



Partnership for Market Readiness
Sixth Meeting of the Partnership Assembly

Ideas and Key Issues in Developing Crediting Mechanisms

Carbon crediting options to support climate action in cities

Context & outline

- ◆ Carbon Partnership Facility' work program on cities
- ◆ Cities' climate action: main options and needs
- ◆ Key features and challenges of new crediting options for cities

Exploring new crediting options for cities: why it is important?

6 billion

World population in 2000
Urban population in 2050

Lock-in

Effect of infrastructural solutions
Fastest growing source of emissions

70%

Of global GHG emissions
Of world energy supply



Cities' climate change actions: vast portfolio of mitigation options

- ◆ *FROM* sector-specific, end-of-pipe activities...
 - ◆ Energy efficiency in buildings, fuel efficiency in public transport fleet, efficient street lighting ...
- ◆ *TO* cross-sectoral actions with transversal impact on cities' GHG drivers
 - ◆ Planning, land-use zoning, transport-oriented development, densification, sustainable communities.
- ◆ *WITH* different scales and scopes of urban policy drivers, investment needs and modes of financing

Cities' climate change actions: main options and needs

- ◆ *LACKING* access to financial sources to support climate action*:
 - ◆ Municipal funds account for 85% of funding;
 - ◆ Outside sources (including private & development finance) – 15%.
- ◆ More ambitious and widespread involvement of cities requires:
 - ◆ Improving cities' direct access to finance at scale, and
 - ◆ Building technical capacities for development and delivery of comprehensive climate actions plans

* For 51 cities emitting ~ 1 billion tons of CO₂/y (CDP, 2011)

Limited success of current crediting approaches

Cities' realities and needs	Limitations of current approaches
Combinations of technical interventions (projects) and enabling environment (regulation & policies)	Accountable/creditable impacts on GHG: <ul style="list-style-type: none">- Almost exclusively bottom-up, project-based;- Policies are not "creditable" (attribution challenge).
Urban planning/actions are not exclusively responding to climate policy objectives: <ul style="list-style-type: none">- Resource availability, economic, social & budgetary constraints, regulation	Carbon crediting is not supportive for any type of co-benefits
Predictable/ Sustainable financing solutions are required	<ul style="list-style-type: none">- Marginal revenue stream as compared to required resources;- Risky incremental ex post revenue stream.

New carbon crediting options for cities: three potential levels of leverage

- ◆ Direct financial support from crediting revenues:
 - ◆ Applies for actions with economics conducive for ex post payments;
 - ◆ Stimulates efficiency & innovation of services, including in the private sector.

- ◆ Combined use with other market and non-market based instruments:
 - ◆ Applicable beyond individual decision making;
 - ◆ Evaluation inclusive of other impacts: local pollution, health benefits, energy savings, creation of technology/infrastructure stock, avoided lock-in effect.

- ◆ Support planning and delivery of scaled-up mitigation actions:
 - ◆ Improve understanding of available mitigation options & GHG impacts;
 - ◆ Establish performance tracking systems at the city level;
 - ◆ Better integrate the carbon constraint into urban planning.

Key features of the suggested approach

- ◆ Ensure environmental integrity and net emission reductions:
 - ◆ Real, measurable and transparently defined
- ◆ Maximize the value and impact of crediting options:
 - ◆ Define effective mitigation actions considering other constraints and benefits;
 - ◆ Create positive interactions of climate policies in different sectors
- ◆ Minimize complexity and costs:
 - ◆ Rely on and improve city' climate actions practices and tools
- ◆ Facilitate the combined use of the new mechanisms with other sources of finance:
 - ◆ Increase efficiency and help raise the ambition level through an optimized leverage of domestic and international, public and private finance

Examining new crediting options for cities: study of relevance and feasibility

- ◆ City' climate action under the new crediting mechanisms:
 - ◆ Comparative advantages for cities participation (crediting vs trading tracks);
 - ◆ Typology of mitigation options for each level of leverage;
 - ◆ Cities as relevant “broad segment of the economy”.
- ◆ Key innovative features of cities' climate actions under the new crediting mechanisms:
 - ◆ Explore and assess feasibility of the suggested approach (ref. to Slide 5);
 - ◆ Suggest options for aggregated GHG monitoring and accounting;
 - ◆ Propose workable designing framework for a city-level crediting transaction.
- ◆ Develop illustrative examples of potential cities' climate actions:
 - ◆ Urban transport component of a low carbon city program;
 - ◆ Low carbon planning approach in rapidly growing cities.

Some important challenges

- ◆ Efficiency of mitigation actions at the city level:
 - ◆ As compared to the sectoral/ economy-wide action;
 - ◆ Relevance of comprehensive evaluation and inclusion of long term impacts.
- ◆ Alignment between cities' and national policies:
 - ◆ Target setting & GHG accounting approaches;
 - ◆ Leakage, avoid double counting.
- ◆ Aggregate GHG accounting in presence of policy interactions;
- ◆ Incentive mechanisms for continuous implementation;
- ◆ Data availability to quantify GHG mitigation potentials and costs;
- ◆ Transaction costs within multi-layered management/institutional structures.

Examining new crediting options for cities: generic framework for a crediting transaction

Framework(s) applicable for proposed typology of mitigation actions:

- ◆ Legal and regulatory considerations
- ◆ City' climate action plan:
 - ◆ Scope and scale of targeted emission sources;
 - ◆ Criteria and processes to select eligible actions and policies;
 - ◆ Financial and operational models to deliver emission reductions.
- ◆ Quantification of creditable emission reductions*:
 - ◆ Setting the baseline and crediting line.
- ◆ Institutional set-up for management and supervision*:
 - ◆ GHG accounting to monitor progress and report achieved performance.
- ◆ Systems ensuring financial accountability and transparency.

* E.g., building upon PMR Tools and technical notes

In conclusion

How to seize opportunities of new crediting options for cities?

- ◆ Explore and advocate for innovative approaches
- ◆ Suggest workable framework for creditable actions for cities
- ◆ Pilot, test and improve crediting options under development

Thank you!

Some examples of city-level climate actions

Sector-specific actions	Cross-sectoral (integrated) actions
Transport: <ul style="list-style-type: none"> - Energy efficiency in public transport - Bus Rapid Transit - Policy limiting personal vehicle use 	Transport oriented development: <ul style="list-style-type: none"> - Integrated territorial and transport policies - Reduction of distance for urban travels
Buildings: <ul style="list-style-type: none"> - Energy efficient appliances - Building codes 	Development of sustainable communities: <ul style="list-style-type: none"> - Target overall GHG performance of new communities - Covering housing and relevant community-level services, public lighting, water & sewage, and solid waste
Energy delivery and use: <ul style="list-style-type: none"> - Renewable energy - Efficient street lighting 	
Efficient waste and water services: <ul style="list-style-type: none"> - Waste recycling - Landfill 	Life-cycle optimization of solid waste management (SWM)

Current status and working plan

- ◆ World Bank study *Lowering cities' carbon emissions: examining new carbon crediting options*:
 - ◆ Multidisciplinary work involving key stakeholders within and outside the Bank;
 - ◆ Final report planned in May 2012.
- ◆ Fully in line with the new WB presidential *Livable Cities Initiative*:
 - ◆ Enhance advocacy through a growing momentum;
 - ◆ Advantages from an increased focus on piloting.