

INSIGHT BRIEF



SUBNATIONAL CLIMATE FINANCE

TRENDS IN NDC
PARTNERSHIP SUPPORT

OCTOBER 2023

NDC 
PARTNERSHIP

INTRODUCTION

This Insight Brief analyzes requests for support the NDC Partnership has received from developing country members that are related to subnational climate finance. It identifies trends related to country requests and support offerings, informing how the Partnership can refine and scale up needed support for subnational climate-related initiatives.

DEFINITIONS USED IN THIS ANALYSIS

Subnational finance: activities involving or targeted toward state, province or municipal governments that also include requests related to finance and investment.

SUBNATIONAL FINANCE REQUESTS: FACTS & FIGURES

A total of

**161 REQUESTS
FOR SUPPORT**

have been submitted by

36 COUNTRIES

on the topic of subnational
finance (3% of all requests).



44% Fully supported requests



56% Partial support, indicative support, or no support

ABOUT INSIGHT BRIEFS

Insight Briefs are analyses developed by the NDC Partnership's Support Unit, members, or its partner institutions to share insights into thematic issues based on requests received by countries and the support provided by the Partnership. The following Insight Brief based on NDC Partnership data, addresses requests related to Subnational Climate Action and Subnational Climate Finance and provides recommendations on how to strengthen support to countries.

This Insight Brief was developed and prepared by the NDC Partnership Support Unit.

BREAKDOWN OF REQUESTS

TYPE OF SUPPORT

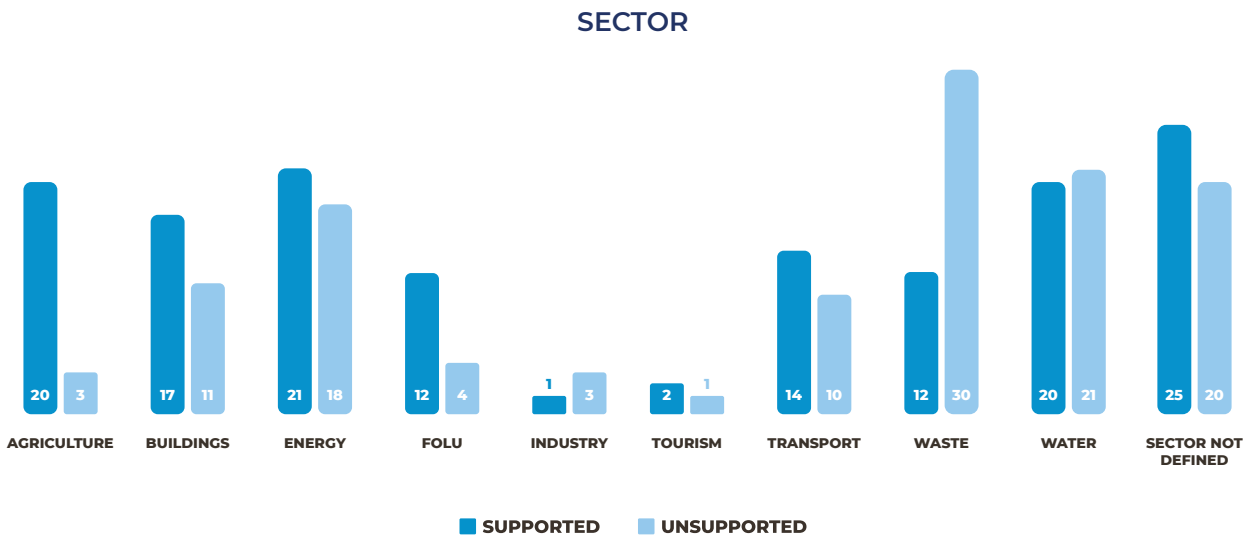


Subnational Finance requests are mostly related to project support.

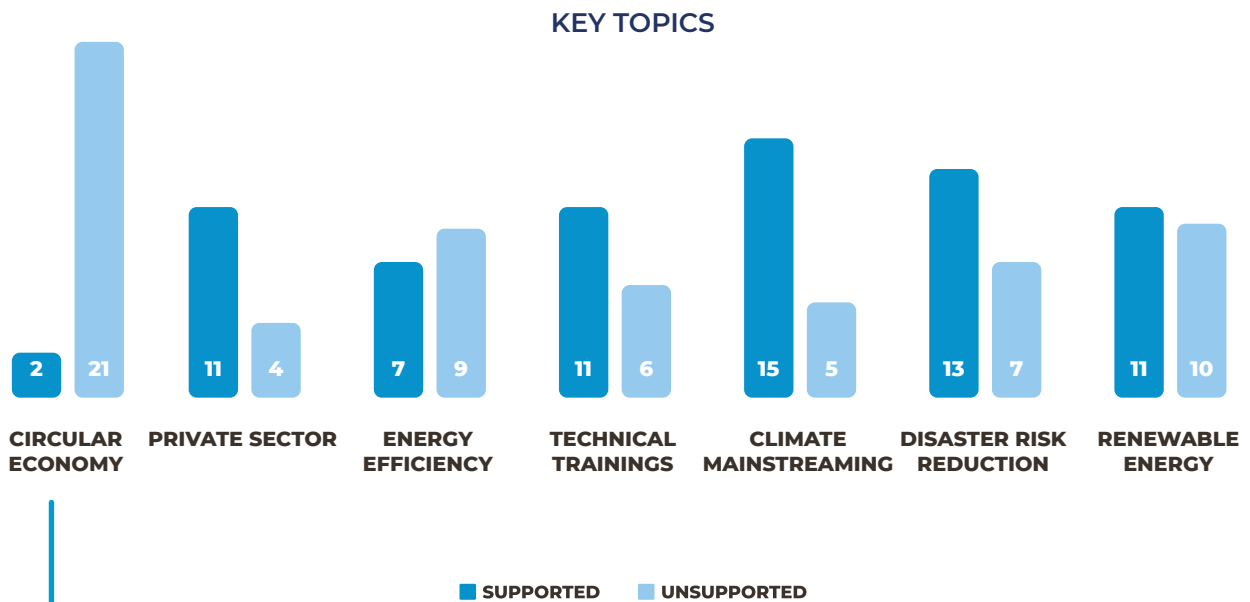
By comparison, across all topics, only 25% of all requests for support received by the Partnership are for projects.

FOCUS AREA





Most of the requests the Partnership receives are cross-cutting or sector undefined, whereas Subnational Finance requests are mostly sector specific.



Circular economy is a key topic at the sub-national level but has received very little support from partners.



ACTIVITY TYPE

(FINANCE) PREPARING BANKABLE PROJECTS AND PIPELINES



There is a large gap in support for the development of bankable projects at the subnational level.

(FINANCE) INTEGRATING NDCS INTO NATIONAL PLANNING AND BUDGETS AND REVENUE STREAMS



Integrating NDCs into national planning and budgets receives overwhelming support.

INCREASING INTRAGOVERNMENTAL COORDINATION



ENGAGING STAKEHOLDERS



ENACTING AND REVISING POLICIES AND LAWS



ENACTING AND REVISING NATIONAL STRATEGIES AND PLANS



DEVELOPING STUDIES AND ANALYSIS



DEVELOPING OR UPDATING MRV/M&E SYSTEMS AND COLLECTING DATA



DEVELOPING CAPACITY



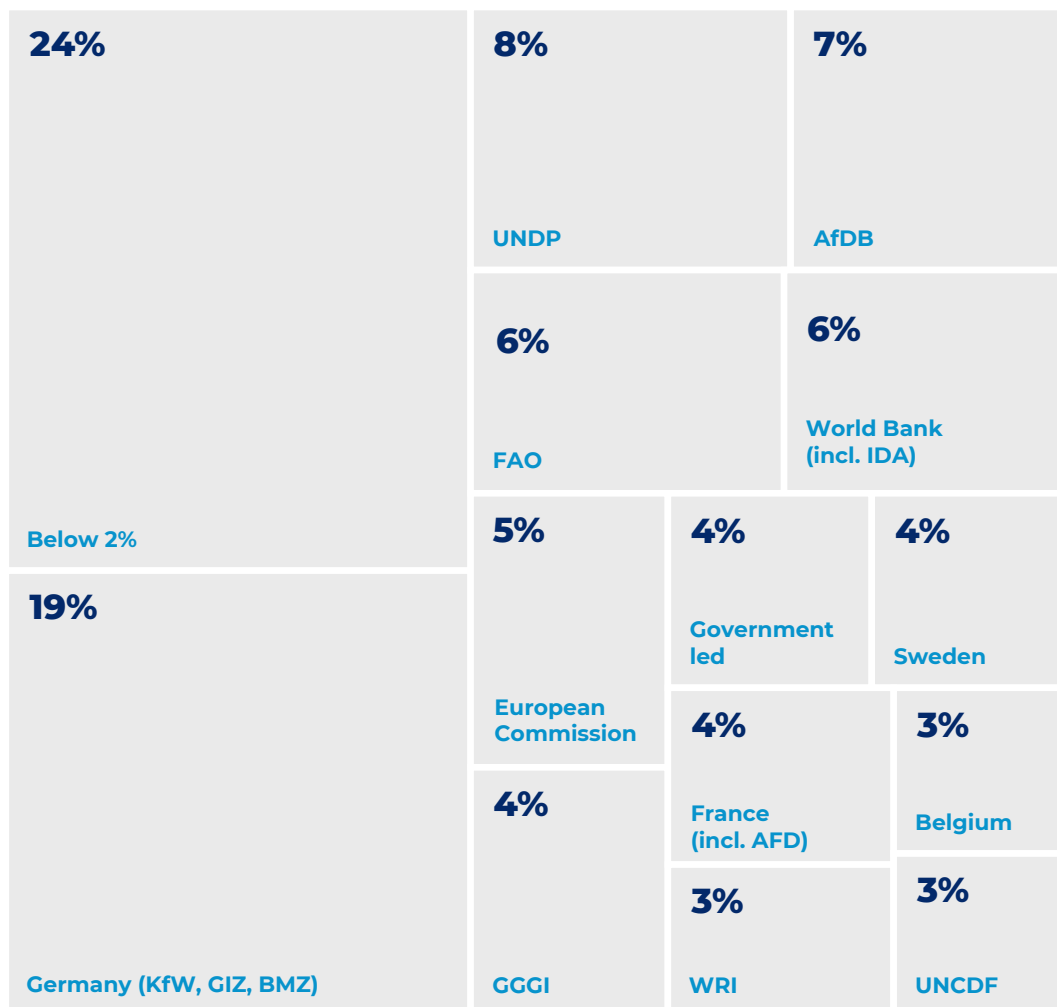
(FINANCE) FINANCING PROJECTS AND PROGRAMS AND MOBILIZING RESOURCES



■ SUPPORTED ■ UNSUPPORTED



PARTNER SUPPORT



This figure represents partners who have been supporting requests for support regarding subnational finance. Of the 146 partners (including non-members) providing support across the Partnership, 35% (51 partners) have provided full support to at least one subnational-finance-related request.



MEASURES TO ADDRESS SUBNATIONAL CLIMATE FINANCE MOBILIZATION BARRIERS

Mobilizing climate finance at the required speed and scale for a timely and just climate transition requires local governments and stakeholders to address specific barriers to resource access. Profound structural changes are necessary to achieve this ambitious goal, such as ensuring that subnational governments have access to the finance sources needed to develop and implement climate-aligned projects. Several barriers to mobilize climate finance at the subnational level are summarized below.¹

- › **The inability to borrow** is a challenge that varies between countries depending on the organizational structure of each state and the powers delegated at each level of governance. While some countries have embedded the ability to borrow within their subnational government structures, allowing them to access debt instruments such as bonds and commercial loans, other local governments lack this power and instead rely heavily on domestic or international public finance. National Development Banks emerge as pivotal players in response to this financial need. Additionally, the international community can catalyze change by promoting fiscal decentralization, which would allow subnational governments the authority to access debt and tap into private financial resources.
- › **Sub-national governments must meet certain standards of creditworthiness before gaining access to finance.** Many cities have either not begun this assessment process or are currently unable to achieve the necessary credit ratings due to capacity constraints, resource limitations, corruption issues, or even their correlated national-level credit ratings. Creditworthiness renders local governments unattractive to potential commercial lenders, thus limiting their access to private capital financing climate development projects. Establishing mechanisms that enhance the credit scores of subnational governments is required to make them more appealing to potential lenders.
- › **Insufficient capacity to prepare projects and pipelines** underscores the need for robust multilevel cooperation and partnerships. Developing effective project pipelines, fostering connections with investors, and securing support for project preparation and structuring is crucial, especially for large-scale infrastructure projects. Stakeholders at the subnational level usually require external aid to structure projects or investments that are attractive to financiers. The project preparation lifecycle encompasses the steps such as project conceptualization, concept development, prefeasibility, feasibility assessment, and bankability. The City Finance Facility and the [City Climate Finance Gap Fund](#) are success stories illustrating how initiatives can transform project ideas into tangible implementation.

1. These barriers and solutions were identified through the NDC Partnership's September 2023 Thematic Partner Discuss, which brought together experts from across 20 partners organizations.

- › Subnational stakeholders also face the challenge of the **unequal flow of resources**, which highlights a stark disparity in which large metropolises capture most of the limited international public finance, leaving smaller cities with meager options for financing sustainability projects. A parallel issue, the project size dilemma, emphasizes international financial institutions' transaction cost challenges when dealing with small-sized projects. Potential solutions involve bundling projects or establishing local financial intermediaries to efficiently channel funds towards smaller initiatives.

Considering these intricate challenges, a systemic approach is proposed to pave the way for comprehensive solutions in subnational climate finance. This approach involves leveraging existing systems within each country, utilizing previously established national mechanisms to initially support several local governments, and expanding for a national rollout phase. For example, the [United Nations Capital Development Fund](#) piloted mechanisms that demonstrate how established systems can become key funding instruments by channeling finance toward local climate action on a national scale. This holistic strategy seeks to bring together local and national action, thus fostering a sustainable path forward in the global pursuit of climate resilience and equity.

To support effective vertical integration in subnational climate finance mobilization, the NDC Partnership developed the [Climate Investment Planning and Mobilization Framework](#) jointly with the Green Climate Fund (GCF). This Framework serves as a non-prescriptive guide, bringing together the collective experience of both organizations in climate investment planning and mobilization. Its purpose is to empower countries and financial stakeholders, including subnational entities, to structure and secure finance for investments aligned with climate objectives. Recognizing that investment planning is a dynamic and iterative process shaped by each country's unique context, ambition, and capability, the Framework has been built with this understanding.

WAY FORWARD

Cities, municipalities, other subnational actors can be significant contributors to reducing GHG emissions, adapting to climate impacts and building resilience. Achieving the targets of the Paris Agreement requires stakeholders at all levels of government to act, but doing so necessitates the development of adequate vertical integration and alignment between national governments and subnational stakeholders. To foster the effective contribution of subnational spaces to climate action and ensure they received the finance necessary to implement policies and actions, partners are encouraged to support national governments to increasingly taking whole of government and whole of society approaches to foster vertical alignment.



Subnational Climate Finance Trends in NDC Partnership Support

INSIGHT BRIEF

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