cities will transform national economies. Substantial investments in economic sectors beyond the urban sector and local governments' purview have major impacts which could be scaled if better consolidated through national coordination. At the same time, the immense potential of cities to generate revenues and financing for national and global economies must be better leveraged to unlock stranded resources.

The evidence is compelling. Cities have tremendous potential to drive global prosperity but still face considerable deficits that require urgent action. Now is the time to unleash the tremendous potential of cities through optimum financing models to secure a better quality of life for all. This matters for present and future generations, both of which live in an urban era.

Edlam Yemeru,
Chief, Knowledge and Innovation Branch,
UN-Habitat

3 United Nations. (2023). Financing for Sustainable Development Report 2023: Financing Sustainable Transformations. New York: United Nations.

4 World Bank. (2022, May 20). https://blogs.worldbank. org/ppps/mind-gap-time-rethink-infrastructure-finance. Retrieved from https://blogs.worldbank.org: https://blogs.worldbank.org/ppps/mind-gap-time-rethink infrastructure-finance

Roundtable Discussion and Recommendations

Raising awareness of current issues

1. Advocacy on financing the sustainable urban development gap should stir up conversations to allow for positive reinforcements that incentivise change and participation, rather than a forceful change through negative reinforcement.

2. Community and quality-of-life public spaces should be positioned and packaged within the larger overall masterplan and business case, rather than a standalone construction project to reduce the perceived risk and increase masterplan value.

   a. Cities need to be viewed as nodes in a collective ecosystem with other cities in neighbouring regions, and not solely as an individual entity.

   b. Urban development projects need to be connected to a larger pipeline and vision of an area development to ensure that it complements the system (rather than being a standalone individual project).

   c. Planning the complementary relationship between cities and their neighbouring urban centres can prevent cannibalisation of resources and outcomes.

3. Cities cannot survive on a top-down approach alone and the balance between aligning the interests of public, private, and local communities is key.

   a. It is essential for the local community to be involved in national decisions.

4. Financial modelling should be prioritised in education syllabi in urban planning schools across the world.

    a. Urban planning schools often don't focus on financial modelling as much as spatial planning, creating a disconnect between financial feasibility and planning.

    b. Proper urban planning with financial considerations allows the city to understand its risk and return profile, allowing the city to target the right investors to raise capital from.

    c. Currently, many cities are scouting for investors without having first understood the risk-return profile of their projects.

5. The current disconnect of infrastructure development funders and cities from emerging markets needs to be addressed.

    a. Multilateral development banks have to lend in compliance with the Paris Agreement, which is very difficult in emerging markets where there may not be core infrastructure in the first place, e.g., road infrastructure, and aviation infrastructure.

6. The current unequal access to data and the tools to collect data for cities in the Global South needs to be addressed.

    a. A standardised reference framework needs to be developed for cities to identify their financial risk profiles for mitigation and action.

Understanding local dynamics

1. The Local Finance Framework is less applicable for larger cities or small towns that have no capacity to raise Own-Source Revenue (OSR).

    a. Key to addressing local issues lies in a greater effort to understand local dynamics (e.g., jobs and consumption habits).

    b. New models need to be developed between the public sector, private sector, and local communities that are forward-looking for all stakeholders involved.

    c. Financial architecture at the international level (that is also applicable to local dynamics) will be key in addressing this financial gap.

    d. The current financial system is no longer up to date and the world needs to be bold enough to uproot and remodel the existing system.

2. The Local Finance Framework must consider individual cities' differing political autonomy and financial self-sufficiency capabilities.

    a. Local dynamics need to be captured as cities of similar size can have vastly different political and financial landscapes, which are key factors that must be confirmed before recommendations are to be provided for their financing journeys.

3. Certain legal frameworks in many countries do not allow for OSR mechanisms.

    a. Decentralisation and/ or the right policies and frameworks are needed to allow for local municipalities to achieve this and ultimately support themselves.

    b. For many cities, capacity must be built in legal frameworks.

4. While funders are cognisant of the "E" aspects of ESG, the investment sector has limited clarity on the definitions and importance of social infrastructure within cities, therefore limiting support for initiatives within the "Social" and "Governance" aspects of the "ESG".

    a. E.g. – Real estate investors need to adopt the perspective of not just investing at the building level, but also at the neighbourhood precinct level.

        i. Providing the social and recreational infrastructure that makes the neighbourhood thrive.

    b. Investing in the "Social" and "Governance" aspects will provide longer-term sustainable returns.

5. The power of people, social capital, and civic society is strong and should be harnessed for economic development.

    a. Long-term community planning and ecosystem development should be at the core of every urban project.

Changing the mindset – future landscape

1. Sovereign wealth funds can play the role of the nation's sovereign development fund, both to make money, and to also deliver strategic, economic, and societal development outcomes.

    a. Additionally, having institutions in place that can offer continuity that are agnostic to political leanings can play an integral role in attracting private capital into infrastructure development projects.

    b. The notion of continuity needs to be provided by an independent government association, e.g., a Sovereign wealth fund, or independent body (central banks becoming independent) so that fiscal policy isn't driven by voting cycles.

2. The financing gap should be communicated as a % of GDP rather than a number (in trillions).

   a. Using the language % GDP on an annual basis changes the perspective of the issue from a flat amount to a relative amount.

3. Existing financing models that are based on what we know have failed to yield results in terms of sustainable urban development; a novel approach is needed to explore solutions outside our current models.

   a. Our current financing methodology needs to change if we want to achieve sustainable growth and solutions.

   b. Jobs in the future will look vastly different in this ever-changing economic landscape, mayors and the public sector across the world are struggling to keep up.

      i. E.g. – online platforms and players have managed to take advantage of the gaps in the current system.

4. What will sustainable growth look like in the future? And what should the world finance to achieve this type of sustainable growth in the future?

   a. What are the types of future risks that the world will need to consider when financing such growth?

   b. 7 years stand between now and 2030 — what should the world finance to accelerate achieving the SDGs by 2030?

5. There is a huge issue on fragmentation of industries observed in governments across the world.

   a. Synergies between industry players are crucial in minimising delays and ensuring holistic planning and development.

6. Through the issue on sustainable urban development does not rely solely on the private sector to resolve, enlightened leaders within the private space can accelerate current progress towards the SDGs.

Good Governance

1. The "Social" and "Governance" aspects of the "ESG" concept need to be as equally emphasised as the "Environmental" aspect.

   a. While there is a sense of what the "Environmental" aspect covers, there is no clear definition for the "Social" and "Governance" aspects.

2. For the "Social" aspect, focusing on social investments to create the notion of a "Care" economy should be strengthened.

   a. Inequality in cities is at its worst and continues to grow. Therefore, change is needed not just in instruments of finance and access to finance but also in what gets financed.

      i. It is not only important to invest in hard infrastructure but also additionally - care services and infrastructure, which would provide a different set of bankable projects and different kinds of returns, but have guaranteed universality.

   b. Long-term sustainable economic impact cannot be achieved without the creation of a care economy.

3. For the "Governance" aspect, city governments need to be aware that they have the responsibility to guide capital and stability in the market, to ensure that infrastructure projects get across the line.

   a. Clarity of rules, good legal frameworks, and good governance are critical for success in funding sustainable development.

   b. It is vital to empower people to find solutions for themselves and empower the government to solve its issues.

   c. Ensuring that the system works through addressing corruption, leakages, and inefficiencies from bureaucracy.

4. It is vital for the government to take a leadership role in setting the vision and direction for all stakeholders to align towards.

   a. There can be a debate on how to reach the final destination, but there should not be a debate on the final vision.

   b. The government must play the role of the catalyst in supporting the private sector, local communities, and philanthropy to achieve this vision.

   c. The issue of cities is solvable and falls solely on the government to drive all stakeholders towards resolving urban issues, the public sector needs to step up and the burden should not be placed on the private sector to resolve urban issues.

   d. The public sector, not the private sector, retains sole responsibility for resolving urban issues and driving stakeholders.

   e. The state holds the power to prioritise and mobilise resources to the right value innovation initiatives and has to ensure that this power is not ineffectively distributed, contested, or anchored on irrationality.

5. It is essential that the government provides a stable rule-based environment to ensure investor protection and establish proper risk mitigation environments.

6. Sovereign wealth funds can be empowered to play a key role as nation-building entities, and should be reminded that they

are to be answerable to their ultimate shareholders – the national population.

a. Change will not happen overnight, but it is crucial for governments to start small and build progressively towards its goal.

Political risks

1. Closing global infrastructure gaps is dependent on addressing political risks.

   a. Export credit financing is a useful tool for expanding bilateral/ multilateral trade and can be used to mitigate political risk.

   b. Decision-making will continue to be focused on short-term local political seasons unless measures are taken to protect against political risks. We must ensure that projects are started for the right reasons, not political, to avoid the risk of delays and disruptions due to political reasons.

Increase the capacity of local authorities

1. There is a huge lack of capacity in the public sector to solve their national issues due to high turnover in public sector jobs.

   a. Public sector jobs are perceived as unattractive and lacking in career development opportunities.

2. Lack of capacity for executing projects and recognising project opportunities is an issue, especially in 2nd and 3rd tier markets.

   a. Masterplan development should be a holistic and integrated approach, taking into account social and economic benefits.

   b. E.g. – New York City has numerous examples of playing out public leverage, making zoning changes, and unlocking assets, in return, creating a market for real estate development as a trade-off.

3. One of the main barriers cities face when trying to attract investments into their infrastructure projects is the lack of institutional capacity and expertise (financial expertise) to prepare sound business cases for their projects.

   a. There is an abundance of finance available, the issue lies in the lack of bankable projects.

   b. Philanthropy has often provided technical assistance to cities with building business cases for their urban projects.

4. Aggressive programmes targeted towards developing core skills need to be implemented to move the needle within local governments.

   a. Capacity at the local level is too often constrained and must be addressed.

5. Local city management duties should be outsourced if local authorities are not able to fulfil a certain level of competency in their public duties to enhance transparency and accountability of managing local resources.

Financing Innovation

1. What actionable strategies can the world leverage on to grow the usage investments into innovative financial instruments and tools?

   a. E.g.– Islamic finance instruments – sukuk.

   b. E.g.– Technology – Artificial Intelligence, big data analysis.

   c. E.g.– Policy – progress monitoring and evaluation.

   e. E.g.– Financial – improve revenue generation, improve creditworthiness.

2. A new banking approach needs to be innovated, one that can both make a profit and deliver impact.

   a. New partnership model: foundations and funds work with multilateral agencies such as UN-Habitat to fund municipality projects in partnership with the private sector to ensure economic viability and sustainability to deliver social impact.

   b. E.g., a partnership model consisting of member states, corporations, high net worth individuals, donors, and investors through the concepts of ***zakat*** and ***waqfs***, where part of the profits are given back for investing back into the economy, and profit sharing.

   c. The role of foundations can help to intermediate and create a separate fund based on that model.

3. Technology in innovative financial intermediation, e.g., using Artificial Intelligence (AI) to assist lack of capacity in local government authorities in financial management.

   a. AI technology is easy to implement and scale and can allow cities the ability to raise their capacity to create portals that attract capital.

4. Financial architecture is often missing in 90% of discussions surrounding sustainable finance.

   a. Multilateral development banks, municipalities, and investment banks need a standardised value matrix or impact scorecard to reference for sustainable finance.

5. The global financial sector can topically change the profile entire cities depending on what it prioritises to finance, e.g. – social infrastructure, nature-based solutions, resilience, etc.

   a. Nature-based solutions still account for less than 1% of investments from multilateral development banks.

Biggest asset of municipal - Land

1. There is sufficient capital within a country to fund all infrastructure developments and needs.

   a. The biggest asset of municipalities is land, and this value needs to be unlocked to develop a model and structure to achieve returns.

   b. E.g.– a 100-year 10% equity and 90% debt mechanism for land around a station development project can be transformed into a 90% equity and 10% debt model through 30-year concessions.

2. The UN agencies need to identify what the key enablers are that need to be unlocked to facilitate restructuring mortgage markets in many developing nations.

Financing city development through stages

1. The world of capital is immensely differentiated, and we should move away from doing capital in a homogenous manner.

   a. The right type of investors with the right type of risk appetite should be matched to different stages of the city's urban development process, which carries different risk-return profiles.

   b. A good way to visualise this process is the many evolution stages to startup funding, i.e., starting from seed capital, venture capital, then series a, series b, …IPO etc., within each of these journeys there is a different risk profile that attracts investors with varying risk appetites.

   c. In order to attract high-risk investors, cities need to prepare a value proposition that is well-thought through, exciting, and guarantees investor confidence by showcasing a team that is adept at problem solving during the implementation phase.

   d. Likewise, different sets of partners should come in at different stages of project's development, as each stage requires differing expectations from partners.

   e. Currently, most projects are done with the same partners throughout the whole project life cycle, which runs a high risk of stalling and delays when scenarios change as the project stages progress.

2. Government or government-related entities need to take in the initial risk of developing basic infrastructure in the area, e.g., water treatment plant.

   a. Without this commitment from the public sector, the private sector will not commit either.

   b. Often, crucial foundational infrastructure projects are not attractive enough for private sector investments.

3. The Cities Investment Facility (CIF) offers a solution towards showcasing projects at the local level and aims to assist cities develop bankable projects to attract sustainable investment.

   a. The initiative aims to catalyse international commercial capital and blended finance interest for late-stage project preparation, and ultimately construction once the preparation phase is complete.

Conclusion

Urbanisation presents both challenges and opportunities for humanity. Cities, as the crucibles of economic growth, are undeniably integral to our global future. The Sustainable Development Goals (SDGs) provide a comprehensive roadmap to navigate the complexities of urbanisation. However, the looming financing gap poses a significant impediment to achieving these ambitious goals. UN-Habitat remains dedicated to hastening progress toward SDG achievement in cities through effective financing for urban development. Cities are urged to prioritise clear actions, including adopting a local finance framework and refocusing on urbanisation and SDG11.

The first High-Level Meeting underscored the significance of raising awareness on current issues, understanding local dynamics by implementing a local finance framework, changing the mindset of key industry players, including sovereign wealth funds, creating an enabling environment to attract capital and ensure stability, minimising political risks, leveraging innovative financial instruments, developing new banking approaches, and land capture to back funding for infrastructure development.

In addition, the dialogue highlighted how the preparation of high-quality projects in cities, the Cities Investment Facility, under the Investment Track of the SDG Cities Initiative at UN-Habitat, serves as an existing solution that should be scaled, to further bridge the financing gap and support cities in attracting private capital to urban infrastructure projects.

Looking ahead to 2024, UN-Habitat will build on this momentum by increasing the opportunity for further dialogues on the topic of sustainable urban financing, and seeking further expert input from high-level figures from the global financial, construction, infrastructure and consulting sectors, as well as government, academia and multilateral agencies.

UN-Habitat will facilitate two further High-Level Meeting's on Financing Sustainable Urban Development in 2024. Building on the recommendations outlined in this report, UN-Habitat will create a financing knowledge hub to facilitate knowledge exchange on sustainable urban development at a second High-Level Meeting in London, England, on April 24, 2024. The knowledge hub will be officially launched at a third High-Level Meeting on November 2, 2024, in the margins of the 12th session of the World Urban Forum in Cairo, Egypt. Ultimately, the path to financing sustainable urbanisation demands a holistic and collaborative approach to ensure a future where cities not only survive but thrive to become resilient and inclusive hubs that ensure an equitable urban future for all.

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Contact for Inquiries:

Neil Khor
Special Advisor, Office of the Executive Director, UN-Habitat
neil.khor@un.org

Dyfed Aubrey
Inter-Regional Advisor,
Programme Development Branch,
SDG Cities, UN-Habitat
dyfed.aubrey@un.org

Erastus Njuki
Programme Coordinator,
Cities Investment Facility,
UN-Habitat.
erastus.njuki@un.org

Mark Gallagher
Sustainable Finance Officer,
Cities Investment Facility,
UN-Habitat.
mark.gallagher@un.org

Donah Kigunda
Communications and Design Officer,
Cities Investment Facility,
UN-Habitat.
donah.kigunda@un.org

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