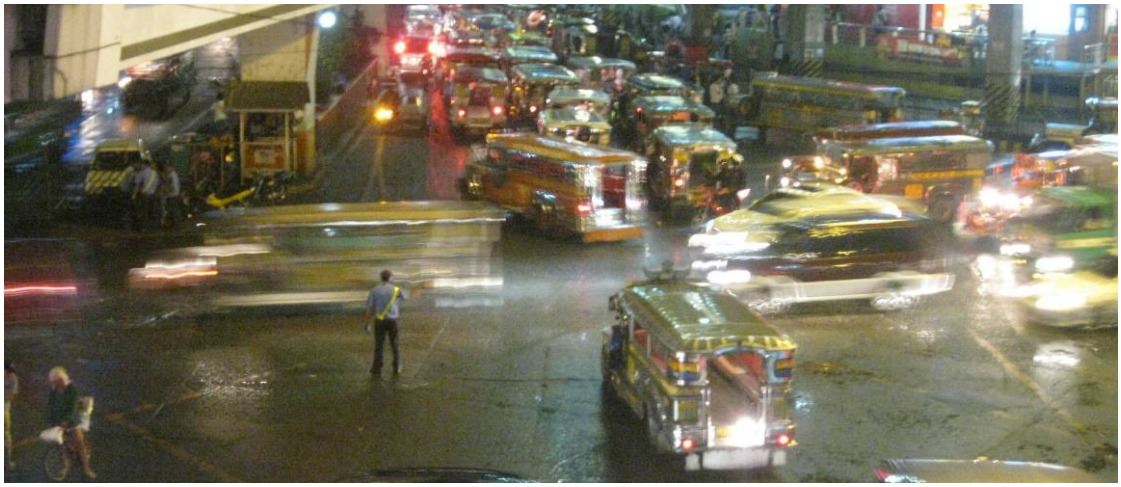
Reducing Emissions through Sustainable Transport (REST)

Proposal for a sectoral approach

as a means to increase the potential for GHG mitigation in the land transport sectors of both developed and developing countries

Revised April 2011[1]



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The large mitigation potential and associated co-benefits of taking action in the land transport sector can be tapped into by a sectoral approach drawing financial resources from a **transport window,** in the short term within the **fast-start finance** being provided in the context of the Copenhagen Accord, and in the long term under the proposed **Green Climate Fund**, that provides support in:

- **Formulation of transport Nationally Appropriate Mitigation Actions (NAMAs)**,
- **Capacity building**, particularly for the measuring, reporting and verification (MRV) of mitigation actions, and
- **Implementation** of sustainable transport policies, programmes and projects.

This will augment existing mechanisms, such as the Clean Development Mechanism (CDM) and the Global Environmental Facility (GEF), and help address the current lack of financing available for sustainable transport.

[1] This paper was prepared by Anne Binsted, Holger Dalkmann, Daniel Bongardt and Ko Sakamoto and is a product of the Bridging the Gap Initiative. It remains a living document and suggestions and improvements from those who are interested are welcome at abinsted@trl.co.uk. The authors are grateful to reviewers of an earlier version of this draft, including participants at an expert workshop in Bonn, June 2010 organised by the Bridging the Gap Initiative. See http://www.transport2012.org/transport-climate-change-news/2010-06-11,btg-ws.htm

1 The significant potential for the transport sector to contribute to mitigation actions

International and local climate change mitigation targets being set on all levels cannot be achieved without action in the land transport sector. The sector is responsible for 23% of global CO_2 emissions from fossil fuel consumption and 15% of all GHG emissions.[2] There is therefore a large potential for the transport sector to contribute to the globally required mitigation effort.

Promoting sustainable transport is a win-win strategy and highly cost effective means of achieving numerous policy goals: low carbon transport networks deliver various national and local sustainable development objectives (co-benefits). They can stimulate economies, achieve energy security, enhance health and quality of life for populations, and reduce environmental degradation. The implementation of a modern public transport system, for example, creates local jobs, reduces the need for oil imports, makes cities attractive for investors, promotes equity as it enhances accessibility for the poor and improves air quality.

So far, existing instruments (CDM/GEF) have not stimulated enough actions to tap into potential emission reductions offered by the sector. If adopted a sectoral approach specific to transport will increase mitigation actions in the sector and therefore contribute to the attainment of multiple and diverse local social, economic and environmental goals at all levels from the local to the international.

2 A sectoral approach to help transport reach its mitigation potential

An approach that explicitly supports climate change mitigation activity in the transport sector would address the inadequacy of current, generic mechanisms and funds (e.g. CDM and GEF[3]) for application in the transport sector, and provide increased opportunities to:

- *Incentivise* countries to formulate and carry out Nationally Appropriate Mitigation Actions (NAMAs) in the land transport sector.
- *Build capacity* for countries to measure, report and verify (MRV) transport NAMAs, and to implement sustainable transport policies, programmes and projects.
- *Stimulate* carbon markets in the long run and mobilise additional financial resources from a wide range of actors including the private sector, national and local governments.
- *Facilitate* diffusion of the most effective and cost-effective measures and technologies
- *Link* national and local activities in the sector to realise synergies and enhance consistency
- *Generate* numerous economic, social and environmental co-benefits

[2] OECD/ITF (2010) Reducing Transport Greenhouse Gas Emissions: Trends & Data 2010. Available from: http://www.internationaltransportforum.org/Pub/pdf/10GHGTrends.pdf

[3] The application of these mechanisms have so far been limited due mainly to methodological, financial and technical reasons. See Dalkmann in ADB (2010) Rethinking Transport and Climate Change. Available from: http://www.adb.org/documents/papers/adb-working-paper-series/ADB-WP10-Rethinking-Transport-Climate-Change.pdf

3 Key features of the sectoral approach

The transport sectoral approach is to be built around the following key features:

- **A. Support for the development of sustainable transport** – through three streams of assistance, namely;
  - The formulation of NAMAs
  - Capacity building
  - Implementation of low carbon transport policies, programmes and projects.
- **B. Simple conditions** to reduce burden on applicants and maximise accessibility to support, whilst creating strong incentives to develop sustainable low carbon transport.
- **C. Financing via a transport window**, to be set up:
  - In the short term within the **fast-start finance** available under the context of the Copenhagen Accord, and
  - In the long term, within the **Green Climate Fund**

An overview of these features is provided in Figure 1, whereas each feature is detailed further in the following sections.

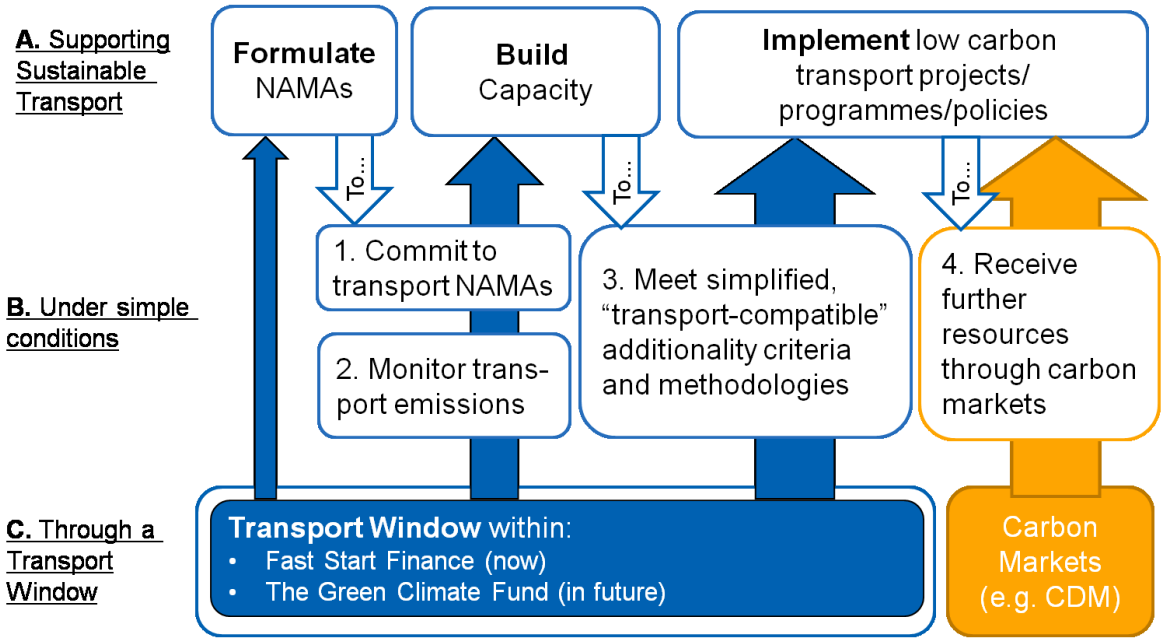

Figure 1 : Components of a sectoral approach

3.1 Supporting sustainable transport

The sectoral approach for transport shall provide support for the **formulation** of transport NAMAs, **capacity building**, as well as for the **implementation** of transport policies, programmes and projects. These three streams of support are detailed below.

- **Formulation of NAMAs** – A relatively small proportion of the overall resources will be used for the purpose of assisting interested Parties in the formulation of transport NAMAs[4], which would be communicated through official means and included in a country's NAMA registry.

  More specifically, resources under this stream may be used *inter alia*, to conduct expert workshops to identify the specific transport needs and required strategies/actions in a country, and draw up specific policy/programme/project proposals.

- **Capacity building** – A second stream of resources will be utilised to provide capacity building, which comprises of technical assistance and the establishment of skills and processes to mobilise policy makers and practitioners to maintain the benefits of sustainable low carbon transport in the long-term.

  A core part of the capacity building support will focus on the ability of a country (and its sub-national administrative bodies) to measure, report and verify transport emissions. This would include the creation of databases, collection of key data, building of national/regional/urban transport models, calculation of baseline and alternative scenarios and development of new methodologies.

  Currently, transport interventions in developing countries (but also in developed countries) take place without the knowledge of their impacts on greenhouse gas emissions. Allowing such interventions to become MRVable is the first and most important step in linking them to a wider pool of resources being made available through carbon markets.

  Furthermore, capacity building could support the development of long-term sustainable transport strategies and also assist in overcoming barriers and challenges that might be experienced in relation to their implementation. This could include national programmes of sustainable transport investment, the implementation of fuel efficiency standards, and policies that shift travel demand to low carbon modes. Support could also be offered to set up and/or develop institutions with sufficient mandates and internal capacity to develop sustainable transport policies, programmes and projects.

  Rather than limit support to north-south knowledge transfer the approach would seek to encourage south-south transfers by establishing a practice for the sharing of best practices between developing countries. This could result in more appropriate and cost-effective mitigation activities being developed and implemented, and in the long-term has the potential to contribute to the development of formal institutions for developing and sharing capacity within and between developing countries. The support provided through the transport

[4] NAMAs in transport can include a variety of types. See Dalkmann et al. (2010) Guidance Note for Parties - Formulating NAMAs in the Transport Sector: Kick-starting Action. Bridging the Gap Initiative. Available from: http://www.transport2012.org/bridging/ressources/files/1/615,567,Guidance_on_Transport_NAMA.pdf

sectoral approach may also be linked to those taken by national, regional and international centres for capacity building and technology transfer, which are currently being discussed in the context of the climate negotiations.

- **Implementation of transport policies, programmes and projects** – The third stream of support will be used to actually finance transport policies, programmes and projects which have been stipulated as MRV NAMAs. In short, countries would receive financial resources commensurate with the carbon savings they achieve through transport NAMAs[5]. The sectoral approach will provide a predictable source of funding similar in nature to grants given through Official Development Assistance, but earmarked to support sustainable low carbon transport.

  Resources can be made available at any stage of the policy/programme/project cycle, including at its inception to provide start-up financial assistance or support further development of the MRV methodology. This compares favourably to the CDM, where credits are awarded annually and retrospectively, after verification by an auditor and certification by the CDM Executive Board. This would in turn serve to reduce uncertainty and to increase the number of mitigation activities that could be supported.

  In order to participate, developing countries would need to develop a transparent procedure for developing, reviewing and approving baselines (see Section 3.2). The availability of guaranteed revenues should they establish such a procedure would act as an incentive to do so and support for doing so would be provided by the sectoral approach under its capacity building stream. The development of such procedures would also make it easier for developing countries to obtain finance from a wider range of sources, including existing financial mechanisms such as CDM, GEF and CIF.

The above three streams of support will be mutually enforcing, leading to a positive 'multiplier effect.' For example, building capacity at local and national level should also help develop a city or country's ability to better formulate and implement low carbon transport policies, programmes and projects. This in turn could lead to numerous development co-benefits.

In sum, the three streams of support would:

- Incentivise countries to formulate NAMAs in the transport sector,
- Increase the capacity of developing countries to MRV their mitigation actions in transport, and
- Increase the amount of sustainable transport policies, programmes and projects being implemented in developing countries.

Ultimately, the development of NAMAs, together with the enhanced MRV capacity of developing countries, would lead to the carbon market (e.g. the CDM) becoming more accessible. It is expected that policies/programmes/projects would in future "graduate" from the sectoral approach and receive funding directly from the carbon markets. The enhanced MRV capabilities would also assist developing countries in their UNFCCC reporting processes.

[5] The amount of resources per tonne of CO_2 saved should be set lower than the prevailing carbon market price, to maintain the integrity of the carbon market. This discounted rate would be adjusted according to the level of risk and uncertainty contained within the portfolio of policies, programmes and projects supported by the sectoral approach.

3.2 Simple conditions

The requirements for accessing funding through the sectoral approach should be simple to:

- Maximise its impact on climate change mitigation and development,
- Recognise that capacity is relatively low in some developing countries and that barriers to capacity development must be reduced, and
- Focus resources on developing low carbon transport systems rather than on bidding for funding.

To reduce barriers to accessing the support provided by the transport sectoral approach, whilst creating strong incentives for applicants to develop sustainable low carbon transport, the following sets of criteria are proposed for each stream of support provided.

First, to receive support for the **formulation of NAMAs**, countries would be asked only to express their interest (through appropriate channels, to be decided upon in reflectance of the future NAMA framework) in including transport within their set of NAMAs.

Second, to be eligible for support in **capacity building,** the following two criteria are suggested;

- Developing country applicants commit to NAMAs in the transport sector (including those which were formulated under the first stream of support).
- Developing country applicants agree to monitoring their transport emissions and to establishing a sectoral baseline from which emission reductions can be measured.

Third, to receive support for the **implementation of transport policies, programmes and projects**, developing countries would be asked to measure the carbon abatement impact of such interventions, utilising the enhanced MRV capacity fostered through the second stream. The basic procedure for assessing the eligibility of support can follow the basic features of the CDM, namely the development of identification notes, project development documents, methodologies, and the matching of financial resources to tonnes of CO_2 mitigated.

However, the criteria through which the carbon abatement impact will be assessed will be developed by transport experts and will be tailored to consider transport-specific circumstances (e.g. data availability), to break the current situation whereby methodological difficulties constrain the levels of mitigation actions supported by existing climate financing instruments such as the CDM.

It will not be possible for all proposed mitigation activities that meet these prerequisite requirements to obtain funding and so associated appraisal criteria will be developed. Preference will be given to innovative, replicable activities and comprehensive/ sustainable strategies. A list of eligible mitigation activities (i.e. those that avoid, shift or improve the carbon intensity of travel demand) will be developed by an expert panel as guidance to applicants (see Chapter 4).

3.3 Providing support through a Transport Window

To secure scaled up, new and additional, predictable and adequate funding for actions in transport, the sectoral approach will channel financial resources from a **transport window**, whereby the following distinctions are made between the short and long term;

- **In the short term** (e.g. between now and 2012), a transport window would be established within the **fast-start finance** currently being pledged and disbursed by Annex-1 countries in the context of the Copenhagen Accord. Such monies are expected to approach roughly 30 billion USD for the three years between 2010 and 2012 (i.e. 10 billion USD per annum).

  The scope and detailed nature of the fast start finance are evolving rapidly as this paper is being written[6]. For example, most Member States of the European Union (which make up roughly 65% of the total confirmed pledges for 2010) have by June 2010 decided on the form of their funding (grant vs. loan), channels for distribution (bilateral vs. multilateral) and the balance between mitigation and adaptation (currently at a roughly 6:4 split). Around 1 billion EUR is targeted at the forestry sector through support for REDD+ for years 2010-2012.

  On the other hand, over one third of the confirmed EU pledges for 2010 are yet to be allocated. Some of these resources could be designated as a transport window used to support the transport sectoral approach.

- **In the longer term** (2012 and beyond), it is expected that a new fund/mechanism to support mitigation and adaptation actions would come into place under the Post-2012 climate framework[7]. It is imperative that a share of this **Green Climate Fund**, proportionate to the greenhouse gas emissions of the transport sector, be made available to support actions in this sector. It is suggested that a **transport window** under this new fund is created to support the sectoral approach.

The resources made available through the transport window will (in both the short and longer term) be separated into the three main streams as mentioned in 3.1.

The **sources of funding** for both the fast start financing and the Green Climate Fund are currently being considered, and are thought to be a central issue in the upcoming COP17 in Durban in late 2011.

Notwithstanding the more general sources of finance currently being discussed, the following options could be suggested as more specialised, transport specific sources, should there be a need for further resources for the transport window[8]:

- Proceeds from the **auction of aviation Emissions Trading Scheme (ETS) credits**, which can be raised from existing ETS schemes, most notably the EU-ETS.
- **Levies on international transport**, including maritime and aviation.
- **A global levy on transport fuels**, which could be collected at the point of production, distribution or retail (at the pump).

[6] Readers are advised to consult the most up-to-date information concerning fast start finance, for example at Climate Funds Update (http://www.climatefundsupdate.org/fast-start-finance)
[7] During the COP16 in Cancun, the establishment of a Green Climate Fund was confirmed. The exact name, scope, sources, scale, institutional structure and governance of the new fund is currently a key topic under the UNFCCC climate negotiations.
[8] These sources may also contribute to financing actions in other sectors.

- **Contributions from bilateral and multilateral donor agencies**, many of whom are increasing their level of support for sustainable transport. For example, the Asian Development Bank (ADB) has recently launched their Sustainable Transport Initiative (STI), which aims to significantly increase their support in rail and urban transport[9].
- **Private sector contributions**, e.g. from charitable organisations, corporations and investors with an interest in the development of sustainable, low carbon transport.

Climate Finance in Perspective

The financial resources provided through climate-related funds and mechanisms (available in the millions of USD per annum) are generally dwarfed by other financial flows that are relevant to the transport sector, including domestic public finance, private finance (both available in the trillions of USD per annum), and Official Development Assistance (available in billions of USD per annum).

It is therefore important, that the approach suggested in this paper be used to stimulate changes to these wider financial flows.

For further information on sources of finance for sustainable transport, and how climate finance can leverage further resources, please refer to the following publications:

- GTZ (2010) Financing Sustainable Urban Transport. Module 1f: Sustainable Transport - A Sourcebook for Policy Makers in Developing Cities. Available from: www.sutp.org
- ITDP (2010) A Paradigm Shift Towards Sustainable Low-Carbon Transport: Financing the Vision ASAP. Available from: http://www.itdp.org/index.php?/information_center/documents/
- Leather et al. (2010) Innovative Financing of Low-Carbon and Energy Efficient Transport, in *Rethinking Transport and Climate Change*. Available from:http://www.adb.org/documents/papers/adb-working-paper-series/ADB-WP10-Rethinking-Transport-Climate-Change.pdf

[9] See ADB (2010) Sustainable Transport Initiative Operational Plan. Available from: http://www.adb.org/documents/policies/sustainable-transport-initiative/default.asp

4 Design options to be addressed in consultation with stakeholders

A sectoral approach must be closely aligned to the needs and requirements of developing country Parties. It is therefore proposed that the following design elements be given close consideration and be developed in consultation with those who would benefit from its provisions. Key design options to be discussed include:

- **The source and scale of revenue for the fund** – including the options described in Section 3.3, and their exact mix.
- **The exact split of resources** – between the three streams of support for NAMA formulation, capacity building and implementation of policies/programmes/projects.
- **Governance** – The governing body and structure will have wide ranging implications, and need to be decided upon in view of wider developments under the UNFCCC negotiations. Transparency and accountability must be ensured to build trust between developed and developing country Parties.

  To ensure the quality of the activities supported by the sectoral approach, an independent Expert Panel could be set up, which would include key transport experts from both developed and developing countries. This Expert Panel could be similar in nature to the UNFCCC's Expert Group on Technology Transfer (EGTT). Key issues for the Expert Panel to consider include *inter alia*;

  - The formulation of eligibility criteria and associated guidance for each of the three streams of support.
  - The approval of and/or formulation of "transport-compatible" methodologies to assess the mitigation impacts of policies, programmes and projects (see Section 3.2).
  - The monitoring and evaluation of the actions being supported through the sectoral approach.
- **Relationship to other mechanisms** – The suggested sectoral approach will not replace the CDM or GEF, for example, but to optimise its impact it should be designed to maximise complementarities and synergies. The development of the sectoral approach should also take into account the likely call for parallel approaches in other sectors, and how a transport approach may interface with others.

5 Recommendations

A sectoral approach for the land transport sector that can provide holistic support in terms of NAMA formulation, capacity building and implementation would provide developing country Parties with a means of achieving their policy priorities in relation to climate change mitigation but also wider sustainable development goals.

Developing eligibility criteria that require Parties to also develop parallel land transport initiatives and establish processes that support the leveraging of finance from other external sources and the development of capacity to do so is also likely to have a catalytic impact on the development of land transport sectors.

The ultimate aim is to stimulate mitigation activities in the land transport sector to tap into its large mitigation potential. The approach seeks to achieve this by linking funding with the needs of developing countries.

There is a need for the transport sectoral approach concept and the benefits of adopting such an approach to be communicated at an international level. This will require in particular the support of Parties to the UNFCCC to propose the approach within the formal negotiating tracks.[10]

The recent 14th AWG-LCA session in Bangkok Thailand in April 2011 reconfirmed that sectoral approaches remain on the negotiating agenda in its subsequent sessions leading up to the COP17 in Durban.

In future, the idea of the transport sectoral approach could be "translated" into short paragraphs of key elements that could be part of an annex or basic document for the expert panel that establishes the Green Climate Fund.

[10] Leading up to the COP16 in Cancun, the agricultural sector was the only sector apart from forestry and international transport that is explicitly mentioned in the context of sectoral approaches. The authors propose that explicit mention is also made to the transport sector to support the development of a transport specific approach.