



## **Concept paper:**

# **Developing a Financing Framework for Sustainable, Low Carbon Transport**

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There is growing international consensus on the need to reduce transport related GHG and make transport more sustainable in general. The debate now needs to shift towards the financing required to rapidly scale up the development and operation of sustainable, low carbon transport infrastructure and services. The challenge is not that we do not know what to do, but doing it fast enough. This to avoid that business as usual policies and investments result in a transport sector that has high locked in GHG emissions and which also in other respects (road safety, air pollution and congestion) is not sustainable. The development of a Financing Framework on Sustainable Transport is a key step in aligning different sources of transport funding and thereby also making it possible to arrive at a significant scaling up of funding for sustainable transport.

### **Financing challenges for sustainable, low carbon transport**

Within the financing challenge there are a number of key questions and issues that need to be addressed:

- What part of GHG emission reduction measure, or other sustainability measures in the transport sector, can be funded through passing on the costs to users? Considerable improvements in fuel economy or fuel quality improvements can be achieved with consumers picking up the tab for realizing such improvements. Likewise, the promulgation of new tire manufacturing standards that can result in fuel savings of up to 5% do not require any large investments on the side of governments. This also includes payments by beneficiaries, e.g. value capture resulting from improved transit, or the use of compulsory or voluntary business taxes with the aim to develop transit that supports the business sector. Certain taxes (Pigouvian) taxes or levies such as congestion price, carbon tax, parking tax that are directly related to transport activities by individuals are also part.
- How to re-direct public sector funding from supporting and enabling a car dominated infrastructure towards multi-modal transport infrastructure services which can reduce the modal share of car or truck based passenger and freight transport? At a societal level this does not require more funding, as demonstrated by the OECD, but it does call for changes in funding patterns. In many countries, cities are overly dependent on the national government for access to funding for transport infrastructure and services

and lack the mandate or capability to develop effective financing structures. It is unlikely that a project-based approach to funding of sustainable, low carbon transport will be able to deliver in time. A program based approach (see e.g. India, Mexico) in which national governments co-finance worthwhile city based initiatives has proven to be effective in scaling up the realization of sustainable transport. At the same time centralized funding arrangements as in the case of Germany have also proven to be successful in incentivizing local governments to take action on transport. At the macro economic level this also calls for a review of the deficit finance approach, which has been used in the distant past in the USA and more recently in China. Under this approach (the no-one pays approach) the future gains of transport development in terms of economic development (tax revenues) motivate national governments to make funding available.

- How to tap private sector as a more significant contributor to develop sustainable, low carbon transport infrastructure and services? There is agreement that public sector funding, even aided by Official Development Assistance (ODA) or Climate Financing will fall far short of what is necessary to put in place the sustainable, low carbon infrastructure and services to enable the eradication of poverty and the pursuit of sustainable prosperity called for in the new post 2015 agenda for sustainable development. There is a shortage of good instruments as well as bankable projects to tap the private sector at scale for sustainable transport. At the same time there is a lack of understanding and capacity within the sustainable transport community on how to best work with the private sector on realizing sustainable, low carbon transport. Bond financing is an area of growing interest to the transport community. This applies to traditional types of bonds, which in the past have been extensively used to fund the development of e.g. toll roads, ports and airports (but less so for sustainable transport infrastructure and services) as well as climate bonds and social impact bonds, which are a new interpretation of bonds specifically linked to the climate or social impacts of investments;
- How to better leverage both public and private funding sustainable transport through sustainable transport directed ODA (e.g. MDB \$ 175 billion)? While an impressive amount it is estimated by the MDBs that \$175 billion will cover at most 3-4% of required investments in sustainable transport in the coming decade. To improve the leverage of funding from both the private sector and institutional funders (e.g. pension and sovereign wealth funds) the public and private sector parts of MDBs will need to learn to work better together;
- How to make Climate Financing (e.g. Global Environment Facility, Clean Development Mechanism, Green Climate Fund) work better for the transport sector? The role of these funds, which are limited in size, should not be to directly fund the realization of low carbon transport infrastructure and services but rather to develop a pipeline of high quality programs and projects that can be taken up by the public and the private sector. Some have argued that even the \$175 billion pledged by the MDBs for more sustainable transport would be more effective if largely allocated to project development rather than project financing.

## **SLoCaT role in developing a Financing Framework for Sustainable Transport.**

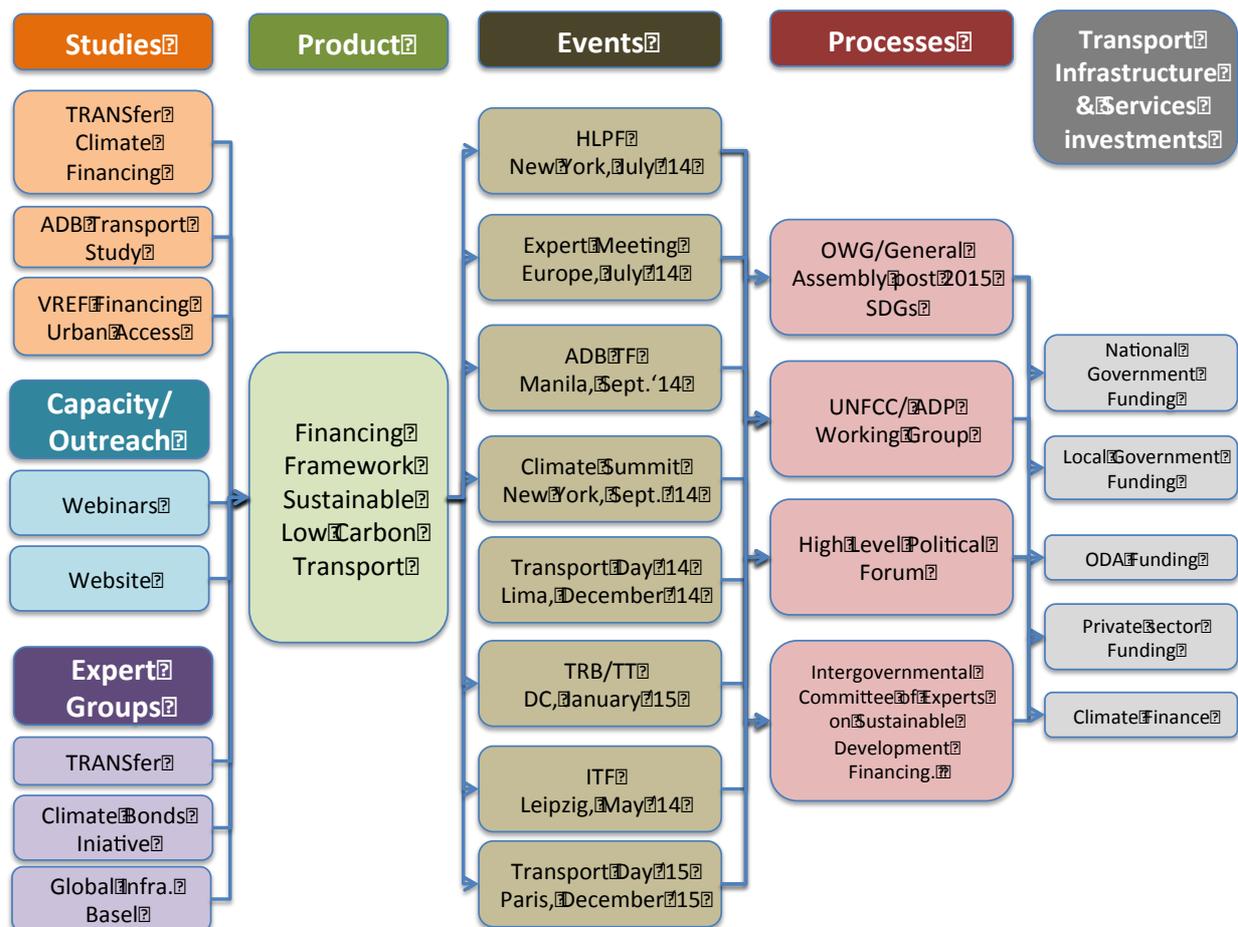
Following the success experience in developing the SLoCaT Results Framework on Sustainable Transport ([www.slocat.net/resultsframework](http://www.slocat.net/resultsframework)), SLoCaT aims to facilitate the development of a Financing Framework for Sustainable, Low Carbon Transport. As in the case of the Results Framework the development of such a Framework will build on and integrate existing and ongoing efforts rather than duplicating such efforts by new studies.

There is a growing number of SLoCaT members and other organizations that acknowledge the need to ensure that funding will be available to realize the agenda for sustainable, low carbon transport on which there is increasing consensus. This includes for example:

- The [TRANSfer project](#) of the German International Cooperation (GIZ) Program, which has a dedicated stream on financing;
- The Volvo Research and Education Foundations (VREF) [Initiative on Financing Urban Access](#); the [Climate Bonds Initiative](#) which has a dedicated low carbon transport working group that aims to increase access of transport sector to climate bonds;
- [Global Infrastructure Basel Foundation](#), that promotes sustainable infrastructure financing practices,
- The ITDP Program reviewing funding arrangements for Metro, LRT and BRT.
- The efforts of the Integrated Road Assessment Program (IRAP) to develop [social impact bonds](#) to fund Road Safety activities
- The efforts of the World Bank to promote the use of [PPPs](#) in the transport sector

A key role for SLoCaT will be to link up these different initiatives on financing of sustainable transport and to connect them with global policy discussions on sustainable development and climate change. SLoCaT will in this context continue to target the [Open Working Group](#) process developing recommendations on SDGs and the [Ad-hoc Working Group on the Durban Platform for Enhance Action](#) (ADP) of the UNFCCC developing a new post 2020 global climate change agreement. It will also increasingly focus on the [High Level Political Forum](#) that will be tasked with monitoring the implementation of “The Future We Want”, the outcome document of Rio+20 as well as the SDGs, once adopted by the UN General Assembly. Another important forum that should take up financing of sustainable, low carbon transport is [the Intergovernmental Committee of Experts on Sustainable Development Financing](#).

Figure 1 provides a conceptual framework for SLoCaT’s involvement in financing sustainable, low carbon transport for the period 2014 - 2015



**Figure 1: Framework for SLoCaT involvement in financing sustainable, low carbon transport in 2014-2015**

In order for the Framework to be effective in terms of impact it will be important that it:

- Combines climate change perspective and sustainable development perspective;
- Focuses on development of infrastructure and services as well as the operation and maintenance of such infrastructure and services;
- Integrates public and private sector financing;
- Defines the specific role of ODA as well as Climate Financing;

The proposed roles of the SLoCaT Partnership in the development of the Financing Framework on Sustainable, Low Carbon Transport are:

**a) Process Facilitation**

- Document key programs, projects and processes aimed at developing recommendations on sustainable, low carbon transport financing;
- Monitor international policy processes on sustainable development and climate change and their relevance for financing of sustainable, low carbon transport

**b) Coordinate development of the Financing Framework**

- Establish the detailed Terms of Reference for the Financing Framework;

- Fundraising to pull together team to draft Financing Framework in period July 2014 – December 2015;
  - Recruit and supervise consultant team to develop the Financing Framework on Sustainable Transport;
  - Integrate existing efforts (studies, expert groups, etc.) in the development of the Financing Framework;
  - Organize consultation process on ToR and drafts of the Financing Framework including periodic review by Steering Committee
- c) **Outreach on Financing Framework**
- Disseminate announcement of Financing Framework Process;
  - Develop outreach materials on the Financing Framework that can be used to promote the Financing Framework;
  - Promote the presentation and discussion of the draft Financing Framework at relevant international events;

### Proposed Process for the Development of a Financing Framework

The development of a Financing Framework is an iterative process. It is to be expected that after the initial development of the Financing Framework there will be a considerable need for consultation. It is to be anticipated that these consultations, facilitated by the SLoCaT partnership, will result in adjustments of the Financing Framework.

The following deliverables are planned:

1. A draft **Terms of Reference by 30<sup>th</sup> June 2014** for the consultants team, which will lay out the detailed tasks as well as the inter-linkages with existing initiatives on transport financing as well as the proposed consultation process.
2. An **Inception Report by 15<sup>th</sup> September 2014** setting out the results of the consultants' review of the current status of sustainable transport financing and a detailed plan of work for the remainder of the programme (to December 2015).
3. A **Progress Report by 25<sup>th</sup> November 2014**, containing an initial draft Framework that can be used in support of discussions at Transport Day 2014 (December 7<sup>th</sup> in Lima, Peru), COP 20 and Transforming Transportation in January 2015 in Washington DC, USA.
4. A **Progress Report by 15<sup>th</sup> May 2015** setting out progress to date including key achievements, a brief report on the outcomes of the Transport Day 2014 and Transforming Transportation 2015, and any changes to the workplan originally proposed in the inception report as a result of progress / changes between October and January.
5. A draft **Final Report by 30<sup>th</sup> August 2015** that can serve as input to the UN Summit on Sustainable Development Goals (September 21-23, 2015).
6. A **Final Report by November 1 2015** that can serve as input to Transport Day 2015 and COP 21 in Paris, France

The SLoCaT Partnership aims to make use of 2-3 consultants to develop the Financing Framework. These consultants can be engaged directly by the SLoCaT Foundation

(upon its establishment in July 2014)<sup>1</sup> or they can be engaged by organizations pledging their support to the development of the Financing Framework. The ToR's for all consultants will be closely linked and there will be joint reporting between all consultants.

The SLoCaT Partnership aims to develop a consortium of organizations that will pledge support to the development of the Financing Framework. This can include:(a) organizations who are committing resources on a project basis specifically for the development of the Financing Framework, and (b) organizations who agree that part of their contribution to the new SLoCaT Foundation will be utilized for the development of the Financing Framework on Sustainable Transport.

Taking into account the experiences in developing the Results Framework on Sustainable Transport a tentative budget of \$150,000 (equivalent to 10 person months + limited travel).<sup>2</sup>

It will be key that the Financing Framework will have broad support, not just in the transport community but especially in the wider sustainable development community. It is recommended therefore to have a Steering Committee for the development of the Financing Framework, which would include several non-transport persons. It is furthermore important to ensure that we have persons of sufficient seniority to ensure that they can help in bringing the Financing Framework to the attention of senior decision makers.<sup>3</sup>

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<sup>1</sup>Efforts are underway to establish a SLoCaT Foundation, whose objective will be to facilitate and support the SLoCaT Partnership.

<sup>2</sup>The budget for the development of the Results Framework was about \$60,000. A larger budget is proposed for the Financing Framework considering the greater need for background research and detailed consultations with other ongoing initiatives on transport financing.

<sup>3</sup>This could include for example David Nabarro, Secretary-General's Special Representative on Food Security; Amina Mohammed, Secretary-General's Special Adviser on Post-2015 Development Planning; or Brice Lalonde, Executive Coordinators for the 2012 United Nations Conference on Sustainable Development and now Special Advisor on Sustainable Development to the UN Global Compact