

Editorial

Dear Reader!

The upcoming UNFCCC conference in Cancún is expected to yield a set of decisions on elements of a future climate agreement to be further elaborated in 2011. In this phase of transition and of a slowly emerging new climate policy framework, experiments and pilot projects can help paving the way for new mechanisms and concepts as they provide important insights and experiences, which can then be fed back into the negotiations.

Against this background, this issue looks at the development of Nationally Appropriate Mitigation Activities (NAMAs) by developing countries and report on ongoing work on a NAMA in the Mexican buildings sector. This activity will be presented as one of the first elaborated NAMAs at the Climate Summit in Cancún.

Further, we look at the concept of Standardised Baselines and ask how this concept could be transferred to transport projects, a sector so far widely underrepresented in the CDM. An opinion piece addresses the latter fact and lays out the vision of a special transport sectoral approach in order to bring forward mitigation activities in this field.

On behalf of the editorial board, I wish you an informative read!

Christof Arens

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JIKO Analysis

Carbon Markets post 2012

Pilot Projects Show the Way to New Market Mechanisms

By Silke Karcher and Thomas Forth, BMU

Despite the slow progress of the negotiations on future climate policy post 2012 and the vague negotiation text on the flexible mechanisms, there has been increasing interest in developing Nationally Appropriate Mitigation Activities (NAMAs) as well as in projects and programs piloting the advent new market mechanisms. Recently, the German Federal Environment Ministry BMU initiated or extended the support for a number of pilot initiatives aligned with this encouraging trend. Apart from prolonging the activities of the KfW PoA Support Center and the GTZ CDM country manager network, the Ministry will be focusing on the development of NAMAs.

The current debate on the future market mechanisms focuses on NAMAs and the possible design or a reform of the CDM. Furthermore, a lot of emphasis could be noticed in the programmatic CDM and in the discussion of standardized baselines.

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Germany Supports Mexico in a NAMA Concept for Low-Carbon Growth in the Residential Sector

By Matthias Krey, Perspectives Climate Change

The Mexican government is currently developing a programme for GHG reduction in residential housing and to promote the innovative Nationally Appropriate Mitigation Actions (NAMA) approach to tackling climate change, with the intention of attracting support and investment at the Cancún climate talks in December.

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Pilot projects show the way to new market mechanisms

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German Federal Environment Minister Dr. Norbert Röttgen underlined at the CarbonExpo fair earlier this year that the programmatic CDM should build the bridge to more advanced and sectoral-based mechanisms. Against this background, BMU is supporting activities piloting some of the discussed schemes.

to serve as a platform for the use of carbon market mechanisms will have to be approved at UN level under a uniform procedure. In this context, it should be recalled the UN level is the only suitable level to guarantee a volume of market activities mobilizing enough resources to contribute significantly to 2°C target.



CDM project or credited NAMA – in emerging economies such as China or India these two concepts might compete in the future. Our picture shows the CDM project Taiyanggong CCGT Trigeneration plant in Beijing, China.

Photo: Mi Wenju / UNFCCC photo contest.

The NAMA activities will not only support developing countries addressing the most urgent climate adaption and mitigation issues, but they will also lead to a clarification as to what extent international support will be needed. For mitigation, the possible role of the carbon markets will also be explored. BMU expects as one of the prominent outcome that the exhausting issue of additionality could be solved in a more rational way, covering emission reduction measures in a broader scale. Certainly this will not be a one step approach. NAMAs intended

Germany is actually going to support the development of concrete NAMAs and further measures related to climate policy, cp. the article "Germany Supports Mexico in a NAMA Concept" in this issue. As for the programmatic CDM, our aim is to support programme development in countries and sectors with promising potential, but where the carbon market does not provide enough incentives for private activities directly.

All these activities have the character of pilot

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projects. We strongly believe that such pilot projects developed worldwide in a huge number and on a large scale could help paving the way for new and reformed project-based mechanism including sectoral approaches in the next few years. However, this will only work if sufficient financial resources can be mobilized in order to bridge the potential gap between the first and second commitment period of the Kyoto Protocol.

Lessons Learnt from AIJ and the Marrakech Accords

Pilot projects can have a few positive supplemental side effects. Taking into account the experiences from the time before CDM and JI entered into force one could differentiate two steps of preparation: the AIJ pilot phase and the elaboration of the Marrakech Accords.

The AIJ pilot phase was a relative low key activity, especially with regard to the underlying “learning by doing”-approach. No incentives for the private sector, no targets resulted in only a few countries participating. In the end, the limited number of 156 projects were listed at the UNFCCC secretariat and the effect to combat climate change is neglectable. No one could learn from these projects how the private sector can be mobilized and how the additionality of emission reductions can be ensured.

The lack of results of the AIJ phase was compensated by the top-down negotiations of the Marrakech Accords. The ongoing process of new decisions on CDM rules by the CDM Executive Board and the huge amount of CDM reform items demonstrate the limits and the inappropriateness of this combination of top down decisions and the not ending adjustments during implementation. On the other had, after 5 years of learning by doing, a large body of experiences and knowledge was built, especially with regard to the methodologies.

Outlook

These experiences could be built upon in the designing phase of new and advanced market mechanisms. A key challenge will be to base new decisions and guidance on rules on the principle of materiality. This should lead to the immediate acceptance of projects and programmes if only minor adjustments would be necessary, while at the same time safeguarding ecological integrity and the calculated additional emission reductions could be verified. As already mentioned, NAMAs could be the key for future market mechanisms. A clear understanding of a country's capacity to use its national resources should build the pivotal point to decide on NAMA support and the use of market mechanisms.

Therefore, we need both sufficient pledging of money for pilot projects and programs in the upcoming years, but most notably we need the readiness of developing and developed countries to start the work now and to begin with it jointly.

Glossary / Abbreviations

All CDM/JI-specific terms and abbreviations are explained in detail in a glossary on the JIKO website at www.jiko-bmu.de/459

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Germany supports Mexico in a NAMA concept for low-carbon growth in the residential sector

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Find out more on PECC at <http://www.semarnat.gob.mx/English/Pages/home.aspx>



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growth and NAMAs.

Mexico's low-carbon growth ambition

Mexico has already formulated a unilateral NAMA which is Mexico's Special Climate Change Program (PECC).

The Program defines a large number of greenhouse gas mitigation actions to reduce a total of 51 Mt CO₂e by 2012 across Mexico. This is a 6% reduction compared to the current trend. Part of this package of programs is the "Efficient housing and green mortgages (Vivienda eficiente e hipotecas verdes)" program which has been developed by the National Housing Commission (CONAVI) and is run by the National Workers' Housing Fund INFONAVIT. The measure is expected to contribute 2.4% of emissions reductions to the PECC 2012 goal.

The PECC also sets general guidelines to establish an ambitious Mexican emission reduction pathway towards 2030 and 2050 that Mexico wants to follow if a multilateral agreement at the UNFCCC is agreed. Mexico is requesting technical and financial support of the developed world to assist the country in achieving this vision.

Delivering scaled-up emission reductions in the Mexican residential sector through a NAMA

For helping to achieving PECC's long-term ambitions, Perspectives Climate Change is currently a NAMA concept for energy efficiency measures in the new residential housing sector of Mexico for CONAVI and the Mexican Environment Ministry. The aim is to combine and build on on-going and planned Mexican GHG reduction programmes that target the national housing sector under a NAMA concept. This will be undertaken in such a way that the NAMA is practically implementable and looks attractive for donors to support the NAMA further. The NAMA concept is to be showcased at Cancún in December this year as one of a very few NAMA pilots that will have advanced to such level of detail.

The NAMA design primarily focuses on scaling-up two existing programmes that currently

provide the main incentives for energy efficient housing:

- ▶ The "Ésta es tu casa" ("This is your house") Program is a subsidy programme established by CONAVI in 2007 that provides a subsidy for low income workers for buying a new house that fulfils the minimum energy efficiency requirements of the Program (e.g. efficient lighting, insulation norm, heating norm).
- ▶ The aforementioned "green mortgage" scheme under the Climate Change Program currently provides an extra credit line on the original loan mortgage to INFONAVIT members for incorporation of sustainable and energy efficient technologies, such as solar water heating and efficient lighting.

Under the NAMA, the economic incentives for house owners under both programmes would be increased. The inclusion of mandatory buildings codes and transformation of the programmes into a country-wide holistic urban planning process could also be an option. This would allow the NAMA to create a larger national demand for energy efficient housing utilising more (costly) energy efficient technology options (e.g. more efficient refrigerators and air-conditioning systems, use of Photovoltaic technology, etc.) than is currently the case.

The main task until Cancún will therefore be to define a catalogue of minimum technical requirements for the houses to benefit from the NAMA. The level of ambition in terms of technology standards will need to correspond with an appropriate level of economic incentives for the house owners to be willing to abide by the standard. The NAMA would also incorporate so called "soft measures" such as capacity building and training for architects, home builders and engineers and outreach campaigns in the media.

The "new" standard per house coupled with the target number of houses to be constructed under the NAMA (for example several 100,000 houses from 2013 to 2020) will determine the overall necessary financial requirements for the NAMA to be successful.

Nationally Appropriate Mitigation Actions (NAMAs) for Low-Carbon Growth

Nationally Appropriate Mitigation Actions (NAMAs) are a concept coined at the international climate negotiations in Bali in 2007. A NAMA describes voluntary activities for emissions mitigation in developing countries that are not subject to mitigation commitments. At the Copenhagen climate negotiations in Copenhagen in December 2009, industrialised countries have committed to mobilise up to 100 billion \$US a year by 2020 to address the needs of developing countries. The formulation and development of NAMAs is seen as a promising means in this regard, as the developed world has promised technical and financial support for such programmes.

NAMAs are usually designed for a whole sector. Within this sector the NAMA can either supplement or incorporate financing for emissions reductions mobilised by the carbon market, including e.g. the CDM. How this can practically take place still needs to be agreed at the UNFCCC level at the Cancún Climate Conference at the end of the year. The views are different regarding

the institutional structure to support NAMAs as well as the different ways for the measurement, reporting and verification (MRV) of underlying measures. However, NAMAs can basically be categorized as follows:

- ▶ Unilateral NAMAs: mitigation actions independently funded and carried out by developing countries
- ▶ Supported NAMAs: climate protection measures in developing countries, supported by technical assistance and/or direct funding for climate protection from Annex I countries of the Kyoto Protocol ("directly" supported NAMAs)
- ▶ Credited NAMAs: climate protection measures in developing countries, that generate certified emission reduction credits to be sold on the international carbon market (e.g. sectoral mechanism).

Further information on NAMAs in JIKO Policy Paper 02/2010, see www.jiko-bmu.de/957

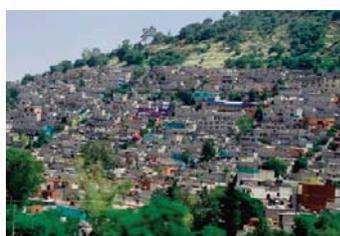
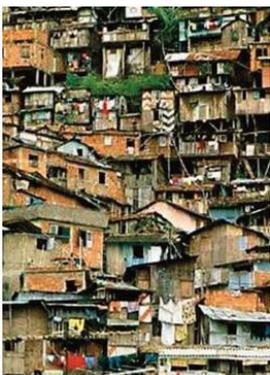
Once the financial needs are established, the sources of financial flows towards the NAMA will need to be established. In principle, the NAMA could receive finances from domestic Mexican funds, financial assistance from donor agencies under the supported NAMA concept as well as from the generation of credits for the carbon market. The latter option could include the development of a CDM Programme of Activity or a credited NAMA for those technologies that are especially costly and for which additionality can be demonstrated. The NAMA concept as currently discussed under the UNFCCC would require an own financial contribution by the country hosting the NAMA.

Next steps after Cancún

The current work plan ends at COP16 with the outreach to the donors. After COP16, Mexico will require further support from donors to enter into "Phase 2" of the NAMA development. During that period, the NAMA concept and the underlying GHG reduction programme will need be further detailed, refined and developed into a full and implementable programme encompassing final legislative, institutional, financial and GHG accounting frameworks as well a dedicated Programme Office for implementation. In this sense, Mexico will be pioneering NAMAs at Cancun and will hopefully make the necessary further step towards actual NAMA implementation and operation, possibly before the end of 2012.

Informal dwellings and newly built energy efficient houses in Mexico City.

Photos © Infonavit



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Standardised Baselines for Urban Passenger Transport – No Quick Solution for Fostering Modal Shift

By Urda Eichhorst, Wuppertal Institute

Standardised baselines (SBLs) are aimed at simplifying the determination of baseline emissions in CDM projects. Standardisation shall lower transaction costs of individual projects, increase their objectivity and predictability. Furthermore, it is hoped to improve the regional and sectoral distribution of the CDM by simplifying the preparation of PDDs.

To date, increasing numbers of default values are available for many tools and methodologies and several methodologies rely on benchmarking. In transport, however, only default values for fuel emissions and vehicle efficiency are employed so far. Performance benchmarking has mainly emerged from rather homogeneous sectors. Capturing the transport sector with its multiple mobile emitters, diverse factors determining transportation performance and extremely variable circumstances across and within countries in SBLs is a much more daunting endeavour.

The Wuppertal Institute on behalf of the Asian Development Bank assessed the opportunities for SBLs in urban passenger transport, especially in Bus Rapid Transit (BRT) projects. We analysed lessons from current climate finance and systematically compared existing methodologies for calculating baseline emissions from BRT projects, among them two CDM methodologies (AM0031 and ACM0016).

The study employed the ASIF model as analytical framework to assess which indicators influencing emissions of BRT projects may be



The CDM project BRT Transmilenio in Bogotá, Colombia.
Photo © gtz/Transmilenio

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suitable for standardization. The ASIF framework is often used to quantify transport-related emissions, in which emissions are a product of:

- ▶ **(A)** the total transport activity or the demand in person-kilometres,
- ▶ **(S)** the modal structure
- ▶ **(I)** the energy intensity of each mode (modal energy intensity in MJ/person-km)
- ▶ **(F)** the carbon content of the fuel used in each mode.

Each of these parameters itself entails different indicators, for which data is needed.

The transport sector encompasses multiple mobile emitters, is very diverse and suffers from notoriously poor data availability or quality, especially in developing countries. Consequently, the two largest challenges to developing SBLs for BRT (and other transport projects) are:

- 1) Defining a system boundary suitable for standardisation, i.e. one that is comparable across all project activities, and
- 2) the increased upfront burden of extensive and reliable data collection to construct intensity benchmarks or define default values that are robust and representative.

Preconditions for setting SBLs in the transport sector

To establish baseline curves and distinguish between business-as-usual and superior practices, data needs to be disaggregated and recent.

Setting an appropriate aggregation level is a key determinant of how effective a SBL is likely to be. Aggregation can be done according to transport sub-sector, technology, and geographical area. A trade-off between simplification through standardization and the ability to grasp local circumstances will always prevail. Highly aggregated SBLs would be applicable to high numbers of projects. However, they will not be able to capture country- or region-specific differences and may thus easily lead to over- or under-crediting of reductions. So, relatively small geographical scopes may be required.

The high local variability of transport systems and behaviour across but also within countries calls for a larger data sample to ensure comparability than necessary in more homogenous sectors. In addition, the rapid dynamics in transport developments in developing countries will require constant updates of SBLs. This



BRT bus station in Changzhou, China.
Photo (c) gtz/Chen

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raises the question whether the effort to gather the necessary data (if at all available) for standardized baselines would in fact be significantly smaller compared to a project-based approach.

Standardised Baselines for CDM Projects

The current process for developing baseline methodologies and baselines in the CDM is fraught with high transaction costs and the reliability of baselines is often questioned. One proposal to lower transaction costs for projects and enhance the objectivity of baseline setting is to develop standardised baselines (SBL). CMP 5 in Copenhagen took up this proposal and mandated the Subsidiary Body for Scientific and Technological Advice (SBSTA) to develop modalities and procedures for the development of SBL and forward a draft decision to the next climate conference this year in Cancún.

A baseline is said to be standardised when key parameters are not specified on a project-by-project basis but instead a standardised value or approach is applied to all projects meeting certain criteria. This can apply to all projects of a certain sector, sub-sector or category within a geographical boundary or even globally. Therefore, SBL are also called multi-project baselines. One possible example is to define a standard emission intensity for the production of a specific product in a country, such as electricity production from a specific fuel.

Standardised approaches are not completely new to the CDM. They have already been employed in some methodologies, mainly in one of two forms:

1. Emission intensity or performance benchmarks for a certain activity, sub-sector or sector. This approach is applied for example in approved methodology 0070 for efficient refrigerators, where a benchmark is calculated for the specific electricity consumption for respective storage volume classes and designs.
2. Default emission factors or values. Default factors are pre-defined values for a variable, such as fuel emission factors, based on empirical evidence. One widely used example are electricity grid emission factors.

However, these approaches have so far emerged more or less by chance as methodology development under the CDM has so far been a bottom-up process. The idea behind the new discussion is to have a directed top-down process for the development of SBL.

The SBSTA meeting in May/June this year did not come to any substantive conclusions on SBL. Instead, SBSTA invited governments, intergovernmental and observer organizations to submit options to address all relevant issues by 16 August 2010, with particular focus on the questions such as: scope and priorities of the development of SBL; whether SBL should be mandatory or optional; access by underrepresented regions, subregions, sectors and LDCs to the CDM; level of aggregation and boundaries; data quality, availability, collection and confidentiality. The UNFCCC Secretariat is going to prepare a technical paper on the basis of the submissions for consideration at the next SBSTA meeting in Cancún.

The BRT Example

Regarding **BRT**, our analysis showed that existing climate finance mechanisms already employ some default values for fuel emissions and fuel consumption. However, most data remains project specific. Only partial standardization of BRT baselines will be possible. BRT baselines largely depend on modal structure, which differs from city to city, making baselines not easily comparable across projects.

Looking at the **ASIF** elements, total transport **activity** encompassing the total passenger travel for each mode and modal structure are the most variable parameters and therefore least suitable for standardization. For BRT baselines the (expected) total number of passengers (A) on the new BRT system must be known in order to assess the baseline emissions of those passengers. This information is clearly project-specific and cannot be standardized.

The prevailing modal **structure** (S) in a project city (or project area) is relevant for emissions calculation through the trip length and transport modes used in absence of the BRT system. Both are dependent on the local context. Coherently, BRT methodologies generally require these data to be assessed locally either on the basis of existing statistics or on the basis of targeted traffic counts and new surveys.

Modal energy **intensity** (I) is a compound of vehicle efficiency, usage and occupancy. Several methodologies already use default factors for fuel efficiency of different vehicle types and fuels based on IPCC values adjusted to local vehicle technology and age. The GEF also uses default factors for fuel efficiency at 50kmph in combination with fixed speed adjustment factors for emissions. To take a further step in standardization of modal energy intensity, however, standard values would be needed for the average vehicle technology and age, average occupancy rates and speeds. All these factors vary according to local circumstances, such as wealth, local transport systems, level of motorization, mobility culture etc.

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Developing a default value for average vehicle technology and age can essentially be seen as a benchmark for vehicle efficiency, when combined with existing defaults for fuel consumption (IPCC or national values). Energy intensity benchmarks might also be developed for public and commercial vehicle fleets. This would, however, require gathering substantial amounts of data on fleet ages, vehicle technologies and related fuel consumption to be representative. To avoid overcrediting, the benchmark would have to be conservative and ultimately require a political decision at which level to set the crediting baseline.

Speed and occupancy rates are highly dependent on local characteristics of the transport system, as well as on mobility culture and do not appear suitable for standardization in terms of a fixed default value. Instead, data must be gathered on a project basis, but fixed speed emission adjustment factors as used in the GEF draft BRT model could be applied to account for emission differences due to speed.

Using default values for the carbon content of fossil **fuels** (F) is already common practice with projects relying on conservative IPCC values if national or local fuel emission standards are not available. It is furthermore standard in the CDM to calculate emissions from the biofuel share in blended fuels as equal to zero. Upstream emissions from fuel production are usually not included in these default values and need to be assessed separately if they are considered.

So, while default values can be and are being used for fuel efficiency and fuel emission factors, in the end, no single benchmark can be developed for BRT interventions, since baseline emissions depend on a set of different indicators that cannot be easily aggregated into one unit or generalised across project activities in different localities.

Conclusion

Clearly, standardising baselines or parts thereof is not a quick-fix solution for mitigation in transport. It will take considerable time and resources until representative data is gathered and analysed – and not least until a benchmark level will be agreed upon. Any standard will need to be conservative to ensure the environmental integrity of the CDM. Applying conservative standards may however make CDM activities less attractive for project developers as fewer credits can be gained. What's more, standardized baselines will not solve the problem of demonstrating additionality, because carbon revenue will always be minimal relative to the overall investments and co-benefits in, for example, BRT projects.

Overall SBLs seem better suited for technological improvements than projects that need to capture the effects of behavioural changes, such as modal shift.

For climate finance instruments, which do not result in tradable credits, there may be more room for standardisation. This applies, inter alia, to uncredited NAMAs or GEF projects. In these cases, precision (of the exact amount of emission reductions) is less important than ensuring that projects are being implemented and that emission reductions are actually happening. Thus, default values with a higher level of uncertainty may be justifiable in the name of simplification (and therefore reduction of transaction costs actually leading to higher economic efficiency) in non-offset projects.

This article is an adapted excerpt from „Exploring standardised baselines for CDM and other carbon finance mechanisms in transport“ (Eichhorst et al., 2010). The report was part of the Climate Instruments for the Transport Sector (CITS) study, commissioned by the Asian Development Bank (ADB) and the Inter-American Development Bank (IDB).

Download at <http://www.slocat.net/adb-idb-slocat-release-consultants-report-on-transport-namas/>

**JIKO
Discussion
Platform**

Reducing Emissions Through Sustainable Transport (REST) – A Proposal for a Sectoral Approach in the Land Transport Sector

By Ko Sakamoto (TRL) and Daniel Bongardt (GTZ)



Ko Sakamoto is a transport economist at the UK Transport Research Laboratory (TRL). His current focus is on international climate change policy, and financing mechanisms for sustainable transport.

Climate change mitigation targets cannot be achieved without action in the land transport sector. The sector is responsible for 23% of global CO₂ emissions from fossil fuel consumption and 15% of all GHG emissions. There is therefore a large potential for the transport sector to contribute to the globally required mitigation effort. In the following, we propose a sectoral approach as a means to increase the potential for GHG mitigation in the land transport sectors of developing countries in order to the barriers for low carbon and sustainable transport.

A recent analysis of the Nationally Appropriate Mitigation Actions (NAMAs) submissions to the Copenhagen Accord shows that a total of 26 countries out of 43 who have submitted their NAMAs mention actions in the land transport sector. This indicates a high priority by developing countries for further mitigation actions in this sector. However, Transport CDM projects so far suffer from a number of barriers, among them financial, institutional as well as methodological barriers, cp. also the preceding article.

In order to overcome these hurdles and to meet the needs of developing countries, we suggest a sectoral approach aimed at Reducing Emissions through Sustainable Transport (REST). This approach should be built on the following key features:

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 Copenhagen Green Climate Fund or any other longterm climate financing instrument to be agreed by the COP

As outlined in figure 1, the formulation of NAMAs could trigger support for capacity building on sustainable transport options such as integrated urban and transport planning,



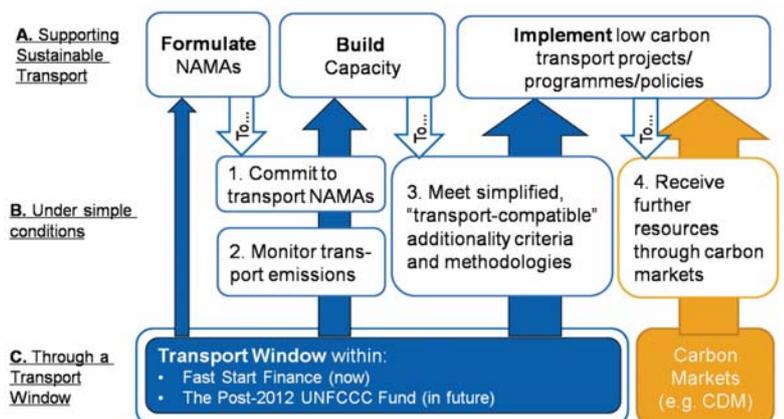
Daniel Bongardt is transport policy advisor at the German Technical Cooperation (GTZ) headquarter in Germany. He is coordinating the bridging the gap initiative as well as transport and climate change related activities at GTZ.

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

Figure 1: Suggestion for a sectoral approach for land transport



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The Bridging the Gap Initiative

"Bridging the Gap – Pathways for Transport in the Post 2012 Process" is an initiative of Veolia Transport, TRL, GTZ, ITDP and UITP. It aims at making climate policy work for sustainable transport in developing countries. The Bridging the Gap Initiative is ready to discuss details and options with those who are interested. E-mail the authors or visit the Bridging the Gap Initiative's stand at COP16. ITDP's side event on December 4th at 8.15 pm will also feature the REST proposal. More information can be obtained from www.transport2012.org.

high quality and rapid public transport, rail, transport demand management, and fuel economy standards. Capacity building may also help countries quantify the emission reductions of such interventions. This will in turn enable more project activities to access financing, including from market mechanisms such as the CDM or other new instruments. Scaling up sustainable transport projects in this manner will also bring various co-benefits (access for the poor, better air quality, reduced congestion, energy security and many more).

The following considerations should be addressed in consultation with host countries:

- ▶ The **source and scale** of revenue for the resources of the transport window and their mix.
- ▶ The exact **split of resources** between the three streams of support for NAMA formulation, capacity building and implementation of policies, programmes and projects, cp. figure 1.
- ▶ A possible **governance** scheme for the approach, which may involve an independent Expert Panel including transport experts from both developed and developing countries.

Further information:

The full draft proposal of the REST approach can be downloaded at: http://www.transport2012.org/bridging/ressources/files/1/817,Transport_sectoral_approach_18-08-20.pdf

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