

Submission to the CDM Policy Dialogue from University of Sussex and University of East Anglia
based on the research project **The Governance of Clean Development: CDM and Beyond**

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Based on a three year research project funded by the UK's Economic and Social Research Council, the following are our suggestions regarding issues the CDM Policy Dialogue might like to consider. Given the broad remit of the Policy Dialogue Panel, recommendations included below address the roles and mandates of the Executive Board, NCDMAs, The Secretariat, the CMP and issues concerning the broader role of the CDM. We are happy to discuss these further with the high-level panel or CDM Executive Board.

1. How to improve sustainable development benefits

Perhaps above all other issues, this issue needs to feature highly in the policy dialogue.

The CDM's mandate, as specified in Article 12 of the Kyoto Protocol includes both quantifiable emissions reductions through projects and, equally importantly for the developing countries that insisted on this, a requirement for projects to contribute sustainable development benefits.

This is not the place to review the substantial evidence so far, based on in-depth case study analysis (rather than asking project developers themselves whether the benefits they claimed would be delivered were in fact realised), that sustainable development benefits in the form of jobs, technology transfer and diffusion, health, environmental and a broad range of co-benefits have not, in most cases, been forthcoming. Our own work confirms findings of existing studies, however, that point to a systematic neglect of the SD contribution of CDM projects. This results from a lack of financial incentives, weak DNA capacity to check up on SD contributions and the absence (other than perhaps with Gold standard projects) of verification of whether SD benefits claimed in PDDs have really been achieved.

The dialogue might consider proposals to address this issue at EB level such as the withholding of a fixed percentage of CERs in the case of projects that fail to provide clear evidence that SD benefits have been achieved so that project developers take these more seriously.

Where national governments have not provided the checks on the sustainable development aspects of projects (incentives to quickly clear projects remain even if the capacity of DNAs is increased), there is perhaps a role for the EB to question projects for which there is evidence of poor process or where guidelines on stakeholder consultation and participation currently being discussed have clearly not been followed. Although processes for increased stakeholder consultation are ultimately managed by the NCDMA, the EB has an important role in promoting best practices, particularly through its guidance through the validation and verification standard (VVS). This would not involve dictating SD criteria to the NCDMA, but rather looking for evidence that a proper screening of SD benefits has taken place. In this respect the Panel may consider a potential role for civil society organisations in screening PDDs for SD benefits. The dialogue might also consider what sort of quantitative and qualitative tools might be necessary to value and reward SD benefits more effectively and the associated measures to ensure that designated operational entities include sustainable development criteria in verification procedures and arrangements for accessible and appropriately designed appeals/grievance procedures are in place for all stakeholders.

2. Tightening additionality & closing loopholes

A means of discounting credits should be considered (whereby developed countries could be required to purchase more than one credit to comply with a tonne of carbon abatement). It is widely recognised by parties on all sides of debates over the CDM that assessment of additionality involves subjective judgement over baselines and cannot achieve 100 per cent accuracy. Discounting CERs creates the possibility for the CDM to produce a net climate benefit, rather than a zero sum offset. Given the documented evidence of non-additional projects to date, this option would go some way to improving the environmental integrity of the current offset scheme, although it is not a replacement for improvements in the assessment of additionality, particularly for capital intensive projects.

On a similar basis, the Panel should consider the role of clear and quantified supplementary limits to the use of offsets by developed countries, beyond the current situation in which offsets are to supplement a vaguely defined ‘significant element’ of domestic action. Differentiated discount rates (with more favourable conditions for projects in under-represented countries or projects providing significant development benefits) could be used as a financial instrument in addition to considerations of valuation of SD benefits (see 1. above).

Given some of the problems noted above about weak capacity, poor levels of consultation around projects and lack of monitoring during and after project completion, we have concerns about ‘sampling’ proposals, where random additionality checks are undertaken on approved projects. The high chance that most projects will escape scrutiny means that some unscrupulous investors may take a risk on investing in projects of dubious additionality on the basis that any fine they receive would be far lower than profits made overall on their project portfolios. Such issues would also need to be addressed if approval of methodologies and even issuance of credits is ultimately devolved to the national level as some project developers are calling for. The Panel should therefore prioritise gaining a broad range of views on the potential impact on the environmental integrity of the CDM from the range of standardisation and procedural streamlining efforts that the CMP has requested of the EB. This is particularly important given the role of the CDM in informing new mechanisms such as sectoral crediting.

3. Capacity

Especially in the light of EU proposals to source CERs after 2013 from least developed countries, there will need to be a need to considerably upscale capacity-building efforts for DNAs, DoEs and NGOs able to monitor national and project level decision-making processes. This is something the EB might call upon donors to provide as part of the dialogue.

This shift in geographical focus also means donors might enhance their efforts to proactively identify and fund projects with the highest expected development returns- rather than those which project developers and DoEs identify as having the highest potential to generate CERs.

4. Credible Verification

Many of the problems the CDM faces relate to the limited capacity or instances of collusion among DOEs. The submission of poor quality PDDs has led to several high profile DOEs being suspended and triggered debates about liability when excess CERs are issued for projects whose non-additionality later becomes clear.

As has been made clear at various EB meetings and exchanges at CMPs, the EB relies on DOEs to produce good PDDs that clearly demonstrate additionality & SD benefits. IETA and others, particularly in the wake of the McKinsey report in 2009, are calling for stronger mechanisms of appeal and redress regarding EB decisions. This is fine and the EB has clearly taken steps in this direction, but there needs to be greater accountability the other way- of DOEs to the EB.

The Policy Dialogue might consider securing a mandate from the CMP to be able to strike off DOEs for good after repeated suspensions: 3 (or some such number) strikes and you are out. In other words repeated and consistent evidence of failure to do the job required of DOEs means they are ultimately de-registered. This may seem harsh and there are clearly issues of lack of DOE capacity in many countries, but the EB's credibility is ultimately at stake amid claims of so much dubious additionality. It may ultimately be the case that the EB has to have its own DOEs that project developers pay for that are more accountable to the EB than the project developer that pays them. This may help to address some of the issues of collusion among DOEs.

5. Strengthen EB capacity

If the CDM is to be scaled up over the coming years through increases in PoAs or NAMA related projects, or as other countries generate demand through their own trading schemes (Australia, Korea, China?), the dialogue might revisit calls for a more permanent and institutionalised role for the EB if the resources are available. Proposals to delegate more work to technical panels by project type and size may be also help to lighten the load.

6. Aligning with existing national strategies, financial flows & mechanisms

The policy dialogue might consider how the CDM can best add value and create synergies with other policy initiatives to generate finance for low carbon development. Over seventy countries are in the process of voluntarily developing Low Carbon Development Strategies. Taking priorities identified under these as a basis for generating relevant methodologies, identifying potential investors, or as a basis for promoting sustainable development priorities might help CDM finance add value and multiply benefits.

Related to this is the need to engage with developments around the Technology Mechanism: can the EB provide useful insights based on its experience about how to design an executive committee? Can the TNAs that many countries have undertaken be used strategically to attract CDM to those technology gaps identified or sectors highlighted?

7. Technology Neutrality

The dialogue might usefully consider the issues of 'technology neutrality' in light of recent decisions among key actors regarding HFCs and super-critical coal projects in India where additionality has been found to be lacking. For the CDM to be able to demonstrate its worth as a driver of low carbon development amid so many other initiatives from other actors and institutions, it is critical that it is seen to concentrate its efforts on clean energies and not lend support to fossil fuel intensive industries. This would have to be a CMP decision of course, but could form part of the EB and high level panel reflections about the future niches the CDM can effectively fill. A similar rationale could be adopted to ensure that low cost, high abatement projects are reserved for domestic action in LDCs such that CDM projects play a more transformative role in more challenging sectors and technologies.