Financing Just Energy Transitions in Transport:

Barriers and Challenges

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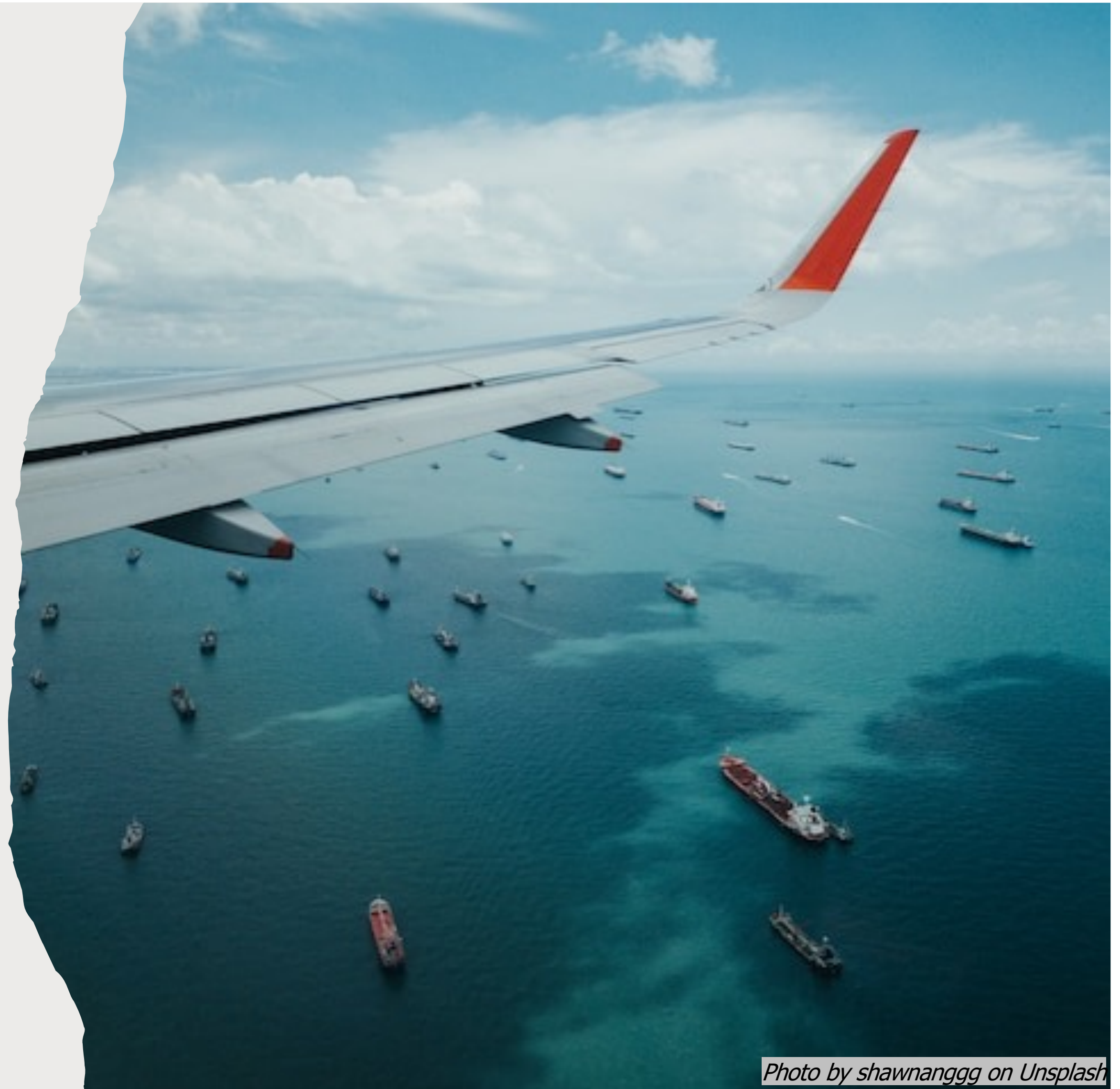
JUST ENERGY TRANSITION IN TRANSPORT

- Transport is central for sustainable development and poverty reduction
- Transport accounts for 20 percent of global GHG emissions and could rise to 60 percent by 2050
- Transport for goods, resources and people remain highly dependent on fossil fuels
- Decarbonisation and energy transition to shift the infrastructure of transport – passenger and freight – will have social and economic impacts and attainment of the Sustainable Development Goals (SDGs)
- Just energy transition in the transport sector is necessary to ensure that efforts to scale up mitigation in the transport sector addresses social and economic dislocations and increases adaptative capacities of countries and communities to this transition



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COST OF TRANSITION

Cost of financing transport projects and programmes

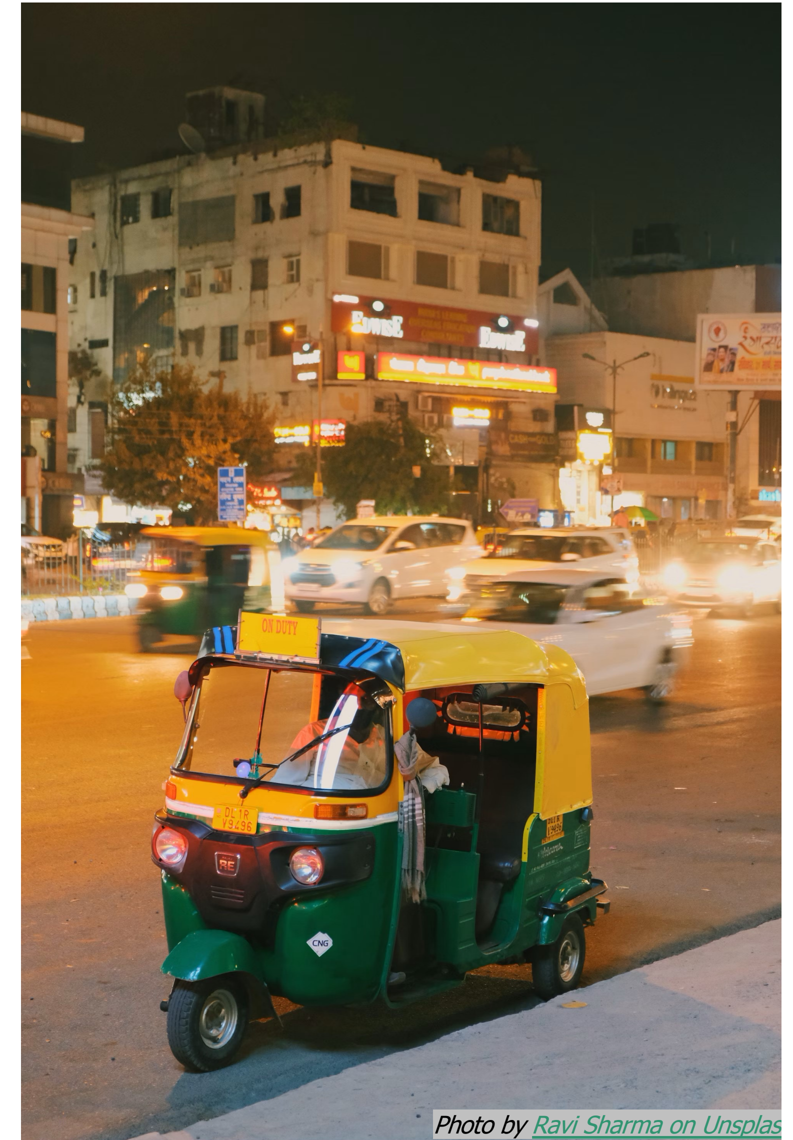
eg electric vehicles, mass transit infrastructure, policy and regulatory reform

Cost of mitigating impact of transition on impacted communities

eg transport workers, commuters, consumers, traders, environmental dislocations & externalities

Cost of enhancing adaptative capacity of communities and economies

eg economic diversification plans, infrastructure development, also climate resilience planning (linked to adaptation)



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JUST ENERGY TRANSITION FINANCE

- Finance is key to scaling up ambition and implementation of just energy transitions and international cooperation on finance is crucial

- Finance needs to be mobilised and deployed to support:

  (1) developed countries' own energy transition in the transport sector; **and**

  (2) developing countries' just energy transition in the transport sector

- **Financing must be JUST and EQUITABLE**

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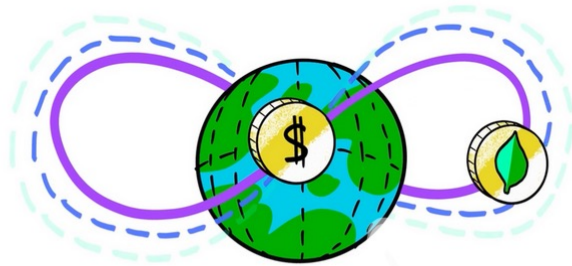
IMPORTANCE OF JUST AND EQUITABLE FINANCE FOR ENERGY TRANSITIONS



- Financing energy transitions in the transport sector must take into account the **disproportionately high costs of finance** for developing countries, especially low-income countries and small island developing states (SIDS) and other climate-vulnerable countries.

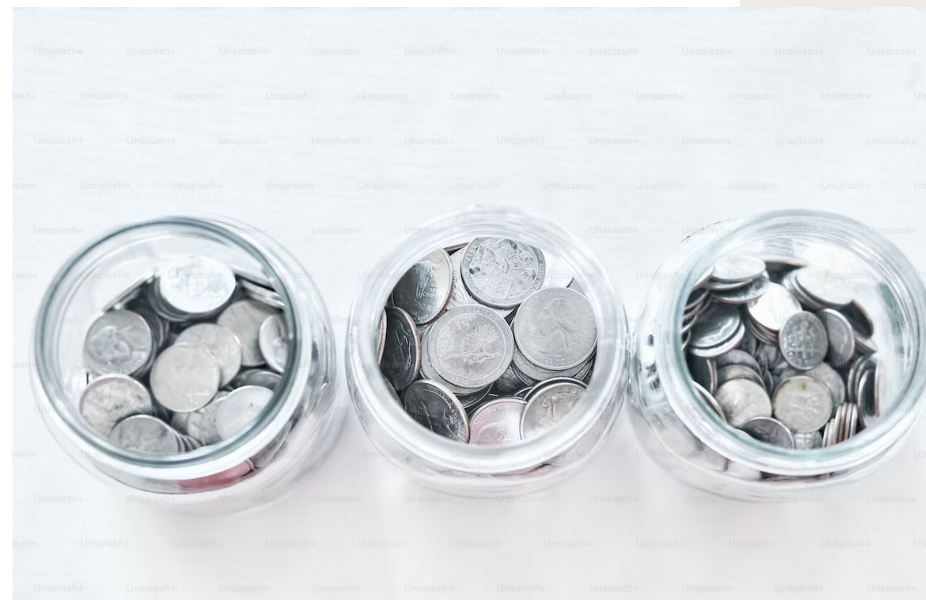
- Financing should also take into account the disproportionately **high costs of an 'unjust' or disorderly energy transition** in the transport sector for developing countries, including stranded assets, displaced workers and communities, economic stagnation, and environmental externalities.

- The modalities and terms of financing must support mitigation efforts in a **just and equitable** manner **without undermining countries' sustainable development needs and pathways** and in accordance with their **respective capabilities**.

- Financing must be accompanied by **technology transfer and capacity building** in a systemic and **whole lifecycle** manner.

CHALLENGES IN FINANCING JUST ENERGY TRANSITIONS IN TRANSPORT

1. Financing needs are significant and greatly exceed capacity of national budgets to finance so international cooperation needed.
2. Reliance on debt instruments and private finance to finance energy transition creates legal, regulatory and financial risks, especially for developing countries.
3. Risk of fragmentation in financing transition, decoupled from national policy plans and frameworks.
4. Limited financing and social and economic safeguards to operationalise a 'just transition' for affected communities and countries.
5. Technology and capacity building requirements will be significant and necessary, especially in developing countries, to reduce external dependence and ensure longer-term financial sustainability.



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- Reliance on debt instruments - loans and securities – to finance transport transition projects & programmes, including commercial loans, guarantees & insurance from development finance institutions (DFIs) to private investors & issuance of thematic sovereign and corporate bonds (eg green & sustainability-linked bonds).

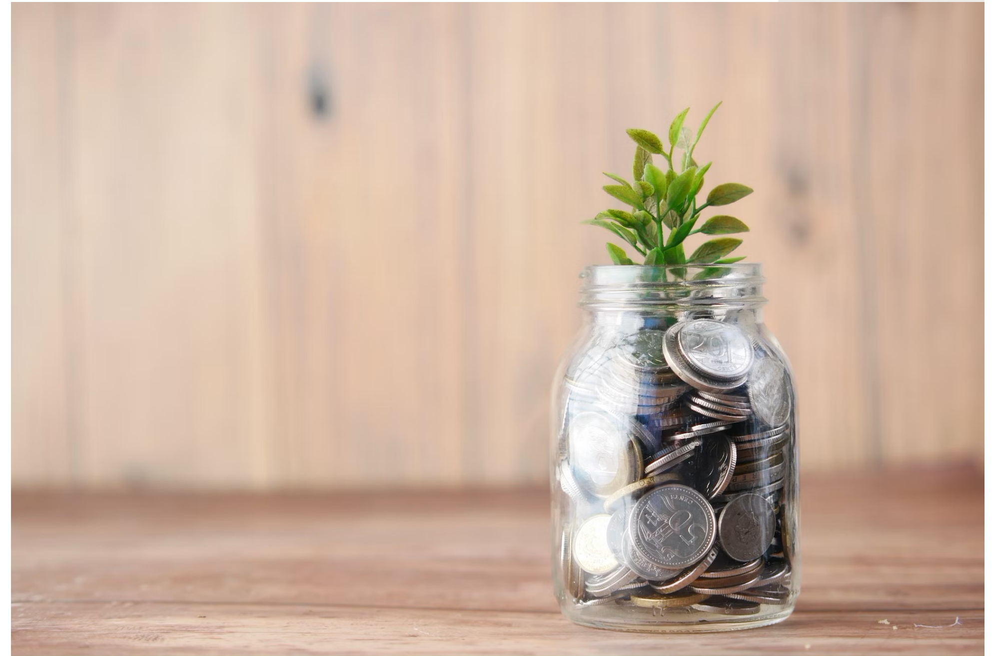
- Increases debt and financial risks in a number of ways, including:

  (1) increase state contingent liabilities
  (2) higher exit costs for state parties (locked-in through contracts)
  (3) heightens state exposure to volatility in international financial markets.

- Legal and regulatory reforms linked to financing instruments may result in loss of policy & regulatory autonomy & lead to fragmentation.

- Diversification of creditor base must be considered in the context of gaps in the existing sovereign debt architecture.

- Private investors interested in commercial returns & this will leave gaps in financing, notably in social mitigation & transition programmes.



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DEBT AND PRIVATE FINANCE

HOLISTIC APPROACH NEEDED

- Financing just energy transitions must be part of a **broader package of reforms** to the current system of global economic governance and international economic law, including dealing with significant debt burdens of developing countries.
- While there is an imperative to diversify sources of financing, financial instruments and terms of financing **must align with national climate action plans and SDG pathways** so **country ownership and policy space** is important for driving forward mitigation ambition.
- Policy and regulatory fragmentation is likely to impede coordinated action on climate action and financing outside the UNFCCC may undermine commitments and negotiations in the multilateral climate regime.
- Interventions to create enabling environments for private investments and regulatory reforms through financing conditionalities may undermine rather than progress climate action so countries must assess reforms carefully.
- Financing social and economic transitions & enhancing adaptative capacities of communities and countries as crucial as financing infrastructure & policy & regulatory change.

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