

## Development Dividend Task Force Meeting

2<sup>nd</sup> and 3<sup>rd</sup> October 2007  
 Holmenkollen Park Hotel Rica, Oslo, Norway

### Meeting Report

#### 1.0 Overview

Twenty-four participants attended the 5<sup>th</sup> meeting of the Development Dividend Task Force (a list of participants is included in Attachment A). The aim of the meeting was to provide an update of the work of the Development Dividend project and to determine future directions, focusing on implementation CDM projects and work on the ground.

A number of presentations were made to provide updates on the CDM and Development Dividend, and to stimulate discussion on possible future directions. The presenters are listed below:

- Deborah Murphy, IISD – The Development Dividend: Overview and Update
- Sudhir Sharma, UNFCCC – Update on State of CDM
- Karen Holm Olsen, UNEP Risoe Centre (URC) – The COSI Tool: Carbon Offsets with Sustainable Development Impacts
- Torsten Malmdorf, Denmark Ministry of Foreign Affairs – Danish Support to p-CDM Development in China
- Michael Lehmann, DNV – Development of CDM Methodologies
- Michael Dutschke, Biocarbon.net – REDD: State of Discussions
- Deborah Murphy, IISD – Building Capacity in Host Countries
- Andrei Marcu, IETA – The Voluntary Market
- Ancha Srinivasan, IGES – *Ex post* Analysis of CDM Projects from a Development Dividend Perspective

This meeting report focuses on future directions for the Development Dividend project. The key areas identified were:

- Development Dividend Measurement Tool
  - Introducing the concept of the DD to the Voluntary Standards Group
- Post 2012 and MMSDs, including:
  - Potential of programmatic, sectoral and benchmarking CDM activities in the areas of:
    - Biofuels
    - LULUCF (agriculture & forestry)
    - Demand Side Management (energy efficiency)
    - Carbon Dioxide Capture and Storage (CCS)
  - Technology Transfer and the CDM
  - Role of different regimes for Market Mechanisms for Sustainable Development (MMSD)

- Executive Board (EB) Reform
- Developing decision language around CDM and MMSDs.

IISD will develop next steps and concept papers in the identified areas, requesting Task Force members to provide input and advice.

## **2.0 Development Dividend Measurement Tool**

The Task Force supported continued collaboration will continue between IISD, UNEP Risoe Centre (URC) and UNDP to further refine the Development Dividend Measurement Tool. The Task Force supported the development of a standard matrix or a fairly transparent tool that determines if a project meets a DD standard. The tool potentially has many users, including DNAs, project developers (public sector, multilateral institutions and private sector) and carbon market investors. The tool could be used to screen CDM projects and assess a portfolio of project. It might also be useful for *ex post* evaluation, as there is a growing need to know how CDM projects have worked to meet development goals.

There is a growing market for projects with strong development benefits, and the mandates of international agencies and the interests of both public and private sector buyers indicate a need for such a tool. Climate change is becoming the business of many firms – moving beyond being just a requirement of Corporate Sustainability Reports.

Concerns about sustainable development benefits are shifting with changes in the CDM market. No new HFC destruction projects are likely to use the current methodologies, which should lessen the impact of a key project sector in regard to criticisms of lack of sustainable development outcomes in CDM projects. As well, the focus of carbon funds is shifting from the emissions reduction element to how credits are generated – becoming more of an equity type investment. By taking an equity share in the underlying asset (e.g., plant), the resulting projects are more likely to have higher community participation and other aspects of sustainable development

The Task Force recognizes that sustainable development is a prerogative of host countries – and the aim is not to impose another additionality, but rather to provide a tool that can be used on a voluntary basis to help assess the development impacts of CDM projects.

Consideration should also be given to determining and encouraging the critical mass required for DD measurement to become a *de facto* part of the process. The Task Force recommended that IISD, URC and UNSP liaise with the World Bank CDCF to examine linkages, and the tool should be promoted with DNAs and project developers.

The tool may also prove useful as an option for investors and buyers in the voluntary market. It may be easier to introduce the concept to the voluntary market, which could be a testing ground to show that there is a slightly different way of doing things. The Task Force recommended that the tool be introduced to the Voluntary Carbon Standards Group.

## **3.0 Post-2012 and MMSDs**

Much of the meeting discussion focused on the CDM in a post-2012 regime, raising such questions as:

- How is the CDM related to the overall regime that might come out of negotiations? What is the role of the CDM and MMSDs in a post-2012 regime?
- How do you improve the quality (and quantity) of projects in the CDM to enhance political buy-in in post-2012? What do we want to achieve for post-2012?

- Do we need to look beyond the CDM – i.e., a broader or different MMSD? Do we need different types of CDM?
- What realistically can the CDM do? (i.e., what can be achieved by market mechanisms? What can be achieved by regulation?)
- How will CDM influence negotiations? It has the potential to be a bargaining tool in the post-2012 negotiations. For example, China and India are interested in developing CCS and nuclear technology. Brazil and Indonesia are interested in REDD.

### **3.1 *p-CDM, Sectoral CDM and Benchmarking: Preparing for Post-2012***

The Task Force recommended that the DD project undertake initiatives in the following four areas, with the intent of learning by doing and feeding learning back into the negotiations:

- Biofuels.
- LULUCF (agriculture and forestry).
- Demand Side Management (energy efficiency).
- Carbon Dioxide Capture and Storage (CCS).

Ideally, we would want to explore the use of sectoral, programmatic and/or benchmarking practices as effective means for reduction activities in the four aforementioned areas. There are gaps in understanding as we move into post-2012 negotiations. While many hold out great expectation for p-CDM, there is no certainty that it will be able to create the supply of credits needed in the eventuality we have strong reduction targets, particularly amongst Annex 1 Parties. Sectoral crediting is looked at favourably by some industry as a means to expand the CDM, but much learning needs to take place in regard to sectoral CDM and benchmarking.

The aim is to move beyond desktop think pieces, to initiatives designed and implemented on the ground, possibly linking with on-going projects that would act as prototypes or pilot projects. The Task Force recognized that each of the four identified sectors offers particular challenges and could benefit from learning from pilot projects or prototypes. Challenges included:

- Biofuels are important for developing countries, but from a DD perspective have the potential to have negative development impacts including deforestation and food competition. They are also difficult projects from the perspective of boundaries and leakage.
- Mitigation-adaptation linkages are important in LULUCF projects. Avoided deforestation, reforestation, agro-forestry and sustainable agriculture can bring development benefits for developing countries, highlighting the need to exploit synergies between CDM and adaptation; e.g., adaptation could be a primary driver for action, but CERs could provide a secondary motivation. Issues of scale are important in LULUCF – large projects over large areas are needed to absorb the transaction costs of measurement and verification.
- Financing is an important issue for LULUCF projects as well as energy efficiency projects, both of which have difficulty raising funding for the underlying projects.
- Risk sharing on the CDM might also be examined in the pilot projects. Often, the project developer assumes risk for non-delivery of CERs, demonstrating a need for risk reduction/sharing tools.

### **3.2 *Technology Transfer and the CDM***

A possible area of exploration is the linkage between CDM and technology transfer, and what can be realistically expected. The Marrakesh Accords state that the CDM should promote technology transfer, but there are differing opinions as to whether this is happening because technology transfer means very different things to negotiators and business. For example, while anecdotal evidence from developing countries suggests that technology transfer is not happening through the CDM; businesses in developed

countries find this idea bizarre given that there are more solar applications in developing than developed countries, and many developed nation companies have set up their technologies in developing nations.

It is important to recognize that the carbon market is not enough to drive technology uptake and there is need for other policies. New technologies in particular need other drivers. Technology transfer is particularly a struggle in forestry projects, and in most cases it is South-South transfer.

The Task Force noted that a scoping paper on the expectations for CDM and technology transfer could be useful. Issues that could be explored include:

- What are technology penetration rates under the CDM?
- How are technology transfer and sustainable development linked? Is there a relationship between projects scoring highly on a development dividend rating and those with high technology transfer characteristics?
- Does CDM encourage the development of business that requires people to deploy technologies?
- Can the CDM help to create an enabling environment?
- Is it too much for the CDM to be part of the technology transfer solution?
- Could linkages be established between CDM and technology transfer under the framework of p-CDM?

### **3.3 Role of Different Regimes for MMSDs**

The Task Force determined that there was a need to examine the role of different regimes for the CDM or other MMSD post-2012, building on the first research paper on MMSDs developed by IISD. This analysis should include looking at what the CDM or other MMSD can realistically do (recognizing that market mechanisms cannot do everything), examining the role of CDM in a world that includes other drivers for change, including regulation and national standards. The analysis should lead to recommendations for increasing the DD post-2012, and examine the possibility that a different mechanism might be needed. Caution was raised in regard to how far we should go in suggesting reform to the CDM. For example, if a new MMSD is created to stimulate activity in regions or sectors that have been underrepresented to date, it may create a lower price for credits from Africa or from sectors that have high DD impacts.

An important trend that could impact on the post-2012 framework for the CDM is the voluntary sector. An increase in VERs indicates that some need is not being met. Recent criticisms of the CDM and the subjective nature of additionality pose challenges to the CDM (especially in the United States and Canada where international offsets are viewed with suspicion) and may be contributing to the increasing interest in voluntary sectors. Action in the voluntary market in the United States is pre-compliance behavior, in that if certain standards get established in the voluntary sector (especially in the United States) there could be a strong lobby to include in these standards in the international regulatory framework. This could have significant impacts on the CDM, with risks that two different competitive systems will evolve.

But, the voluntary sector is important for innovation and may offer lessons to the CDM (e.g., the World Bank is getting into the voluntary carbon space because of the need to discover new things for post-2012). In regard to the DD, the voluntary market could offer test cases for the measurement framework.

An analysis from a DD perspective could look at:

- Analysis of CDM and trends (project profiles by sector, region and number of CERs; investment patterns). What sectors might top out (e.g., HFC destruction, others)?
- In what sectors is the CDM likely to grow (In what sectors is it effective? In what sectors might programmatic be successful?) In what sectors might the CDM expect to play a greater role in post-2012?

- Where is the CDM not successful and are there steps that can address this in post-2012? Are there some sectors that do not work well under the CDM?
- Are there baseline DD characteristics that should be included in the CDM or other MMSD in a post-2012 framework?
- If sectors with high DD do not work well under the CDM, could these sectors best be served by other mechanisms or tools?
- Could regional distribution be better served by other mechanisms or tools?
- What does the growth of certain sectors – e.g., coal-fired and nuclear power plants – mean to the CDM?
- What are the implications for a post-2012 framework?

#### **4.0 Executive Board Reform**

If we desire an increasingly robust CDM in post-2012, there are limitations to the current structure of the EB. The Task Force recommended that a think piece be developed on the structure and institutions of the EB and the CDM in post-2012 world asking such questions as:

- How can the EB (or other governance body for the CDM or MMSD) be transformed to meet expected needs?
- Is the present set-up sustainable in the long run?
- What changes are needed to professionalize the system?

The EB has made efforts to improve and speed up the approval process. For example, the EB has more resources, has been able to make the Meth Panel more executive in nature, and has developed a number of tools (with important tools being the approved methodologies). The average time from methodology submission to approval is about 9 months, given the necessary Meth Panel and expert review of methodologies. It is difficult to reduce this time unless things become more harmonized and professionals are employed full time.

The CDM is a bottom-up process and the Board must be conservative and focus on real and measureable emission reductions. As a result, the EB has a difficult time putting forward conditions, and this makes it hard to provide certainty to developers. There are limits to the mandate of the EB and the idea that it will take a more proactive role is unrealistic. It is important to distinguish between what the EB can do (i.e., under Marrakesh), and what is outside its mandate. For example, the EB cannot set out a negative or positive list for determining additionality, or cannot assess if one project is better than another. While the EB can provide signals of needed changes, it is limited in creating change.

#### **5.0 Developing Decision Language around CDM and MMSDs**

The Task Force advised that a valuable contribution of the DD project would be developing decision language around the CDM (or other MMSD) for the post-2012 negotiations. The decision language would be informed by the activities of the project; for example, the learning by doing in pilot projects in p-CDM or sectoral crediting could feed into the negotiation process through the development of draft text for negotiators that is based on what works at the practical level. The aim is to develop examples of Marrakesh amendments that would lead to a more robust CDM or other MMSD for post-2012.

# Development Dividend Task Force Meeting

2<sup>nd</sup> and 3<sup>rd</sup> October 2007

Holmenkollen Park Hotel Rica, Kongeveien 26, Oslo, Norway

## Participants

- |     |                     |                                      |
|-----|---------------------|--------------------------------------|
| 1.  | Ali Agoumi          | Ecosecurities Morocco                |
| 2.  | Karoliina Anttonen  | Finland Ministry of Foreign Affairs  |
| 3.  | Georg Børsting      | Norway Ministry of the Environment   |
| 4.  | John Drexhage       | IISD                                 |
| 5.  | Michael Dutschke    | Biocarbon.net                        |
| 6.  | Matthias Duwe       | CAN-Europe                           |
| 7.  | Jane Ellis          | OECD                                 |
| 8.  | Kate Hampton        | Climate Change Capital               |
| 9.  | Karen Holm Olsen    | UNEP – Risoe Centre                  |
| 10. | Suzana Kahn Ribiero | Federal University of Rio de Janeiro |
| 11. | Vivek Kumar         | TERI                                 |
| 12. | Michael Lehmann     | DNV                                  |
| 13. | Liu Deshun          | Tsinghua University                  |
| 14. | Torsten Malmdorf    | Denmark Ministry of Foreign Affairs  |
| 15. | Andrei Marcu        | IETA                                 |
| 16. | Chris Mottershead   | BP                                   |
| 17. | Deborah Murphy      | IISD                                 |
| 18. | Agus P. Sari        | Ecosecurities Indonesia              |
| 19. | Sudhir Sharma       | UNFCCC                               |
| 20. | Ancha Srinivasan    | IGES                                 |
| 21. | Hans Jürgen Stehr   | CDM Executive Board                  |
| 22. | Brent Swallow       | ICRAF                                |
| 23. | Emily Tyler         | Genesis-Analytics                    |