



**Call for Papers "The European Green Deal: moving to action
Opportunities and challenges for the European citizens"**

**EUROPEAN GREEN DEAL: NO URBAN INFRASTRUCTURE, NO SUSTAINABLE
DEVELOPMENT**

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EXECUTIVE SUMMARY

The European Green Deal's ultimate goal is to transform the EU economy paving the way towards a new model of sustainable development. To achieve this goal, however, the European Green Deal needs to put at the core of its vision cities and their infrastructure as fundamental factors to address sustainability. UE urban governments manage 1/3 of public spending and 2/3 of public investments. Even though urban governments have been provided with a key responsibility for infrastructure provision, they often lack the capacity and resources to properly translate their sustainable ambitions into practicable solutions. The European Green Deal offers a unique opportunity to mitigate these key challenges and, finally, unlock the potential of cities. However, within the framework of the European Green Deal, an effort should be put in further engaging with local authorities while improving their capacity and channelling private investments in sustainable infrastructure projects.

Social Media summary

To promote long-term sustainable development, the European Green Deal needs to start from urban infrastructure.

Keywords

#sustainabledevelopment #urbaninfrastructure #europeangreendeal

Short bio

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Contents

Introduction	5
Challenge: Engaging urban governments with the European Green Deal	6
Challenge: making cities' infrastructure projects attractive to private investments	7
Re-orienting spending capabilities in sustainable infrastructure projects	9
Empowering innovative financing mechanism	10
Conclusion.....	11
Bibliography.....	13

Table of Figures

Figure 1. Breakdown of subnational government revenues by category (% of total revenue, 2018)	7
Figure 2. Main challenges perceived by SNGs with respect to strategic planning and implementation of infrastructure investment	9



Introduction

Despite having over 50% of the global population and occupying only 3% of land surface, cities account for 60-80% of global Greenhouse Gas Emission (GHG) and consume 75% of the planet's natural resources, according to the United Nations Environment Programme's Global Initiative for Resource Efficient Cities.¹ This is also true in the European Union where about 75% of its population live in urban areas and its cities account for around 65% of its CO₂ total emissions.² Moreover, the network of C40 cities estimates that emissions from building and infrastructure construction will form the single largest category of consumption-based emissions between 2017 and 2050, producing 21% of consumption emissions in these urban centres.³ Urban infrastructure holds the key to foster a green and just recovery in the European Union (EU).

To deliver positive impact to local communities and promote sustainability, the European Green Deal should comprise the urban infrastructure dimension at the core of its vision. Cities can help in reducing information asymmetries between local needs and national spending priorities. However, according to a survey carried out by Eurocities in December 2020, 70% of the respondent European cities reported to have not been consulted yet or only marginally involved in the development of their national recovery plans.⁴

While this is a lost opportunity to properly engage with fundamental actors in the decision-making process, the real challenge will be to exploit the European Green Deal to help urban governments to mitigate for the long term the remarkable challenges they face in planning, financing and implementing infrastructure projects. Local authorities, particularly small and medium-sized ones, often lack the capacity and resources to translate their sustainable ambitions into practicable solutions. The challenge is then not only about increasing extraordinary public funds available to finance infrastructure projects but to build the systemic conditions for municipalities to orient, finance, maintain and implement sustainable infrastructure. The European Green Deal is then a unique window of opportunity. If properly channelled towards empowering local authorities and stepping up their administrative capacity, the European Green Deal could truly transform the ability of cities to address sustainability challenges and unlock local ambition.

¹ United Nations Environment Programme. (2017) *Resilience and Resource Efficiency in Cities, Nairobi*. Available from: https://wedocs.unep.org/bitstream/handle/20.500.11822/20629/Resilience_resource_efficiency_cities.pdf?sequence=1&isAllowed=y

² European Environment Agency. (2021) *Urban Environment*. Available from: <https://www.eea.europa.eu/themes/urban/intro>

³ C40 Cities. (2018) *Consumption-Based GHG Emissions of C40 Cities*. Available from: <https://www.c40.org/researches/consumption-based-emissions>

⁴ Euro Cities. (2021) *Briefing note on the involvement of cities in the preparation of National Recovery Plans and Operational Programmes 2021-2027*. Available from: https://eurocities.eu/wp-content/uploads/2021/03/Eurocities-Briefing-Note_Cities_EU_Recovery.pdf



Challenge: Engaging urban governments with the European Green Deal

Previous experiences show that the lack of proper intergovernmental coordination risks undermining the potential impact of infrastructure investment plans. For example, the European Fund for Strategic Investment (EFSI) – of which a major aim was to facilitate private investments in local infrastructure projects – lacked coordination with subnational governments and, consequently, failed in untapping its potential. According to a survey carried out by the CoR, only 7% of the respondent subnational governments were very informed about the opportunities offered by the EFSI. Moreover, even if informed, the survey showed that local governments were facing capacity issues – such as technical expertise - within their public administration and inability to find investment partners to benefit from the EFSI.⁵ To fulfil its transformative potential in the long term, the European Green Deal needs to find ways to better engage with urban governments.

As demonstrated by the Eurocities' survey, national European governments failed in the attempt to establish a systemic consultation of cities and local governments for the design of the National Recovery and Resilience Plans (NRRPs) that EU Member States submitted to the European Commission. It is now crucial that cities are actively involved in the implementation of the plans to step up their spending capabilities and promote real impact. The “Green Deal Going Local” working group is a positive initiative in this direction. It has been promoted by the European Committee of the Regions with the aim of “*placing cities and regions at the core of the European Green Deal*”.⁶ The working group includes thirteen local and regional elected representatives. Yet, this initiative is not enough. To foster constructive inter-governmental coordination, further actions are required.

- *From words to actions.* The “Green Deal Going Local” should advance its application, promoting further chances of multi-levels’ and multi-stakeholders’ interactions on project’s planification. Moreover, it could become a hub of knowledge sharing where cities could participate to gain tools and practical knowledge on project’s preparation, management and implementation within the European Green Deal’s framework.
- *Advance multi-level cooperation.* Urban governments should be directly involved in the Recovery and Resilience Facility whose aim is to foster green and digital transitions with flagship areas of investment. This sort of engagement could benefit the overall impact of sustainable infrastructure investments. First, urban governments could help the Facility to promote infrastructure investments which could have a real impact on people’s welfare. Second, they could foster good practises to maximize the impact of investments. European cities have launched several successful initiatives of collaboration which have demonstrated that cooperation in sharing good practises and goals can help in easing sustainable development. If cities are deeper included in the Facility’s process, they could more efficiently encourage cross-border collaboration in urban infrastructure projects.

⁵ Allain-Dupré, D., C. Hulbert and M. Vincent (2017), "Subnational Infrastructure Investment in OECD Countries: Trends and Key Governance Levers", *OECD Regional Development Working Papers*, No. 2017/05, OECD Publishing, Paris. Available from: <https://doi.org/10.1787/e9077df7-en>.

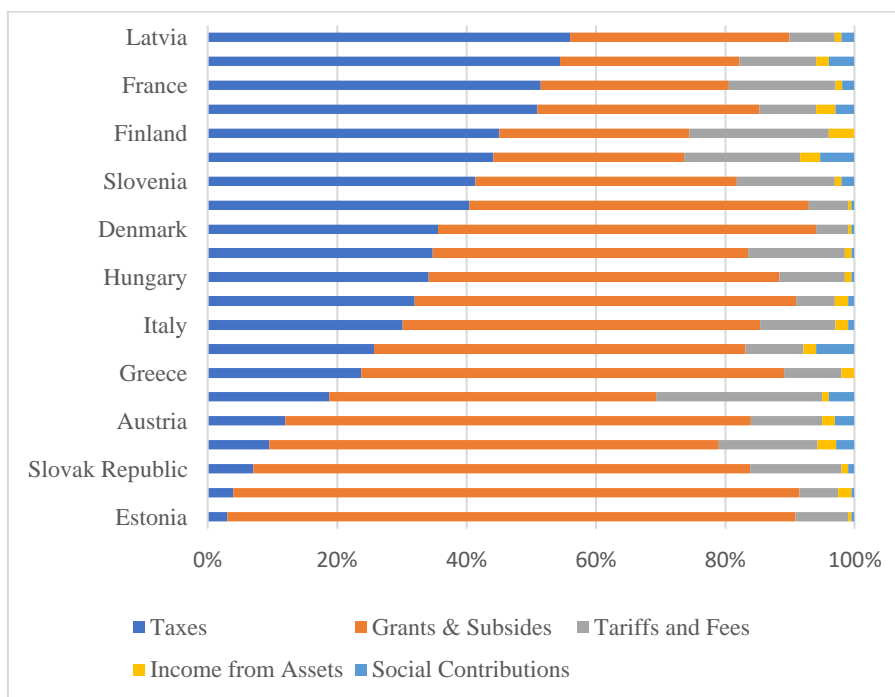
⁶ EU's Assembly of Regional and Local Representatives. (2021) *Green Deal Going Local*. Available from: <https://cor.europa.eu/en/engage/Pages/green-deal.aspx>



Challenge: making cities’ infrastructure projects attractive to private investments

European cities have been provided with a key responsibility for infrastructure provision but, often, without an adequate and corresponding decentralization of finance and capacity. Despite heterogeneity in the degree of finance decentralization among countries, subnational governments account for more than half of infrastructure investments in the EU.⁷ UE subnational governments usually fund their investments through intergovernmental grants and transfers as well as through local taxes.

Figure 1. Breakdown of subnational government revenues by category (% of total revenue, 2018)



Source: OECD (2020)⁸

⁷ Allain-Dupré, D., C. Hulbert and M. Vincent (2017), "Subnational Infrastructure Investment in OECD Countries: Trends and Key Governance Levers", *OECD Regional Development Working Papers*, No. 2017/05, OECD Publishing, Paris. Available from: <https://doi.org/10.1787/e9077df7-en>.

⁸ OECD (2020) *The Territorial Impact of COVID-19: Managing the Crisis across Levels of Government*, in *OECD Policy Responses to Coronavirus (COVID-19)*, updated 10 November 2021, p. 26, <http://www.oecd.org/coronavirus/policy-responses/the-territorial-impact-of-covid-19-managing-the-crisis-across-levels-of-government-d3e314e1>



However, the public revenue sources available at a local level are often insufficient to meet the demand of infrastructure investments. Despite private financing participation having increased in recent years, a key gap between the demand and the supply of private investments still exists at a local level.⁹ According to a survey of the OECD, only 7% of European subnational governments – mainly large metropolis and regions - have reported a solid increase of private participation in infrastructure investments since 2010.¹⁰

Leveraging private finance at a local level is fostered by three main factors. First, it is shaped by the nature of the inter-relationships established between national and sub-national governments. Second, it is widely affected by the ability of local governments to produce coherent strategies and prioritized delivery plans that can also attract national and international private investments. Last, it is influenced by the effectiveness with which public and private institutions manage both mature and fledgling city-region-wide governance coalitions.¹¹

Municipalities tend to suffer indeed from constraints in subnational borrowing and from poor technical capability in planning and managing infrastructure projects, adding risks and uncertainty for private and public financing.¹² In its 2015 “*Lessons learned from OECD Investment Policy Reviews*”, the OECD stressed that revenue risks and sub-sovereign risks could be greater at a local level as management capacity could be weaker.¹³ It does not surprise indeed that, according to experts of the World Bank, most PPPs are allocated to larger and sovereign-backed projects, rather than to local infrastructure projects.¹⁴

⁹ Jason Zhengrong Lu. (2021) *A simple way to close the multi-trillion-dollar infrastructure financing gap*. Available from: <https://blogs.worldbank.org/ppps/simple-way-close-multi-trillion-dollar-infrastructure-financing-gap>

¹⁰ OECD, UCLG. (2016) *Subnational governments around the world: Structure and Finance*. Available from: <https://www.oecd.org/regional/regional-policy/Subnational-Governments-Around-the-World-%20Part-I.pdf>

¹¹ O’Brien, Peter & Pike, Andy. (2015) *The governance of local infrastructure funding and financing. Infrastructure Complexity*. 2. 10.1186/s40551-015-0007-6. Available from: <https://www.oecd.org/gov/regulatory-policy/45418514.pdf>

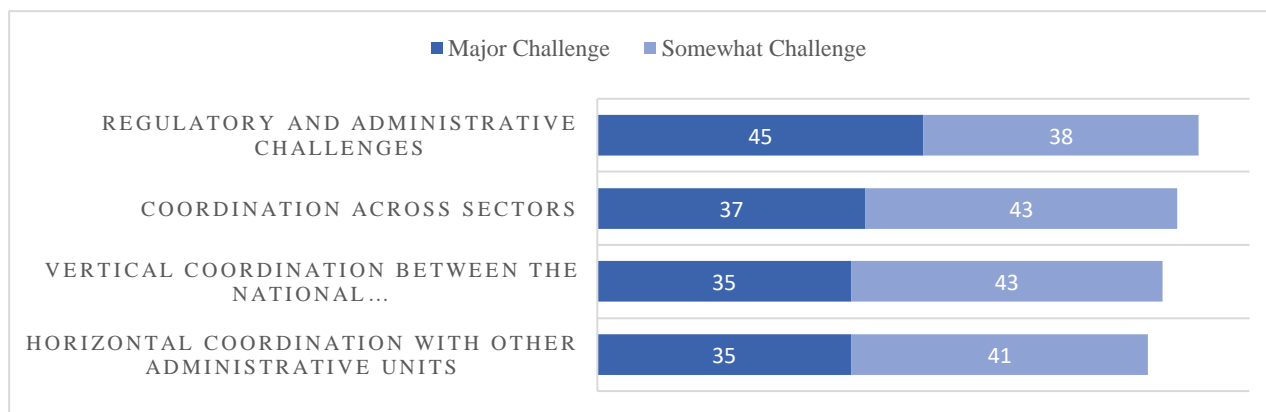
¹² Pilkington, R & Buchalla Pacca, M. (2019) *Municipal infrastructure needs more investment: harnessing private capital (responsibly!) will help*. Available from: <https://blogs.worldbank.org/ppps/municipal-infrastructure-needs-more-investment-harnessing-private-capital-responsibly-will> ; Jeff Delmon. (2019) *What do mothers-in-law and national PPP structures have in common?* Available from: <https://blogs.worldbank.org/ppps/what-do-mothers-law-and-national-ppp-structures-have-common>

¹³ OECD. (2015) *Fostering Investment in Infrastructure*. Available from: <https://www.oecd.org/daf/inv/investment-policy/Fostering-Investment-in-Infrastructure.pdf> p. 23

¹⁴ Pilkington, R & Buchalla Pacca, M. (2019) *Municipal infrastructure needs more investment: harnessing private capital (responsibly!) will help*. Available from: <https://blogs.worldbank.org/ppps/municipal-infrastructure-needs-more-investment-harnessing-private-capital-responsibly-will> ; Jeff Delmon. (2019) *What do mothers-in-law and national PPP structures have in common?* Available from: <https://blogs.worldbank.org/ppps/what-do-mothers-law-and-national-ppp-structures-have-common>



Figure 2. Main challenges perceived by SNGs with respect to strategic planning and implementation of infrastructure investment



Source: Allain-Dupré, D., C. Hulbert and M. Vincent (2017)¹⁵

To counterbalance the consistent decrease of public fiscal budget allocated to municipal governments, exacerbated by the COVID-19 crisis, the European Green Deal needs to be a facilitator to scale up public investments also at a local level. The European Green Deal has the unique opportunity to assist local governments in developing, financing and managing sustainability infrastructure projects. To achieve this goal, the European Green Deal's framework should work to (i) support cities to establish an enabling environment through an improvement of their capacity and (ii) to improve the access to private funding opportunities.

Re-orienting spending capabilities in sustainable infrastructure projects

In the framework of the European Green Deal, it is crucial that local governments are trained to align their infrastructure investments in line with the EU Taxonomy for Sustainable Activities¹⁶ and the Sustainable Development Goals (SDGs). Sustainable infrastructure is not just about emissions, it means developing infrastructure that supports social, economic and environmental sustainability in the long run.

- *Delegate the preparation phase.* In an infrastructure project pipeline, the preparation phase can be challenging for local governments. They can lack the capacity to evaluate the

¹⁵ Allain-Dupré, D., C. Hulbert and M. Vincent (2017) Subnational Infrastructure Investment in OECD Countries: Trends and Key Governance Levers, *OECD Regional Development Working Papers*, No. 2017/05, OECD Publishing, Paris. Available from: <https://doi.org/10.1787/e9077df7-en>

¹⁶ European Union. (2020) *EU taxonomy for sustainable activities*. Available from: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en



sustainability of their projects as well as the technical skills to properly handle the preparatory activities. If European organizations or administrations could cover this phase through standardized processes and mechanisms, cities could greatly benefit.¹⁷

- *Empower advisory support.* Several initiatives are available to help local governments during the various phases of an infrastructure project. The European Green deal should comprise in its framework the promotion of these mechanisms – such as JASPERS, ELENA and URIBIS from the European Investment Bank (EIB) – so that local governments receive technical support during the selection, monitoring and evaluation procedures of an infrastructure project. This could mitigate the issue of low administrative capacity to run regulatory bodies that define the “rules of the game” and enforce compliance by contractors in investment.
- *Invest in capacity building.* Any investment should be accompanied by an effort in improving local capacities, otherwise cities will miss a unique chance to foster development in the long-term. Training of local administrative staff through seminars could be linked to the allocation of budget. The establishment of common regulatory bodies for consortiums of cities and even states can be a cost-effective solution to mitigate regulatory risks and improve efficiency in such arrangements.
- *Monitor and report on the SDGs.* To act on their commitments and achieve their SDG priorities, cities need to develop their capacity to develop specific local indicators and monitor the implementation of the SDGs. This also requires better connecting their SDG strategy to the professionals designing, building and maintaining infrastructure, and to build institutional capacity to monitor the implementation of targets such as Target 9.1: Develop sustainable, resilient and inclusive infrastructures and Target 9.4: Upgrade all industries and infrastructures for sustainability at the local level.¹⁸

Empowering innovative financing mechanism

Public funds of the European Green Deal should be used to encourage private capital invest further into sustainable actions at a local level.

- *Pool existing budgets for sustainability.* Funds allocated from the European Green Deal can be used to bolster capital base availability at a local level. Local governments should aim at pooling additional funds from national budgets or from programs provided by the European Multilateral Development Banks. Combining existing line of budget and extraordinary funds from the European Green Deal could increase the overall financial and impact value of an investment.
- *Promote fiscal incentives for sustainable initiatives.* To attract private investments in the framework of sustainable infrastructure projects, local governments could apply fiscal incentives when development projects meet certain environmental and social standards.

¹⁷ Bilotta, N & Pozzolo, A. (2021) *Reviving and Reorienting Growth after the Pandemic: The Role of Local Infrastructure Investments*. Available from: <https://www.iai.it/sites/default/files/9788893681858.pdf>

¹⁸ *Local Governance of Infrastructures Financing to Promote Sustainable and Inclusive Cities*. (Bilotta et al., 2021). Available from: https://www.t20italy.org/wp-content/uploads/2021/09/TF7_PB06_LM02.pdf



Moreover, they could promote grants or low-interest loans if those investments are aligned with the sustainability goals.

- *Promote advisory support for local private financial institutions.* To further involve and mobilize local private financial institutions, these actors should receive training to improve their capacity in assessing climate-related risks in their operations. Local financial players are often small and have limited experience in assessing the riskiness of infrastructure projects. Local syndicated lending, possibly in partnership with large specialized financial institutions, might help to solve these problems, in addition by leveraging the deep knowledge of local players that local banks often have.
- *Promote standardization in Private Public Partnerships:* Public Private Partnerships tend to lack standardisation of costs and structure. To ease the development of PPPs, the development of standard models of bidding and contractual documents can help in lowering costs and risks. To include also environmental indicators in PPPs there should be a standardization of metrics that can help in developing frameworks which ease the compliance with a sustainable strategy.¹⁹
- *Municipal Green Bonds and Social Impact Bonds:* the issuance of bonds is an extremely complicated financial operation which requires high expertise, making the fixed costs too high for small volumes. To mitigate the risks associated with municipal bonds, the European Green Deal can encourage the establishment of national/regional private or public entities that aim to support municipal bonds issuance. These independent entities could lessen the risks for investors, promote a standardized approach to risk analysis, improve local oversight on projects and reduce the transaction costs of bond issuance for local governments.

Conclusion

The European Green Deal's ultimate goal is to transform the EU economy paving the way towards a new model of sustainable development. To achieve this goal, however, the European Green Deal needs to put at the core of its vision cities and their infrastructure as fundamental factors to address sustainability. UE urban governments manage 1/3 of public spending and 2/3 of public investments.²⁰ Even though urban governments have been provided with a key responsibility for infrastructure provision, they often lack the capacity and resources to properly translate their sustainable ambitions into practicable solutions. The European Green Deal offers a unique opportunity to mitigate these key challenges and, finally, unlock the potential of cities.

This can achieve through three main areas of actions:

- *Engaging with urban governments.* First, the “Local Green Deals” initiative should promote the establishment of a hub of knowledge sharing where cities could participate to gain tools and practical knowledge on project's preparation, management and

¹⁹ *Local Governance of Infrastructures Financing to Promote Sustainable and Inclusive Cities.* (Bilotta et al., 2021). Available from: https://www.t20italy.org/wp-content/uploads/2021/09/TF7_PB06_LM02.pdf

²⁰ Durieux, E & Hidson, M. (2021) *Local Green Deals: A Blueprint for Action.* Available from: <https://www.intelligentcitieschallenge.eu/sites/default/files/2021-06/Local%20Green%20Deals-8.pdf>



implementation within the European Green Deal's framework. Second, urban governments should be included in the Recovery and Resilience Facility so that they could help in promoting infrastructure investments with a real impact on local communities and in fostering cross-border collaboration among cities.

- **Improving local capacities.** The European Green Deal should comprise an effort to improve the capacity building of urban governments through advisory support as well as training of local staff to better align and re-orient infrastructure projects with sustainability principles. As the preparatory phase of an infrastructure project is generally extremely challenging, European organizations or administrations could foster standardized processes and mechanisms to ease this phase. Moreover, the European Green Deal should scale up the advisory support initiatives currently available for local governments. An emphasis should be addressed to train and improve local capacity.
- **Mobilizing private investment.** Another priority area is to exploit the extraordinary funds of the European Green Deal to help urban governments in mobilizing private investors in their infrastructure projects through a standardization of metrics and contracts, the implementation of innovative financing mechanisms and an advisory support to local private financial institutions. First, funds allocated from the European Green Deal can be pooled to additional funds from national budgets or from programs provided by the European Multilateral Development Banks. Second, local governments could apply fiscal incentives when development projects meet certain environmental and social standards with the aim of attracting private investment. Third, to empower local financial institutions, an effort should be put in easing the development of standard models of bidding and contractual documents with standardized environmental indicators while scaling up their capacity in assessing climate-related risks in their operations. Similarly, municipal green bonds could be potentially a tool to increase private investment. However, as their issuance has high fixed costs, local governments could benefit from the development of technical support.

The European Green Deal will be able to fulfil its transformative potential only if it starts from and with cities. Otherwise, it risks being another missed change to foster a real change in the long term.



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