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Briefing 03
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The Governance of Clean Development: CDM and Beyond
A research project at the University of East Anglia and University of Sussex

Governing Clean Development: what have we learnt?

The Clean Development Mechanism (CDM) forms a key part of the international community's attempt to reduce greenhouse gas emissions, but continues to fall short on its promise to provide sustainable development benefits in developing countries. Research by the Governance of Clean Development Project suggests that current reform agendas will do little to rectify this unless important aspects of the politics and governance of clean development are addressed. This briefing outlines the need to change the political relationships that determine who benefits from the CDM, which go beyond reducing market transaction costs or overhauling the formal institutions of CDM governance. Policies are required that recognise these challenges and create opportunities to drive significant changes in how governance works for both climate and development.

Key Messages

- Strong and effective institutions from local to international level are required to steer the CDM toward climate and development goals.
- Local communities and the public have few opportunities to directly engage with CDM procedures and little political influence over CDM policy. Access to information is not the same as representation.
- The potential of the CDM to reach citizens bypassed by other forms of finance can be enhanced by aligning the CDM with national policies and coordinated donor initiatives.
- The political barriers to the uptake of clean technologies run deeper than carbon markets and the scope of technocratic reform programs. Wider political changes are required.

Good Governance and Beyond

1. Clean Development Governance: it's broken and it needs fixing. The CDM Executive Board has been he main focus of discussions about CDM governance. However, without stronger and more effective forms of governance from a range of institutions from local to the international level, the CDM and other forms of carbon finance can never form the basis of an effective response to climate change nor serve as a powerful vehicle to promote sustainable development. Strong, independent and credible institutions are required to address corruption in carbon markets, to properly assess project applications, to ensure that social benefits are forthcoming, and that the intended beneficiaries of these are involved in decision-making.

2. The Good Governance of Carbon Markets: There is a real danger that, left to its own devices, the CDM could become a 'rich man's club' of project developers, emissions verifiers and government officials in roles that overlap and rotate so frequently that any notion of independence and transparency is tested to the limit. Our research has found many examples of a revolving door between officials in Designated National Authorities (DNAs), project developers and verifiers – some even occupying more than one role at the same time. While most countries now have a DNA to approve and oversee CDM projects, few of them operate in a transparent and predictable way, many stand accused of collusion with project developers and their own accountability

> Who makes the rules and who takes the decisions has a strong bearing on who benefits

and redress mechanisms are often either weak or non-existent.

3. Don't forget the Local: Governance challenges at the local level have been almost entirely neglected. Yet local consultations and policy-processes provide the most common means for poorer groups (the supposed beneficiaries of many CDM projects) to engage with the CDM. Our research reveals many shortcomings in this process that urgently need to be addressed. Often announcements about consultations are placed in obscure media in non-native languages which are inaccessible for many people. Lack of transparency and monitoring can also be to the detriment of project developers who find hearings hijacked by local officials wanting a bribe in return for support for the project. Many local institutions – such as Panchayats in India – exist that could be used more effectively to identify projects for social benefits and impacts.

Governance and Politics: Business as Unusual

4. Whose rules rule? There is a strong link between procedure and distribution: who makes the rules and who takes the decisions has a strong bearing on who benefits. It is not realistic to expect all potentially affected

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Local institutions could be better utilised to increase local participation in CDM consultations and project design.

Trees for the Future (Panchayat)

> Governance processes at the local level have been almost entirely neglected

stakeholders to participate in all decisions all of the time; but public engagement in a process to establish overall sectoral and financing priorities for the country around energy, transport, agriculture and other sectors could form the basis of a proactive CDM policy to enable forms of investment identified as positive, progressive and beneficial to the majority of people. Developers would then be required to show clearly how they contribute to national goals and strategies over which there is a greater sense of popular ownership.

5. Power tools: There are many governance tools that governments can use to maximise the benefits they and their citizens receive from the CDM. These may include taxation or the application of wide-ranging sustainable development criteria. However, in practice, only more powerful governments can make use of them.

6. Politics, not just governance: Any amount of technocratic governance reform of procedures and institutions won't alter the fact that the politics have to change. Responding to climate change and poverty simultaneously means forming coalitions of actors with enough political power to overcome the resistance of 'incumbent' actors that depend on fossil fuels and often receive high levels of state support to remain profitable. The CDM is currently neither large enough nor profitable enough to change the commercial or political strategic calculus of large corporations (public and private) whose behaviour most needs to change.

Steering, aligning and adding value

7. As a driver of change in and of itself the CDM has minimal power. Irrespective of market size and the future price of carbon, CDM projects and finance have to be aligned with other funding streams and policy initiatives in order to make a difference. The question is how the value of the CDM can be enhanced by other policies and interventions. In India, for example, there is interest in how the CDM can be connected to a Renewable Energy Certificate trading scheme or aligned with the country's National Solar Mission. Governments need to be aware of the opportunities in forging such connections, and be clear about where the CDM can complement national initiatives.

8. The potential of the CDM lies in reaching sectors, regions and people that are unlikely to otherwise benefit from carbon finance. This must occur as part of a coordinated and multi-pronged strategy to support low carbon development. Since World Bank and UNFCCC climate finance is increasingly available for larger infrastructural projects and upgrades, CDM finance needs to maximise sustainable development benefits for the poor. Donor agencies such as DfID and GIZ have been playing a role in identifying and promoting CDM eligible projects with strong poverty reduction elements in India and South Africa. In Argentina, however, support for scaling up the World Bank programmes for renewable energy in rural areas, has not been integrated with efforts to attract carbon finance.

9. Donors have a clear role to play here but greater levels of coordination among them are required. This can ensure that interventions to support pro-poor CDM projects add value and are effective. With strong competition between donors to brand their own interventions and manage the large sums of money available in the area of climate change and development, cooperation and coordination to ensure that the greatest benefit is brought to the largest number of people often falls by the wayside. Given the challenges, an international climate finance summit may be in order to agree priorities and a workable division of labour among the many actors now operating in the area of climate finance and carbon markets.

Dealing with Blind Spots

10. From out of the shadows: In terms of making a serious contribution to tackling climate change, the CDM's role will remain minimal unless the day to day flows of finance in the energy, transport and other emissions-intensive sectors are subject to stronger forms of governance and regulation to steer them into low carbon forms of development.

11. Propping up Business as Usual: Our research has found plenty of evidence that CDM finance is seen as a useful extra revenue stream for large corporations keen to prop up existing investments in fossil fuels. In India Tata and Reliance are among the key players while in South Africa Sasol and Eskom are looking to carbon markets to support

“A key question is how the CDM can enhance other policies and interventions to re-direct carbon intensive finance”

Bruno Rodrigues (Coal Power)

Carbon-intensive industries have not been subject to the disincentives that are required alongside incentives for clean energy. Rather, many have received additional support from the CDM, at the expense of clean technologies.

> Technocratic governance reform of procedures and institutions won't alter the fact that the politics have to change

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Improvements in the efficiency of home cooking promise both savings in greenhouse gas emissions and benefits to households. Governance lessons from the past concerning top-down 'roll-out' of technologies must be learnt if carbon market programmes are to avoid repeating previous mistakes.

their core business. This is undermining the credibility of the CDM by prolonging the life of the very industries that most need to transition to a lower carbon economy. Even if a case for such support can be made in the volume of emissions reductions achieved, other forms of transition support can be provided. Support to fossil fuel industries is not an appropriate use of CDM finance when projects with strong environmental and social credentials are vying for attention.

12. These challenges won't go away. Indeed, if anything they will be intensified if Programmatic CDM and proposals for Sectoral or Policy-based CDM develop further, and as demand increases for projects from least developed countries. Politically engaged governance reform is not a luxury but a pre-requisite if carbon markets are to make an effective contribution to tackling climate change and promoting sustainable development: the mandate they were given nearly fifteen years ago.

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The project has analysed clean development governance in India, South Africa and Argentina, including the governance of the CDM and of other public and private institutions and mechanisms that govern clean development.

A range of project publications and dissemination materials are available online:

The Governance of Clean Development Project
www.clean-development.com