



— GLOBAL SUSTAINABLE —  
TRANSPORT CONFERENCE  
— ASHGABAT, 26-27 NOVEMBER 2016 —



### **Thematic discussion 9: Financing sustainable transport: Domestic resource mobilization, international cooperation and public-private partnerships**

Sunday, 27 November, 4:00 – 5:30 P.M.

Lead entity: Asian Development Bank

The foreseen population growth and related rising demand for transport will necessitate massive investment in new transport and infrastructure projects and the adequate maintenance of those already in place. Already today, transport investment needs are estimated to be between one and two trillion dollars per year. Of the current total annual investments worldwide, less than 40% is received by developing countries, where the needs, but also opportunities are the greatest.

Sustainable transport is defined as a transport system that is safe, accessible, efficient, and environment friendly. Globally, according to the International Energy Agency, transport CO<sub>2</sub> emissions are projected to increase 50% by 2030 and 80% by 2050, unless dramatic actions are taken. At present, transport is responsible for 23% of global energy-related greenhouse gas emissions as a result of global dependency on motorization. It will be impossible to address climate change without addressing challenges in the transport sector. Further efforts are needed to shift the current practice to more sustainable transport approaches by improving accessibility, safety and efficiency of movement of goods, people and services.

The International Energy Agency estimated that, under a business as usual scenario, the global expenditure on capital investment and, operation and maintenance costs for transport infrastructure (including new roads, upgrade of existing roads, bus rapid transit, high-speed rail, and parking space) would average US\$ 2.5-3 trillion annually between now to 2050, with requirements increasing over time (US\$ 1.1-1.3 billion for OECD countries and US\$ 1.3-1.6 billion for non-OECD countries). Other studies have put forward lower figures.

After this decade, the required amount of investments is bound to increase even further. Financing new types of transport infrastructure or channelling resources to various types of transport activities in proportions that differ from today's investment and expenditure mix will require adjustments of current financing models and practices.

Mobilizing finance for sustainable transport will be an enormous challenge, especially given the strain on public finances that exists in many countries. Previously, governments were the main investors in land transport, assisted only by development partners in some cases. Today, funding from these organizations can only cover a small portion of the financing gap, leading the international community to reach out to the private sector to invest in transport—whether through direct investments, public–private partnerships, or setting up special investment funds involving institutional investors like pension funds and sovereign wealth funds.

The development of appropriate funding frameworks will be a key step in aligning different sources of transport funding and financing and encouraging a significant scaling up of financing for sustainable transport.

The Addis Ababa Action Agenda on Financing for Development, adopted in 2015, elaborates on the many approaches that will be needed to implement the 2030 Agenda, including traditional official development assistance, domestic resource mobilization, and a wide array of partnership models. The same diversity of approaches will be needed to finance sustainable transport in the 21st century.

Domestic public resources. A large portion of transport infrastructure investments come from traditional government sources. Government decisions on funding should be made with both long and short-term perspectives and, linked to strategic transport plans. This may mean that planning authorities, including at the municipal level, need to receive technical and financial assistance to develop high-quality transport plans. A reflection needs to be had on the policies that national and local governments could adopt that would attract more revenues and free up public budgets to support investment in sustainable transport. This can include, among others: rationalizing inefficient fossil-fuel subsidies, as called for by SDG 12; expanding cost recovery through user charges; improving asset management of existing infrastructure; transferring commercial roles to the private sector; and prioritizing more cost-effective and sustainable transport modes and investments. In general, enhancing the social and environmental costs and benefits of transport may contribute to raising government revenues while at the same time supporting a shift to more sustainable transport patterns.

Tapping financial markets. A key issue is how can countries and cities attract more capital market financing for sustainable transport, for example in the form of national or municipal bonds. National governments will need to empower cities, by addressing current obstacles that prevent many of them from utilizing local tax revenues, borrowing money on their own, accessing funding from international organizations or raising resources from capital markets. Currently, only 4% of the 500 largest cities in developing countries are rated creditworthy by international financial markets. However, this is slowly changing. For example, recently, the city of Lima, Peru, worked with international banks to enhance its credit rating, which enabled it to issue bonds to invest in low-carbon mass transit. Efforts to enable the mobilization of resources from capital markets will have to be accompanied by a reflection on which types of sustainable transport are most suited to capital market financing, and on what accessing capital markets would require.

Direct private investment in sustainable transport and PPPs. The 2030 Agenda for Sustainable Development points to partnerships, including with the private sector, as one important means of implementing the SDGs. When defined broadly, any private investment in a public infrastructure project or initiative constitutes a public-private partnership (PPP). PPPs present the opportunity to leverage expertise, innovation, financial resources and policy mechanisms. However, they can pose also challenges since the interests of the different parties may not be fully aligned. Safeguards must be enacted to ensure that the principles of sustainable development are respected, that contracts are balanced, and that governments select and design projects appropriate for PPPs with care. Governments have a range of incentive-based tools at their disposal to encourage private investment. In order to encourage investment in the transport sector, risk must be held to an acceptable level, governance structures must be in place to create an enabling environment, including for open and transparent procurement and regulation of transport and mobility services. National governments can support and empower local level authorities to engage with private sector partners in a constructive manner. Key questions in this regard are: what types of transport investments does the private sector do best? How can such roles be expanded? What risks are involved in relying on private provision of transport and how can the public interest be safeguarded?

Role of international financial institutions including multilateral development banks. IFIs and MDBs have a vital role to play. Multilateral and bilateral financing institutions respond to demands from national and local governments for financing sustainable transport infrastructure, especially in countries with limited access to investment finance. They traditionally assisted countries in mobilizing finance for transport and in preparing quality, bankable transport investment. They also supported demonstration projects through innovative financing mechanisms. More recently, they have focused on providing latest knowledge and best practice as part of their financing and on scaling up financing by preparing larger projects for cofinancing. Looking

forward, as countries and cities continue to expand their technical and institutional capacity and their access to capital markets, what should be the focus of IFIs and MDBs support?

Climate funds. The total amount pledged in climate funds as of May 2016 was nearly US\$36.5 billion. The flow of new and additional climate finance is not yet materialising at the envisaged scale for transport sector. This is because the landscape for climate finance is complex, and climate funds tend to focus on energy projects rather than transport projects. However, it is worth noting that climate financing tends to prioritize sustainable transport projects such as: urban public transport, railways, non-motorized transport, vehicles using low carbon technology, cleaner fuels, etc. Governments need to understand the importance of creating bankable project pipeline that can be put forward for climate financing. These projects need to address not only GHG emissions reductions but also co-benefits, and not only short-term impacts but also longer time horizons. There are international funding mechanisms that support low-carbon and green transport projects, such as the Clean Technology Fund, the Green Climate Fund, the Global Environment Trust Fund and others.

Scaling up finance mobilization. Many international development financiers are seeking to leverage additional sources of financing to accompany the financing they provide. However, there are questions as to the extent to which additionality is really being achieved, or whether there is double-counting in some cases. Further reflection is needed on approaches and principles that can be considered for increasing leverage and additionality.

The session will discuss the challenges that countries and cities face in financing sustainable transport, and examine options for expanding financing from governments and local authorities, the private sector, the domestic capital markets and international development cooperation. Panellists will consider varying country settings for financing transport and identify a range of leading opportunities to increase financing in future.

#### **Possible questions for discussion:**

1. Domestic public resources: what policies can national and local governments adopt that would attract more revenues and free up public budgets to support investment in sustainable transport?
2. How can countries and cities attract more capital market financing for sustainable transport, for example in the form of national or municipal bonds? Which types of sustainable transport are most suited to capital market financing and what do the markets require?
3. Direct private investment in sustainable transport and PPPs: what types of transport investments does the private sector do best? How can such roles be expanded? What risks are involved in relying on private provision of transport and how can the public interest be safeguarded?
4. Looking forward, what should be the focus of the support that international financial institutions and multilateral development banks provide to countries in order to mobilizing finance for sustainable transport?
5. Many international development financiers are seeking to leverage additional sources of financing to accompany the financing they provide. To what extent is additionality really being achieved? What approaches and principles can be considered for increasing leverage and additionality?