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Globalization Commentaries

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Cleaning up the Clean Development Mechanism: Performance Standards needed to ensure carbon reductions, development benefits

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The crisis in global climate talks may have clouded the future of the Kyoto Protocol but the Clean Development Mechanism seems to have a life of its own. The CDM, one of Kyoto's three implementation mechanisms, allows companies in developed countries with Kyoto targets to offset their emissions by buying "certified emission reductions" (CERs) from investment projects in developing countries. As of November, 2009, some 1,860 projects in 58 countries were registered with the CDM, with another 400 in the pipeline. Some 335 million CERs have been created, worth, at a carbon price of $10-30/ton, $3-10 billion.

Once hailed as an ingenious way to overcome political resistance in the North to costly action to reduce emissions while simultaneously providing mitigation investment funds to the South, the CDM has recently come under intense criticism, essentially for a range of governance failures. In a February, 2010 article in Harper's, investigative journalist Mark Shapiro provides persuasive evidence that many of the CERs—which are issued at the beginning of a project as an estimate of expected future emissions reductions—are not later credibly validated to determine that the reductions, in fact, occurred. Indeed, the UN recently de-certified the two leading validating companies on grounds of inadequate methodology and incompetent staff. While both were subsequently re-certified, deep conflict-of-interest problems remain: the companies who verify that the project will reduce emissions (and that the project wouldn't happen without CDM funding) are paid by the very same companies that are seeking the CDM finance. Estimates of the percentage of the CERs that represent little more than speculative hot air range from 20 to 75 percent. The CDM, concludes Shapiro, is "conning the climate."

But the climate is not the only casualty of the poorly governed CDM. From around the world, snapshots are emerging of a range of harms inflicted on communities—typically poor and marginalized– living near CDM projects.

Take the case of A.T. Biopower, the first CDM project in Thailand. The project entails building five rice-husk-burning biomass power stations. The first was built in the town of Pichit, near the Nan River in north-central Thailand. According to project developers—and the UN-certified CDM project verifier–rice husks are wastes dumped by local rice farmers. Using them to burn energy replaces power which would otherwise be generated by oil, coal or natural gas, making the project climate neutral and "sustainable."

However, there is a fatal flaw in the logic: the claim that rice husks are "waste" was never substantiated. The truth is that local farmers use the rice husks to absorb chicken droppings, creating a natural agricultural fertilizer. Far from being "waste," the rice husks are essential to agriculture, the main source of livelihoods in Pichit. With the new demand by the power plant, the price of rice husks has risen sharply and they are no longer affordable. Local farmers have to replace, as best they can, the natural fertilizer with chemical fertilizers, destroying what was a self-sufficient system. Moreover, the biomass plant generates a fine dust which, when inhaled, causes silicosis. People living near the Pichit power station have complained to the company—to no avail–about skin rashes and breathing difficulties.

Concerned about environmental, livelihood and health impacts, the community of Nan Song, about 50 kilometers away from Pichit, fought A.T. Biopower for six years to keep from being the site of another biomass plant—a fight that entailed setting up a conservation organization and requesting an investigation by Thailand's National Human Rights Commission. The Commission recommended that the power plant not be built in Nam Song, which sits on a flood plain, on the grounds that it would violate human rights by polluting the river and damaging villagers' livelihoods.

There are many other stories. In Brazil, the extensive root systems of eucalyptus plantations planted as offsets have drained the water supplies of local, often indigenous, agriculture-based communities. In Uganda, a forest planting project which allowed a Norwegian power company to avoid emissions reductions led to the displacement of 8,000 people. The CDM's large investment in big hydropower projects, especially in China, has enabled the displacement of thousands.

Negative social and environmental impacts of foreign investment on poor local communities in developing countries are, alas, nothing new. But the CDM is a creation of the United Nations and depends on it for its operations. The UN, one would have thought, would seek to enforce its own human rights conventions. Moreover, the International Finance Corporation, the private sector arm of the World Bank—a UN organization–has been actively engaged for more than a decade in efforts to govern its project finance on social and environmental grounds.

In 2006, the IFC adopted a set of eight "Performance Standards on Social and Environmental Sustainability." The Standards are modeled on the Equator Principles, self-described as a "financial industry benchmark for determining, assessing, and managing social and environmental risk in project financing." As of 2009, some 65 financial institutions had signed up to the Principles, including giants such as Bank of America, Credit Suisse, and Lloyd's Banking Group.

The Performance Standards are applied to all IFC projects and include requirements for social and environmental impact assessment, changes in project design to avoid or minimize physical or economic displacement, and protections for indigenous people. The IFC has also established an Office of Compliance Advisor Ombudsman to field complaints from communities impacted by IFC- (and MIGA) funded projects; and has a monitoring and evaluation system. While it is far from clear that the Performance Standards (or Equator Principles) are effectively implemented and enforced, the IFC is miles ahead of the CDM, which has no local impact standards at all.

The CDM is, in essence, a project financing mechanism, one that is supposed to promote "sustainable development" as well as mitigate greenhouse gas emissions. To begin to fulfill its mission, substantial reforms and innovations in governance are sorely needed. The CDM could do worse than to look towards the IFC as a starting point.