

Transparency International
Submission regarding the Validation Process of the Clean Development Mechanism

To the Clean Development Mechanism Executive Board
Upon its request of 15th July 2011, the 62nd Meeting of the Executive Board (Ref: CDM-EB-62)

Transparency International recognises the critical nature of the Clean Development Mechanism (CDM) validation processes. The validation processes lend to the credibility and legitimacy of the CDM, its projects, project participants, Designated Operational Entities (DOEs) and Designated National Authorities (DNAs). These processes are challenging given both their frequency and scope in light of numerous complexities. Validation processes may be strengthened by becoming or enabling robust monitoring mechanisms which aim to address growing concerns regarding the inappropriate validation of projects, the verification of fictitious projects and the overestimation, double-counting or fraudulent trade of carbon credits.¹

This submission aims to suggest positive recommendations and provide useful observations for the further strengthening of the CDM validation and verification processes as described in the CDM Validation and Verification Manual (VVM). The main subjects are Conflicts of Interest, Sustainable development and Public Consultations. We welcome the opportunity to provide more detailed analyses and recommendations including best practice exemplified, if requested.

Conflicts of Interest

Conflicts of interest are a form of corruption. The CDM VVM S. III requires that DOEs apply principles of consistency, transparency, impartiality, independence and safeguarding against conflicts of interest and confidentiality in performing validation and verification and in preparing validation and verification reports. These are important principles to ensure the integrity of verification and validation operations under the CDM.

However, because project developers and participants contract and pay DOEs to provide validation and verification services, questions have been raised regarding the degree to which such integrity exercised.

Enhanced monitoring arrangements and compliance mechanisms to ensure that DOEs fully apply conflict of interest policies in their operations may further strengthen their capacities to fulfil these key principles.

Moreover, project developers and project participants being subject to robust conflict of interest policies and codes of conduct regarding their behaviour in connection to CDM projects can further strengthen the achievement of these principles in CDM projects.

Integrity pledges, special codes of conduct or other project specific contracting arrangements calling on all project participants to avoid corruption and act with appropriate levels of transparency, accountability and integrity should provide a useful means to ensure CDM project integrity. Enabling public scrutiny of

¹ Source: Transparency International's Global Corruption report: Climate Change, 2011.
See http://www.transparency.org/publications/gcr/gcr_climate_change2

parties to CDM projects through third-party, public oversight bodies provide additional assurances that project parties or participants are operating with appropriate integrity and avoiding corrupt practices. Incorporating such integrity practices with the CDM aims to add value to the credibility of the CDM validation and verification processes, to the quality of desired projects and their mitigation potential and to the antecedent goal of contributing to sustainable development.

Sustainable Development and the role of DNAs

The VVM explains that the DNA is to provide a letter of approval of a PDD which it confirms that the project contributes to sustainable development in its country. It appears that the DNA is solely responsible for the assessment of whether or not and how the potential project contributes to sustainable development is the host country. While the DOE validates the authenticity of the letter, it is not directly charged with validating the content of the letter or checking whether or not the DNA's sustainable development is correct or not.

While considerable research and analyses has been done to provide criteria for host country DNAs to review and assess the sustainable development value of a CDM project², it is not clear to what degree such criteria are required by the DNA within the CDM project validation process.

Adopting clear criteria to assess how CDM projects contribute to sustainable development can assist DNAs in their assessments and strengthen the transparency, accountability and integrity of the validation process. It provides a basis and opportunity for the DNA to support is sustainable development assessment and to consult with stakeholders, in particular those directly affected by CDM projects.

Stakeholder Consultations

Throughout the validation and verification process, the only time non-project participants such as civil society groups or local communities directly affected by CDM projects may voice an opinion is after a PDD has been validated initially by a DOE and made available for public comment by that same DOE.

This one-time, limited consultation process has been criticised widely for not enabling enough public participation to enable host country citizens to fully understand CDM project impacts. Local actors need to be empowered to understand the chains of accountability under the CDM and in their countries and the key issues involved in order to be consulted in a meaningful way.

The CDM might embrace a longer term engagement with civil society actors in host countries. Independent, third party stakeholders could be enabled to monitor CDM processes locally. A number of NGOs are working with affected communities and citizens to monitor not only the design but also the contracting and implementation of CDM projects. Independent, third party public oversight throughout the project cycle compliments and strengthens the transparency, accountability and integrity of projects. Greater benefits are likely to result: a fairer and more transparent business environment, better quality projects at better value for money, greater climate change mitigation potential and goals reached, and more sustainable development benefits.

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² See e.g. <http://cd4cdm.org/Publications/CDM%20Sustainable%20Development%20Impacts.pdf>