CITY FINANCE LAB

Climate-KIC

south pole

BOLOGNA'S MUNICIPAL CARBON MARKET

a replicable platform for financing local climate action

About the City Finance Lab

The City Finance Lab, a joint initiative of South Pole and Climate-KIC's Low Carbon City Lab (LoCaL), is Europe's leading platform supporting the development of innovative financing solutions geared to increase investment in low-carbon, sustainable urban projects. The City Finance Lab aims to mobilise €500 million over the next five years for the transition to low-carbon sustainable cities.

Find out more at
www.cityfinancelab.com

Background

The global diffusion of national and regional carbon pricing initiatives is growing, with 15% of global GHG emissions in 2017 covered by a carbon price. This has led to the development of innovative approaches using carbon pricing to stimulate investments into climate mitigation activities.

The City of Bologna developed its Sustainable Energy Action Plan (SEAP) in 2012 to reach 20% CO_2 reduction by 2020. Half-way through the period covered by the SEAP, the city had only reached 19% of its targeted emission reductions, demonstrating the need for further support to accelerate the urban transition. A previous initiative conducted in Bologna demonstrated high interest of businesses in the region to offset their emissions through local climate mitigation projects. Nevertheless, technical and legal barriers impeded the successful implementation of a municipal carbon market.

Innovation

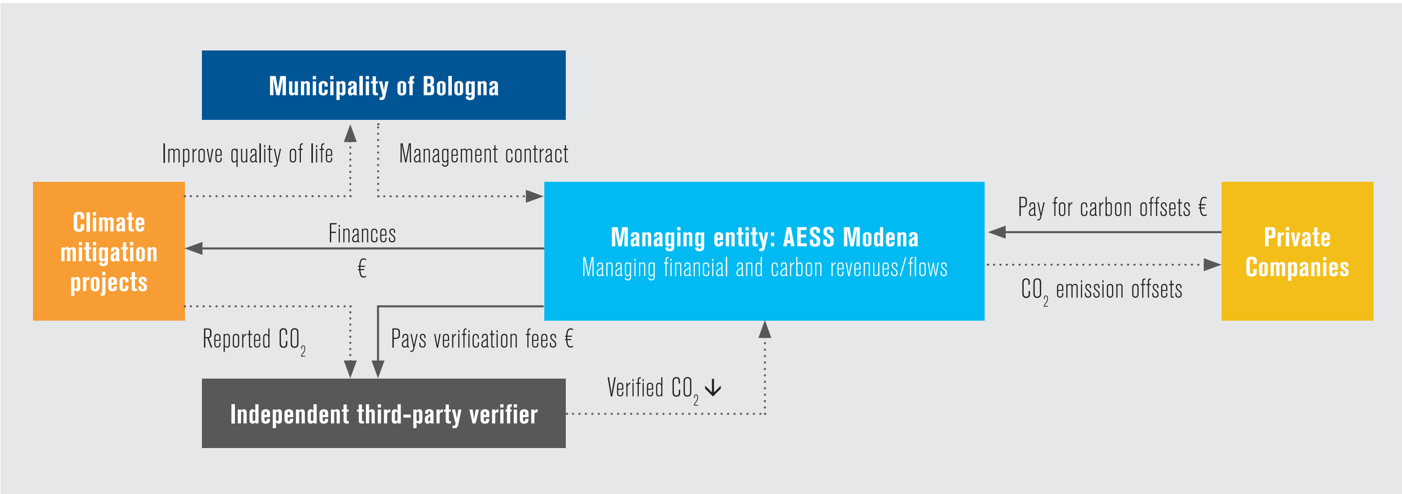
Although carbon markets at national and international levels are widely used mechanisms, their impact at the municipal level has yet to happen. The increasing commitments of private companies towards sustainability, climate neutrality and the desire to create benefits for the local community, creates a demand pull for local climate mitigation projects.

A municipal carbon market innovates by providing the private sector with an investment opportunity through local climate mitigation projects. The Bologna Carbon Market (BOCAM) will accelerate local private sector investments into city-level climate mitigation projects by creating a voluntary offsetting scheme. Such an approach, once successfully implemented, can easily be replicated in other industrial regions of Italy/Europe where the demand for local climate mitigation projects is equally high.

Technical Advisory Process

Identifying barriers	• Avoiding double counting of emission reductions (ER) • Finding the adequate internationally-recognised MRV methodology • Defining how to operate the transfer of revenues from local carbon credits to the urban projects
Addressing the identifying barriers	• Identifying the most suitable MRV approach • Identifying the means and associated management policies of BOCAM • Identifying which additional businesses are interested in BOCAM • Defining the financial and ER accounitng mechanism
Conclusion of the TA activities	• CARTESIO guidelines in their current state are appropriate for BOCAM • Domestic certified carbon credits managed by AESS Modena with the revenues allocated based on a portfolio of future projects • New industries will be targeted in 2018 • ER under the local carbon market will not be eligible as ER towards Italy's goal under the Paris Agreement.

Final design of the carbon market



"The City Finance Lab was instrumental in the development of a robust local carbon market for industries of the city of Bologna, through tailored advisory services to alleviate existing financial and legal barriers. The scaling of the local carbon market will help the city transition further toward a low-carbon resilient state."

Giovanni Fini
Expert in energy efficiency and urban sustainability policies, City of Bologna

Steps towards implementation

Following the successful conclusion of the TA activities, the recommendations of the TA team for successful implementation of BOCAM are the following:

- Create a simple framework for the accounting of emission reductions of the local mitigation projects, in line with the CARTESIO guidelines.
- Set up the mechanism by which AESS Modena will manage the certified carbon credits and redistribute revenues to a portfolio of future projects
- Conduct additional outreach and stakeholder engagement, to evaluate projects with large emission reduction potential.
- Construct a strong pipeline of climate mitigation projects, and collect sufficient data to develop the Project Design Documents.