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Policy Position

Safeguarding Mitigation Efforts for Sustainability

Developing countries are increasingly hosting climate change mitigation projects. They also often provide the natural resources necessary for low-carbon technologies.

To be sustainable, these efforts must ensure positive returns to local communities. They must promote accountability, bring social and economic opportunities, and demonstrate respect for land rights, livelihoods and the environment.

However, these objectives are undermined in developing countries when projects do not meet sustainable development criteria and transparency standards. In such cases, international mitigation mechanisms are weakened, corruption risks are increased and investment is compromised.

To avoid such outcomes, institutional safeguards and reforms are required both locally and globally. More effective decision-making structures and public oversight mechanisms are needed. These changes are the best way to ensure developing countries positively contribute to — and benefit from — strategies aimed at mitigating climate change.

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1. The Clean Development Mechanism: Securing sustainability

Among mitigation strategies, one of the most prominent market-oriented initiatives is the United Nations Clean Development Mechanism (CDM). As a global programme, the CDM certifies credits for projects that reduce greenhouse gas emissions in developing countries, such as wind power projects, or energy efficiency programmes. These credits can be purchased by governments or industries in developed countries which need to offset, or compensate for, their own emissions.

One of the main criteria for CDM projects is that they contribute positively to sustainable development. However, the CDM Executive Board does not make this assessment; rather it is done by the government hosting the mitigation project.

This structure presents an inherent corruption risk by creating a conflict-of-interest. If national authorities were to reject a project for not meeting the sustainable development criteria, they would face a potential loss of revenue. This distortion of incentives may contribute to reduced sustainable development benefits from the CDM, as some studies have shown.[1]

Suggested reforms of the CDM framework have focused on globally standardising the sustainable development criteria and revising the incentive structure. There is a proposal to implement an internationally-agreed methodological standard. Another recommendation is to develop a project assessment template on the basis of commonly expected sustainable development benefits. Additionally, it has been proposed to issue fewer credits ('discounting') for projects that are assessed as having fewer sustainable benefits.

At the national level, additional CDM reform efforts are needed. For example, under the current rules of the CDM, a host country can decide to require an environmental impact assessment (EIA) if environmental risks (one dimension of sustainable development) are considered to be significant. However, EIAs are not always a reliable indicator of environmental sustainability (see side bar). In the context of the CDM, a less-than-rigorous EIA process could have negative impacts on the local environment and biodiversity, potentially damaging the livelihoods and quality of life of local communities. One way to avoid this situation would be to strengthen the independence and oversight of the national EIA process, ensuring that there are no conflicts-of-interest or perverse incentives.

Environmental Impact Assessments – The Case of Sri Lanka

Environmental impact assessments (EIAs) can be required for some CDM projects. In Sri Lanka, a number of shortcomings have been documented relating to the EIA process. Project developers select and directly employ the consultancy firm that will conduct an EIA. However, this situation compromises accountability and presents a potential conflict-of-interest which could result in a biased assessment.

Moreover, the procedures for public review of the assessment are inconsistent, leading to reduced transparency. Legislation requires EIAs to be announced in national papers and mandates a 30-day period for public comment. However, there is no provision to determine whether the project developer has acted on the results of the consultation.

Observers in Sri Lanka have also noted that there are other ways project developers might undermine accountability, for example by providing overly-detailed or irrelevant data. This can lead to confusion among evaluation committees and the public over what information is actually relevant to the assessment

2. REDD+: Ensuring local communities benefit

The Reducing Emissions from Deforestation and Forest Degradation programme (REDD+) is another UN initiative to mitigate climate change. Under the REDD+ system, financial incentives are offered to developing countries to reduce forest-related carbon emissions by conserving forests and promoting reforestation. Once the programme is fully operational, it is estimated that up to US$ 28 billion will be spent annually to reduce by half the rate of global deforestation.

These funds must be managed transparently if corruption risks are to be controlled and local communities are to benefit. However, the way that the REDD+ process is carried out may compromise its own accountability and transparency. Reports have already been received of government officials negotiating carbon sequestration contracts without involving the local communities that rely on these forests for their livelihoods (see side bar). Representatives of people's forest organisations have alleged that such negotiations are rarely free or open. Even when forest communities are included, asymmetries in information and power may still lead to limited accountability, greater corruption and the misappropriation of the carbon rights of local landowners. With most of the world's tropical forests owned by governments, forest communities often have minimal legal authority to manage the land they depend on.

The success of REDD+ hinges on ensuring good governance, promoting community oversight and addressing concerns about transparency and accountability — a particular challenge given that forestry is widely regarded as a highly corrupt sector. For REDD+ to be properly managed, steps need to be taken to ensure that high levels of funding do not increase corruption, weaken local and national governance, or reduce benefits for local forest communities.

3. Natural 'green' resources: profiting citizens

To assist with mitigation efforts, there has been large-scale investment in low-carbon green technologies — such as biofuels, solar power and electric vehicles. The roll-out of this technology often relies on minerals and other natural resources sourced from developing countries.

While demand for land and mineral resources for the production of green technologies can boost a country's economy, weak governance structures and low levels of accountability can lead to foreign investment being mismanaged, or siphoned off by an elite minority. For example, biofuel production in countries including Tanzania, Mozambique, India and Colombia has been accompanied by reports of illegitimate land acquisitions, the denial of water access to local farmers and the displacement of local communities by force. Where such practices are commonplace, the majority of citizens will benefit little from their country's natural resource development.

The governance risks to 'green' resource development apply to both supply and demand countries. On the supply side, many of the natural resources needed for green technologies are found in areas that score poorly on indicators of law and order, bureaucratic quality and corruption (see side bar). On the demand side, booming markets for these natural resources include Brazil, China, India and Russia. All four countries are perceived by the business community to be among the most likely to engage in bribery when doing business abroad.

To address such concerns, governments and the private sector alike must meet the highest standards of transparency and integrity at all stages of the process — from the negotiation of resource concessions through to revenue management. Global efforts, such as the Extractive Industries Transparency Initiative and Publish What You Pay, promote country-by-country disclosure of payments by oil, gas and mining companies to host governments. These initiatives, as well as codes of conduct for business, provide models for how to increase the transparency and accountability of natural resource concessions used for low-carbon development and technologies.

Papua New Guinea – A Dispute over Land and Carbon Rights

In Papua New Guinea, criticism and allegations of misconduct and lack of accountability have been directed at the government agency involved in implementing the REDD+ programme: the Office for Climate Change and Environmental Sustainability (OCCES).

In 2009, the OCCES issued certificates for at least 40 future REDD credits (each worth an estimated 1 million tonnes of carbon). Yet the agency has come under public criticism for allegedly failing to recognise customary land rights in carrying out these dealings.

The OCCES has taken the position that because the state owns forest management agreements, they have a right to sell the carbon. For now, it is unclear whether royalties from the sale of carbon rights will be shared with local communities to the same extent that the revenues from logging concessions have been distributed in the country.

Understanding the Risks to 'Green' Resource Development

In the rush for 'green' natural resources, problems of corruption and governance breakdowns have been observed, paricularly in the mining industry

In the Democratic Republic of the Congo, where tantalum is mined for use in microelectronics, the links between mining, militarisation and corruption are well documented.

In Bolivia, which has half of the world's lithium reserves (a metal used for electric vehicle batteries), the problem is not one of corruption but weak governance. Due to limited participation and oversight, some civil society groups fear that lithium exploitation could threaten the surrounding ecosystem and stunt a growing tourism industry.

This Policy Position was produced by Krina Despota of the TI Secretariat.

The findings and recommendations are based on the *Global Corruption Report: Climate Change*, published by TI. All facts and figures, unless otherwise stated, are cited from the report.

The GCR on climate change brings together more than 50 leading experts and practitioners to explore major climate-related corruption risks. To learn more, see: www.transparency.org/publications/gcr.

4. Recommendations

The long-term success of mitigation efforts requires that they not only contribute to combating climate change, but provide real benefits for the communities and environments that they affect. For this to happen, TI recommends that:

Governments

- Clarify how the sustainable development benefits of CDM projects are determined nationally and support local-level processes that make decisions more transparent and accountable.
- Agree to an international methodological standard for determining the sustainable development benefits of CDM projects.
- Work to improve forest governance by clarifying and securing rights and tenure of forest communities.
- Improve the transparency and accountability of decision-making processes related to forest management and land-use.

Business

- Ensures that CDM projects in which they invest fulfil sustainable development obligations.
- Endorses and sign up to codes of conduct which meet high standards of transparency and integrity.
- Promotes adherence to social and environmental standards that emphasise the continued importance of ongoing consultation with and oversight by affected local communities.

Civil society

- Advocates to clarify and secure customary and statutory rights for land, carbon and forests for local communities and forest-dependant people
- Helps to develop the capacity of local communities to provide an oversight role in the management of REDD funding and its impacts
- Develops and expands upon initiatives that make businesses a key player in transparency efforts, such as the Extractive Industries Transparency Initiative and Publish What You Pay.

[1] See, for example, Karen H. Olsen, 'The Clean Development Mechanism's Contribution to Sustainable Development: A Review of the Literature' *Climatic Change*, vol. 84 (2007), pp.59-73.

TRANSPARENCY INTERNATIONAL

Telephone
+49-30-343820 -0
Fax
+49-30-347039 -12

International Secretariat
Alt-Moabit 96
10559 Berlin
Germany

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