

Empowering National and Local Institutions to Promote SD from CDM

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Clean Development Mechanism (CDM) has dual objectives of (i) assisting developed countries to meet their emission limitation targets in a cost-effective manner, and (ii) contributing to sustainable development. Till date, over one billion tonnes of CO₂ eq. of emission reductions has been achieved in over 70 countries. While emissions reduction can be quantified, assessing impacts on sustainable development (SD) is challenging. As a 'standard', 'international', 'operational' definition of the term has not (and cannot!) been created, defining 'what constitutes sustainable development' is each country's prerogative. The Convention premises it on the differing national circumstances and priorities of each country. The present CDM framework requires project developers to report the SD benefits of CDM projects in their project design documents (PDDs). This is checked and approved against the SD criteria set within the country by the Designated National Authority (DNA). The degree of detail in which DNAs explain their SD criteria differs (refer Box 1 for details). At an operational level, articulation of the concept broadly includes social, economic, and environmental dimensions¹.

Majority of the previous studies agree that despite its inadequacies and limitations, CDM by design is the only existing climate change mechanism, which offers an innovative solution to the challenge of how to incorporate SD considerations into emission mitigation activities. CDM has successfully contributed to the development of a global carbon market, allowing for temporal and spatial flexibility in achieving emission reduction targets. There is a general agreement that CDM does have a positive impact on the various facets of SD in the host countries. However, the

impacts might vary in type and degree depending on the project category, scale, stage, and region of operation. Nonetheless, the mechanism needs to be upgraded and strengthened to address the challenges of potential trade-offs between its dual objectives.

TERI's empirical assessment of a sample of over 200 PDDs, suggests almost 99 per cent of PDDs reporting varied SD benefits: 96 per cent mention economic benefits, 86 per cent mention social benefits, and 74 per cent mention environmental benefits. Amongst sustainable development indicators, most of the PDDs mentioned benefits of: improved local quality of life (82 per cent), employment generation (80 per cent), and contribution to national energy security (76 per cent). In the sample of 79 small-scale and 123 large-scale projects assessed, SD benefits are mentioned more often by small-scale projects than by large-scale projects. It should be noted that the basis of the analysis are the PDDs (as is the case for most of the earlier studies on the subject) and therefore only positive contributions to SD could be measured. Further, the description of SD contributions in the PDDs are only potential benefits and do not reflect the actual delivery of the claimed SD benefits. Thus, despite taking utmost care, an element of subjective judgement on how to attribute the SD benefits during PDD analysis cannot be entirely ruled out.

The on-going international deliberations include defining approaches to enhance SD impacts of CDM. However, this process is faced with challenges of defining roles and responsibilities of various actors (engaged in the CDM process) without infringing on sovereign rights of host countries; without substantial surge in transaction costs; and without further increasing complexity of the CDM project cycle.

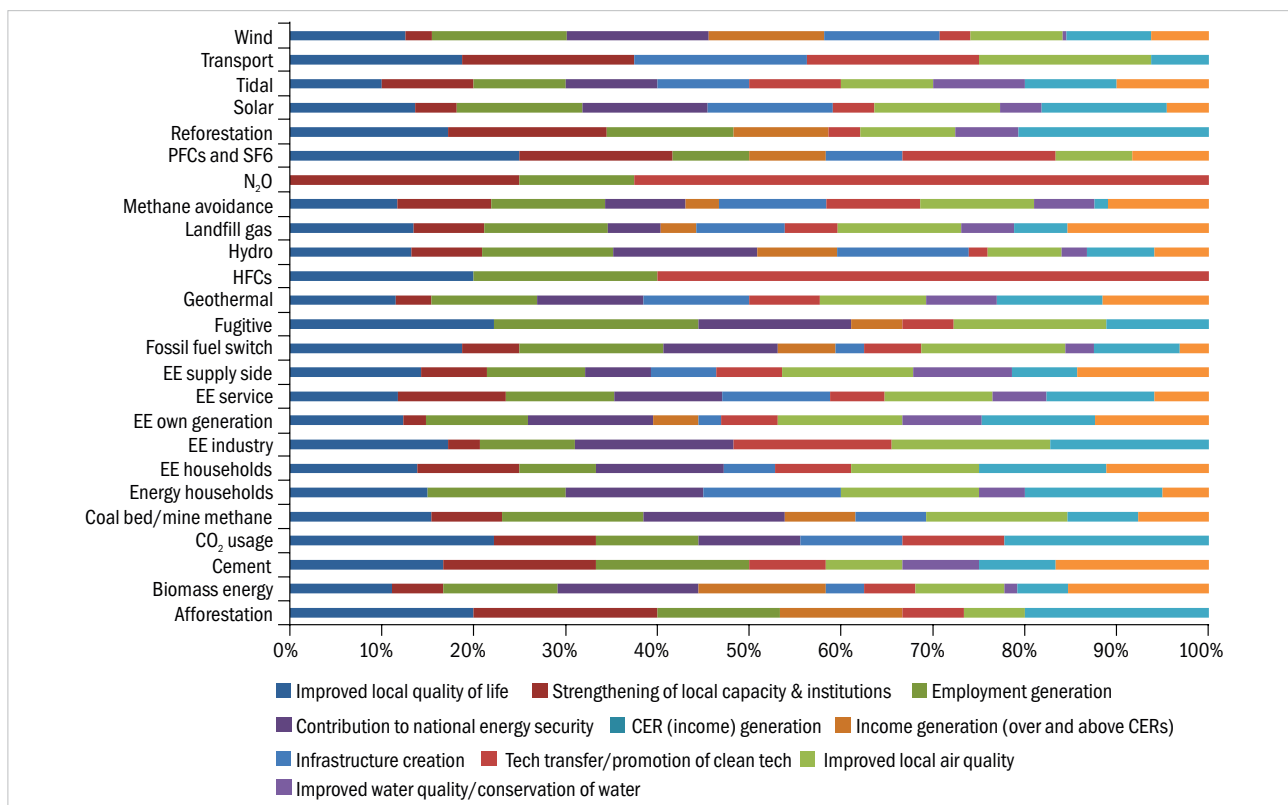
This policy brief is based on the analysis conducted for the High Level Panel of the CDM Policy Dialogue, published in Spalding-Fecher, R, et al. 2012. "Assessing the Impact of the Clean Development Mechanism". Report commissioned by the High Level Panel on the CDM Policy Dialogue (http://www.cdmpolicydialogue.org/research/1030_impact.pdf) and TERI. 2012. "Assessing the Impact of the Clean Development Mechanism on Sustainable Development and Technology Transfer". Report commissioned by the High Level Panel on the CDM Policy Dialogue (http://www.cdmpolicydialogue.org/research/1030_impact_sdm.pdf).

¹ For details see: http://www.cdmpolicydialogue.org/research/1030_mapping.pdf

Country	Innovative approaches by DNAs ²
Peru	It visits the area affected by the project to understand the environmental and social impacts of the project. The report of the field visit is an important input into the process of evaluating the project. Additionally, the Project proponent needs to provide documents to prove that the communities accept the CDM project's implementation in that area ³ .
Rwanda	Project proponents are required to submit an updated sustainable development checklist each time the verification of the project is conducted, demonstrating how the sustainable development criteria are being met once the project is operating.
India	For large-scale projects, the project proponents are required to submit a monitorable action plan for large-scale CDM projects earmarking 2 per cent of annual CER revenue for sustainable development activities in the PCN. Recently, the DNA has come up with a proforma, which requires the project proponent to provide details of activities in their projects that will provide sustainable development benefits.
Thailand, Philippines, and Georgia	These DNAs have developed a method of scoring the sustainable development indicators for Host Country approval.
Thailand	Thai DNA has a certification system in place called "Crown Standard" for giving incentive for Thai projects to contribute more to social and environmental dimensions of sustainable development.. The project, which receives the Crown Standard has a lesser approval fee and a greater chance of obtaining the Gold Standard.
China	The government levies a tax from CDM projects, the percentage of tax depending on the project type. These revenues are redirected to sustainable development activities through a CDM Fund.
Kenya and Malaysia	DNAs give a list of priority sectors for CDM projects in their host country.

Source: TERI's compilation

Sustainable development benefits cited by project type

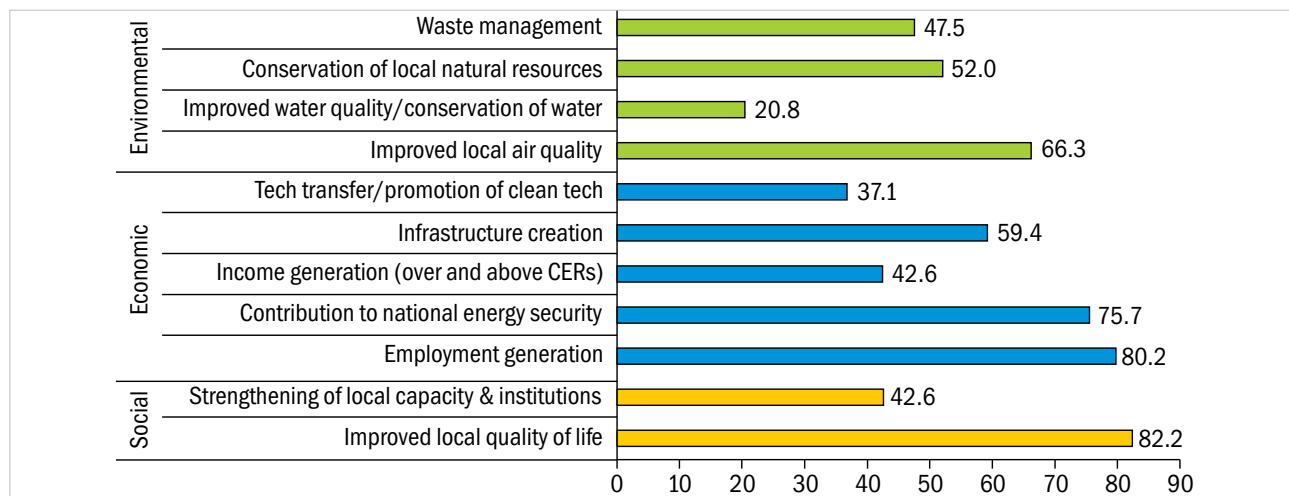


Source: TERI's analysis

² **Note:** This is not an exhaustive listing, rather examples taken from the sample in the study.

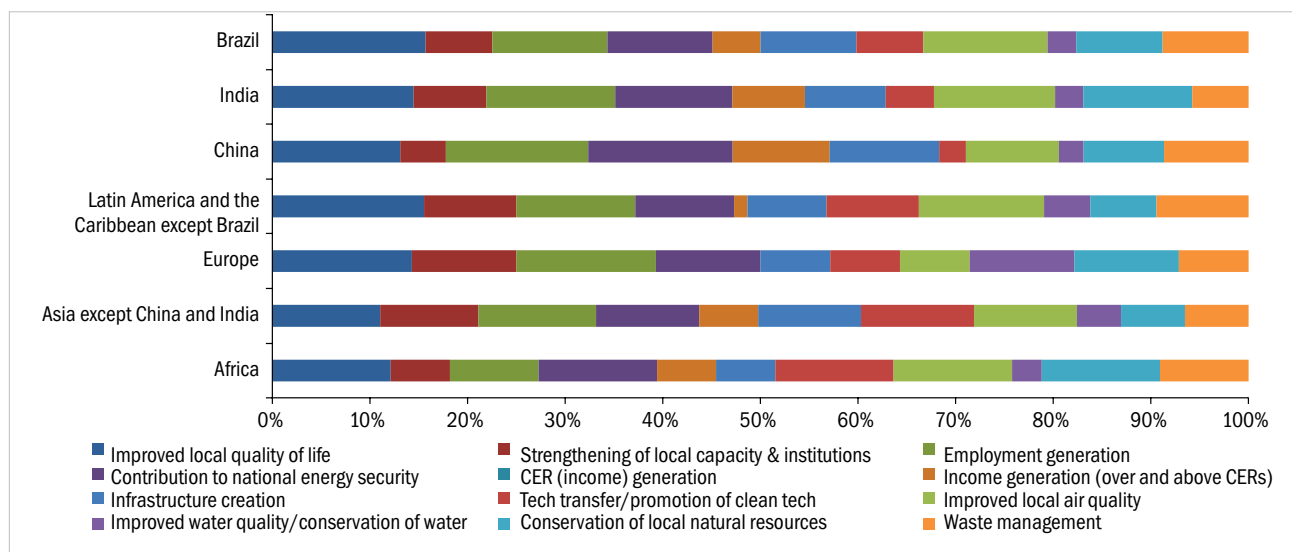
³ The documents could be certificates of communal arrangements, social reports, and agreements signed between project proponents and the community.

Percentage of PDDs mentioning various indicators



Source: TERI's analysis

Sustainable development benefits cited by region⁴



Source: TERI's analysis

A Proposal: enhancing the role of DNAs and other local institutions to promote SD from CDM

Definition of sustainable development indicators could enhance documentation of the SD benefits. Given that DNAs are aware of their national circumstances and in many cases already have SD criteria, they could make it more explicit by reporting their own SD criteria on the UNFCCC webpage, just as the national definitions of a forest are currently reported.

Improved reporting of sustainable development benefits in the PDD could enhance documentation of SD benefits while also recognizing the SD benefits of the projects. Objective, but simple modifications in the PDD format could be a low-cost win-win option.

Monitoring and verification of sustainable development benefits could enhance documentation of the SD benefits and effective implementation. There could be many variations to monitoring. However, many stakeholders have cautioned that it should not, but infringe on the host country's sovereign right to determine if a project meets their own SD criteria and it should not increase the transaction costs. Monitoring and verification of SD benefits could be undertaken by the DNA, according to national criteria and procedures. This would, however, add to the transaction costs.

Consequences for lack of performance could range from providing information to project developers to assist with compliance all the way to suspending the project for further issuance of CERs. This could be based

⁴ Europe refers to Eastern Europe

on the project not following through on sustainable development benefits and/or the project violating one of the safeguards. The DNA could, however, decide, according to national criteria and procedures.

Enhanced stakeholder consultation and setting up of an appeals process could lead to DNAs working towards strengthening the process of local stakeholder consultation. The relevant local authorities can be made more aware about sustainability issues and their role in its effective implementation. Negative SD impacts could be one of the possible grounds for a grievance. The governance reforms proposed under stakeholder consultation and an appeals process are also relevant for SD impacts, particularly negative ones. Safeguards against negative impacts, such as human rights violations, corruption, and labour exploitation, could also be strengthened in several ways. As a first step, the DNA could ensure that claims of negative impacts were taken up within the legal structure and processes of the host country. In addition, the PDD could be

expanded to include a checklist on key safeguard issues. As with benefits, this could happen at the start of the project only, or could be reported periodically after implementation. Verification of compliance with safeguards could be undertaken by the DNA along with that of SD benefits.

Preferences for specific project types or technologies could be established to differentiate eligibility and procedures across project types. This would, however, eliminate genuine projects in some instances as each project is unique and circumstances are local. This would require broad political agreements, as well as a sound empirical evidence base upon which to prioritize.

Capacity Building for DNAs could strengthen the ability of DNAs, particularly those with the least resources, to apply their national criteria for SD in the project approval process. This could include sharing of experiences at a regional and sub-regional level, and providing information on “best practice” in project evaluation.

A model to promote SD from CDM

Each DNA could explicitly declare their definition of SD criteria to the EB. The EB could revise the PDD format to ensure explicit documentation and reporting of potential SD benefits. The DNA could enhance monitoring, and verification of the SD benefits pledged in the PDDs. However, if a particular DNA wishes, it can opt for using the services of a DOE in addition to its own national/local governance institutions (depending on the project type/criteria to be monitored, etc.) at its own discretion. In such an arrangement, the DOEs/local authorities shall report the results to the DNAs only. A provision could be made to allow a project developer (seller)/ or a buyer to approach the host country DNA for verification of SD benefits or certification of absence of negative impacts from a project. The DNA can further delegate this task to a DOE or relevant local authorities. The cost of this exercise can be borne by whosoever approaches the DNA for the purpose. Further, the DNAs should have the authority to deregister a project/withdraw its consent if they determine that a particular project is not performing as committed in the PDD. Once again, the DNA, if it wishes, can avail the services of DOEs or relevant national/local monitoring and enforcement agencies to verify the same. All assessments of the claimed positive/negative impacts from CDM activities should be undertaken within the legal structure and processes of the host country and all appeals/actions in this regard should be routed through DNAs and national legal recourse.

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