

URBAN CLIMATE MISSIONS: FROM THE NEUTRALITY TARGET TO AN INVESTMENT ARCHITECTURE

Posted on 08/07/2026 by Naider

Many cities have already committed to climate neutrality. The real challenge comes next: turning that commitment into an investment portfolio that is deliverable, financeable and shared.

EXECUTIVE SUMMARY

Urban climate neutrality requires **coordinating several projects at once**, such as an electric fleet, a heat network or a retrofit programme, among others. Each one is necessary, but its real effect appears once they work within the same strategy. And since municipal budgets aren't enough to sustain the transition on their own, the debate has shifted from "what needs to be done" to "**how it is organised, financed and governed**".

The underlying idea is simple: treat the climate mission as an **investment agenda**. This means having prioritised project portfolios, clear governance — Climate City Contracts and transition teams — and financial instruments matched to each type of project.

100

climate-neutral cities by 2030, the EU Mission's target

12

financing instruments, each suited to a type of project

3

structural barriers to private investment that need unblocking

Why neutrality matters now

Many European cities have already committed to the climate neutrality target. The difficulty starts afterwards: turning that commitment into a **financeable, comprehensible and shared roadmap**. Without prioritised projects, mobilisable resources and clear responsibilities, neutrality risks

remaining a political horizon with little real capacity for delivery.

The **EU Mission for Climate-Neutral and Smart Cities** sets out a change of scale and places *Climate City Contracts* at its centre, co-created with local actors and citizens, together with action and investment plans in energy, buildings, waste and transport.

The challenge appears once that ambition is translated into concrete decisions. Decarbonisation doesn't fit within a single department, nor can it be funded from a single budget line. It cuts across infrastructure, habits, business models, regulation, taxation, land, public procurement and social acceptance.

Having a vision is no longer enough. The difficulty lies in turning planning into a **deliverable, sequenced and measurable investment portfolio**, capable of attracting resources beyond the municipal budget. This is where much of the credibility of climate missions is at stake.

100

CITIES BY 2030

The EU Mission wants 100 climate-neutral cities by 2030, turned into testing grounds so the rest of Europe can advance towards 2050.

The climate mission is also an investment agenda

The idea of a "mission" comes from a broad reading of innovation. **Mariana Mazzucato** — director of the Institute for Innovation and Public Purpose (UCL) and one of the approach's leading proponents — frames missions as policies capable of shaping markets, directing investment and coordinating public and private capabilities around concrete social goals. These are policies that actively shape markets, going beyond simply correcting market failures where they arise. This fits cities well, where neutrality requires action across sectors with very different inertias.

An urban climate mission **works like a project portfolio**: it brings together a portfolio of R&D, innovation, investment and management interventions; some will fail and others will leave learning behind. NetZeroCities proposes something similar with its *portfolio approach*: linking existing and new actions into a coordinated sequence of transformation.

The **Climate Investment Plan (CIP)** attempts to correct this fragmentation. It quantifies investment needs, separates capital and operating costs, identifies funding gaps and sets out which instruments can be mobilised for each action.

The conclusion holds even though the figures vary by city and method: the available public budget covers only part of the investment needed, which **forces the mobilisation of private capital** without losing sight of the public interest.

"Urban neutrality will not be financeable if it is framed solely as incremental public spending."

Why the public-private equation fails

Saying that private investment "must get involved" solves nothing on its own. It's necessary to understand why, in many cases, it doesn't: **high upfront costs, long payback periods, regulatory uncertainty** and benefits that don't easily translate into revenue.

Energy retrofitting illustrates this well: it generates savings, health, comfort and asset value, but those benefits are spread across owners, tenants, businesses, the health system and citizens. **The investor who bears the cost doesn't capture the whole return.** Green infrastructure presents the same difficulty: it delivers enormous urban value without always producing direct cash flows.

Three barriers explain the blockade:

01

Mismatch between social value and financial return.

Many environmental and health benefits are real, but appear as externalities or non-market values. If the decision only looks at immediate financial flow, high public-value actions end up underfunded (OECD, World Bank, *Green Book*).

02

Institutional barrier.

Administrations manage competencies, files and annual budgets, not necessarily long-term systemic transformations. Political cycles are shorter than infrastructure payback periods, and municipal departments are organised in silos.

03

Scale barrier.

Many projects are too small or too heterogeneous to attract institutional investment individually. Seeking financing comes too late if financeable projects haven't been prepared beforehand: with clear governance, allocated risks, permits, data and measurable impact.

From isolated projects to transformation portfolios

An urban climate portfolio combines actions with different financial profiles, timeframes and risk levels. Some generate clear operating savings — efficiency, street lighting, fleet electrification, self-consumption — others produce benefits that are harder to translate into revenue — renaturalisation, flood adaptation, climate equity.

A well-built portfolio puts these in relation to one another: projects with predictable income **improve the aggregate profile**, public guarantees cover layers of risk the market won't take on, and investments are sequenced to build learning and confidence among actors.

This logic uncovers opportunities within projects that already have their own momentum. Refurbishing a library, a sports centre or a neighbourhood facility can incorporate self-consumption, shading, sustainable drainage or climate refuge spaces. The climate action stops being an add-on and becomes **integrated into an asset with users, budget and social demand**.

Project bundling is especially relevant for medium-sized cities: packaging retrofits, solar rooftops and green infrastructure coherently turns them into a portfolio with enough volume to attract financing. The uncertainty doesn't disappear, but **it becomes visible and manageable**.

Governing the mission: climate contracts and transition teams

The **Climate City Contract (CCC)** is one of the most interesting instruments of the EU Mission: co-created with local actors and citizens, it sets out the roadmap towards neutrality and its investment plans. Its nature is worth clarifying: it is an evolving political, technical and financial agreement, not a closed legal contract.

If it's read as a closed document, its real potential is lost: acting as a **platform for shared responsibility** to coordinate actors that aren't under the direct control of the local authority — businesses, universities, financial institutions, energy communities, citizens and regional administrations.

This is why many European methodologies emphasise **transition teams**: a coordination space bringing together energy analysis, urban economics, procurement, data, financial modelling and evaluation. Without replacing municipal departments, they help break down silos and maintain an overall view.

This matters for public-private collaboration: an investor doesn't just assess a project's climate quality, but also **the institutional framework** it sits within — political continuity, a prioritised portfolio, permits, data, guarantee mechanisms and the commitments made by other actors.

IN BRIEF

Climate City Contract

It is an **evolving political, technical and financial agreement**: a living document that aligns commitments, actors, actions and investments.

Instruments to finance the mission

Talking about financing points to something practical: private finance complements public

resources and extends their reach, always under public direction. The public task is precise: **set priorities, reduce uncertainties, structure portfolios and mobilise complementary resources**. The first building block isn't an instrument, but a capability: preparing projects.

The **Climate City Capital Hub** (NetZeroCities, with the European Investment Bank) was created to fill this gap: its role is to offer technical assistance and capital facilitation to move from plans to projects that are closer to securing financing. Its *City Finance Specialists* bring financial capability into municipal teams. Closing the gap requires, beyond more money, **better investment cases**.

The decision isn't about choosing a tool in the abstract, but about knowing what problem each one solves, under what conditions it's useful, and what unintended effects it can cause if misapplied. That's why it helps to **group instruments by the function they serve** within the portfolio:

A · PREPARE

Prepare and mature projects

Technical assistance and project preparation

WHERE IT FITS

Immature municipal portfolios: retrofitting, energy, mobility, adaptation

WHAT IT SOLVES

Turns ideas into financeable cases, with clear costs, permits and governance

Caveat · Doesn't replace political decision-making or generate automatic financing

Innovation procurement

WHERE IT FITS

Immature solutions: environmental data, materials, mobility, energy

WHAT IT SOLVES

Creates early demand, shares technological risk and shapes markets

Caveat · Requires well-defined challenges and rigorous evaluation

Urban regulatory sandboxes

WHERE IT FITS

Regulatory pilots: mobility, logistics, distributed energy, emissions

WHAT IT SOLVES

Reduces technological and regulatory uncertainty before scaling up

Caveat · Must include transparency, participation and exit criteria

B · LEVERAGE

Reduce risk and mobilise capital

Blended finance

WHERE IT FITS

High social and climate value actions with risk or returns insufficient for the market

WHAT IT SOLVES

Uses public capital to reduce uncertainty and attract complementary capital

Caveat · Must demonstrate additionality; poorly designed, it socialises risk

Guarantees, grants or subordinated capital

WHERE IT FITS

Viability gaps or vulnerable groups: fuel poverty, disadvantaged neighbourhoods

WHAT IT SOLVES

Covers layers of risk or costs the market can't absorb alone

Caveat · Must avoid subsidising operations that were already viable

C · STRUCTURE

Structure and aggregate portfolios

Special Purpose Vehicles (SPVs)

WHERE IT FITS

Heat networks, EV charging, aggregated retrofitting, distributed energy

WHAT IT SOLVES

Legally and financially ring-fences a portfolio and eases partner entry

Caveat · Requires solid governance and sufficient public control

Urban climate funds / impact funds

WHERE IT FITS

Sets of projects with different risk and impact profiles

WHAT IT SOLVES

Reduces fragmentation and pools capital with a mission-driven view

Caveat · Risk of opacity without clear selection and impact criteria

Public-private partnerships (PPPs)

WHERE IT FITS

Complex long-term infrastructure: district networks, waste, mobility

WHAT IT SOLVES

Structures investment, operation and risk-sharing between actors

Caveat · High transaction costs and risk of regulatory capture

D · MARKET

Access market capital

Green bonds or thematic debt

WHERE IT FITS

Mature, capital-intensive public portfolios: transport, buildings, networks

WHAT IT SOLVES

Broadens the investor base and links financing to verifiable targets

Caveat · Requires borrowing capacity and robust reporting

Energy Performance Contracts (EPCs) and revolving funds

WHERE IT FITS

Energy efficiency, street lighting, public buildings with measurable savings

WHAT IT SOLVES

Repays investment through savings and reinvests recovered funds

Caveat · Works less well with uncertain savings or fuel poverty

E · CITIZENS

Bring investment closer to the end user

On-bill financing and retail finance

WHERE IT FITS

Households, SMEs, homeowners' associations, distributed small-scale actions

WHAT IT SOLVES

Reduces payment friction and brings financing closer to end users

Caveat · Needs consumer protection; doesn't solve ability to pay on its own

Crowdfunding and energy communities

WHERE IT FITS

Community solar, shared self-consumption, neighbourhood facilities

WHAT IT SOLVES

Mobilises citizen savings, legitimacy and shared responsibility

Caveat · Limited scale against the overall investment gap

Figure 1 · Twelve instruments grouped by their function within the urban climate portfolio

Emissions, co-benefits and urban value

Every tonne of CO₂ avoided is **essential, but not enough**. Without inventories and metrics, neutrality loses traceability; but a city is much more than an emissions factory. The **MEL** framework (Monitoring, Evaluation and Learning) needs to capture how urban systems change, not just how much CO₂ is reduced.

Co-benefits can be **decisive in making the case for investment**. The WHO has estimated significant economic costs linked to air pollution in Europe, and the literature on urban green space shows links to health, wellbeing and ecosystem services. A project for urban shading or sustainable drainage gains strength when it factors in avoided damage, health and reduced vulnerability.

Measuring co-benefits helps prioritise better, strengthens the investment case and reinforces public legitimacy. Neutrality is more acceptable when it translates into:

Clean air

Thermal comfort

Health

Biodiversity

Flood resilience

Employment

Social cohesion

The challenge is **not to overstate** these benefits: some aren't monetisable, some can't be clearly attributed to a single intervention, and impacts aren't always distributed equitably. This is why measurement frameworks need to combine quantitative indicators, qualitative analysis and distributional assessment.

From political vision to a deliverable portfolio

Climate missions move between ambition and delivery. That ambition remains rhetoric if it isn't backed by capabilities, portfolios and instruments. The approach set out here avoids two shortcuts: **climate voluntarism** — trusting that ambition and EU funds will be enough — and **financial reductionism** — thinking only projects with direct income deserve priority.

Rather than accumulating projects, cities need to better organise the ones they already have,

prepare the ones that are missing, and turn them into **verifiable commitments**. The public sector has to justify wellbeing, equity and resilience; the private sector looks at risk, cash flow and guarantees; citizens want quality of life and trust. A mission moves forward when these logics translate into shared decisions.

This is where specialised teams such as **Naider** have a concrete role to play: public responsibility remains at the centre, and external support helps connect climate strategy, territorial governance, economic analysis, portfolio structuring and impact measurement. Neutrality will come from combining diverse instruments and funding sources within a single strategy: a way of working that brings together political direction, technical soundness, financial capability and social buy-in.

RECOMMENDATIONS

Six steps to move from vision to portfolio

1

Set up a transition team with sufficient mandate to break down silos.

2

Move from a list of actions to a **prioritised, sequenced portfolio**.

3

Estimate **CapEx, OpEx, risks, savings and co-benefits** for each project.

4

Identify funding gaps and **assign the right instrument** to each action.

5

Use the **Climate City Contract** as a platform for shared responsibility, not a formality.

6

Measure **co-benefits** — health, comfort, resilience, equity — alongside tonnes of CO₂.

Sources and further reading

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