CAF BANCO DE DESARROLLO DE AMÉRICA LATINA Y EL CARIBE

ineco

FGC Ferrocarrils de la Generalitat de Catalunya

América Latina y el Caribe
Cada camino una oportunidad

Mobilizing Climate Finance for Railways

Matthias Plavec

Railway Specialist

WORLD BANK GROUP
Transport

Agenda

- Climate Finance for Rail - 101
- Climate Finance Instruments
- Constraints
- Recommended Actions

Why Invest in Rail?

- Railways connect people and markets to opportunities
- **Economic impact:** lower logistics costs, boosts trade, improved access to jobs and services
- Rail is crucial to transport decarbonization
  - **Energy efficiency:** Modal shift cuts GHGs by 70–80%

The Railway Investment Gap

Rail is highly **capital-intensive:**

USD 300+ billion

worldwide....

to meet economic growth

USD 20 - 80 billion

for low- and middle-income countries

to achieve SDGs and climate resilience

Climate Finance 101

Climate finance: financing by <u>any public or private entities</u> for activities that mitigate carbon emissions or support climate adaptation/resilience

- Climate Finance is defined by its purpose
    - most rail investments qualify

- Amount of climate finance is growing rapidly

- **Challenge:** Rail's current share is small

Climate Finance Landscape

Public & Private Sector Climate Finance

Deployed directly by private and public sector entities

Private Sector

Investments in climate projects seeking commercial returns

- **Commercial Financial Institutions**
- **Asset managers and asset owners**
- **Corporations**

Public Sector

Domestic Resource Mobilization (DRM) for climate actions

- **Public budgeting**
- **State-owned enterprises**
- **State-owned Financial Institutions**
- **National DFIs**

International Public Climate Finance

Deployed through international system: multilateral, bilateral and MDBs

Dedicated Climate Finance

Climate-focused concessional finance

UNFCCC Financial Mechanisms

gef

GREEN CLIMATE FUND

ADAPTATION FUND

Other dedicated CF funds

CIF CLIMATE INVESTMENT FUNDS

Development Finance

Financing from MDBs

CAF DEVELOPMENT BANK OF LATIN AMERICA AND THE CARIBBEAN

AIIB

CEB

European Bank

European Investment Bank The EU bank

New Development Bank

IDB

IsDB

WORLD BANK GROUP

Bilateral Development Finance

Types of Climate Finance

Activity Based

upfront project financing

- Green bonds/loans
- Sustainability-linked finance
- Climate funds (GCF, GEF, …)

Results Based

payments for verified emission reductions

- Carbon Markets
- Climate funds (TCAF)

Green Bonds & Loans

- Conditions like conventional bonds & loans
- Require **creditworthy borrower**
- Use of Proceeds: **"green" purpose**,

   validated by certification agency
- **Advantages:**
    - Visibility ("green PR")
    - co-financing opportunities
- **Examples:** SNCF, US, Morocco (ONCF), Chile, Brazil

Sustainability Linked Bonds & Loans

- Conditions like conventional bonds & loans
  □ **creditworthiness required**

- Financing **linked to KPIs** for sustainability objectives
- Flexible use of proceeds
- Growing globally: $800+ bn issued
- Rail uptake still limited

- **Example:** Knorr-Bremse AG (rail supplier)

Carbon Markets

- Trading of carbon credits for GHG reduction/removal
- **Voluntary** & **compliance** markets
- Requires robust certification and monitoring
- Rail uptake currently limited
- Potential as **additional source of funding**
- **Example:** Kochi (IND) Metro

Climate Funds

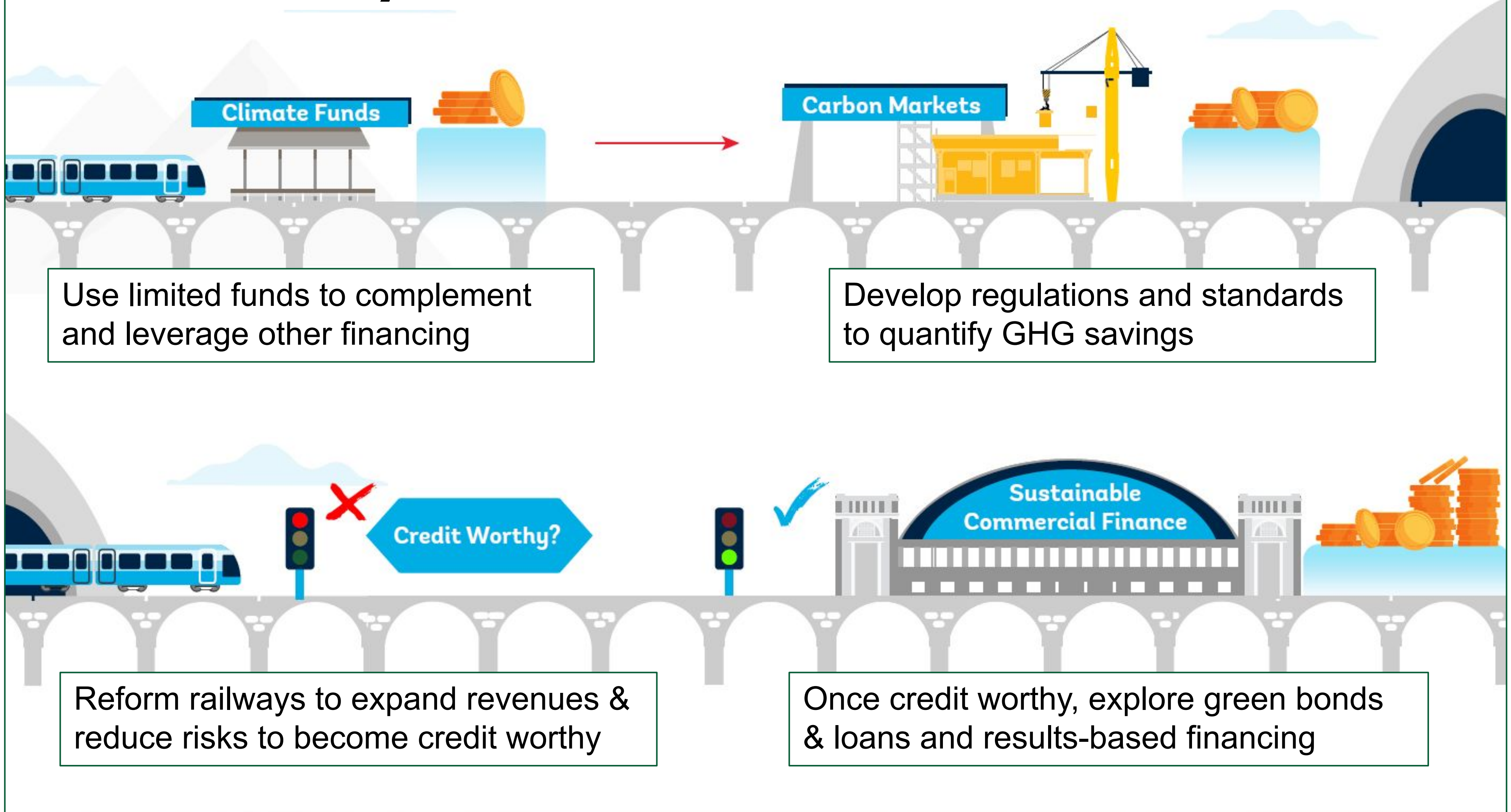
- Provide **grants**, **concessional financing**, and **risk-mitigation instruments**
- Offer **activity-** and **outcome-based instruments**
- **Limited resources**; competition with other sectors
- Transport: mostly e-mobility
- **Role:** co-financing, small projects, electrification/resilience components

Challenges for Rail to Access Climate Finance

Challenge	Results-based financing	Activity-based financing
Familiarity		
High abatement cost (GHG saved per $ investment)		
GHG savings spread over long asset life		
Standards		
Creditworthiness		

Key: = blocking constraint, = impediment, = not a major constraint.

Pathways for Rail to Access Climate Finance



Use limited funds to complement and leverage other financing

Develop regulations and standards to quantify GHG savings

Reform railways to expand revenues & reduce risks to become credit worthy

Once credit worthy, explore green bonds & loans and results-based financing

Enabling Climate Finance for Rail

Mainstreaming

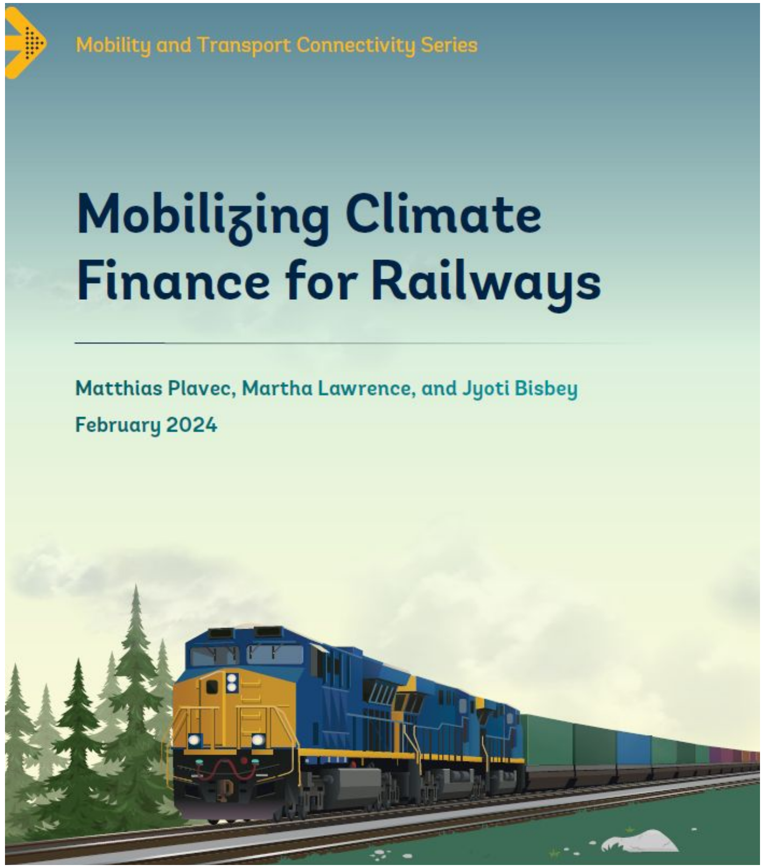
- Identify and support best-suited projects
- Support application/certification (costs!)

Standards

- Develop methodologies and standards for rail
- Encourage regulators to include rail in compliance carbon markets

Creditworthiness

- Strengthen SOE performance and governance
- Support structural & governance reforms (e.g., via guarantees)



BANCO DE DESARROLLO DE AMÉRICA LATINA Y EL CARIBE

ineco

FGC Ferrocarrils de la Generalitat de Catalunya

América Latina y el Caribe

Thank you

Matthias Plavec

Railway Specialist
mplavec@worldbank.org

WORLD BANK GROUP
Transport

BANCO DE DESARROLLO DE AMÉRICA LATINA Y EL CARIBE

FGC Ferrocarrils de la Generalitat de Catalunya

América Latina y el Caribe
Cada camino una oportunidad

3ª JORNADAS AMÉRICA LATINA Y EL CARIBE - ESPAÑA

DIÁLOGOS DEL FERROCARRIL

RIELES HACIA UN FUTURO SOSTENIBLE

@AGENDACAF WWW.CAF.COM