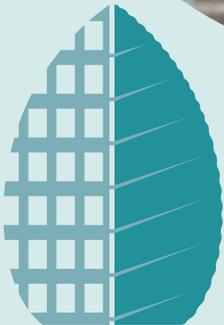

The City Climate Finance Gap Fund



City Climate
Finance Gap Fund

EIB Annual Report 2021

The City Climate Finance Gap Fund EIB Annual Report 2021

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Abbreviations and acronyms

BMU	German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety
BMWK	German Federal Ministry for Economic Affairs and Climate Action
BMZ	German Federal Ministry for Economic Cooperation and Development
CCFLA	Cities Climate Finance Leadership Alliance
EIB	European Investment Bank
GCoM	Global Covenant of Mayors for Climate and Energy
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
ICLEI	Local Governments for Sustainability (city network)
IFC	International Finance Corporation
MDTF	Multi-donor trust fund
SDG	Sustainable Development Goal
UNDESA	United Nations Department of Economic and Social Affairs

Foreword

Between the global pandemic and the economic downturn, national governments, local authorities and private-sector companies have faced unprecedented challenges over the past couple of years.

While it is widely acknowledged that cities can play a crucial role in achieving the ambitious targets set by the Paris Agreement, they are struggling to implement climate-smart and resilient development. They often lack the capacity and technical knowledge to implement such projects, and may have difficulty finding support early in the project cycle, or financing later on. The Gap Fund was founded in October 2020 to provide technical support for the early-stage preparation of climate projects developed by cities in low- and middle-income countries.

During its first 18 months of operation, the Gap Fund has achieved significant progress in its mission and objectives. To begin with, all operational processes and procedures have been set up and fully tested. Moreover, the Gap Fund has received 177 expressions of interest and, by 31 December 2021, the European Investment Bank (EIB) and the World Bank had jointly approved support for 44 cities and local authorities in 26 countries. This activity demonstrates the high demand for early-stage project preparation from cities in low- and middle-income countries.

The Gap Fund is also a model of collaboration and close partnership, not only with the World Bank, but also with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the German development agency with which the EIB delivers Gap Fund support. The cooperation combines the EIB's experience in promoting bankable urban climate projects with GIZ's history of supporting project development and its extensive local presence in many countries eligible for Gap Fund support.

Climate change is very much at the centre of the EIB's strategic focus. It has pledged to support investment in climate action and environmental sustainability by mobilising €1 trillion in the critical decade of 2021-2030, and to commit 50% of its financing to climate action and environmental sustainability by 2025. Since the end of 2020, all of its financing activities have been aligned with the goals of the Paris Agreement.

In our interconnected world, we can only tackle climate change and the COVID-19 crisis – and embrace future economic opportunities – by acting globally. In early 2022, the EIB founded EIB Global, a new branch dedicated to operations beyond the European Union. EIB Global increases our cooperation with clients, EU members, development finance institutions, civil society and many other partners. It also fosters



strong, focused partnerships within Team Europe, which combines resources from the European Union, its members and financial institutions. Urban climate action is one of EIB Global’s priorities, and the Gap Fund helps achieve that aim.

We are grateful for the support of our donors and partners. The German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU)¹ and the Luxembourg Ministry of the Environment, Climate and Sustainable Development have provided financial support to the Gap Fund. The Gap Fund works in close cooperation with the Cities Climate Finance Leadership Alliance (CCFLA), C40, the Global Covenant of Mayors for Climate and Energy (GCoM) and Local Governments for Sustainability (ICLEI), all of which are essential to the Gap Fund’s success.

This report provides an overview of the activities carried out by the Gap Fund from its inception in September 2020 until the end of 2021, including the screening of proposals presented by cities and local authorities, the setting of the priorities and scope of potential Gap Fund assignments and the organisation of information and outreach events.

The Gap Fund is now ready to ramp up its operations, effectively deploying technical support and building on partnerships established with city networks and other project preparation facilities.

Werner Schmidt

*Director, Urban and Territorial Development
Projects Directorate*

1. The new government formed after the German federal elections in September 2021 reorganised the ministerial portfolios and, as result, responsibility for the Gap Fund may be transferred to the German Federal Ministry for Economic Affairs and Climate Action (BMWK). BMU’s functions have also changed. As of December 2021, it is known as the German Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection (BMUV).



Introduction

Cities around the world face challenges in becoming resilient and climate-smart. They often have limited capacity and technical knowledge, and they need early-stage support in preparing projects and, eventually, in financing them.

The Gap Fund is uniquely positioned to promote ambitious mitigation and adaptation projects and to deploy a range of technical assistance and investment preparation support that will help cities transition to a greener and more inclusive recovery.

Established in September 2020, the City Climate Finance Gap Fund is a global partnership that helps cities in low- and middle-income countries plan, prioritise and deliver projects focused on climate change mitigation and adaptation.

This annual report summarises the progress made by the Gap Fund from its inception to 31 December 2021.

Section 1 provides an introduction about the challenges cities, particularly in low- and middle-income countries, face when addressing climate change and implementing low-carbon and resilient urban development. It also provides an overview of the Gap Fund's role and describes its governance and implementation arrangements.

Section 2 presents an overview of the Gap Fund's progress from its beginning until 31 December 2021, establishing the operational arrangements, screening and assessing proposals as well as developing knowledge-sharing and outreach activities.

Section 3 provides a financial update on the use of Gap Fund resources while Section 4 describes the outlook for the Gap Fund's activities in 2022.



Executive summary

More than half of the world's population lives in cities. Cities account for more than **70% of global carbon** emissions and consume two-thirds of the world's energy. By 2050, 2.5 billion people are expected to migrate from rural to urban areas². Much of that migration – an estimated 90% – will happen in Africa and Asia (United Nations Department of Economic and Social Affairs, 2018)³. 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 like extreme weather.

Ultimately, people will be more vulnerable to the effects of climate change, such as the heatwaves, flooding and health emergencies that have already become all too familiar. Climate-smart cities can avoid development that creates more emissions and ultimately leaves their residents more vulnerable. Cities can improve people's quality of life while also becoming safer and more competitive. Making cities climate-smart, however, will require massive investment – a major obstacle for many local governments.

According to the **State of Cities Climate Finance Report** published by the Cities Climate Finance Leadership Alliance (CCFLA) with the support of the Gap Fund in June 2021, greenhouse gas emissions in cities could be reduced almost 90% by 2050 with technically feasible, widely available measures. In addition, these efforts could potentially support 87 million jobs in 2030 and generate an economic return of \$24 trillion⁴. The International Finance Corporation (IFC) estimates that the waste, water, renewable energy, electric vehicles, public transport and green buildings sectors in emerging markets alone represent sustainable investment opportunities amounting to \$29.4 trillion by 2030⁵.

National governments, cities, and public and private financial institutions are also increasingly acknowledging the importance of cities for climate action and starting initiatives to address barriers to climate finance. Cities are responding positively. More than 6 000 cities, representing 20% of urban residents worldwide, are signatories of the Global Covenant of Mayors (GCoM) and have developed climate action plans.

2. The New Climate Economy Global Commission on the Economy and Climate report (2014) adopted a detailed sectoral analysis estimating global investment needs for sustainable infrastructure between 2015 and 2030. Using existing technologies and investment patterns as the business-as-usual scenario, the study projects that a total cumulative investment of \$88.61 trillion will be needed between 2015 and 2030, which then rises to \$93 trillion on a net basis when adopting a low-carbon investment strategy.

3. UNDESA (2018), 2018 Revision of World Urbanization Prospects, available at: <https://www.un.org/development/desa/publications/2018-revision-of-world-urbanization-prospects.html>

4. CCFLA (2021), The State of Cities Climate Finance, available at: <https://www.climatepolicyinitiative.org/wp-content/uploads/2021/06/2021-State-of-Cities-Finance-Executive-Summary.pdf>

5. IFC (2018), Climate Investment Opportunities in Cities. An IFC Analysis, available at: <https://www.ifc.org/wps/wcm/connect/875afb8f-de49-460e-a66a-dd2664452840/201811-CIOC-IFC-Analysis.pdf?MOD=AJPERES&CVID=mthPzYg>

Cities around the world face challenges in becoming resilient and climate-smart. Even when preliminary climate diagnostics or action plans are in place, many cities do not have the means or capacity to take the next step. The Gap Fund is uniquely positioned to promote ambitious mitigation and adaptation projects and to deploy a range of technical assistance and investment preparation support to help cities transition to a greener and more inclusive recovery.

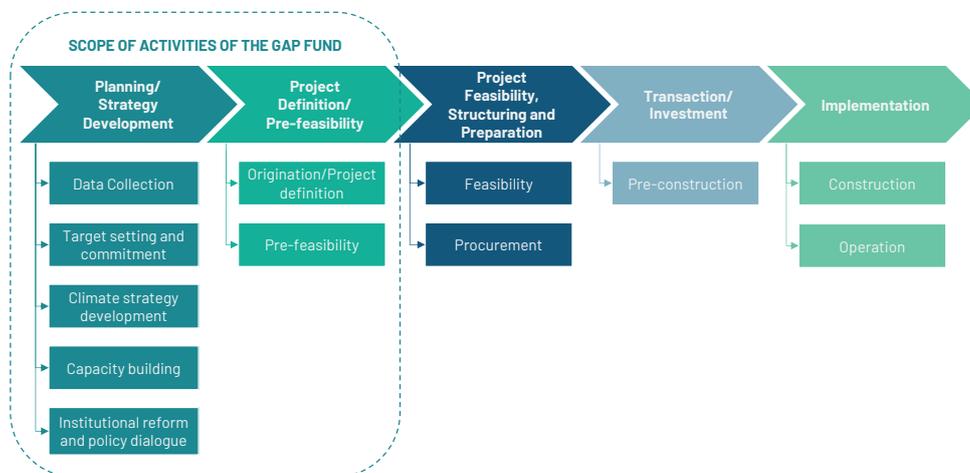
The City Climate Finance Gap Fund

Established in September 2020, the City Climate Finance Gap Fund is a global partnership that helps cities in low- and middle-income countries plan, prioritise and deliver projects focused on climate change mitigation and adaptation. This support enables cities to transition toward low-carbon and climate-resilient development, which will help the world meet its goal of limiting temperature rises to 1.5 degrees Celsius above pre-industrial levels – the tipping point for climate change, beyond which the risk of extreme drought, wildfires, floods and food shortages will increase dramatically.

In its efforts to achieve these goals, the Gap Fund assists cities in the early stages of project preparation. It provides:

- capacity building for low-carbon and climate-resilient urban development;
- support for city climate strategy development and the generation of in-depth analytics to assess the climate action and resilience potential of plans, strategies and investment programmes;
- project concept definitions and components of pre-feasibility studies;
- support in prioritising investments as part of a climate strategy or investment programme;
- strengthening the approach used for project financing;
- potential support to fill in other project preparation gaps.

Figure 1: **Role of the Gap Fund in the project cycle**



Governance and implementation arrangements

The World Bank and the European Investment Bank (EIB) jointly implement the Gap Fund through two multi-donor trust funds (MDTFs) in close partnership with city networks and other key partners including C40, GCoM, ICLEI and CCFLA. The World Bank and the EIB bring a unique mix of long-standing expertise in sustainable development, climate finance projects and urban renewal. Each implementing agency administers a multi-donor trust fund with strong coordination between the separate World Bank and EIB Secretariats on partnerships, governance and implementation under the “One Gap Fund” architecture.

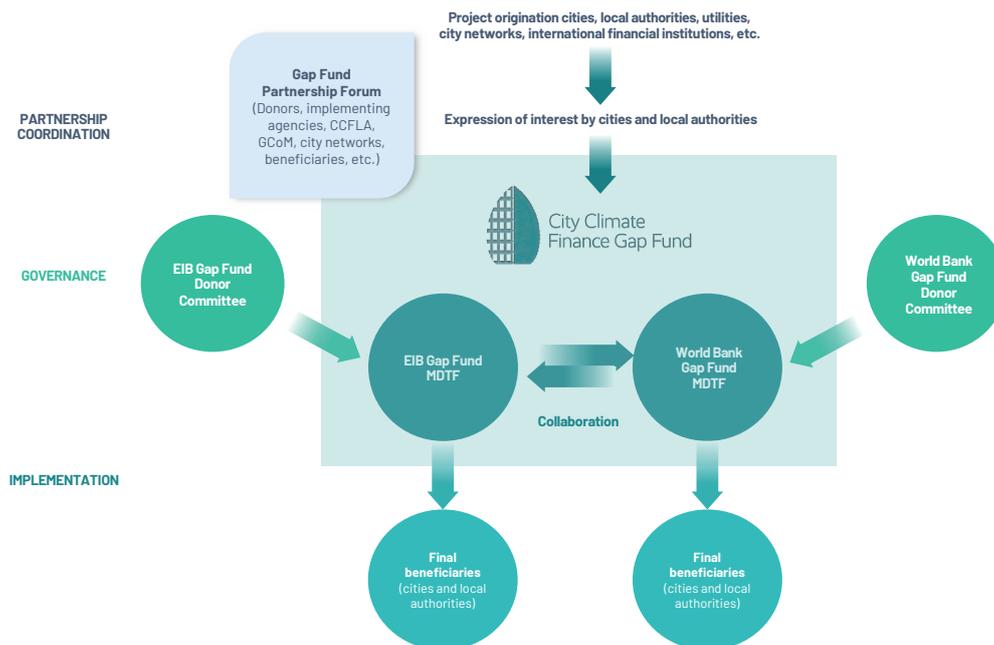
The **One Gap Fund approach** includes the following:

- Mechanisms to ensure coordination between the World Bank and the EIB to screen expressions of interest and to agree on further processing by either of the multi-donor trust funds. These decisions are taken jointly during meetings held every two weeks between the two secretariats;
- Joint outreach, communication and informational activities carried out in cooperation with city networks and other key partners;
- The **One Gap Fund website** offering information on the multi-donor trust funds and how cities can submit an expression of interest to the Gap Fund. The website is hosted by the EIB and updated regularly in agreement with the World Bank and other partners.

The **Gap Fund Partnership Forum** provides a platform for sharing experiences and expertise, as well as exchanging information and ideas. It also informs participants of the overall strategy and direction of the Gap Fund. Current members of the Partnership Forum include representatives of the donors (BMU, the German Federal Ministry for Economic Cooperation and Development (BMZ), the Luxembourg Ministry of Environment, Climate and Sustainable Development, GCoM, ICLEI, C40 and CCFLA).

The donors provide strategic guidance and direction to both trust funds through their respective donor committees. The donor committee meetings are held consecutively with participation from the World Bank and the EIB Gap Fund Technical Secretariats, which manage the fund’s work, to ensure coordination and consistency between the two multi-donor trust funds. The donor committee meets formally once a year, while several informal meetings are organised to make sure the donors are kept up to date with the progress achieved by the Gap Fund.

Figure 2: **Gap Fund governance arrangements**



The EIB's Gap Fund activities

Making the Gap Fund operational

As 2021 was the Gap Fund's first year of operations, setting up the organisational processes and procedures, including the cooperation arrangements with the World Bank's Secretariat, was essential to ensuring the success of the Gap Fund's activities and the fulfilment of its mission and mandate.

Cooperating with the World Bank's Gap Fund Secretariat

Cooperation arrangements were agreed with the donors, and a calendar of meetings every two weeks drawn up to review jointly the expressions of interest received and, if deemed eligible, assign them for follow-up to either the EIB or World Bank Secretariats.

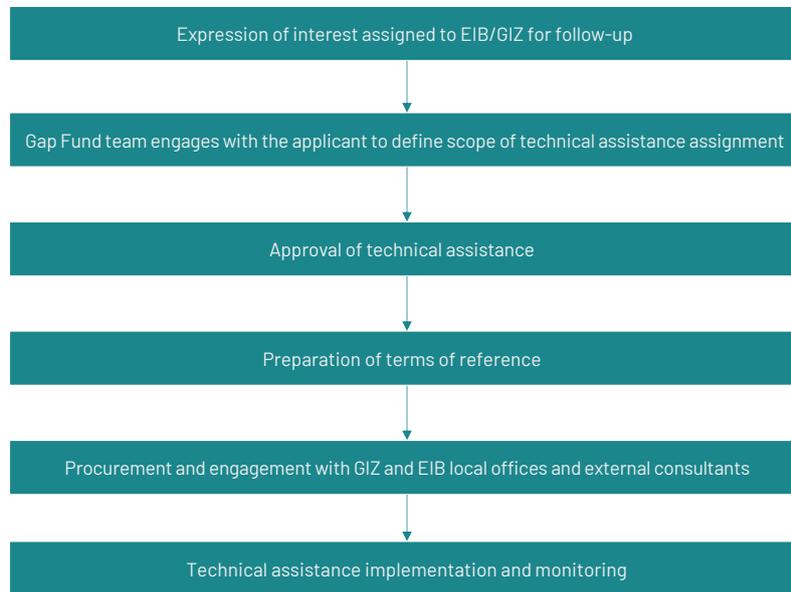
These meetings also offer an opportunity to agree on participation in external events, ensuring coordinated representation of the Gap Fund, in line with the "One Gap Fund" approach. The two Secretariats have agreed to take turns in monitoring the inflow of new expressions of interest and requests for information and answering messages received through the Gap Fund website. The process has worked very well so far, allowing both teams to monitor the pipeline and ongoing follow-up action.

Sharing responsibilities between the EIB and GIZ

The EIB delivers the Gap Fund's mission in cooperation with GIZ. This collaboration is crucial to achieving the targets agreed with the donors. During the Gap Fund's first year of operation, the focus was specifically on collecting data, gaining experience, and establishing and standardising processes.

Several significant steps were taken in 2021 towards establishing processes and procedures to ensure a smooth and efficient flow of information, and for revising and approving essential documents.

Figure 3: **EIB-GIZ Gap Fund workflow**



Box 1: Gap Fund data management and reporting system (SOURCE)

SOURCE is a multilateral platform for sustainable infrastructure funded by multilateral development banks and managed by the Sustainable Infrastructure Foundation (SIF), a not-for-profit Swiss foundation headquartered in Geneva.

It provides a comprehensive map of all aspects to consider in preparing sustainable infrastructure for traditional procurement and public private partnerships, covering governance, technical, economic, legal, financial, environmental and social issues. It uses sector-specific templates for all stages of the project cycle, from defining the project to operation and maintenance. It also defines specific targets to fulfil the Sustainable Development Goals (SDGs) and the Paris Agreement.

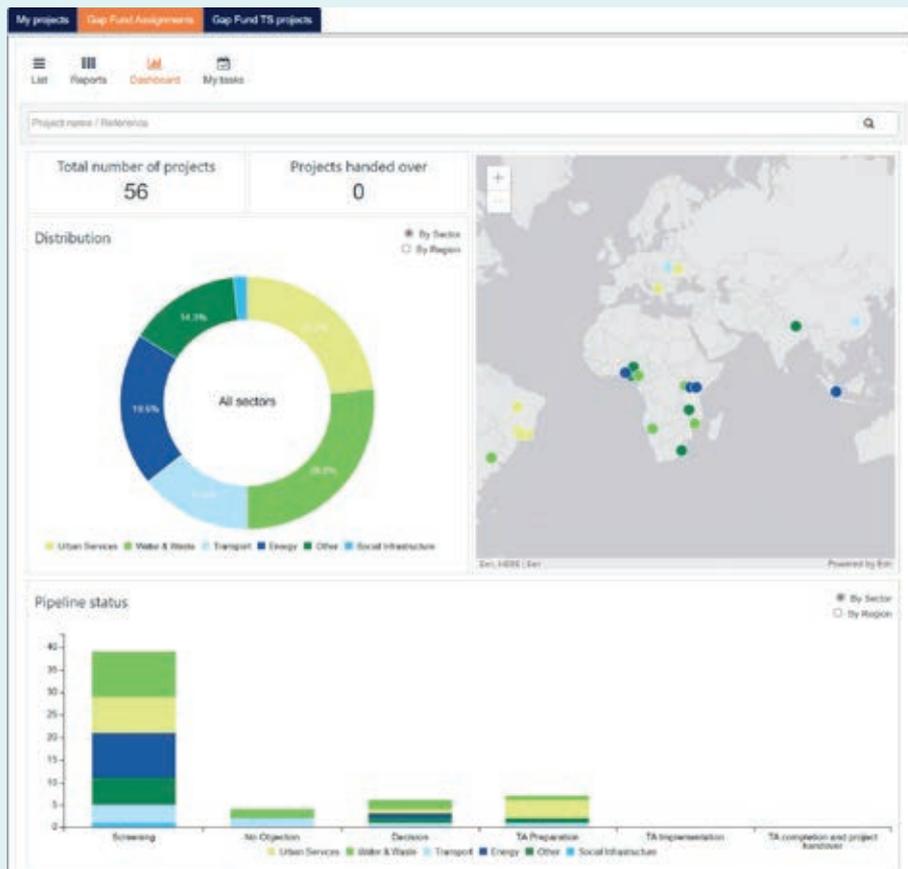
SIF created an adapted SOURCE environment to provide a dedicated data management system for the Gap Fund administered by the EIB and GIZ. Tracking data is essential to achieving the Gap Fund's strategic objectives. It facilitates transparency between the EIB and GIZ and improves reporting to Gap Fund donors and in overall communication. The key features developed for the Gap Fund include:

- A new project environment with a simplified interface focusing on the relevant features for the Gap Fund and the earliest stages of project preparation.

- A new project assessment structure that collects information about the project, comments from colleagues, decisions from EIB management and information on progress and outcomes of any technical assistance.
- New functionality to hand over completed projects for follow-up by local authorities or other project preparation facilities.
- A dashboard showing the portfolio of projects and their characteristics (such as region, sector and climate action) to facilitate monitoring and reporting.

These features may evolve in the future to allow information exchange between a Gap Fund and an existing project on SOURCE, and to facilitate project monitoring once Gap Fund support has been approved.

Figure 4: **Overview of the Gap Fund SOURCE dashboard**



GIZ has tendered proposals for three separate contracts to create pools of external experts for the energy, waste and urban mobility sectors. These sectors have been selected based on an initial estimate of the Gap Fund's prospective pipeline. The experts securing the contracts will provide cities with support in the three sectors, facilitating and speeding up the process of deploying technical assistance in the future. The tendering procedure was finalised in November 2021 and the energy contract awarded in December 2021, with the other two to be awarded in early 2022.

The three contracts are expected to cover approximately 52 assignments to be carried out over the Gap Fund's lifespan: 12 in energy, 20 in waste and 20 in mobility. The remaining assignments will be covered by other contracts (separate local or international contracts, or standard EIB tendering procedures). These assignments concern Cuenca (Ecuador), Mbombela (South Africa), Vinnytsia and Lviv (Ukraine)⁶, Campinas and Rio de Janeiro (Brazil) and Santa Marta (Colombia). The tendering procedure to provide support to Cuenca was ongoing at the end of the reporting period, while tender documentation is being prepared for the other assignments.

The EIB will directly manage three assignments, namely Port Vila (Vanuatu), Podgorica (Montenegro) and Chefchaouen (Morocco). The tendering procedure for Port Vila was started in November 2021 and the contract will be awarded in early 2022.

Delivering on the Gap Fund's mission

Expressions of interest submitted through the Gap Fund website undergo detailed screening to evaluate whether the Gap Fund's mandate and mission offer scope for providing technical assistance. A detailed screening questionnaire was finalised in February 2021 and is systematically used for the evaluation.

The questionnaire was revised in May 2021 to incorporate feedback and lessons learned after its use in the first assessments. The second version of the questionnaire provided the structure of the Gap Fund's data collection in SOURCE.

Alignment with local and national climate and environmental strategies and agendas is an integral part of the eligibility assessment. Projects that fail to align with those strategies are excluded from Gap Fund support because their chances of implementation are deemed low. During the assessment period as well as the development of the terms of reference for Gap Fund support, local political ownership is emphasised as key for the successful deployment of technical assistance and the project's implementation.

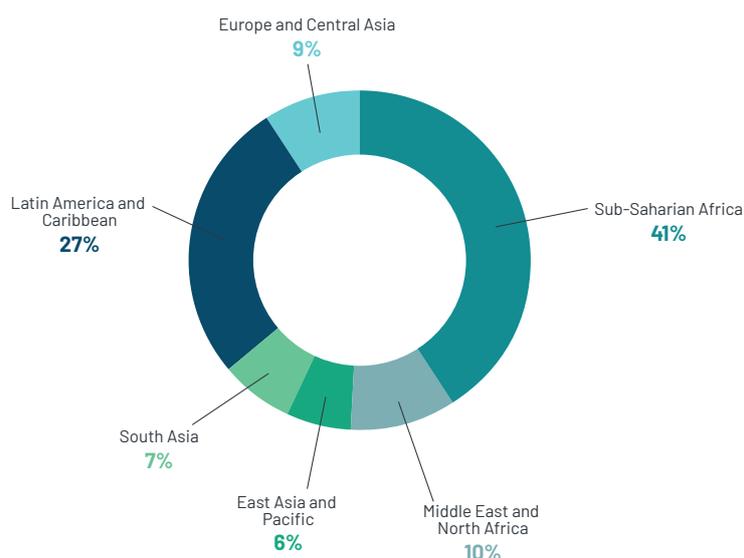
6. The two assignments in Ukraine were approved in 2021. Given the current situation in the country, the implementation of these assignments is delayed until further notice.

All potentially eligible expressions of interest allocated to the EIB-GIZ during the reporting period were assessed, including those that were incomplete and/or of low quality. This process showed that inadequate applications do not necessarily reflect a project’s low potential. Including low-quality applications, and collecting the necessary information through calls and documents, proved essential in providing access to the Gap Fund for municipalities with low capacity, such as smaller cities with limited access to international networks and support. This process enabled us to forego the requirement that a city submit a new expression of interest after modifying the scope of the project and support during the assessment phase, relieving the potential beneficiary of an unnecessary administrative burden.

As an example, the Gap Fund team supported the city of Palembang, Indonesia, in focusing its request and narrowing down potential projects. Through the Gap Fund network (EIB/GIZ, World Bank and GCoM), the city was connected with other departments (housing and climate) within the larger municipality, and was ultimately approved for support from the World Bank Gap Fund.

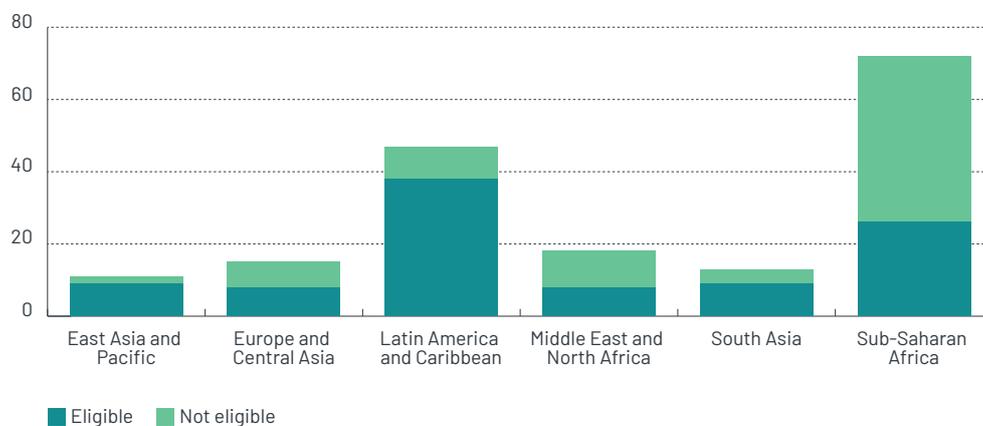
By 31 December 2021, the Gap Fund had received **177** expressions of interest, **96** of which were attributed to the EIB Gap Fund in agreement with the World Bank Gap Fund Secretariat. Out of these, **76** assessments had been completed and **20** assessments were ongoing at the end of the reporting period. To help cities apply when the time is right for them, the application and assessment process is kept open, and not determined by calls for submission or set application periods.

Figure 5: **Overview of expressions of interest received**



During the reporting period, **14** assessments covering **19** municipalities were concluded and approved by the EIB, while **58** assessments led to a rejection of the proposal. At the end of the reporting period, four assessments had been completed but not yet approved by the EIB.

Figure 6: **Regional breakdown of eligible and non-eligible projects**



Some of the most frequent reasons projects were found to be ineligible include:

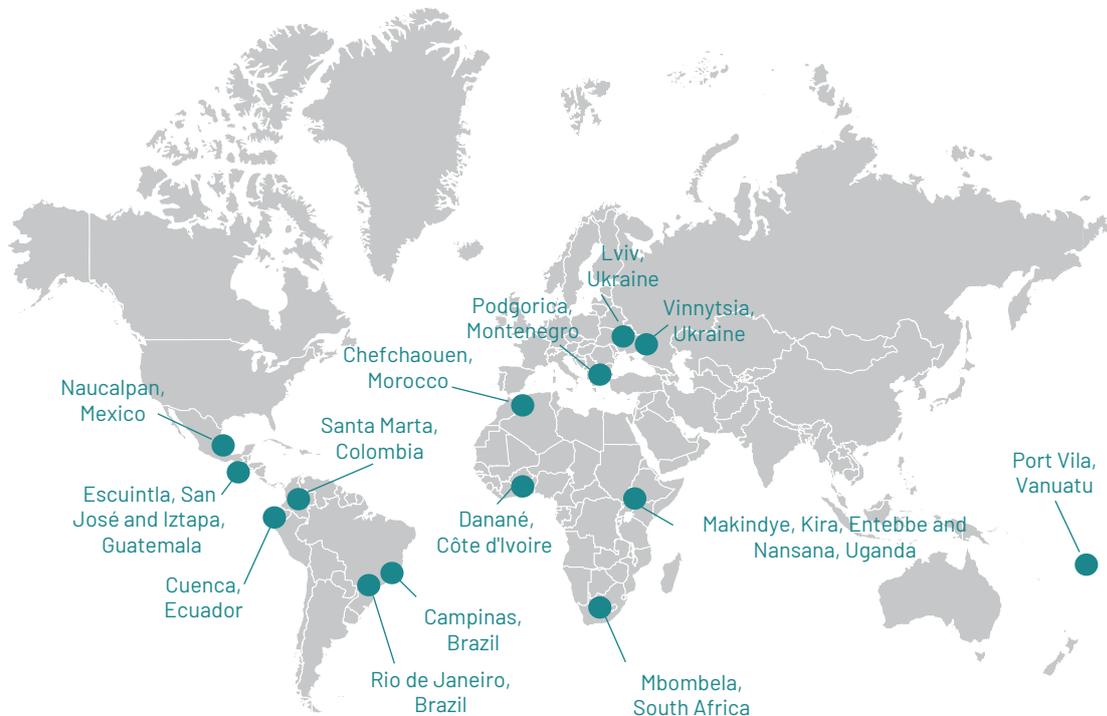
- (i) Eligibility of the applicant. For instance, expressions of interest submitted by an individual or a private entity with no direct link with a city administration;
- (ii) Lack of a clear climate or urban focus. For example, the expression of interest requests support for investment in municipal infrastructure without identifying a specific focus on climate mitigation or adaptation;

Box 2: Finding synergies

The Gap Fund Technical Secretariat is striving to develop synergies between different technical assistance assignments and establish contact among cities where similar technical assistance is planned. Whenever it makes sense and is possible, technical assistance is provided by the same experts to improve results and build on the knowledge acquired in a different context.

- Rio de Janeiro and Campinas in Brazil submitted similar requests for technical assistance for nature-based solutions. The Gap Fund decided to issue one tender for both cities, and they were put in contact to discuss their challenges and solutions and to learn from each other.
- Mbombela, South Africa, was put in contact with eThwekini, in Durban. eThwekini already receives support from the C40 Cities Finance Facility, which is partly implemented by GIZ. The cooperation contributed significantly to Mbombela's capacity to develop river and water management services and proved particularly useful when defining the terms of reference for Gap Fund technical assistance.

Figure 7: **Overview of approved technical assistance assignments**



The following technical assistance assignments were approved in 2021:

Quantifying the economic and social benefits of nature-based solutions adopted in parks, and developing preliminary designs and financial modelling in Rio de Janeiro and Campinas, Brazil:

Public parks play a vital role in urban residents' well-being and resilience, help lower the heat island effect (pockets of heat in urban areas) and contribute to (storm) water management in cities. Their management and maintenance is a permanent challenge in Brazilian cities as technical and financial resources are required. Providing quality public spaces therefore requires cities to explore new management models, potentially by involving private entities. Campinas and Rio de Janeiro are looking to develop a methodology for quantifying the economic and social benefits of nature-based solutions adopted in linear⁷ and river parks, standardising the concept of nature-based solutions⁸ in Brazilian municipalities and instituting monitoring criteria and indicators. The Gap Fund will also support the development of preliminary designs for linear parks in Campinas and the economic-financial modelling for maintaining the Parque Fluvial do Jardim Maravilha in Rio de Janeiro.

7. Linear parks are long, thin parks that run along canals, rivers, streams, highways or other barriers.

8. Nature-based solutions are inspired and supported by nature. They tend to be cost-effective, while also providing environmental, social and economic benefits and building resilience.

Supporting the completion of the urban stormwater management plan in Mbombela, South Africa:

The Gap Fund is helping Mbombela build a programme for its Transformative River and Stormwater Management Programme (MTRSMP). The project includes scaling up and integrating citywide riverine management and stormwater initiatives and developing a dedicated stormwater management implementation framework that takes into account governance requirements. The city wants to ensure that future investments in stormwater management and flood protection contribute to increased resilience by upgrading drainage systems and green spaces and by potentially using nature-based solutions and community management.

Conducting a pre-feasibility study for green roofs, façades and the opening of impermeable surfaces in Podgorica, Montenegro:

Green roofs, potentially combined with green façades, and opening up sealed surfaces like parking garages, are among the climate action measures recognised in Podgorica’s climate change adaptation strategy. The Gap Fund will perform a pre-feasibility analysis of the measures on a selected sample of public buildings and public areas, looking at their impact on heat island effects and flooding risks.

Assessing the potential for biogas generation from organic market waste in Port Vila, Vanuatu:

More than 80% of the waste at Port Vila’s central market is organic and, in 2020, a pilot project began to train stallholders to separate organic from non-organic waste. The Gap Fund will help Port Vila assess the potential of a biogas plant and its collection and distribution infrastructure to convert organic waste from Port Vila’s central market. Food vendors at Port Vila’s central market will benefit directly when biogas becomes available as a substitute for liquefied petroleum gas, which is currently used for cooking. The project will also decrease the amount of waste sent to landfill.

Strengthening systems for monitoring climate and environmental data to improve the management of drinking water systems in Cuenca, Ecuador:

Cuenca sits 2 450-2 700 metres above sea level, and during the wet season (January-May/October-December) can receive rainfall of 800 mm to 1 200 mm. An analysis of different climate change scenarios for 2045 to 2065 concludes that rainfall could rise during the wet season, increasing the likelihood of floods, and decrease significantly during the dry season, exacerbating droughts. The Gap Fund will provide support for strengthening monitoring systems and generating climate and environmental information to improve the management of the city’s drinking water systems.

Identifying a viable concept for municipal waste management in Chefchaouen, Morocco: Chefchaouen, located in the Tangier-Tetouan region in northern Morocco, is a popular tourism spot. The city's population of about 43 000 nearly doubles during peak tourist season. Waste management represents a major challenge for the city, and municipal authorities are committed to reducing the amount of waste sent to landfill. The Gap Fund will provide support to develop a viable concept for organic waste treatment, based on the specific local technical, economic and social conditions.

Supporting safe and climate-friendly street design in Lviv, Ukraine: Lviv thrives on cars, and the number of vehicles has increased steadily in recent years, leading to rising greenhouse gas emissions and air quality problems. In the last ten years, the city's overhaul of many main roads focused on car use. The infrastructure puts pedestrians and cyclists at risk and discourages the use of more climate-friendly modes of transport. The municipal transport agency lacks the capacity, regulatory support and means to ensure that road upgrades take the needs of climate-friendly forms of mobility into account and are carried out in a resilient manner. The Gap Fund will support the preparation of analyses, recommendations and tender guidelines for five districts to increase climate-friendly mobility (targeting walkability, public transport use and cycling) while at the same time improving traffic safety.

Greening urban areas through the Alley 12.7 km project in Vinnytsia, Ukraine: In 2019, Vinnytsia City Council approved the integrated urban development set out in the Vinnytsia 2030 programme, which defines priorities according to five main visions for city development, including the desire to create an "ecological and green city on the Southern Bug river." The Gap Fund will support the analysis of available climate data and the assessment of climate change vulnerabilities and provide recommendations with a roadmap for implementing the project.

Supporting community engagement through a light rail transit line in Naucalpan, Mexico: With over a million inhabitants, Naucalpan, located in the Greater Mexico City area, wants to build a light rail system to improve links between the city and the larger metropolitan area. The Gap Fund is helping the city to conceptualise the project and to analyse social and environmental risks.

Analysing potential business models for the deployment of solar tricycles in Danané, Côte d'Ivoire: Danané is striving to convert its public taxi fleet to electric vehicles and to create socially inclusive business models for drivers. The Gap Fund is helping to come up with business models for drivers and fleet owners and for electric recharging infrastructure using renewable energy.

Analysing waste management alternatives in Makindye, Entebbe, Nansana and Kira, Uganda: The municipality of Makindye-Ssabagabo signed a consortium agreement with the neighbouring municipalities of Nansana, Kira and Entebbe to work together on recovering organic waste and identifying a suitable solution to extract value from that waste, if possible. The Gap Fund will help decision-makers identify the most appropriate municipal organic waste treatment, by comparing different treatments on their technical, economic and financial merits as well as on their social, environmental and climate impact.

Identifying a viable concept for joint municipal organic waste treatment for Escuintla, San José and Iztapa, Guatemala: The municipalities of Escuintla, San José and Iztapa have submitted a joint expression of interest to the Gap Fund to request support on climate action in the waste sector. Guatemalan legislation enables the three municipalities to manage infrastructure and public services collectively as Mancomunidad de Municipalidades del Sur (MASUR). However, MASUR has had difficulty identifying possible management schemes and technological solutions. The Gap Fund will help the three municipalities estimate and characterise the municipal solid waste generated and identify a viable concept for joint municipal organic waste treatment. It will also help the municipalities compare different technologies based on their technical and economic feasibility, as well as their social impact.

Analysing institutional and financial approaches to expand and maintain urban forests in Santa Marta, Colombia: Temperatures in some districts of Santa Marta can be 4°C higher than other areas. To even out temperatures, Santa Marta wants to expand its green spaces and establish an urban forest in the city centre. The Gap Fund is helping the city identify the appropriate institutional and financial approach for implementing and managing these nature-based solutions.

Box 3: Stormwater management in Mbombela, South Africa

Climate change is expected to increase the amount of rain received by Mpumalanga Province, South Africa, which could cause problems for the main city of Mbombela. Flooding has already destroyed Mbombela's wetlands, and is only expected to increase in the coming years.

City officials, with guidance from the deputy director of the Ministry of Environmental Affairs, identified stormwater management as a top priority for the Gap Fund. Mbombela will develop a programme to manage its river and water runoff, which should significantly increase the city's resilience to climate change.

Figure 8: Stormwater damage to Mbombela's wetlands



In assessing Mbombela's request, the Gap Fund team was supported by the C40 Cities Finance Facility (partly implemented by GIZ), experts from the eThekweni municipality as well as GIZ colleagues working in South Africa. eThekweni recently developed a Transformative River Management Programme with support from the finance facility. The municipality of eThekweni and the finance facility helped Mbombela and the Gap Fund define the scope of the technical assistance needed from the fund.

The cooperation between Mbombela and eThekweni improved skills and pooled resources, while creating a new network that is likely to benefit both cities in the future. While the Gap Fund's technical assistance will commence soon, the local network is already in place and possible follow-up support is being identified.

Box 4: Nature-based solutions in Brazil

Climate risks are intensifying in urban areas, and cities increasingly need climate-proof and resilient infrastructure. During its first year of operation, the Gap Fund received a higher-than-expected number of requests from cities for nature-based solutions, reflecting a growing awareness of the importance of adaptation to climate change. The requests were diverse, ranging from parks (Rio de Janeiro and Campinas, Brazil), to green roofs (Podgorica, Montenegro), urban forests (Santa Marta, Colombia), and resilient riverbanks (Vinnytsia, Ukraine).

Nature-based solutions can be broadly defined as **“solutions to societal challenges that are inspired and supported by nature.”** They can play an important role in urban climate adaptation and mitigation while providing a host of social, economic and environmental benefits. Through the Gap Fund’s support, Santa Marta will increase green spaces, which will not only even out temperatures across the city, but also enhance the quality of life of its residents, while absorbing and therefore reducing carbon emissions.

Similarly, the Brazilian cities of Rio de Janeiro and Campinas requested technical assistance for the preparation of urban linear park projects, which enhance green areas and provide additional recreational areas for the urban population. Importantly, the Gap Fund’s assistance to Rio de Janeiro and Campinas entails a methodology for quantifying the environmental and social benefits of nature-based solutions, which can help garner political support for these kind of investments, making similar solutions available to other municipalities.

Figure 9: **Linear park in Campinas, Brazil**



Although nature-based requests are diverse, they have two things in common. First, cities emphasise the need to engage with various stakeholders, such as local government, public agencies, residents and local businesses, and ensure that benefits will be broadly shared. Second, developing an economic cost-benefit analysis, with specific attention to social, environmental and climate benefits, will increase political support and improve other municipalities' ability to embark on nature-based projects.

Engaging with partners

Partners are key to the success of the Gap Fund and the achievement of its mission. The Partnership Forum met twice on 21 January and 21 June 2021. These meetings provided a platform for sharing experiences and expertise and exchanging knowledge and ideas among key participants in the city and climate finance arena to forge the overall strategy and direction of the Gap Fund.

In addition, the EIB and World Bank Secretariats established a partner communications working group comprising all Gap Fund partners. This working group focuses on identifying opportunities to raise awareness about cities' climate agendas and to increase the visibility of the Gap Fund among media, policymakers, national governments, donors and local governments. In 2021, the working group coordinated its approach to information-sharing, communications planning and dissemination, and aligning and amplifying messages, particularly in the run-up to COP26 on 1-12 November 2021.

The Gap Fund supported the organisation and running of various events to raise awareness among potential beneficiaries and enhance partnership communication and outreach.

Outreach webinars: A series of outreach webinars entitled "Get to Know the Gap Fund" was jointly organised by the World Bank and EIB Secretariats on 21, 23, 26 and 27 April targeting different regions and time zones. The Gap Fund partners (GCoM, C40, ICLEI and CCFLA) coordinated through GCoM to invite cities to connect to the webinars, resulting in a combined attendance of more than 200 participants representing cities and their partners.

Participation in regional and global conferences: Through the Partnership Forum and monthly calls with the partner communications working group, the Gap Fund coordinates events and outreach with key partners of the urban and climate agenda. In 2021, EIB and GIZ staff presented the Gap Fund's activities at the following events and conferences:

- 22 March 2021, “Natural cooling: an indispensable element of future-oriented housing policies and projects in hot climates” organised by the Union for the Mediterranean;
- 24 March 2021, “Apostando por una agenda de recuperación verde en ciudades de América Latina” organised by GCoM Latin America;
- 28 May 2021, “Latin American Pitch Event. A climate investment showcase with the Transformative Actions Program (TAP)” organised by ICLEI Latin America;
- 16 July 2021, “Policy Action Lab: The Green Climate Fund Strategy towards low emission and climate resilient Cities, Buildings and Urban Systems in Africa” organised by the Global Fund for Cities Development (FMDV);
- 7-8 September 2021, “C40 African Adaptation Finance Academy” organised by C40;
- 24 September 2021, “Inclusive Green Finance 2021 Mexico” organised by GIZ;
- 29 September 2021, “Connective Cities: Unturning the stones – Exploring Climate Finance for Asian Cities” organised by the Connective Cities Community;
- 5 October 2021, “Daring Cities 2021: Driving finance for urgent climate action” organised by ICLEI;
- 11 October 2021, “MCR2030: Sharing of Experiences” organised by the United Nations Office for Disaster Risk Reduction (UNDRR);
- 27 October 2021, “Bridging the Gap – how to facilitate bankability of local Climate Action in Europe and beyond” organised by CoM Europe;
- 5 November 2021, “Mobilizing Urban Climate Finance through the City Climate Finance Gap Fund” (COP26 event) organised by the World Bank, the EIB and the Government of Luxembourg;
- 11 November 2021, “Joint MDB event: Cities, climate change and MDBs: cooperation, action and delivery” (COP26 event) organised by multilateral development banks under the lead of the European Bank for Reconstruction and Development;
- 11 November 2021, “The City Climate Finance Gap Fund: Helping cities early on to turn climate plans and pipelines into action” (COP26 event) organised by the World Bank and the EIB.

The Gap Fund Secretariat also participated in different working groups convened by the Gap Fund partners including the Leadership for Urban Climate Investment (LUCI), the CCFLA’s Steering Committee, assembly meetings, the Project Preparation Action

Group and Financial Toolbox Action Group, as well as GCoM's International Coalition for Sustainable Infrastructure Action Track on Financing.

Mapping project preparation facilities during the feasibility stage

Initial discussions were held with the CCFLA to identify project preparation facilities that focus on providing technical support for projects at the feasibility stage and for which collaboration with the Gap Fund might be of interest. Eight facilities have expressed an interest in developing closer collaboration and the arrangements will be defined over the course of 2022. These facilities, along with others which may be identified in the future, may potentially take over projects that have received Gap Fund support, once the technical assistance is completed.

Tracking progress against the reporting framework

Table 1 below shows progress made thus far by the EIB-administered multi-donor trust fund towards the indicators agreed in the reporting framework (included in Appendix 1). Qualitative indicators are listed as completed, ongoing or not started, taking into account their logical and chronological order in the timeline of Gap Fund activities. Activities linked to matchmaking, follow-up after Gap Fund technical assistance and an analysis of lessons learned will be performed with the deployment of the different technical assistance assignments.

Table 1: **Progress against the reporting framework**

Indicators	Expected after five years	Achieved during the reporting period (2021)
Indicator 1	Relevant processes and procedures have been agreed between the EIB and GIZ, as well as between the EIB, GIZ and the World Bank, and are available in writing.	Ongoing
Activities	1.1 Organise workflow between GIZ and the EIB, including sourcing (digital) tools.	Completed
	1.2 Set up technical infrastructure (IT platform for submitting expressions of interest, database, data management system) jointly with the World Bank.	Ongoing
	1.3 Ensure efficient coordination and communication according to the governance structure of the Gap Fund (with the Contributor's Committee, Partnership Forum and World Bank).	Completed
	1.4 Maintain regular contacts and engage actively with city networks (such as GCoM, ICLEI, C40) and other multi-stakeholder networks.	Completed
	1.5 Monitoring and reporting on outputs of technical assistance and reporting on fund management.	Ongoing
	1.6 Development knowledge and lessons learned.	Not started

	1.7 Conduct knowledge sharing in cooperation with the Partnership Forum and the World Bank, use knowledge products.	Ongoing
	1.8 Establish and manage pools of experts for the sectors 1) energy, 2) waste and 3) urban mobility, who will provide technical assistance to the cities.	Ongoing
	1.9 Contract and manage further short term experts for support that cannot be provided under the pools of experts.	Ongoing
Indicator 2	750 Expressions of Interest completed and screened (jointly by the EIB and the World Bank)	177
Activities	2.1 Establish a detailed screening questionnaire for projects taken forward by the Gap Fund.	Completed
	2.2 Define approaches to facilitate and standardise support to cities, and where possible develop standardised technical assistance packages for cities.	Ongoing
	2.3 Identify Gap Fund eligible projects through the EIB/GIZ networks and the One Gap Fund Initiative entry process.	Ongoing
	2.4 Support city applicants to refine and complete their expression of interest, in collaboration with city networks as applicable.	Ongoing
	2.5 Screen, evaluate and select projects based on their expression of interest and the eligibility and selection criteria.	Ongoing
Indicator 3	80 projects that will contribute to greenhouse gas reduction and/or adaptation when implemented/supported by the EIB Gap Fund	-
Activities	3.1 Conduct a detailed needs assessment and the terms of reference for advisory services and involve technical experts.	18 needs assessment conducted Ongoing
	3.2 Provide technical support to cities for the development of the initial investment concept to early stage projects ready for further preparation or feasibility-stage support.	Not started
	3.3 Prepare the terms of reference for further preparation support where required and in close cooperation with the relevant project preparation facilities.	Not started
	3.4 Support cities with small technical assistance grants for project preparation activities, if considered the most appropriate way to provide support.	Not started
	3.5 Support alignment with relevant municipal budget and climate and environmental strategy/agenda.	Ongoing
Indicator 4	50 projects supported by the Gap Fund taken up for further preparation support or financing	-
Activities	4.1 Map existing feasibility-stage project preparation facilities, their requirements, application cycles/procedures and relationship with the Gap Fund, building on CCFLA's work.	Ongoing
	4.2 Exchange with relevant (international) financing institutions to get a clear understanding on their investment criteria, information requirements as well as their project preparation funds to tailor matchmaking.	Not started
	4.3 Facilitate matchmaking between projects (Gap Fund output) and project preparation facilities with the support of partners like CCFLA, potentially facilitating the sharing of project documentation through SOURCE or other channels.	Not started

Financial updates

Table 2: **Contributions to the EIB multi-donor trust fund (€ million)**

	2020		2021		Total	
	Pledged	Received	Pledged	Received	Pledged	Received
German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety	15	15	-	-	15	15
Luxembourg Ministry of Environment, Climate and Sustainable Development	8	2	-	2	8	4

Table 3: **Use of EIB multi-donor trust fund resources (€ million)**

Budget lines	Estimated cost 2020-2025 (€ million)	Expenditure 2020-2021 (€ million)
Implementation of technical assistance activities ⁹	19.06	1.33
Implementation of other Gap Fund activities ¹⁰	3.94	0.50
Total	23.00	1.83

9. Including overheads, fund administration fees and other expenses.

10. Including overheads, fund administration fees and other expenses.

Outlook for 2022

As the Gap Fund moves into its second year of operations, 2022 will be crucial for consolidating its position in urban and climate projects. The Gap Fund's reputation should grow as the technical support provided to cities and knowledge-sharing increases, and as assignments make progress and reach completion. Facilitating matchmaking between cities receiving Gap Fund support and other project preparation facilities or finance providers will also increase awareness.

Intake of expressions of interest

The regular flow of incoming expressions of interest since the official launch of the Gap Fund is expected to continue. Targeted outreach activities are planned with local GIZ offices and EIB representations to attract good quality applications from underrepresented sectors, such as energy and mobility, and geographic areas, such as sub-Saharan Africa and Asia.

Delivery of technical assistance assignments

Advisory support will start to be implemented in 2022. It is expected that in 2022, a further 20 to 25 assignments will be approved, 20 to 25 assignments will be ongoing at the end of the year and technical assistance to approximately 15 municipalities will be finalised.

GIZ will also be managing three framework contracts for energy, waste and mobility consultants. It will set up the appropriate procedures to ensure the quality of consultants' contributions. The implementation of technical assistance will also foster project ownership by cities and local authorities and encourage the active participation of consultants.

Processes and procedures

In 2022, the Technical Secretariat will make full use of the new SOURCE data management system and explore ways to share its knowledge with partners, cities and local authorities.

Knowledge products

In 2022, the EIB and GIZ will use knowledge products, such as guidelines, to share lessons learned from assignments. Topics could include the implementation of nature-based solutions, peer-to-peer collaboration among cities and feedback from cooperation with other programmes and initiatives managed by the EIB and GIZ. The focus will be on products that are very close to project implementation, result from Gap Fund technical assistance and can be used by cities directly.

Matchmaking activities

As the technical assistance assignments progress, identifying project preparation facilities that could provide support during later stages of the project will become increasingly important. While matchmaking will require discussions with other international financial institutions and a wide range of organisations, the SOURCE data management system has functionality that identifies project preparation facilities according to their eligibility criteria. This would help the Gap Fund match projects with potential financial backers.

Appendix I – EIB Gap Fund reporting framework

According to the contribution agreements signed between the EIB, the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, and the Luxembourg Ministry of Environment, Climate and Sustainable Development, the EIB-administered fund is expected to report its activities using the framework presented in Table 4 .

Table 4: **EIB Gap Fund multi-donor trust fund results framework**

IMPACT			
Cities access finance to implement climate resilient and low-carbon infrastructure projects compatible with limiting temperature rises to 1.5 degrees Celsius¹¹			
Outcome			
Cities access catalytic technical assistance and grant funding for the early-stage preparation for climate resilient and low-carbon infrastructure projects compatible with limiting temperature rises to 1.5 degrees Celsius . Projects are successfully taken up by existing national, regional and international project preparation facilities.			
Outcome Indicator 1: 80 projects, which will contribute to greenhouse gas reduction and/or adaptation when implemented, have been supported by the Gap Fund			
Outcome Indicator 2: 50 supported projects have been taken up for further preparation support or financing			
Output 1: Operational Technical Secretariat	Output 2: Screened projects	Output 3: Supported projects	Output 4: Match-making and partnerships
The Gap Fund Technical Secretariat is operational and fostering a “One Gap Fund” approach together with the World Bank secretariat.	A portfolio of completed and screened applications for early-stage project preparation support and a defined scope of technical assistance packages is available.	A solid portfolio of well-prepared early-stage projects is available for uptake by project preparation facilities.	Project preparation facilities have taken up early stage projects prepared by the Gap Fund.
Indicator 1:	Indicator 2:	Indicator 3:	Indicator 4:
Relevant processes and procedures have been agreed between the EIB and GIZ, as well as between the EIB, GIZ and the World Bank and are available in writing.	750 city applications are completed and screened after five years.	80 early stage projects are prepared after five years.	50 projects have been taken up by project preparation facilities, funds, MDBs and multilateral financial institutions after five years.
ACTIVITIES			
1.1 Organise workflow between GIZ and the EIB, including sourcing (digital) tools (potentially using SOURCE).	2.1 Establish a detailed screening questionnaire for projects taken forward by the Gap Fund.	3.1 Conduct a detailed needs assessment and terms of reference for advisory services and involve technical experts.	4.1 Map existing feasibility-stage project preparation facilities, their requirements and application cycles/ procedures and relationship with the Gap Fund, building on CCFLAs work.

11. To be eligible for support, projects must have the objective and the potential to contribute to climate goals in line with the Paris Agreement (which includes a reference to the 1.5 degree goal). The degree of climate ambition will be one of the criteria for project selection. In many projects this may be difficult to determine quantitatively given their early stage, though their potential to contribute can be confirmed for example based on the nature / sub-sector of the project. It may indeed also be part of the scope of a Gap Fund assignment to strengthen the project.

1.2 Set up technical infrastructure (IT platform for submitting expressions of interest, database, data management system) jointly with the World Bank (potentially using SOURCE).	2.2 Define approaches to facilitate and standardise support to cities, and where possible develop standardised technical assistance packages for cities.	3.2 Provide technical support to cities to develop the initial investment concept into an early stage project ready for further preparation or feasibility support.	4.2 Exchange with relevant (international) financing institutions to get a clear understanding on their investment criteria, information requirements as well as their project preparation funds to tailor matchmaking.
1.3 Ensure efficient coordination and communication, according to the governance structure of the Gap Fund (with the Contributor's Committee, the Partnership Forum and the World Bank).	2.3 Identify eligible projects through the Gap Fund initiative entry process.	3.3 Prepare terms of reference for further preparation support where required and in close cooperation with the relevant project preparation facilities.	4.3 Facilitate matchmaking between projects and project preparation facilities with the support of partners like CCFLA, potentially sharing of project documentation through SOURCE or other channels.
1.4 Maintain regular contacts and engage actively with city networks (such as GCoM, ICLEI, C40) and other multi-stakeholder networks (such as CCFLA).	2.4 Support city applicants to refine and complete their applications, collaborate with city networks when applicable.	3.4 Support cities with small technical assistance grants for project preparation activities, if considered the most appropriate way to provide support.	
1.5 Monitor and report on outputs of technical assistance and report on fund management.	2.5 Screen, evaluate and select applications based on the formulated criteria.	3.5 Support aligning projects with relevant municipal budgets and climate and environmental strategies/agendas.	
1.6 Development of lessons learned and knowledge products for dissemination.			
1.7 Conduct knowledge sharing in cooperation with the Partnership Forum and the World Bank, use knowledge products in activity 1.6.			
1.8 Establish and manage pools of experts for energy, waste and urban mobility, who will provide technical assistance to the cities			
1.9 Contract and manage further consultants for short term projects, when the consultants cannot be provided through the pools of experts.			



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