

Development Dividend: Making the CDM Work for Developing Countries



FIRST MEETING OF THE DEVELOPMENT DIVIDEND TASK FORCE

28-29th June 2005

Penthouse, Sheraton Hotel, 150 Albert Street, Ottawa

MEETING REPORT

WELCOME AND INTRODUCTION

Participants at the First Meeting of the Development Dividend Task Force were welcomed by David Runnalls, President of the International Institute of Sustainable Development (IISD). He noted that the work of the Development Dividend project is to examine the supply side of CDM projects – or how the CDM can be reformed and/or improved to deliver enhanced sustainable development benefits. The evolution of the international climate change regime has led to the CDM being expected to deliver more than originally anticipated – and that we need to get it right. The work of the Development Dividend Task Force can assist in identifying ways for the CDM to offer real potential to support sustainable development. Mr. Runnalls thanked the supporters of the first Task Force meeting: Foreign Affairs Canada; International Development Research Centre (IDRC); Ministry of Environment, Denmark; and Ministry of Foreign Affairs, Norway. He also indicated that funding is being sought to support the continuing work of the Development Dividend Task Force.

John Drexhage, Director, Climate Change and Energy, IISD, facilitated the meeting. In his opening comments, he noted that the aim of the meeting was to provide an overview of work to date on the Development Dividend, discuss ways the CDM could evolve in a more “development friendly” manner and identify areas for further research and discussion. Of key importance would be using the results of the Development Dividend Project and the work of the Task Force to influence those who make decisions on the CDM.

TERMS OF REFERENCE

The Terms of Reference of the Task Force were reviewed and approved with one revision. The Task Force agreed that Objective 4 would be revised to read:

- “Provide a solid foundation for shaping the evolution of the CDM.”

A copy of the revised TORs is included as Attachment 1.

The role of the Task Force will be to examine the mandate of Article 12 of the Kyoto Protocol - to explore if both significant emissions reductions and sustainable development can be effectively produced under the CDM. The Task Force will look at options for making the CDM work for the first commitment period to deliver CERs in a manner that promotes sustainable development, as well as examine the CDM as a critical building block of the post-2012 regime. It was agreed that the Task Force could consider options beyond the CDM, if such options were necessary for promoting sustainable development over the longer term.

OVERVIEW OF THE DEVELOPMENT DIVIDEND PROJECT

Aaron Cosbey, Associate, IISD, presented an overview of the Development Dividend Project. The *Development Dividend* is about trying to find a meaningful place in the international carbon market for CDM projects that provide significant benefits beyond greenhouse gas reductions. These include environmental/human health benefits such as improved air quality, social benefits such as improved quality of life through provision of electricity, and the economic benefits that can accompany increased foreign direct investment, such as increased incomes and employment. The objective of the Development Dividend Project is to help the CDM better deliver those benefits, by two primary means:

- Increasing the extent to which individual projects yield a development dividend that is market-viable – a focus on project *quality*.
- Increasing the volume of project investments, by increasing the number of quality projects and by looking beyond project-based activities – a focus on *quantity*.

Mr. Cosbey also reviewed the key findings of the analytical paper, *Realizing the Development Dividend: Making the CDM Work for Developing Countries*. A copy of the presentation is included in Attachment 2 of this report. The analytical paper assessed the current state of the CDM and made a number of recommendations, looking at those areas where progress can be made immediately (outside of negotiations); at those areas where we can make negotiated progress in the first commitment period; and at post-2012 options. The core issues for discussion, as identified in the paper, were:

- How do we define sustainable development?
- Can we assume that only small is beautiful from a sustainable development perspective? That policy-based, sectoral or sinks initiatives are better at promoting the development dividend?
- Are we expecting too much of the CDM, both in terms of quality and quantity?

- Is geographical equity of projects an appropriate goal?
- Which themes are “ripe” for consideration?

THE CDM AND THE DEVELOPMENT DIVIDEND

Task Force members participated in a detailed discussion of the issues surrounding the CDM and development dividend. Key areas of discussion included:

- Developing awareness of the CDM within the financial sector - No matter how much the CDM is simplified, the key issue is that there is little underlying financing available for projects with high sustainable development benefits. There is a need to examine specific financial instruments and the information needs of commercial banks, which have not used carbon financing to reduce risk aspects of projects.
- Defining the “Development Dividend” - Developing country members noted that their governments have set up institutional mechanisms to screen projects for sustainable development benefits, and that the definition of sustainable development is the prerogative of each developing nation. To open up the “sustainable development” debate would be counterproductive; yet to look more broadly at criteria for the “development dividend” could allow for agreement on international guidelines for assessing environmental, economic and social co-benefits of CDM projects.
- The CDM project approval process - The process needs improvements/streamlining as the existing infrastructure is unable to process the large expected number of new methodologies. Considerations include a fulltime EB, with appropriate support; clarifying additionality and enhancing the expertise within the DOEs, EB and Meth Panels.
- Attracting investors to CDM projects with a development dividend - Will investors be interested in projects with a development dividend? How do you create incentives for companies? Many countries have introduced innovative means to promote sustainable development within CDM projects. For example, Columbia provides tax incentives to those projects deemed to have significant sustainable development impacts. China has announced that it will reinvest 60-70 percent of proceeds from HFC-23 projects as a means to green such projects. India has developed an approval process that ensures CDM project proposals have gone through a rigorous process of internal policy approval (e.g. EIA) before reaching the DNA.

- **Alternative approaches for the CDM - What is needed to make alternative approaches viable? For example, can sectoral and policy-based CDM approaches help to increase the development dividend?**
- **Identifying options for the development dividend in countries with varying levels of development - Different options may need to be considered for Least Developed Countries (LDCs) that have had difficulty attracting CDM investment. For example, the promotion of LULUCF projects could be examined from the perspective of LDCs.**
- **Small-scale CDM Projects - Do small-scale projects have a greater development dividend than regular projects? There may be a need to promote small-scale projects in sectors that produce few credits but have large development dividend benefits (e.g., renewable energy, agriculture, energy efficiency)**

IDENTIFICATION OF AREAS FOR THE DEVELOPMENT OF ANALYTICAL PAPERS

The Task Force resolved to delve further into the three areas, assessing their real potential for boosting the development dividend, and identifying the practical difficulties that might be encountered in implementing them. Breakout groups were established in three areas and participants were tasked with identifying critical issues and presenting options for further research and analysis. The areas identified for further research and analysis were:

- **Defining the Development Dividend: Will clearly articulate what is meant by “development dividend,” and will propose a framework for assessing its strength in specific CDM projects. This could include an examination of small-scale projects and approaches for increasing the development dividend; and an examination of the expected market for projects with a development dividend, and options for promoting.**
- **Changing the Rules for a Development Dividend: Will explore in depth some of the CDM rule changes suggested in the phase 1 report. These include sectoral and policy-based CDM, special treatment for small-scale projects, product-based crediting and an expanded scope for sinks under the CDM. Case studies and analysis will highlight both the potential and the practical difficulties associated with each approach.**
- **Financing the Development Dividend: This paper will explore the ways in which we might increase the available financing for CDM projects that yield a development dividend. It will assess the state of the problem, survey existing approaches – such as the Community Development Carbon Fund – and evaluate recommendations, including those made in the phase 1 report.**

Two other areas of interest were identified as possible research topics. Depending on funding these might be pursued as briefs independent of the three main papers:

- A survey of current practice and policies in host countries on sustainable development criteria, and of best practices on incentives to stimulate sustainable development in the CDM.
- A short piece highlighting the implications for the CDM of current decisions, including: a possible decision not to set cap & trade targets (this would explore whether there is any scope for crediting using other targets); and no quick pronouncement on the value of post-2012 carbon (no new CDM investments within a few years).

Task Force members noted that case studies could be a useful research tool in each of the three areas, and that Southern research partners would be involved in the development of each paper. On-going and complementary initiatives should be identified and explored in each area, including the:

- UNDP initiative that is examining carbon finance as a means to promote long-term development opportunities.
- UNEP papers on barriers faced by finance institutions.
- World Bank efforts to demonstrate contribution of carbon finance to sustainable development and poverty alleviation, through the Community Development Carbon Fund and the Bio Carbon Fund.
- Japanese Fund for CER purchase that provides financial support for risk assessment and insurance for start-up projects.
- Argentina initiative to develop CERs through national banks.
- NorthNorthSouth work on assessing the sustainability of projects.

It was agreed that Members should develop an influencing strategy to ensure that the findings of the Task Force are made available to a wide range of decision makers, such as the Executive Board, Southern partners, COP Parties, DNAs, buyers and sellers, and project developers.

DEVELOPMENT OF WORK PLAN AND NEXT STEPS

Although the initial work plan will cover an 18 month time period, it was agreed that the Task Force should be viewed as a body that will investigate on-going and new issues related to the CDM over the longer-term. Effort will be made to ensure the continuation of the Task Force as long as the CDM proceeds, through the identification of timely and pertinent topics for further discussion and research.

The Task Force agreed to meet three more times over the next 18 months. The second Task Force meeting will be held in Montreal on the morning of December 10th, which will allow the outputs of COP/MOP-1 to influence discussion. The purpose of the meeting will be to:

- Review progress on the development of the three research papers.
- Review an outline/overview of the post-2012 scoping paper.
- Examine/discuss other issues for their relevance for further research/
- investigation by the Task Force.
- Review the influencing strategy.

The third meeting is tentatively scheduled for the last week of March 2006¹, and the fourth meeting will take place before COP/MOP-2.

The Task Force also considered broadening its membership to include buyers, large project developers, southern project developers and DNAs that are active in the promotion of projects (e.g., Senegal, Burkina Faso, Morocco, Chile, Costa Rica). IISD will identify potential new members to put forward to the Task Force for approval.

The IISD will act as the secretariat for the Development Dividend Task Force. The principle role of this secretariat until December 2005 will be to: 1) develop the work plan; 2) further develop the three areas identified for the development of analytical papers, including the identification of Southern partners; 3) develop the influencing strategy; and 4) secure funding.

¹ The date of this meeting is to be determined, and IISD will present potential dates for approval at the December meeting. For example, the meeting may be scheduled to coincide with other events (e.g., EB meeting, SB meeting, Carbon Expo).

The Development Dividend Task Force

GOVERNMENTS

Canada	Sushma Gera (Foreign Affairs)
Canada	Jennifer Kerr (Environment Canada)
Canada	Paul Samson (CIDA)
Columbia	Martha Patricia Castillo
India	R.K. Sethi
Norway	Georg Børsting
Denmark	Frode Neergaard*
Japan	Hiroshi Yamagata*

MULTILATERAL INSTITUTIONS

UNDP	Brian Dawson
World Bank	Charles Cormier
IFC	Alan Miller*

BUSINESS/INDUSTRY

BP	Chris Mottershead
DNV	Einar Telnes
IETA	Andrei Marcu
International Financing Consulting	John Balint
Natsource	Aline Ribas
Transalta	Don Wharton
Shell International	David Hone*
TC+ES	Mark Trexler*
Alcan	Hugh Porteous*
IEA	Richard Baron*
Chicago Climate Exchange	Michael Walsh*

NGOS AND RESEARCH INSTITUTES

Centre for Clean Air Policy	Jake Schmidt
Chinese Academy of Social Sciences	Xianli Zhu
EMBRAPA	Luciano Mattos
Hamburg Institute	Sonja Butzengeiger
ICRAF	Brent Swallow
IISD	David Runnalls
IISD	John Drexhage
IDRC	Merle Faminow
Int'l Virtual Inst. of Global Change	Suzana Kanh Ribeiro
NRTEE	Alex Wood
NTREE	Claire Aplevich
SouthSouthNorth	Emily Tyler
TERI	Mahesh Vipradas
WRI	Kevin Baumert
Joanneum Research, Austria	Neil Bird*
ECM Centre	Tom Owino*
Mitsubishi Research Institute Inc.	Kenichiro Yamaguchi*

Christiana Figueres*

**Not present at the Ottawa meeting.*