



Report on 2nd Expert Group Meeting on “Climate Finance for Sustainable Transport”

Parallel Event to COP 20

Lima, December 6th 2014

giz Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH

On behalf of:



Federal Ministry
for the Environment, Nature Conservation,
Building and Nuclear Safety

of the Federal Republic of Germany

Background Information on the TRANSfer Project

The TRANSfer project is run by GIZ and funded by the International Climate Initiative of the German Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB). Its objective is to support developing countries to develop and implement climate change mitigation strategies in the transport sector as „Nationally Appropriate Mitigation Actions“ (NAMAs).

For more information see: <http://www.transferproject.org>

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1 Aim and background of the workshop

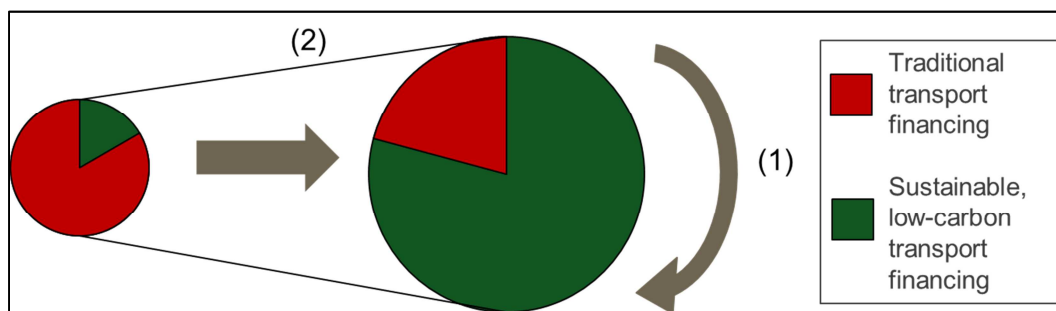
1.1 Background

This report documents the proceedings of a workshop held in Lima, Peru on 6 December, 2014¹. This workshop was held under the auspices of the German Agency for International Cooperation, the *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ), as part of the **Towards Climate-Friendly Transport Technologies and Measures (TRANSfer)** project. TRANSfer is a project of GIZ funded by the International Climate Initiative of the German Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB). The objective of the TRANSfer project is to support developing countries develop and implement climate change mitigation strategies in the transport sector in the form of **Nationally Appropriate Mitigation Actions (NAMAs)**.

As part of its Workstream 2, the TRANSfer project has created an interdisciplinary Expert Group composed initially of around 15 experts drawn from the fields of sustainable transport, climate finance, and transport finance. The overall objective of the Expert Group process is to ensure that climate finance is increasingly used to accelerate the scaling up of sustainable transport in an effective way to realize the large greenhouse gas (GHG) emission reduction potential in the sector. The TRANSfer project targets actors in both the transport and climate finance arenas and aims to realize its overall objective by:

- a. **Improving the understanding of transport finance** (along different types of sustainable transport measures/mitigation actions) of both sustainable and unsustainable forms of transport in order to derive recommendations how climate finance can be used most effectively;
- b. **Identifying the entry points for climate finance that may trigger a shift** of unsustainable transport investments to sustainable transport and thus helping to **upscale mitigation efforts** by leveraging public and private investments;
- c. **Identifying and making use of ways to address climate finance experts and institutions** and the transport community and disseminating the outputs of (a) and (b).

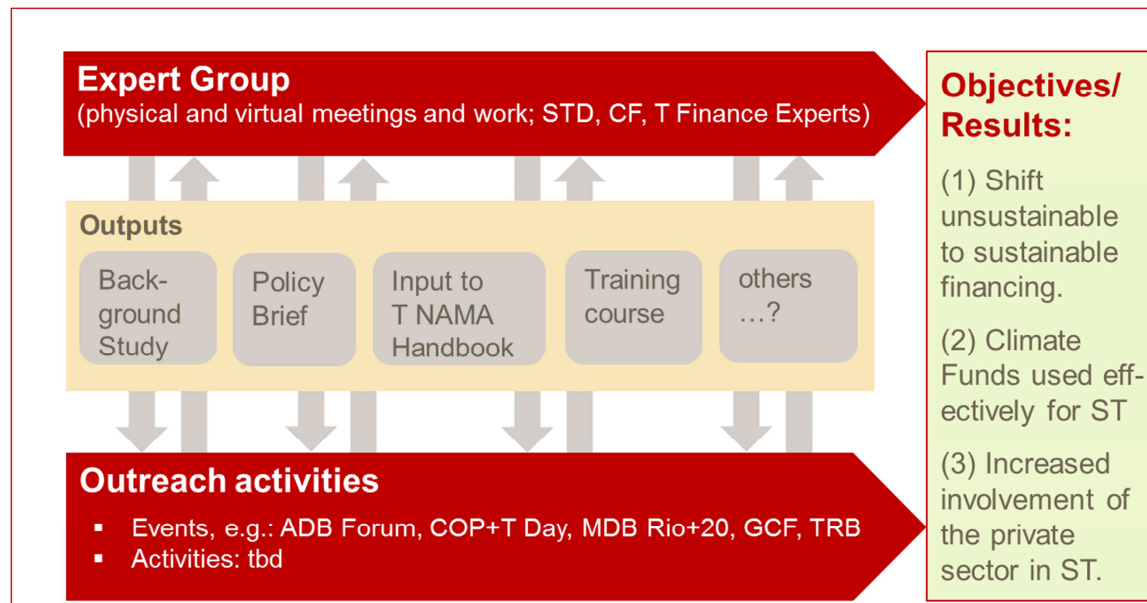
The **key questions** for this Expert Group are how to use climate finance to **shift** traditional transport financing to low-emission, sustainable transport and how to mobilize **additional** financing including from the private sector for low-emission, sustainable transport.



It is expected that the Expert Group will be active from July 2014 for a period of approximately 1,5 to 2 years, after its inaugural meeting in Manila in September 2014. The expert group carries out substantive

¹ For report of the first meeting of the Expert Group in Manila, Philippines see: <http://transport-namas.org/wp-content/uploads/2014/09/TRANSfer-Manila-Workshop-Report.pdf>

analysis of the use on climate finance for scaling up sustainable transport. It also makes recommendations on outreach activities on the better use of climate finance for promoting sustainable, low carbon transport. Please find more information on the group at: <http://transport-namas.org/expertgroup/expert-group-on-climate-finance-for-sustainable-transport/>



1.2 Objectives of the workshop

The Expert Workshop held in Lima, Peru on 6 December 2014 was the second formal meeting of the interdisciplinary Expert Group. For a list of the participants in the meeting see Annex 1. The Lima meeting was an important milestone with respect to providing input on using climate finance for sustainable transport on the road to COP 21 in December 2015 in Paris, France and towards a clearer definition of the group and its focus of work in 2015.

The **objectives of the workshop** were to:

- review activities carried out under the auspices of the Expert Group since the inaugural meeting in Manila, Philippines in September 2014;
- discuss next steps for the Expert Group in 2015.

The review of past and ongoing activities focused on discussing two reports that were prepared on the road to Lima. This included:

- “Shaping the role of climate finance for sustainable transport”, which on the basis of a number of case studies makes recommendations on how Climate Finance can function as a lever for realizing low carbon transport.
- “Policy Brief: Scaling-up Sustainable, Low-Carbon Transport – overcoming funding and financing challenges, and the role of climate finance”, a document targeted at decision makers on transport and climate finance, which provides initial recommendations on transport and climate finance and on how climate finance can accelerate the realization of sustainable, low-carbon transport.²

² <http://transport-namas.org/wp-content/uploads/2014/12/Draft-Policy-Brief-for-COP20-Dissemination.pdf>

2 Workshop structure and outcomes

The workshop kicked off with an introduction by the participants in which they were also asked to state their expectations from the workshop. There was a broad consensus among the participants on the need for transformative or “out-of-the-box” thinking on the possible role of climate finance in promoting low carbon transport. This very much echoed similar sentiments expressed by the participants in the inaugural Manila meeting of the Expert Group. André Eckermann (GIZ) and Cornie Huizenga (SLoCaT) in their welcome words emphasized the need to think ahead and to come up with meaningful activities for the expert group in 2015.

2.1 Reflections on the Expert Group after the first months of work

André Eckermann (GIZ) gave a short overview of the rationale for the expert group and its activities so far in 2014. He emphasized the need for a broad composition of the group that includes experts from both the transport and the finance community. He explained that while good participation had been secured from the transport community that there was a need to strengthen involvement from experts on transport financing. The expert group has taken an open approach, which allows for participation by both members and non-members of the expert group in its meetings. Apart from the occasional in-person meetings, the expert group depends on teleconferences and discussions by email to conduct its business. This has presented certain challenges but overall it has been possible for the group to make progress.

2.2 Conclusions of the background study (case study analysis)

Adnan Rahman, Cambridge Systematics presented an update³ on the study “Shaping the role of climate finance for sustainable transport – what are the levers and how to make them work”, including initial detailed results and recommendations based on the analysis of six case studies selected by the group:

Project	Country	Status ¹	Description	Size
Lanzhou Sustainable Urban Transport Project (ADB, GoL, BoL)	China	C	BRT, NMT, Road network renewal, traffic management	\$480 M
National Public Transport Program –Colombia (WB, IDB, CTF, GoC, City Governments)	Colombia	O	Capacity building, BRT, Road Renewal	USD 1 B (since 2004)
Mitigation of Climate Change through -- E-Trikes (ADB, CTF, GoP)	Philippines	O	Increased Energy Efficiency and the Use of Clean Energy, electrification of trike fleet	USD 500M
Guangdong Green Trucks Project (GEF, Guangdong Provincial Govt., Private sector)	China	O	Demonstration of 6 emission reducing technologies	USD 14 M
EcoParq On-street Parking Management Project (Private sector, numerous local city departments)	Mexico		Formalisation of parking sector as TDM	USD 9 +4.5 M
Efficiency labeling & Fuel Economy Standards (GEF, FIA Foundation, IEA, UNEP, GoChile)	Chile	PC	Labeling and fuel standards	USD 3.2 M

1) C = Completed; O = On-going; P = Partly Completed

³ For a copy of the presentation see: <http://transport-namas.org/2nd-climate-finance-expert-group-meeting/>

The overarching conclusions on the use of climate finance in the case studies analysed presented by Adnan Rahman included:

Infrastructure:

- Subsidies are not a sustainable form of financing. Attractive loan terms help stimulate development of sustainable low-carbon options.
- Fare-box collections cannot fully cover operating and O&M costs, alternatives like land value capture need to be considered.
- A well developed policy framework is essential for developing and implementing sustainable transport projects.
- Co-benefits (safety, mobility) of low-carbon transport projects should be considered in cost-benefit analysis of projects.
- Local capacity and expertise for detailed planning is often lacking thereby hampering development of bankable projects.
- MRV requirements of CDM make it unattractive.

Technology:

- Innovative financing can stimulate and accelerate the adoption of emission reducing technology.
- Communication about the benefits of technology adoption is an important element in the widespread diffusion of a technology.
- Policy frameworks need to support (not inhibit) the adoption of low-carbon technologies.

Policy:

- Policies can be an effective, low cost ways to realise the goal of reducing harmful emissions.
- Grants and/or technical assistance are needed to support policy development, adoption, and implementation as well as to encourage adoption of sustainable transport policies.
- Enforcement mechanisms are critical to the success of policy projects.

It was suggested that Climate Finance, because of its scarcity, should not be used for the actual implementation of transport projects but rather to build capacity and provide technical assistance; build enabling policy environments; remove barriers to investment (by private sector); catalyse investment; and facilitate and finance demonstration or pilot projects.

The presentation concluded with recommendations on increasing capital available for investing in sustainable transport through increasing the role for private investors, innovative financing schemes and attracting institutional investors.

The participants strongly welcomed the case-study approach to the background study and expressed strong interest in getting copies of the actual case studies. At the same time, participants pointed out that the conclusions presented in the document and the final power point summary presentation should be far more specific than the slides used in the workshop to properly reflect all the research and thinking that behind the report.

In the ensuing discussion participants raised a number of comments and questions, which were considered to be important for the further 2015 activities of the expert group:

- How to define; measure what is climate finance in sustainable transport measures?⁴
- Land value capture is an important funding source; should it be captured when preparing or implementing a measure?
- Are all subsidies bad? In what circumstances can subsidies be justified? If yes, what type of subsidies?
- How can cost-benefit assessment be restructured to accommodate co-benefits of sustainable transport measures? Can this increase the commercial appeal?
- To what extent do the recommendations to use climate finance to build capacity and enabling environment run counter to the business model of donors, who often use climate finance to fund part of implementation costs? This becomes a more urgent question if the same recommendations would be given on the use of Official Development Assistance.
- Why do institutional investors not like to invest in sustainable transport (compared to e.g. sustainable energy)?
- Is it possible to attract institutional investors through aggregation of (smaller) projects, standardization of projects, use of different types of bond financing?
- Can sustainable transport measures be bundled to make them more attractive to private sector funders?
- Does climate finance give equal emphasis to ‘hard’ and ‘soft’ technologies?
- Is it possible to bring down interest rates for sustainable transport projects the use of risk guarantees?
- It is often said that capacity for private sector investment needs to be built? Whose capacity is that exactly, and in what?
- Is it really possible to distinguish climate finance for transport from general financing of sustainable transport? Are we making an artificial distinction?

2.3 Conclusions of the "Policy Brief: Scaling-up Sustainable, Low-Carbon Transport"

Cornie Huizenga, SloCaT Partnership presented the draft ‘Policy Brief: Scaling-up Sustainable, Low-Carbon Transport – overcoming funding and financing challenges, and the role of climate finance’⁵. The intention of this document is to provide decision makers with recommendations on the better use of climate finance for the scaling up of funding and financing of sustainable, low carbon transport. The draft Policy Brief of which the Executive Summary⁶ was presented and distributed to COP 20 participants was developed by Phil Sayeg, Laura Würtenberger and Cornie Huizenga, based on inputs from members of the Expert Group.

⁴ Measure is used as a “meta term” that covers policies, programs and projects (such as in the policy brief and the TRANSfer t-NAMA handbook)

⁵ See for the presentation: <http://transport-namas.org/2nd-climate-finance-expert-group-meeting/>

⁶ See <http://transport-namas.org/wp-content/uploads/2014/12/Policy-Brief-Executive-Summary.pdf>

The presentation concluded that as developing sustainable, low-carbon transport infrastructure and services will require trillions of dollars decision makers should:

- Increase the availability of public funding & prioritize available domestic funding.
- Accelerate private sector investment by sending the right price signals, creating clear revenue models and financing modalities.
- Create clear and predictable investment frameworks by ensuring integrity; strengthening development of competitive, stable domestic banking systems; empowering sub-national government creditworthiness.
- Harmonize planning approaches, tools, methods and implementation procedures using A-S-I, appropriate MRV, and safeguards, 'business case' etc.

Specific recommendations with respect to the use of climate finance included:

Eligibility:

- Create a Transport Window under International Climate Finance.
- Develop a White List (Positive List) of transport measures that can access International Climate Finance.
- Prioritize and reward the use of programmatic approaches over project-by-project approaches.
- Adopt eligibility criteria that match the transport sector.

Readiness:

- Use international climate finance strategically to raise awareness and build capacity for neglected sub-sectors e.g. freight transport.
- Demonstrate, using international climate finance, how to engage the private sector in sustainable transport, including use of Climate Bonds.
- Allocate a greater share to institutional 'readiness' with the aim to build up a well-prepared, and viable, program and project pipeline.
- Better align ODA with the use of international climate finance.

Measurement, Reporting and Verification:

- Establish credible but appropriate MRV requirements.

As in the case of the presentation of the case study results participants were asked to identify priority issues relevant to the completion of the Policy Brief as well as the 2015 work program of the Expert Group. This resulted in the following:

- Engage in an earlier (upstream) phase with donors & recipients of climate financing from GCF and other sources on the use of climate finance.
- A share of environmentally sustainable transport is tagged as climate finance, while other parts are

not.

- There is a clear role for non-commercial finance in promoting sustainable, low carbon transport.
- There is scope for interaction between the MRV and the Finance Expert groups of the TRANSfer project.
- If we want to be successful in scaling up funding for low carbon transport it will be good to link up with Low Emission Development (LED) network as well as other sector and climate finance initiatives.
- If we propose a transport window under Green Climate Fund, it would be good to know what the experience is with other sector windows under either GCF or other climate funds.
- It would be worthwhile for the expert group to engage in more comparative analysis of energy sector.
- More direct outreach to GCF is desirable.
- To what extent is climate finance currently already being used for capacity building, developing enabling environments and technical assistance?
- What do we know about the costs of reducing GHG per mode?
- How can financing be used to ensure that we have less unsustainable transport (de-investing in unsustainable transport)?

3 Way forward for the Expert Group

The participants were asked to consider the comments and issues raised in connection with the case study report and the policy brief and to divide these in two categories: those that related mostly to substantive issues and those that related more to outreach activities. The participants then discussed in two small groups how the Expert group could address these ‘substantive’ and ‘outreach’ issues in the best manner in its 2015 work program. They were asked to classify the issues in ‘must do’, ‘maybe do’ and ‘don’t do’ activities for 2015. At the same time participants were also requested to comment on what the role of the Expert Group could be for the prioritized activities.

3.1 Way forward on “Substantive issues / Internal work”

Must Do’s 2015 Work Program

- Develop a **Mission Statement for the Expert Group**. There is a growing consensus that the mission of the Expert group should not be limited to climate finance but will have to include general funding and financing of sustainable, low carbon transport. It will be important though to flag the specific role of climate finance. Such a Mission Statement can be developed by members of the expert group.
- Describe **financing / business models for upscaling selected sustainable, low carbon transport measures**. As part of this, it would be good to take a closer look at comparative analysis for the energy sector as well as possible other sectors. At the same time it will be important to look at how financing can be used to discourage unsustainable transport. The role of the expert group would be to collect examples and case studies, raise funding for additional analysis, and collate case studies where non-climate finance and climate finance were bundled in an effective manner to upscale sustainable transport.
- **Co-benefits and their valuation and subsequent integration in cost-benefit analysis** is another must do topic for the expert group. It will be important for the expert group, after such analysis has been done to reach out to relevant stakeholders (e.g. GCF) to promote the uptake of such new approaches.
- **Bundling of (smaller) projects** is a promising area to be taken up by the expert group.
- Additional **stakeholder vetting of the results of the background study and the policy brief**, particularly its recommendations, should be part of the finalization of these two documents. Group members and further stakeholders should be considered.

Maybe Do’s

- Analyze current transport spending between OECD or non-OECD countries.

Don’t Do’s

- Pursue the use of Land Value Capturing as a financing instrument. This is important but not a priority for the group in 2015.

3.2 Way forward on “Outreach / External engagement”

A general message from the breakout group discussing the outreach component of the 2015 work program of the expert group was the need to increase the visibility of the expert group. This is quite low at present. Raising the visibility will require resources.

Must Do's 2015 Work Program

- The first step would be to define an **outreach strategy for the expert group**, which would be used to communicate the mission of the expert group as well as key messages on its activities to a well defined group of organizations. Such an outreach strategy would also have to define the desired outcomes and impacts of increased outreach activities by the expert group.
- It is suggested that we should **grow a group of about 50-100 insider advocates** that the expert group could rely on to take on board messages on (climate) finance for sustainable transport and who would be in a position to bridge the gap from messages to implementation. It would be important for the expert group to have mini-profiles for this group of people.
- The expert group should **engage more pro-actively with other initiatives**. This would require a mapping and prioritization of initiatives as part of the development of the outreach strategy. This can be done through the Secretariat of the Expert Group (GIZ, SloCaT) as well as through members of the Expert Group.
- The Green Climate Fund is a strong potential ally for the transport community and the expert group needs to develop an **engagement model with the GCF**.
- Visibility of the Expert Group and its key messages can be increased if the Expert Group is associated with **key events/meetings on transport**. This can also mean that the Expert Group acts as co-organizer of events.
- To organize **meeting (with public/private actors) in Paris together with Ministry of Economy of France** (which will have COP 21 Presidency).
- Develop **‘hero’ case studies** and package these in attractive formats.

Maybe Do's

- Conduct **media outreach** to create extensive awareness on sustainable, low carbon transport and associated financing mechanisms. Media outreach is important, but probably outside the resources of the Expert Group.

The break-out group looked in some detail at the **possible target groups** of outreach activities. There was an agreement that the Expert Group should go beyond identifying general categories and instead come up with **specific organizations and persons** within e.g. Compact of Mayors; C40; ICLEI; UCLG; CCFL Alliance; Donors; Climate Funds; Government Departments; Institutional Investors; etc.

3.3 General findings and recommendations

To illustrate the recommendations developed by the expert group, it will be important to **build up a repository of innovative ideas and practices**. This can include cases that came up in the Lima meeting from Vietnam on the funding of clean vehicles, or Sri Lanka where import duties for diesel and petrol vehicles are been used to aggressively promote the introduction of hybrid vehicles.

The Lima meeting also confirmed the need to take a second look at the **name and scope of the expert group**. Increasingly, the discussions in the expert group confirm that it is not feasible (or desirable) to have a narrow, exclusive focus on climate finance for sustainable, low carbon transport. Those that would be working on the Mission Statement of the Expert Group can best address such a widening of the scope of the expert group. As mentioned earlier, a widening of the scope of the Expert Group (and ensuing name change of the Expert Group) should not mean that the focus on climate finance for sustainable transport is abandoned altogether.

4 Next steps

4.1 Finalizing the background study

It is anticipated that the Background Study by Cambridge Systematics will be finalized by early January in time for final presentation and discussion in the proposed conference call of the Expert Group on 19th January 2015. The final outcomes and recommendations of the background study will be an input in the detailed work program for the expert group in 2015.

4.2 Finalizing the Policy Brief

The draft Policy Brief has been circulated as an earlier draft to the members of the Expert Group. It is suggested that it is circulated one more time and that comments are submitted in writing by the end of January 2015 so that the document, as well as the Executive Summary can be finalized and be used in a more pro-active manner in outreach activities of the Expert Group. The final outcomes and recommendations of the Policy Brief will be an input in the detailed work program for the expert group in 2015.

4.3 Elements for the Expert Group's 2015 work-plan

The following steps are proposed in the development of the 2015 work-plan for the expert group:

- Circulate the results of the Lima meeting to the entire expert group;
- Have a teleconference with the expert group (tentatively planned for 19th January), to agree on possible widening scope and mission of the expert group;
- Prepare draft work-plan for adoption by GIZ TRANSfer (and SLoCaT Partnership) by mid-February 2015.

There is agreement that it is important to have additional in-person meetings of the Expert Group. This could be done by making the Expert Group a co-organizer of the Round Table on Funding and Financing of Sustainable Transport, which is tentatively planned by SLoCaT and EBRD for March 25th in London.

Another possibility is to have a dedicated event during the International Transport Forum (ITF) in Leipzig (May 27th – 29th).

A final possibility could be workshop on Private Sector Finance and Sustainable Transport, which is currently being discussed by the SLoCaT Partnership and the Adenauer Foundation for Summer 2015 in Shanghai, China.

Annexes

Annex 1 - List of participants

Name	Organisation
Heather Allen	TRL
Geraldine Ang	OECD
Jan Corfee-Morlot	OECD
André Eckermann	GIZ
Bernard Ensink	European Cyclists' Federation
Antoine Feral	Michelin
Cornie Huizenga	Facilitator of the workshop and Secretary General of SLOCAT Partnership
Sean Kidney	Climate Bonds Initiative
Jorge Kogan	CAF
Benoit Lefevre	WRI/Embarq
Adnan Rahman	Cambridge Systematics
Michael Replogle	Institute for Transport and Development Policy
Xiaomei Tan	GEF

Annex 2 - Workshop program

Time	Activity	Speaker
08.30	Arrival and Coffee	
09.00	Welcome and Introduction to the Expert Group	Andre Eckermann (GIZ)
09.15	Objectives and Introduction of the Program	Cornie Huizenga (Facilitator)
09.30	Self-introduction of participants	All
09.45	How can climate finance work for sustainable transport: Review and discussion of first outputs of the Expert Group (1) Input presentations: <ul style="list-style-type: none"> <u>Results of the study</u>: “Shaping the role of climate finance for sustainable transport – What are the levers and how to make them work?” + Clarifying Questions and Answers (40 minutes) <u>Policy Brief</u>: “Role of Climate Finance in Scaling-up of Funding for Sustainable, Low-Carbon Transport” + Clarifying Questions and Answers (40 minutes) 	Adnan Rahman (Cambridge Systematics) Cornie Huizenga (SLoCaT Partnership)
11:00	Coffee Break	
11:15	(2) Discussion on completion of Background Study and Policy Brief <ul style="list-style-type: none"> Key messages and conclusions of Background Study & Policy Brief Role of Expert Group in completing Background Study & Policy Brief How to best conduct outreach on these two outputs Prioritizing elements or messages from these two outputs for more in-depth follow-up work in 2015 	Cornie Huizenga (Facilitator)
12.00	Way forward: future activities of the Expert Group <ul style="list-style-type: none"> Brainstorming in two groups on: (a) substantive 2015 activities for Expert Group, also taking into account morning discussion; and (b) outreach activities on Climate Finance and Transport, including key policy processes and events to target. Discussion on Expert Group composition and functioning 	All
13.15	Wrap up and closing	Facilitator and All
13.30	Lunch	

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