

Are Multilateral Banks Supporting Transport Decarbonization?

Despite Climate Commitments, Development Finance Favors Fossil Fuel Dependent Vehicles





Introduction

An effective, efficient transportation sector is vital to the success of every society and is critical to enabling economic development. However, transport is also one of the biggest drivers of climate change with more than 25% of the energy-driven carbon emissions attributed to transport. Globally, fossil fuel combustion in the transportation sector is the largest source of rising CO₂ emissions. For economies to grow sustainably, it is critical that transport systems shift from a reliance on fossil-fuel dependent internal combustion engines (ICE) to investments in zero emissions vehicles (ZEV) and electric charging infrastructure. The World Bank and other Multilateral Development Banks (MDBs) have a critical role to play in supporting this transition. This report analyzes the ways in which the World Bank and the Inter-American Development Bank (IDB) are investing in the transport sector, and specifically the extent to which these investments finance transport systems that are fossil-fuel dependent. It finds that the vast majority of World Bank and IDB transport sector financing goes to projects that include ICE investments. For the MDBs to move their portfolios towards Paris alignment, this must change with a commitment from the MDBs to phase out investments in ICE, and to increase investments in ZEV systems.

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Background

Transport systems are a key element of urban planning and are inextricably linked to other urban planning decisions. Transit decisions impact everything from access to schools to community health and safety. Two of the sustainable development goals (SDGs) are specifically relevant to developing a transportation sector that is safe and efficient. SDG Target 3.6 aimed to cut in half the number of global deaths and injuries from road traffic accidents. SDG Target 11.2 aims that, by 2030, all people, in particular persons in vulnerable situations such as persons with disabilities and children, have access to public transportation that is safe and affordable. We believe that for a transport system to be safe, it must also promote, rather than harm, public health. A 2019 [study](#) found that exhaust from ICE vehicles caused about 385,000 premature deaths in 2015, up from 361,000 deaths in 2010. Given the critical importance of transportation systems in driving economic development, combined with the urgent need to act to combat climate change, public investment in ZEV transport, including buses and trucks should be a global priority. Countries around the world are already making time-bound commitments to phase out the sale, production and use of internal combustion engine (ICE) vehicles and fossil fuel infrastructure. For example, [Norway](#) has set a national goal that all cars sold should be zero emission by 2025. This builds upon Norway's progress to date - battery electric vehicles represented more than half the market share of cars in Norway in 2020. Norway shows how quickly progress can be made using the right policies and economic incentives for purchasers.

The [United Kingdom](#) will ban sales of new petrol and diesel cars and vans from 2030, and all non-zero emissions road vehicles by 2040.

[Eight additional European countries](#), Singapore, Canada, Cape Verde, and the US states of California and New York also have phase-out plans for fossil fuel-dependent vehicles.

Costa Rica has been future-focused creating the [first country-wide electric charging grid](#) in the region to ease the transition to ZEVs. This is just part of Costa Rica's larger plan to decarbonize its economy by 2050.

Unfortunately, public finance from the MDBs is predominantly making it more difficult to decarbonize the transportation sector. BIC's research has uncovered that since the 2015 Paris Climate Agreement became effective, the vast majority of World Bank Group and IDB transport-related project financing continues to favor fossil fuel-dependent vehicles over ZEV alternatives. The World Bank and IDB have provided robust financing for internal combustion vehicles, maintenance, production and infrastructure, with relatively little support for electric vehicles or electric vehicle infrastructure.

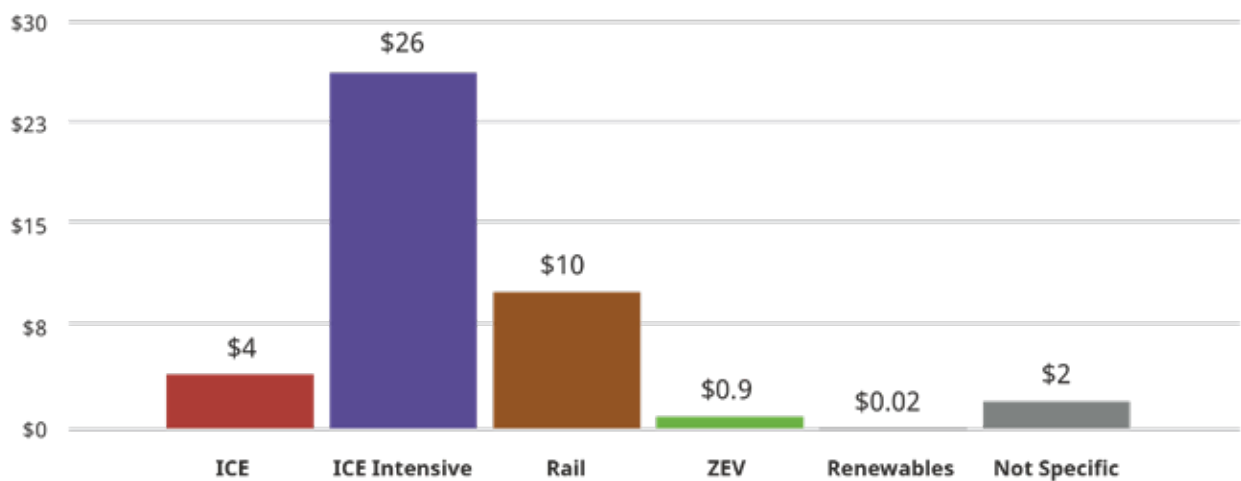
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Findings

In this report we present research on project financing from the World Bank Group and the IDB Group. Our research on World Bank (IBRD/ IDA) projects reviews active transport sector projects, whereas the research on the International Finance Corporation (IFC), the private sector arm of the World Bank, as well as the IDB Group considers all active projects that we could ascertain, based on public information, are relevant to vehicle use. All projects assessed were proposed between January 2017 through September 2021.

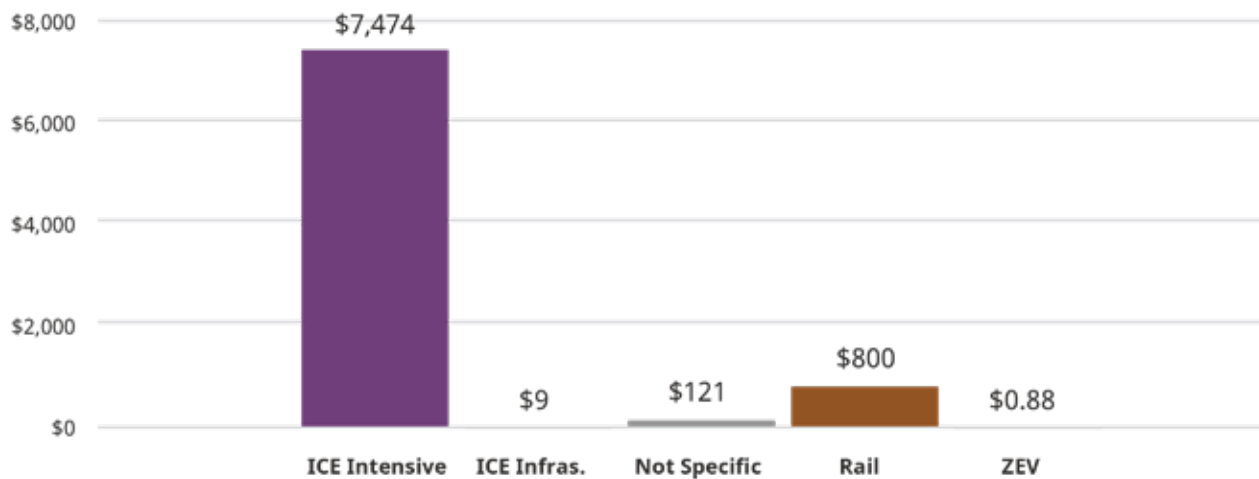
Of the project financing in the transport category from the World Bank, 68% is for projects that include support for ICE vehicles and infrastructure, such as refineries, and petrol stations while only two percent of financing is for projects that support ZEVs and infrastructure, such as electric buses and charging stations. Put another way, of 216 transport-category projects from 2017 until present, \$77 billion was for projects that involved ICE vehicles and infrastructure. Less than \$1 billion was for projects that supported ZEVs. Meanwhile, more than 28% of all IFC project financing went to projects that likely included support for ICE vehicle procurement, use, maintenance, or manufacture, whereas only one percent went to projects supporting ZEVs.

WB VEHICLE/MACHINERY TECHNOLOGY USED IN TRANSPORT SECTOR, IN \$ BILLIONS



For projects related to the transport from the public sector arm of the IDB, most of the funds are used for projects supporting ICE vehicles. From a total of \$7.6 billion of the IDB's own Transport category, \$7.4 billion (97%) were directed to ICE intensive projects, another \$99 million for ICE infrastructure, and \$880,000 (0.01%) for ZEVs. With respect to the IDB Invest, the private sector arm, for project funding pertinent to vehicles, 95% went toward ICE intensive projects versus 5% for ZEVs.

IDB TRANSPORT PROJECTS BY ICE/RAIL/ZEV TECHNOLOGY, IN \$ MILLIONS



The World Bank is [aware of the role it should play in decarbonizing the transport sector](#), and in the last few years has started to take some action with small programs dedicated to decarbonizing transport. This includes [Sum4All](#), the World Bank’s sustainable mobility campaign launched in 2017, which brings together public and private partners to provide the data and policy tools needed to decarbonize global transport, including the [Global Roadmap of Action Toward Sustainable Mobility](#). Earlier in 2021, the Bank also launched the Global Facility to Decarbonize Transport, a multi-donor trust fund specifically focused on transport decarbonization. The World Bank [Climate Change Action Plan \(CCAP\)](#) released in 2021 also observes that “[a] shift to EVs, including private vehicles as well as buses and trucks, would reduce GHG emissions as well as air pollution and associated health impacts.” The CCAP stresses that emissions from transport are expected to grow by 60% by 2050 “without aggressive measures.”

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Similarly, the IDB addressed the decarbonization of transportation in its own Climate Change Action Plan, which [noted](#) that in Latin American and Caribbean (LAC) countries transportation accounts for 32% of energy-related greenhouse gas emissions. The IDB CCAP acknowledges that “[f]ossil fuel subsidies are hindering the process to decarbonize energy...” IDB actions described in its CCAP include investing in technologies “to support decarbonization and reduction of fossil fuel consumption,” as well as “to support financing of electric vehicles.”

The awareness and initial efforts of the World Bank and IDB are welcome, but their lending portfolios do not yet show they are serious about transport decarbonization as the vast majority of their funding continues to support ICE. The World Bank and IDB cannot claim to be supporting sustainable transport when their portfolios continue to primarily support ICE. For the World Bank, IDB, and the other multilateral development banks (MDBs) to show that they are serious about decarbonizing transport, they must commit to end all investments for the internal combustion engine, or fossil fuel-dependent vehicles, by 2025. This should be coupled with increased investments in ZEV systems and infrastructure. By making this shift, the MDBs can play a critical role in creating a world in which everyone has access to transport infrastructure that is both climate-resilient and climate-friendly.