ITF

Moving the World Forward

ITF PROPOSALS FOR FINANCING SUSTAINABLE TRANSPORT

INTERNATIONAL TRANSPORT WORKERS' FEDERATION

We need a new climate finance model for the transport sector in the Global South. Current investment levels are less than 3% of what is needed, and the current policy focus on de-risking private investment through 'blended' finance is not delivering. In light of the negotiations underway for a new global finance agreement, we need a specific approach for sustainable transport that includes integrated national master plans, national climate finance platforms, and respect for just transition principles that includes genuine consultation with transport workers.

This document has two parts. Part one analyses the landscape of climate finance for transport in the Global South. Part two outlines ITF proposals for a new model for financing sustainable transport.

In order to address the current negotiations over the new climate finance deal, the immediate focus of ITF proposals relates to the Global South. However, just as the outcome of the negotiations will shape the terms for climate finance generally, the ITF proposals are applicable to all countries in the Global South and the Global North.

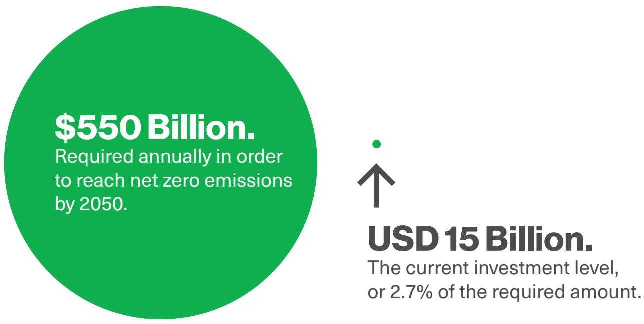
THE LANDSCAPE OF CLIMATE FINANCE FOR TRANSPORT IN THE GLOBAL SOUTH

Climate finance is now at the top of the climate change policy agenda, and for good reason. Under the 2015 Paris Agreement, developed countries in the Global North committed to assisting the Global South countries with their climate finance needs. This commitment recognised that as Global North countries bear historic responsibility for the majority of greenhouse gas emissions, the financial burden should not fall on the Global South.

There is widespread recognition that the need to mobilise climate finance for the Global South is urgent. At COP29 in November 2024, a new climate finance agreement will be agreed by all governments. This is likely to be the largest climate finance agreement in history. However, following the modest $100 billion climate finance goal pledged in 2009, the new agreement needs to be based on an accurate needs assessment of the real needs of Global South countries, and transport is one of the key sectors that requires attention.

The climate finance gap: focus on transport

Global South governments face a huge shortfall in sustainable transport investment. ITF-commissioned research shows that the transport sector in the Global South requires at least $550 billion annually until 2050 in order to reach net zero emissions by 2050. However, current investment levels are only USD 15 billion annually, or 2.7% of the required amount.[1]



1. John Burant (2024): Overview and Assessment of Financing Options for Financing Sustainable Transport Infrastructure and Services

The 2022 floods in Pakistan caused $4 billion in damage to rail infrastructure alone (photo Kohi Marri)

Although these figures are the most detailed estimates currently available, the shortfall is likely to be significantly higher. Firstly, these figures do not include proper assessments of financing workforce needs, including funding for workforce development, consultation processes, and redeployment where necessary. Secondly, these figures only address mitigation needs (i.e. reducing emissions). When adaptation needs are taken into account (e.g. ensuring sea ports are resilient to rising sea levels, or installing air conditioning on public transport), together with the financial costs of Loss & Damage following extreme weather events (e.g. reconstruction of rail infrastructure after flood damage), the climate finance gap will be significantly higher.

The current emphasis on de-risking private finance is not delivering

Many Global North governments and Multilateral Development Banks (MDBs) recognise the scale of the climate finance gap and the importance of addressing it. The primary focus of these institutions, however, is on mobilising climate finance from the private sector, specifically through 'blended finance' mechanisms where public funding 'de-risks' private sector investors.

The focus on blended finance starts from a recognition that the private sector is currently unwilling to invest in sustainable transport in the Global South, unless it receives a very high rate of return. In practice this means that private sector finance flows to the global south are at very low levels. ITF commissioned research estimates that out of $15 billion in annual flows to transport in the Global South, only $2 billion involves private sector finance – and the majority of this is finance flows within multi-national corporations.

De-risking involves committing public sector finance to a particular project, such as a grant or concessional loan, in order to lower the risk of default for private sector institutions. In theory this means that private sector investors will be willing to invest at lower interest rates.

There are a number of blended finance projects for the transport sector in the Global South either underway or in the pipeline. Two recent examples are development funding from the US government to the Indian government for a fleet of electric buses, and a new finance platform for electric vehicles in Africa that is being led by the World Bank in co-operation with a number of other public and private institutions.

However, there are several reasons why blended finance is a cause for concern.

01. Blended finance uses public money to underwrite private sector profits, leading to potentially unwarranted subsidies to the private sector.

02. Blended finance mechanisms lack transparency, and this is made worse by the increasingly fragmented nature of the blended finance landscape in transport, with a patchwork of blended finance projects currently being proposed.

03. Blended finance mechanisms lack clear accountability in terms of just transition principles and labour standards. As there is public funding involved, there must be clear oversight and implementation mechanisms for the just transition principles defined by the International Labour Organization (ILO).[3,4]

04. Blended finance mechanisms stand to increase the debt of Global South countries, in an environment when multiple countries already face debt distress.

05. There is no evidence that blended finance mechanisms are able to deliver significant increase in investment. As stated above, total private climate finance for transport in the Global South is only $2 billion annually, out of an identified need of $550 billion. ITF commissioned research identifies that blended finance is failing to address this shortfall. Blended finance flows for all sectors peaked in 2018 at $13.7 billion, falling to $5 billion in 2022.[5] Despite all the resources that the public sector has committed to blended finance, currently there is little evidence that it is able to deliver on its own terms. Therefore, we need a fundamentally different approach.

2. John Burant (2024): Overview and Assessment of Financing Options for Financing Sustainable Transport Infrastructure and Services
3. International Labour Organization (ILO) (2023) Resolution concerning a just transition towards environmentally sustainable economies and societies for all https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_886647.pdf
4. International Labour Organization (ILO) and LSE Grantham Research Institute on Climate Change and the Environment (2022) Just Transition Finance Tool for banking and investing activities https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_860182.pdf
5. John Burant (2024): Overview and Assessment of Financing Options for Financing Sustainable Transport Infrastructure and Services

ITF PROPOSALS

In order to set a new foundation for climate finance for the transport sector in the Global South, two related mechanisms are needed:

- **National Sustainable Transport Action Master Plans (STAMPs)**
- **National Climate Finance Platforms (CFPs)**

Sustainable Transport Action Master Plans (STAMPs)

All investment in sustainable transport needs to align with an integrated, long-term plan that is based on consultation with workers and relevant stakeholders.

An integrated approach for the transport sector is essential. Sustainable transport systems are complex. They require well thought out co-operation between different transport modes for both passenger and freight transport, as well as holistic infrastructure planning. Analysis of the national climate plans – known as Nationally Determined Contributions or NDCs – that all countries must submit to the UN shows there are major gaps in this area. According to the SLOCAT partnership, only 40% of (NDCs) include targets for transport,[6] while ITF analysis shows that only 12% include a commitment to a just transition for workers.

The integrated approach is vital to avoid piecemeal solutions that could undermine overall mitigation and adaptation goals. For example, there is currently a lot of attention on financing electric vehicles. However, in some local instances expanding bus services powered by internal combustion engines may make a greater contribution to reducing emissions. Furthermore, any plan for electric vehicles must make provisions for charging infrastructure and upstream production of renewable electricity.

STAMPs can also clearly articulate the benefits of investing in sustainable transport systems now, and the additional costs that will be incurred if there are further delays, thus bringing greater urgency to the overall funding question.

Sustainable transport planning must draw on the knowledge and perspectives of the workforce and stakeholders such as passengers. Workers have important knowledge and expertise about how to make

6. SLOCAT (2022) Climate Strategies for Transport: An Analysis of Nationally Determined Contributions and Long-Term Strategies https://slocat.net/wp-content/uploads/2022/01/Climate-Strategies-for-Transport_20221109-Final.pdf

Trade unions in the Philippines have campaigned for a say over how electric minibuses are introduced. (Photo: NCTU)

transport services most effective, and also what adaptation measures will be required for the workforce, passengers, and infrastructure.

Therefore STAMPs must be developed through a comprehensive approach to stakeholder consultation that includes both tripartite social dialogue between workers, employers, and governments, and consultation with relevant civil society groups such as passengers and the local communities who are directly impacted by transport infrastructure and services. Consultation should include a specific focus on the perspectives of women, youth, and indigenous groups.

Key elements to be included:

- A national plan to make transport sustainable in line with the 1.5 temperature goal, including both mitigation and adaptation measures;
- Specific plans for urban transport, to be agreed with relevant Local Government structures;
- An integrated plan for all transport modes covering passenger and freight transport, identifying the necessary areas of multi-modal co-operation and where modal shifts are necessary in line with the Reduce, Shift, Improve framework;
- Just transition principles in line with the 2023 ILO Resolution on Just Transition,[7] and the 2022 ILO Just Transition Finance Tool[8] including;
  - Social dialogue that involves meaningful tripartite consultation at all stages of the planning process both with trade unions representing formally employed workers as well as informal workers' organisations, ensuring that the perspectives of women workers and young workers are included;
  - A commitment to labour impact assessments for specific projects;
  - A commitment to uphold labour rights including freedom of association and the right to collective bargaining;
  - Consultation with civil society groups, including passengers and local communities;
  - A specific focus on the perspectives of women, youth, and indigenous groups.
- The identification and inclusion of specific costs relating to just transition, including costs relating to social dialogue, workforce training and skill development, and workforce retraining and deployment where necessary.

NB. For further information on just transition principles in climate finance, see the Trade Union NGOs (TUNGO) submission under the New Collective Quantified Goal[9].

7. International Labour Organization (ILO) (2023) Resolution concerning a just transition towards environmentally sustainable economies and societies for all https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_886647.pdf
8. International Labour Organization (ILO) and LSE Grantham Research Institute on Climate Change and the Environment (2022) Just Transition Finance Tool for banking and investing activities https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_860182.pdf
9. Trade Union NGOs (TUNGO) (2023) Submission: Seventh technical expert dialogue under the ad-hoc work programme on the new collective quantified goal on climate finance https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202309041718---TUNGO%20Submission%20TED7.pdf

Minibuses in Abidjan, Cote d'Ivoire, where the ITF conducted a Labour Impact Assessment of the impact of Bus Rapid Transit systems.

National climate finance platforms (CFPs)

In order to fund STAMPs, governments should set up national climate finance platforms (CFPs). CFPs will have three main purposes:

- Provide a funding mechanism for all sustainable transport projects in STAMPs;
- Ensure that all projects on sustainable transport, and therefore all climate finance for transport, aligns with the integrated plans outlined in STAMPs;
- Ensure that all sustainable transport projects and corresponding climate finance flows align with the just transition principles outlined in STAMPs, including social dialogue, labour rights, and broader stakeholder consultation.

Sources of funding

CFPs are necessary to address both the weaknesses of the blended finance model and the very low levels of climate finance currently being mobilised through blended finance mechanisms.

In effect, the need to establish CFPs recognises that a much greater role for both public sector planning and public funding is necessary to accelerate sustainable transport funding.

Grants
Supporting the development of STAMPs should be the first priority of grants as the crucial foundation for all climate finance flows in the transport sector.

STAMPs should also identify the highest priorities for grant funding, for example expanding public transport infrastructure, noting that this will differ according to specific national and local priorities.

Domestic finance
Domestic finance can also be a funding source for CFPs. An important funding source that all governments should explore is the use of central bank financing. CFPs should also ensure that domestic private financing flows align with STAMPs.

Concessional finance
Due to the limited amount of grant finance, it is likely that CFPs will need to make use of concessional finance. The main goal is that CFPs provide national and local governments access to finance that does not involve punitive interest rates. CFPs should ensure that national and local governments should be able to borrow at a similar rate to Global North governments, utilising mechanisms such as green bonds if suitable.

Here is important to recognise the foundational role that CFPs can have for mobilising investment in sustainable transport at scale. For Global North governments and Multi-lateral Development Banks (MDBs), and climate funds such as the Green Climate Fund, it will be much more effective to support CFPs by expanding the base of concessional loans to support STAMPs, rather than the current approach which involves putting considerable resources into blended finance projects.

The MDB system is currently the primary mechanism for mobilising concessional loans. Whereas any expansion of concessional lending through the MDB system should align with STAMPs, it must ensure that no additional conditionalities are imposed, and that safeguards for just transition principles and labour standards are respected.

Blended finance
Where blended finance mechanisms are used, they should meet the following conditions:

- Articulate a clear rationale about why a blended finance approach is being pursued, including an assessment of the financial benefits to all stakeholder groups;
- A transparency framework with clear oversight of all the actors involved, the degree of influence on decision making that each actor has, and the financial benefits that benefits accrue to each actor;
- Alignment with just transition principles and labour standards, as outlined in the 2023 ILO Resolution on Just Transition, and the ILO Just Transition Finance Tool, including specific commitments to social dialogue and upholding labour rights at the feasibility stage (including labour impact assessments), implementation and evaluation stages.

Oversight and assessment
CFPs must include a robust framework to monitor progress and effectiveness in multiple areas. Appropriate metrics must be set to assess the impact of projects financed through CFPs on mitigation and adaptation goals, as well as the implementation of just transition principles. The relative merits of different sources of finance, as well as the overall progress of CFPs in raising the quantity of funding identified by STAMPs, should also be assessed on an ongoing basis. To achieve this, CFPs must set up an appropriate oversight body includes representation from both workers and relevant stakeholder groups.

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