Lessons learned from the CDM for the approval of GCF's funding proposals

Submission to the Board of the GCF

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Summary

It is crucial that the decision of the Board of the Green Climate Fund (GCF) to approve the first funding proposals reflect the lessons learned from the previous experience of relevant institutions and climate mechanisms, in order to support high quality proposals that aim to deliver positive impacts for people and their ecosystem.

The Clean Development Mechanism (CDM), as a long-standing mechanism for emission reductions, provides valuable lessons for this process. The recommendations in this submission disclose how GCF can build on the shortcomings of the CDM, in order to ensure that project/programmes supported through the GCF:

- are **additional:** That GCF excludes project types with low likelihood of additionality;
- are **new:** That GCF finance is not used for non-viable existing projects;
- comply with the interim **environmental and social safeguards** the Fund; That GCF activities fulfil human rights for all, including the rights of indigenous peoples, ensure gender equality, etc;

- have **high sustainable development potential**: That GCF excludes project types with high GHG emissions and those associated with other high environmental and social costs;
- respond to **community identified needs,** with strong engagement of the civil society in development, implementation and monitoring;
- are developed, implemented and monitored **with high and clear standards of transparency, accountability and integrity.**

Introduction

The undersigned organizations welcome the opportunity to submit our views to the Members and Alternate Members of the Board for consideration at the 11th Board meeting of the Green Climate Fund (GCF) to take place 2-5 November 2015 in Livingstone, Zambia. This submission focuses on the mandate of the Board to consider first funding proposals (GCF/B.11/04).

Building on our in-depth expertise and experience acquired by closely following the Clean Development Mechanism (CDM) over the past six years, notably through the Nature Code programmes CDM Watch and Carbon Market Watch, this submission provides recommendations based on the lessons learned from the CDM to inform the Board's decision for approval of projects/programmes financed through the Fund.

This submission is structured in three parts that address the areas where the experience of the CDM and carbon finance is most relevant to the process of project proposals approval under the GCF: 1. Effective and additional finance; 2. Maximising sustainable development and co-benefits; 3. Good governance. Each section showcases the relevant pitfalls of the CDM, the lessons for the GCF and specific recommendations for the Board.

1. Effective and additional finance

The first area where the experience of the CDM and carbon finance is relevant to the current decisions before the GCF Board concerns how to finance new, effective and additional climate mitigation actions. In 2012, the CDM High-Level Panel on the CDM Policy Dialogue proposed that the GCF could purchase some of the current oversupply of CDM credits for which there are no buyers.[1] The report "A call to action" proposed to:

(i) Promote the use of CDM standards and methodologies in accounting for payments for verified results, so as to leverage the achievements, knowledge, and resources of the CDM.

(ii) Apply the standards and methodologies developed under the CDM as a way to facilitate the implementation of mitigation activities supported by the Green Climate Fund.

While we fully support the use of climate finance for new, additional, sustainable, climate-resilient projects, we would like to urge Board members to practice caution when considering registered CDM projects as possible types of activities to be considered for direct access.

In particular we recommend that eligible types of activities are:

- **Additional** and exclude project types with low likelihood of additionality. The GCF is mandated to channel 'new, additional, adequate and predictable financial resources to developing countries.'

- **New:** That GCF finance is not used to resuscitate and mop-up non-viable CDM projects to which different and often lower standards of environmental integrity and social safeguards have been applied.

Additionality

Additionality means that that the carbon units represent greenhouse gas emission reductions or removals that exceed any greenhouse gas reduction or removals required by law, regulation, or legally binding mandate, and that exceed those that would otherwise occur in a conservative, business-as-usual scenario.

Eligible types of activities need to clearly demonstrate that there are procedures in place to test additionality and that those procedures provide a reasonable assurance that the emissions reductions would not have occurred in the absence of the funded activity. If certain activities are pre-defined as automatically additional (e.g. through a positive list of eligible project types), they have to provide clear evidence of how the activity was determined to be additional. The criteria for such positive lists should be publicly disclosed and conservative. The GCF would do well to draw on the lessons about the merits of different approaches to baselines, methodologies and monitoring. The CDM has a wealth of experience of trying to establish credible baselines- increasingly sectorally in the way the GCF may will have to- of deciding which sectors and regions should be included and on what basis.

There are important lessons to learn here from the CDM. Numerous scientific reports and studies have questioned the additionality of CDM projects for which credits have already been issued.[2] A Stanford University study estimates that up to two-thirds of CDM projects would have occurred without financial support generated through carbon credits.[3] There are particular doubts about larger scale projects.[4] This finding was confirmed by confessions of Designated National Authorities (DNA) regulators themselves that none of the CDM projects from countries such as India (the world's second largest host of CDM projects), can be considered genuinely additional and would have occurred without CDM.[5]

A study by the Stockholm Environment Institute,[6] shows that the coal power projects in the CDM pipeline are extremely unlikely to be additional. The same was demonstrated for CDM large hydropower and wind projects.[7] Both these project types are problematic, because they are not only often non-additional but frequently cause severe impacts on local populations. Carbon credits from such projects do not represent real emission reductions. In fact, if developed countries are reducing their emissions on false pretences, this in fact leads to increase in global greenhouse (GHG) emissions.

The experience of Joint Implementation is also revealing. A recent study from the Stockholm Environment Institute[8] found that:

- A detailed analysis of a sample of 60 projects shows that for 73% of the ERUs issued, it was implausible that the projects required carbon revenues to go ahead. In other words, they were unlikely to be additional.
- Of the six largest project types, only one – N_2O abatement from nitric acid production – had overall high environmental integrity; for the rest, additionality seems unlikely or questionable, or unrealistic assumptions significantly overestimate emission reductions. Overall, 80% of ERUs issued came from project types with questionable or low environmental integrity.
- Overall, the use of JI may have enabled global GHG emissions to be about 600 million tCO_2e higher than they would have been if countries had met their emissions domestically.

These damning findings highlight the importance of stringent screening for additionality and negative listing of projects unlikely to be additional. **An important lesson for the GCF is that negative listing may be necessary for project types that should not be considered and are inconsistent with the mandate to fund new and additional projects**.

Mobilizing GCF investment in projects, which do not require additional finance or will not lead to additional emissions reductions, bares many risks:

- It would impair the Fund's ability to promote real, measurable and verifiable emission reductions.
- It would undermine the Fund's mandate to channel "new, additional, adequate and predictable financial resources to developing countries," as a bulk of projects would have been employed either way
- There is a risk that non-additional projects would soak up climate finance for no climate benefits and consequently crowd out investment in new projects and clean technologies. Moreover, as governments slowly raise the ambition of their climate policy measures, it becomes harder to prove that savings of greenhouse gas emissions associated with CDM projects are truly additional

Recommendations

- **The GCF boards needs to consider carefully how it will preserve the environmental integrity of the projects it finances by ensuring they are truly new and additional.**
- **The GCF needs to require stringent auditing and checking for double-counting where projects are being supported by multiple funders.**
- **GCF needs to adopt a negative list in order to exclude particular project types and technologies where additionality is doubtful, such as large energy-intensive coal and hydro projects.**
- **The GCF should refrain from investing in existing CDM projects is very risky because of widespread non-additionality.**
- **The GCF should target those sectors, regions and technologies that are important for developmental and climate change reasons, such as smaller-scale renewable energy projects.**

2. Maximising sustainable development and co-benefits

The GCF must deliver on the ultimate objective of the Fund to promote a paradigm shift towards low emission and climate-resilient development pathways in the context of sustainable development. It must, therefore, consider sustainable development objectives and co-benefits in its mitigation and adaptation efforts. There are important lessons to be learned from the experience of the CDM in the last decade to ensure that the GCF averts from financing any activities that could aggravate negative economic, social environmental effects.

One of the main objectives of the CDM is to encourage sustainable development in developing countries. However, experiences from the ground have shown that many implemented projects do not live up to the sustainable development benefits indicated at the design stage of the project and have made no contribution to sustainable development for the most part – in relation to jobs, technology transfer and health outcomes for example.[9] The reason for this is threefold:

1. While in 2012, the CDM Board took a step forward in its efforts to oversee the sustainable development benefits by introducing the CDM Sustainable development (SD) tool, it is

voluntary and does not require monitoring or verification of the actual sustainability benefits. [10] Moreover, it cannot be used by civil society and potentially affected communities and it imposes no measures when negative impacts occur. The tool is vague in its requirements and not sufficiently defined to enable effective evaluation of existing projects and to determine whether a project participant or coordinating/managing entity complied with "do no harm" safeguard principles or whether stakeholders had opportunities for meaningful engagement in the consultation process which has been a key issue for CDM projects.[11]

2. To receive carbon credits under the CDM, only GHG emissions need to be monitored and measured. Monetizing solely GHG emissions reductions is giving precedence to projects with more emissions reductions over projects with potentially higher sustainability benefits.
3. There is no international sustainability assessment process. Countries that host CDM projects define their own sustainability criteria. In the absence of international guidance, the sustainability criteria usually lack specificity, transparency and stringency;

The experience of the CDM shows that the absence of appropriate mechanism with mandatory commitments to monitor, report, and verify claimed sustainability benefits, makes it impossible to assess whether or not the individual sustainable development goals of projects have been delivered in practice. Most studies showcasing SD benefits are based on Project Design Documents (PDDs) projections of benefits that *could* be possible and not an assessment of what was done in reality.[12]

Moreover, certain project types in the CDM, such as coal power plants, do not support the goal of the CDM of contributing to sustainable development. On the contrary, they bring adverse impacts by inflicting a heavy toxic burden on local populations and ecosystems.

The Green Climate Fund should break with these trends and stray from 'business as usual' mode. The approval of the first projects and programmes funded through the GCF should clearly signal the Fund's objective to contribute to a paradigm shift towards low-carbon and climate resilient sustainable development. This is also necessary to avoid the reputational risk that the GCF supports activities that lead to adverse impacts for people and their ecosystems, undermining the credibility of the GCF and risking future funding from donors.

Eligible types of activities must, therefore, clearly demonstrate maximum potential for sustainable development co-benefits, expected positive economic, social, environmental and gender-sensitive development impacts in line with objectives of the Fund and the priorities set at the national, local or sectoral level, as appropriate.

Recommendations

- **The GCF should in the process of approving funding proposals prioritize support for projects and programs that demonstrate high potential for economic, social, environmental and gender-sensitive development co-benefits**
- **The GCF should adopt a negative list, in order to exclude climate mitigation project and programmes that support technologies or practices with high GHG emissions, such as fossil fuel and other harmful energy projects or programs and those associated with other high environmental and social costs e.g. coal extraction projects**
- **The GCF should refrain from investing in existing CDM, due to their documented failure to deliver economic, social and environmental co-benefits on the ground**

3. Good Governance

Given the scale of climate finance flowing through the GCF, the Fund must be based on the highest standards of integrity, accountability, and credibility. The GCF has made great strides in seeking to address issues of good governance around participation, accountability and disclosure. The experience of climate and carbon finance to date, however, is that there is significant scope for collusion, fraud and corruption in the distribution of finance and the design and implementation of projects.[13] To guard against this, robust and transparent measures need to be in place to safeguard the integrity of the GCF at the national and international level.

Valuable lessons are to be learned from the experiences from the CDM, where the process of approving and implementing projects has been susceptible to corruption and other integrity risks. The CDM Board has faced allegations of conflicts of interest and lack of transparency.[14] In several projects the integrity and independence of bodies in the CDM system have been questioned due to projects:

- failing to comply with rules on stakeholder consultations,
- violating human rights and indigenous peoples rights, [15]
- imperilling sustainable development,[16]
- discredited by fraud and corruption between project developers, DNAs and DOEs.[17]

Building on the experiences from the CDM, to prevent occurrence of corruption, collusion and fraud at the operational and project level, the Fund should ensure:

- transparent monitoring, reporting and evaluation with independent oversight
- an open, inclusive, and participatory approach to decision making
- strong national governance

To prevent the misuse of GCF finance, the Fund's governance needs to ensure robust checks and balances and independent oversight of Fund's operation, funded activities and finance flows. It is therefore crucial for integrity of the Fund that the three independent accountability units determined by the Board - Independent Integrity Unit (IIU), Independent Redress Mechanism (IRM) and an Independent Evaluation Unit (IEU) – are set up, operate in synergy and include anti-corruption reviews at the country level.

Building the capacity and independence of national authorities

The GCF has appointed national designated authority (NDAs) and focal points which are chosen by national governments as entities that coordinate country's engagement with the Fund. Rather like the DNAs in the CDM, NDAs and focal points have a central role in: approving the projects through a no-objection procedure; ensuring that activities are contributing to sustainable development and complying with national rules; monitoring the performance of implementation of the projects and environmental and social safeguards; and engaging with national stakeholders on procedures of the Fund through appropriate and accessible means and in local appropriate languages.

Since NDAs act as gate keepers of access to finance, attention will need to be paid to transparency in how money is allocated, contracts issued and outcomes monitored to avoid the potential for collusion and corruption between government and private sector contractors. This is important because research on the CDM has highlighted the revolving door that often operates between project developers, accredited entities and national authorities.[18]

This is particularly, though not exclusively, the case in contexts of weak national government capacity, large financial flows and a small pool of accredited entities and those with the expertise and resources to participate in GCF projects. These conditions apply in many of the countries with projects currently under consideration for GCF finance. Three of the countries have rankings that place them in the bottom third of the global corruption ranking produced by Transparency International.[19]

The limits of national institutions and frameworks within many developing countries in safeguarding against harm negative environmental and social impacts associated with large infrastructural projects are well-recognised, highlighting the need for mechanisms and approaches that compensate communities. Given the scale of projects and funds that the GCF expects to support, strong grievance, compensation and accountability mechanisms will need to be in place at the national and international level that actively support and encourage civil society participation.

It is important to strengthen the governance at the national level (e.g. through Readiness support) to ensure that NDAs and focal points have the capacity to monitor and provide feedback regarding the impact of Fund's projects, and effectively engage with relevant stakeholders, including affected communities and civil society regarding GCF strategies and planning, accreditation or monitoring and evaluations of funded activities.

Moreover, it is necessary to build local capacity about consultation processes and the rights of people where information is not tailored to the local context, to make complaints mechanisms known and truly accessible to people. Without public scrutiny of the alleged project co-benefits, experience from the CDM suggests that the benefits will likely accrue to a small group of interests aligned with those involved in decision making, be they formal public sector decisions over allocation and dispersal of funds or private sector investment decisions that seek out low cost and profitable mitigation opportunities.

Respectively, regular and transparent monitoring of projects and programs and their sustainable development impacts throughout the project cycle should be established in line with paragraph 57 of the Governing instrument, which suggests third-party participatory monitoring, and in line with interim environmental and social safeguards, in order to ensure high quality performance of activities.

Creating space for civil society input into the GCF

Engagement and input from civil society actors is also required at the board level. A great deal of experience can be drawn from the CDM Board regarding the importance of transparency regarding:

- nominating chairs;
- agreed terms in office;
- geographical spread of representatives;
- procedures for dealing with conflicts of interest;[20]
- the value of policy dialogues;
- the importance of resourcing a full-time professional staff that can dedicate themselves to the GCF's day to day operations.

Yet as Transparency International and many others have noted,[21] while the GCF's Board is now in the process of building mechanisms to ensure its accountability at different levels, most of these are not explicit about engagement with civil society as a key stakeholder concerned with social, environmental and fiduciary transparency, accountability and integrity of the Fund's goals, results and impacts.

A wider and more structured engagement of CSOs within the evolving GCF is needed. Donors to the Fund should consider facilitating initiatives to enhance CSO input and participation to strengthen the quality, transparency and integrity of the GCF's decisions. This would help to strengthen the existing grievance mechanisms of the GCF, supporting communities and other concerned parties to bring their concerns and aspirations across to the GCF and its implementing entities. It would enable access to information and the building of trust between the GCF and the communities it works with, allowing the GCF to both detect problems and build on best practice.

Recommendations:

- The GCF should guarantee access to the GCF's grievance mechanisms to any person or group who witness or are potentially or already negatively affected by corruption or noncompliance;
- The GCF should guarantee effective handling of grievances related to corruption and/or violations of social-environmental safeguards;
- The GCF should guarantee independent monitoring to reduce the risks of corruption and fraud;
- The GCF should adopt mandatory operating guidelines for participatory monitoring, in line with the paragraph 57 of the GI, through which stakeholders at various levels can provide early warning on potential problems with implementation of funded activities, and call for early corrective action. Participatory monitoring should be extended to assessment of applicants for GCF accreditation and the implementation of all GCF funded activities;
- The GCF should establish an independent, citizen-based complaint review and referral system to complement and enhance the work of the GCF official anti-corruption, redress, and evaluation mechanisms;
- The GCF should establish a mechanism for meaningful, comprehensive and gender-sensitive stakeholder engagement and participation in line with paragraph 71 of the GI;
- The GCF should establish clear standards of transparency and information disclosure, including timely disclosure of documents before consultations in locally relevant languages and formats, so it allows for meaningful stakeholder commentary and input.

Annex: List of CSO signatories

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