iisd International Institute for Sustainable Development / Institut international du développement durable

Better living for all — *sustainably*

Sixth Annual Workshop on Greenhouse Gas Emission trading

Wednesday September 27, 2006
Paris

Wrap-up roundtable

John Drexhage
Director, Climate Change and Energy
IISD

iisd International Institute for Sustainable Development / Institut international du développement durable

Outline of Presentation

- The Development Dividend Project
  - Background
  - Phase II Chapters and Conclusions
- Development Dividend links to programmatic and sectoral CDM
- Comments on last two days' discussion

The Development Dividend

- The Project is about trying to find a meaningful place in the international carbon market for CDM projects providing significant development benefits beyond GHG reductions
- Response to two concerns during initial implementation of CDM
  - Concerns from the private sector:
    - Too few projects,
    - Too high a price
  - Concern from developing countries and Civil society:
    - Too few projects with significant development benefits

The Development Dividend

- Task Force made up of 35 International CDM experts from government, multilateral institutions, business/industry, and research institutes- guides the work of the Project
- Phase I (2005) assessed current crop of CDM projects and indeed, found cause for concern on three fronts:
  - Quality
  - Quantity
  - Distribution of projects
- IISD asked the question, *what can we do to improve both the quantity and quality of CDM projects?*

The Development Dividend

- Phase II aims to answer the question, and deepen and broaden Phase I analysis, and consists of a report compiled of three research papers on:
  1. *Measuring and Defining the Development Dividend*
  2. *Options for Fostering the Development Dividend*
  3. *Financing the Development Dividend*

1. Chapter one- *Measuring and Defining the Development Dividend,* defines the development dividend, elaborates and applies a framework for measuring its strength in specific CDM projects and draws conclusions and recommendations from the analysis of the current roster of registered CDM projects

The Development Dividend

2. Chapter 2- *Options for Fostering the Development Dividend,* explores in-depth some options that could foster the Development Dividend in CDM projects. More specifically, analyzes the potential of CoP/MoP 1 decisions in promoting significant ghg emission reductions and development benefits.
3. Chapter 3- *Financing the Development Dividend,* explores ways to increase available financing for CDM projects that yield a development dividend; it considers how such financing for CDM projects can be used to encourage the project stakeholders to include and/or enhance the development dividend. Introduces the world of financing to project developers and vice-versa.

A tool for assessing the Development Dividend

Multi Criteria Analysis:

- Chose criteria that express the values to be measured. In the context of the development dividend.
- Chose indicators that are good proxies for the achievement of the criteria. Choose a system of weighting that expresses the relative value to assign to the various criteria/indicators.
- Score each project on each indicator, factor in the weighting, and tally up the totals.

The SSN Matrix:
Criteria and Indicators

- **Criterion 1:** Local/regional/global environment
  - Water quality and quantity
  - Air quality (other than GHG)
  - Other pollutants
  - Soil condition
  - Biodiversity
- **Criterion 2:** Social sustainability and development
  - Employment quality and quantity (incl. job quality, labour standards)
  - Livelihood of the poor (poverty alleviation, income dist, access to services, access to energy services)
  - Human and institutional capacity (empowerment, education, involvement, gender)
- **Criterion 3:** Economic and technological development
  - Employment
  - Balance of payments
  - Technological self-reliance (replicability, hard currency liability, skills development, institutional capacity, technology transfer)

- **Economic:**
  - Does it generate long term employment in significant amounts?
  - Does it have balance of payments/foreign exchange benefits?
  - Does the project reduce the need for significant imports, for example, of fossil fuels? Does it significantly boost the prospects for exports (by creating transportation infrastructure, reliable energy supply, etc.)?
  - Does it involve technology transfer/capacity building?
  - Does the project use local suppliers, or otherwise build up the capacity of local manufacturers, local users, to adapt and utilize new technologies?

- **Social:**
  - Does it benefit marginalized populations economically (e.g., employment creation, income supplement)?
  - Does it benefit marginalized populations environmentally (e.g., reduced resource degradation, reduced health-damaging pollution)?
  - Does it provide energy to energy-poor populations? Does any energy generated go to satisfying the needs of energy poor populations?
  - Alternatively, do a significant number of energy-poor people benefit, even if their numbers as a percentage of total beneficiaries are low?
  - Does it increase adaptive ability, resilience of communities, regions?

- **Environmental**
  - Does the project reduce polluting emissions (air, water, soil)?
  - Does the project prevent and/or reduce natural resource degradation?
  - Does the project “green” the process of energy production?
  - Does it involve deriving energy from renewable sources, or from sources that are less polluting than the baseline?
  - Does it increase the efficiency of energy use?
  - Does it foster development, dissemination of new energy technologies/sources?
  - Does the project contribute to a fundamental restructuring of energy regimes by using new “green” technologies for energy production?

Weighting Used in the Assessment Framework

	SCORE
1. Economic:	***3.5***
a. Does it generate employment in significant amounts?	3.4
b. Does it have balance of payments/foreign exchange benefits?	3.2
c. Does it boost the capacity of local manufacturers, local users, to adapt and utilize new technologies?	3.9
2. Social:	***3.7***
a. Does it benefit marginalized populations economically (e.g., employment creation, income supplement)?	3.6
b. Does it benefit marginalized populations environmentally (e.g., reduced resource degradation, reduced health-damaging pollution)?	3.9
c. Does it provide energy to energy-poor populations?	3.9
d. Does it increase adaptive ability, resilience of communities, regions?	3.4
3. Environmental	***4.1***
a. Does the project reduce polluting emissions (air, water, soil)?	4.4
b. Does the project prevent and/or reduce natural resource degradation?	4.2
c. Does the project "green" the process of energy production?	4.0
d. Does it foster development, dissemination of new energy technologies/sources?	4.0

The Development Dividend

- Phase II some general conclusions:
  - The issue of equity may not be as large a concern as it appears. The skewed distribution of CDM investment looks less skewed when deflated by GDP or population.
  - In some LDCs, resources necessary for investment may be more effectively directed toward other social priorities
  - The onus for actions in support of development benefits is clearly at the national level.
  - Certainty in market is a key factor in increasing the development dividend

The Development Dividend

- Phase II some general conclusions:
  - Local state owned development banks, multilateral financial institutions and Annex I country public sector programs are best positioned to take a leading role to include development benefits in their investment decision process.
  - Development dividend – funding the development component of an environmental investment.

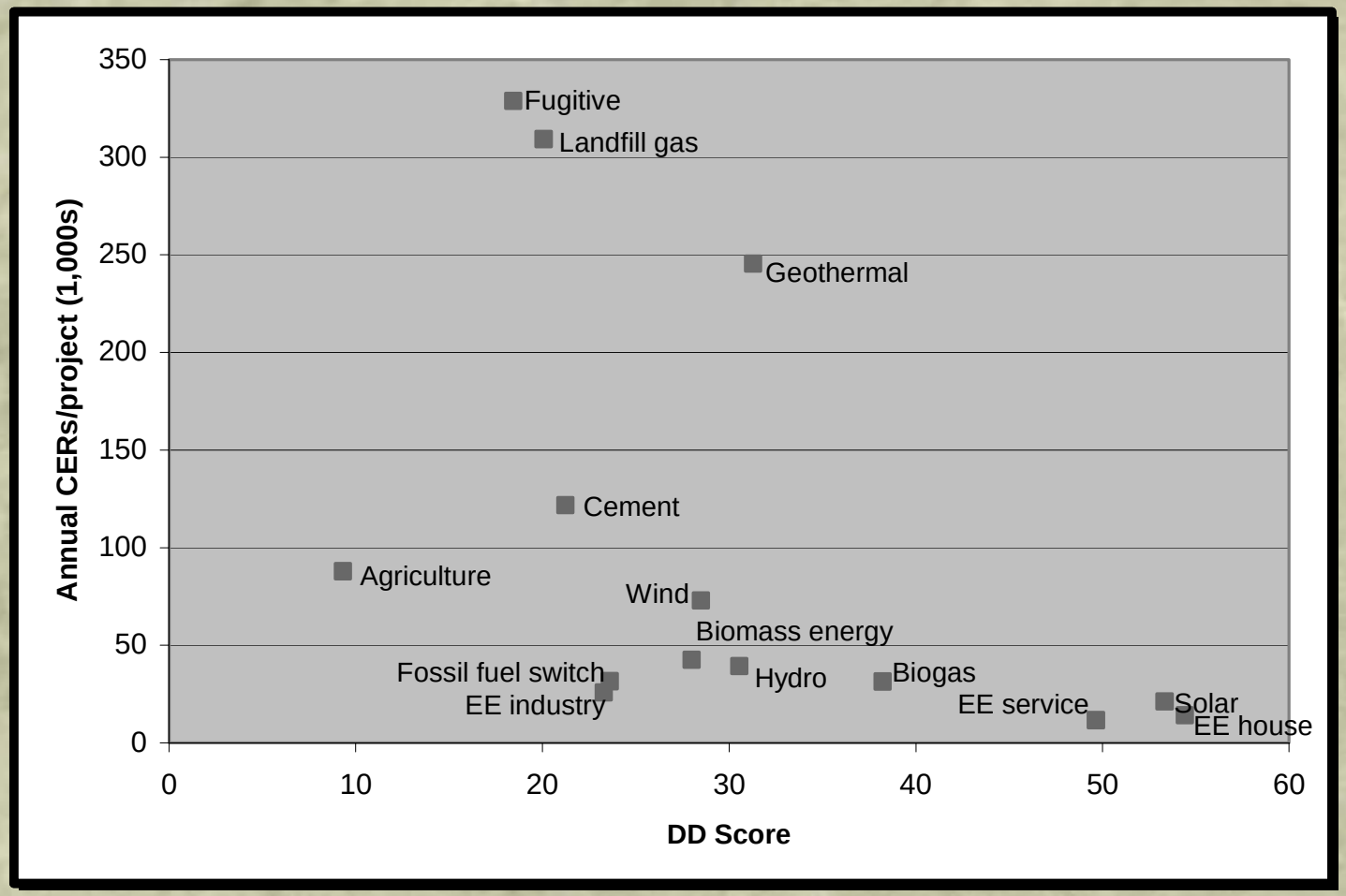
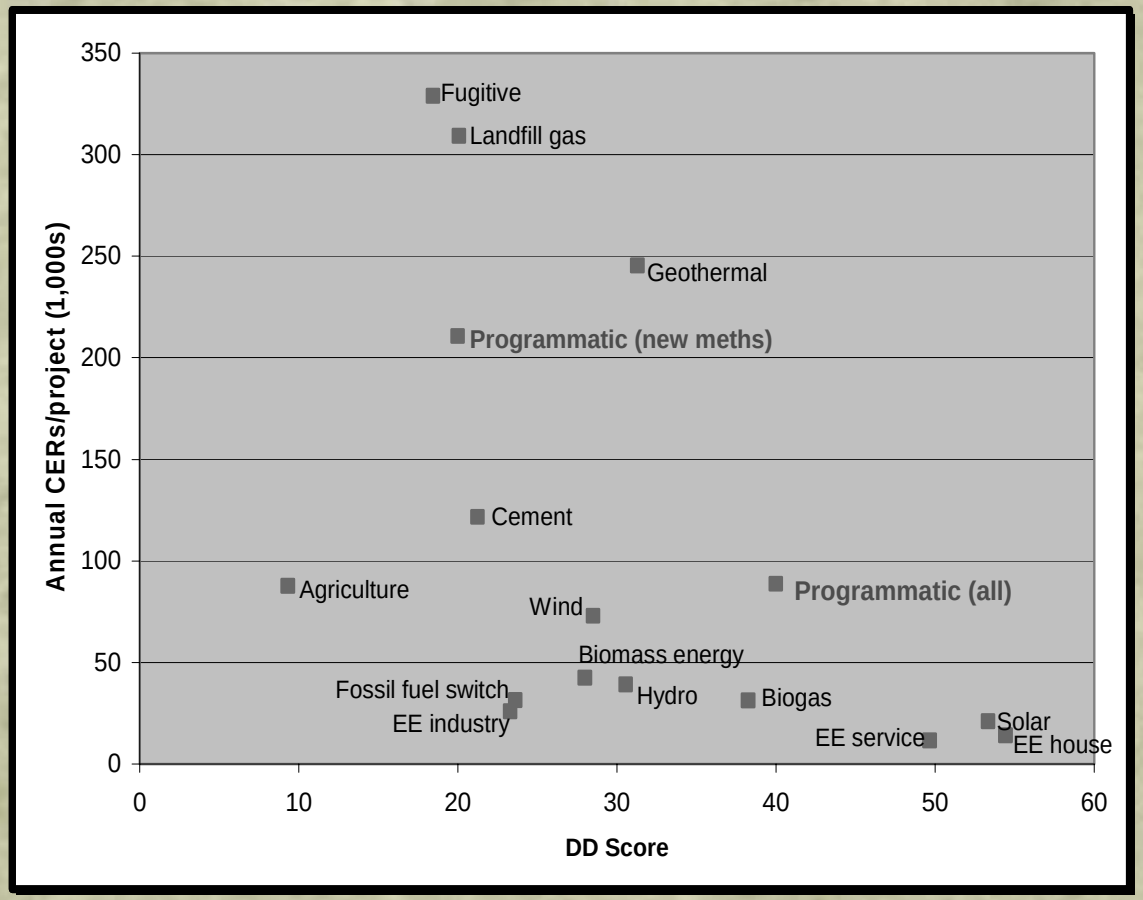

Annual CERs/project (1,000s)
350
300
250
200
150
100
50
0
0
10
20
30
40
50
60
DD Score
Fugitive
Landfill gas
Geothermal
Cement
Agriculture
Wind
Biomass energy
Fossil fuel switch
EE industry
Hydro
Biogas
EE service
Solar
EE house

Figure 6: Programmatic CDM, CERs and DD Scores



Development Dividend links to programmatic and sectoral CDM

- Programmatic/sectoral CDM activities demonstrate a strong ability to generate CERs as well as sustainable development benefits
- Decision on programmatic CDM coupled with decision on national and/or sectoral policies to eliminate perverse incentives related to additionality, has potentially opened the door to an increased development dividend by allowing climate-friendly programs in a number of sectors, such as transportation and energy efficiency.
- "The lessons learned from the programmatic CDM activities in the current UNFCCC CDM pipeline support the intuitive understanding that this type of CDM activity can broaden the scope of the CDM for energy efficiency and for fuel switching measures, as well as for the use of renewable energies in the household sector, in transportation and in small enterprises, areas with significant social and economic benefits that are currently under-represented in the CDM". Christian Figueres

Development Dividend links to programmatic and sectoral CDM

- While a number of high-achieving projects exists (projects with both high GHG reduction levels, and sustainable development benefits), the preponderance of projects falls short of the high mark set by these exceptions.
- Rules related to the future of programmatic CDM could be changed to favour known high-achieving projects…

Development Dividend links to programmatic and sectoral CDM

- In the short term, improvements in the approval process and efforts to ensure programmatic CDM begins quickly can increase the number of projects in the pipeline
- Ensuring timely development and approval of programmatic CDM methodologies (short-term) will increase programmatic CDM thereby increasing the amount of CERs on the market for the period 2008-2012

Development Dividend links to programmatic and sectoral CDM

- Analyzing the nature of opportunities presented through programmatic CDM will be necessary as there is a strong need to determine which sectors offer the greatest potential for programmatic CDM
- Building capacity to develop programmatic baselines and additionality tools is a must- After initial methodologies are approved and CDM program of activities launched, there will be a need for capacity building in non-Annex I countries to develop data, tools, skills necessary for implementation
- Expand the definition of CDM sinks projects to include avoided deforestation- these projects should be allowed in the second commitment period

- Number One Conclusion of Largest Magnitude:
  - Continued uncertainty on the role of the CDM post-2012 could dry up the supply of CDM projects- both good and bad – within a few years leaving us with far fewer CERs.

Comments on the last two days' discussions

- Lets learn from the past – don't overburden expectations on the role of the UNFCCC. Ocham's principle.
- Nairobi for CCS will be critical – be clear about what UNFCCC should be addressing.
- Specific design issues, such as price cap and/or intensity is probably more easily addressed in a nat'l or reg'l context.
- GIS has significant potential for post 2012. Lack of progress is worrying.
- Price matters – but not as the sole policy signal.
- Implications of OECD members that are energy exporters.

iisd International Institute for Sustainable Development / Institut international du développement durable

Better living for all — *sustainably*

John Drexhage
International Institute for
Sustainable Development
jdrexhage@iisd.ca