



**14th INTERNATIONAL ANTI-CORRUPTION CONFERENCE
10-13 November 2010 - Bangkok, Thailand**

***Climate Governance: Ensuring a Collective Commitment to a
Low Carbon, Climate Resilient Future***

by Jacob Werksman¹

The 2010 International Anti-Corruption Conference (IACC) addresses the theme of “climate governance” at a crucial moment. The science of climate change has never been more robust and alarming, rhetoric at high-levels of government on the need for urgent action has never been more united, and yet the effort to negotiate a collective response to climate change has never been more fragile.

A month after IACC concludes, the Parties to the UN Framework Convention on Climate Change and its Kyoto Protocol will meet in Cancún in an effort to rescue a decade long negotiating process that has aimed to adopt a comprehensive and ambitious international agreement to reduce greenhouse gas emissions to safe levels.

A comprehensive and balanced agreement will include such key elements as targets and timetables for developed country commitments, nationally appropriate mitigation actions for developing countries, and new and additional financial resources to support investments in mitigation, adaptation and technology transfer in developing countries. This stream of the IACC explores the extent to which greater accountability and transparency could contribute to building the trust necessary to reach and effectively implement a global deal on climate change.

Issues of transparency and accountability have been at the core of the international climate change negotiations, providing many potential entry points for any recommendation that emerge from the IACC. The climate change negotiators have recognized, in general, that standards and procedures to ensure open, robust and comparable data is available with regard to countries’ policies and performance will be essential in the long run, to building the trust necessary to secure *collective commitment* among governments. On the other hand, concerns that a strong system of measuring, reporting and verifying country performance could lead to intrusions on economic sovereignty, have prevented agreement on the details.

There are, moreover, reasons to doubt that on their own greater levels of transparency and accountability will in the near term lead to greater trust and collective commitment on climate change. For example, efforts to bring greater transparency to “fast start finance” – the pledge made by developed countries in 2009 to provide USD 30 billion in “new and additional” finance for climate mitigation and adaptation – have led to accusations that the promised money has yet to be delivered, or that it has simply been diverted from other development assistance.¹ Efforts to

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bring greater transparency to the use of subsidies designed to promote investment in clean energy technologies in Canada and in China have led to accusations by their trading partners that these policies have been put in place largely for protectionist purposes.ⁱⁱ

This dynamic – the reluctance to lead, and the readiness to blame -- suggests that despite the science and the rhetoric, tackling climate change remains a relatively low political priority in most countries. Policymakers – nationally and internationally – bear significant responsibility for this situation. Rather than embracing the substantial gains that low carbon development could bring to society as a whole – in the form of energy security, cleaner air, high value-added technologies and jobs -- policymakers have instead focused on buying-off vested interests with promises of financial transfers, the free allocation of emissions rights, protectionist measures and access to cheap, low quality carbon offsets. And vested interests seem prepared to reward compliant policymakers with support for their political campaigns.ⁱⁱⁱ

Quoting from the framing document for this conference, it is in this context that “apathy and insecurity flourish, creating an environment ripe for corruption.” Vested interests feel complacent to the threat of future regulation and further empowered to resist it. Progressive forces become disillusioned and no new constituencies emerge to support ambitious climate policies. Climate politics, to the extent they have compromised ambition for the public good to the benefit of private gain, can become inherently corrupt.

Good climate governance will only emerge when a broad base of support from civil society demands institutions and procedures that drive the requisite level of ambition to reduce greenhouse gases and build resilience to climate impacts, while at the same time ensuring that the drivers of climate policy and of climate finance are not captured or re-directed to corrupt ends.

The nature of this governance challenge cannot be overestimated. The depth and breadth of the powerful interests vested in the status quo of a high carbon economy is formidable. Planning for low carbon development will require institutions to manage GHG emissions and climate impacts across multiple complex sectors, from energy, land use, to transportation, and at all levels of government.

There are however, reasons to hope. As indicated, climate change has been recognized (if largely rhetorically) by many heads of state and government as an important issue. Although international climate governance remains weak, most of the world’s largest emitters have made initial international pledges to stabilize or reduce their emissions and (with the notable exception of the United States) have begun to put in place skeletal climate policies that could lay the groundwork for more ambitious future action. The European Union’s legally binding cap and trade system has begun to demonstrate that it is possible to limit GHG emissions while retaining an open and competitive economy – even in the context of a global recession.

Most of the world’s largest emitters are increasingly transparent and democratic societies with vibrant civil societies that could begin to demand more of their governments. Important civil society constituencies have already formed around sectors and issue areas – such as clean air, energy access and security, reliable urban transportation, and forest conservation – that could form the wellspring of this demand.

Participants in the IACC, whether they are dedicated to promoting good governance for its own sake, or to ensuring that good governance leads to low-carbon, climate-resilient development, share a dual challenge:

- firstly, promoting good governance as a means of strengthening the collective will of civil society and of governments to invest in fair and effective climate policy, and

- secondly, to ensure that the policy drivers and financial resources dedicated to saving the climate system, including international climate finance and carbon markets, are not diverted to corrupt ends.

This note explores these challenges in the context of emerging domestic climate policy in many countries, the development of international mechanisms to deliver climate finance, and, briefly, existing and emerging markets in carbon offsets and allowances.

Promoting Good Climate Governance

Growing public awareness and concern about climate change, as well as international processes such as the 2009 UNFCCC Conference of the Parties in Copenhagen, the Group of 20 and the Major Economies Forum, have led most of the world's largest emitters (China, the United States, the European Union, India, Brazil, South Africa and Indonesia) to begin to put in place national framework policies on climate change.

At and since the Copenhagen, some 138 countries have registered their political support for a global target to reduce emissions at a rate and scale that will ensure that the global mean temperature does not rise above 2 degree Celsius. Among these are pledges by industrialized countries in the form of targets and timetables to reduce emissions, and by developing countries in the form of "nationally appropriate mitigation actions" that promise improvements in energy efficiency and carbon intensity. While this political response was an impressive first step, the combined effect of these pledges is non-binding legally and inadequate scientifically, to reach the 2 degree global target.

Nascent systems of "climate governance" – procedures and institutions entrusted with making and implementing policies to reduce greenhouse gas emissions and to prepare for the impacts of climate change – are beginning to form behind the Copenhagen pledges. New and exotic institutions, including climate-related funds, committees and even ministries, are emerging in some countries.

However, in the near term, for many countries, "climate governance" will remain the domain of more familiar institutions, such as planning ministries, public utilities commissions, and ministries of finance, forests and the environment. It will likely to be on their already burdened shoulders that the challenge of making fair and effective climate policies will rest. In order to have the transformative effect necessary to move economies largely dependent for their energy on the combustion of fossil fuels, onto a "low carbon" path, these institutions will have to divest deeply vested interests, and redirect public and private finance on a large scale.

The kind of change necessary to achieve these results will depend upon broad based support of civil society and the private sector. Transparent, inclusive and accountable systems of government will be essential to ensuring the public has access to information about the costs and benefits of these policies, participates in decisions about the trade-offs necessary to achieve ambitious reductions and holds government to account for achieving these results. To function effectively, markets in everything from clean energy technologies and services to carbon offsets, will depend on open climate governance.

More specifically, climate governance will need to be designed in such a way as to reveal the benefits of ambitious climate policy to identifiable domestic constituencies. Groups that have been fighting for rural electrification, clean air, water conservation, sustainable agriculture, and biodiversity conservation, will need the information base necessary to draw the linkages between their goals and sound climate policies. They will need the opportunity to shape, to own and to defend those policies as being in the public interest, through public hearings, notice and comment processes, environmental and social impact assessments, and access to administrative and judicial proceedings. Essentially climate governance, to succeed, must inform and empower new constituencies to dislodge vested interests.

The kinds of transformations necessary to achieve significant reductions in greenhouse gases may also lead to unintended harms. The drive to invest in low carbon technologies may add costs, in the near term that could, for example, delay the delivery of affordable energy access for the poor. Efforts by climate policy advocates to block investments by the World Bank in coal-fired energy in developing countries have revealed divisions between developed and developing countries at the Bank Board level, and between climate and development NGOs at the local level.^{iv}

Similarly, governments and civil society remain divided about how best to protect the concerns of indigenous peoples and local communities about the potential wholesale conversion of productive forests to carbon sinks.^v Who “owns” and can benefit from the carbon fixing services of tropical forests and on what terms those benefits can be shared with investors and local communities remains unresolved at the global level as well as in most countries.

New and exotic issues such as “low carbon development strategies” and efforts to Reduce Emissions from Deforestation and Degradation (REDD+), packaged seductively in international pledges and international finance, should not be allowed to mask the underlying choices facing developed and developing countries about how their energy and land use planning choices will affect the rights and interest of citizens. Only transparent, inclusive and accountable institutions operating at both the domestic and international levels can unmask and manage these choices.

Combating Corruption in Climate Finance

Developed countries appear willing to help fund developing countries’ efforts to mitigate and adapt to climate change. At Copenhagen, developed countries pledged to provide up to USD 30 billion in “fast start finance” between 2010 and 2012, and considerable progress has been made by these countries in identifying sources for these funds.^{vi} Over the longer term developed countries have pledged to provide as much as USD 100 billion a year in public and private finance by 2020. A High-level Advisory Group on Climate Change Financing (AGF), has tasked with identifying potential innovative sources for these larger flows, and report to the UNFCCC in Cancún.

If these pledges are fulfilled the money will be significant as compared to existing flows of official development assistance (ODA) generally, and to existing climate finance flows in particular. If climate finance is concentrated in a particular project, sector or country its capacity to leverage improvements in governance or to be diverted to corrupt ends could be substantial. For example recent commitments by Norway on REDD+ activities in Brazil, Indonesia and Guyana alone may lead to USD billions of investments in the forestry sector in these countries and are already stimulating the creation of new institutions, and concerns about corruption.

Widely leaked drafts of the AGF Report on long term finance, notes, but with insufficient emphasis, that “[a]ccountability and transparency on both spending in developing countries and on financial flows from developed countries will enable reciprocal trust to improve over time” and to ensure these resources are spent wisely.^{vii}

Corruption-related risk will depend in large part on the nature of the investment in particular sectors and countries. Project-based loans may, for example, be easier in some countries to track than funds for direct budget support. In some countries the forest sector has been more corruption-prone than energy infrastructure. The close involvement of the public sector in both donor and recipient countries may decrease the chances of corruption or may increase the opportunities for rent-seeking.

The opportunities to strengthen governance and to combat corruption will also be affected by the institutions entrusted with raising and allocating climate finance. At present, it is unclear whether one or multiple, new or existing institutions will be managing these billions of resources.

Traditional contributor countries have been favoring bilateral flows and the use of existing Multilateral Development Banks (MDBs) -- in particular the World Bank -- which they feel have decades of experience in setting and following financial, environmental and social safeguards. Under some proposals the MDBs and various UN agencies would play the role of trustee and implementing agencies for new climate funds. Many developing country governments have expressed a preference for creating new institutions at the international level to raise and allocate resources. They are calling for "direct access" to funds by existing or new institutions at the national level, bypassing multilateral implementing agencies, such as the MDBs and the UN.^{viii}

While the MDBs have mixed track records, and have been accused of supporting projects that have mismanaged resources and led to social and environmental harms, in recent years they have, become more transparent and accountable. Most have disclosure policies, comprehensive safeguard policies, grievance mechanisms, and policies designed to prevent and expose corruption. Well-connected networks of CSOs keep a close watch on MDB activity, from the Board room, to the appropriations process, to their impacts on the ground.

Channeling resources directly to national institutions in recipient countries presents a different set of context-specific challenges and opportunities. If these institutions are held to international standards of transparency and accountability, the "direct access" approach could lead to the creation of very strong governance models in developing countries. Poland's EcoFund, funded by debt-for-nature swaps in the early 1990s has, for example, been held up as a model of this kind of institution-building.^{ix} The closely watched Brazilian Amazon Fund financed by early Norwegian REDD money, may yet prove to be a model for future funds.

Fortunately, the importance of good governance to good climate outcomes has already been recognized in the discussions on climate finance. For example, in the context of REDD+ both contributor and recipient countries have acknowledged the need for a "phased approach" to investment that begins by building up the institutional capacity of national and local institutions to design and implement policies, including by engaging with stakeholders. This emphasis on the need to invest in the "readiness" of institutions to take on the challenge of climate governance has spread to other sectors, and should be used as an entry point for promoting greater transparency and accountability.^x

Combating Corruption in Carbon Markets

The category of climate policy that has been most scrutinized for governance-related risks is the carbon market.^{xi} If corruption is the subversion of public office for private gain, carbon markets are, in theory, the harnessing of private gain for the public good. For decades emitters, from companies to individual consumers, have been able to purchase "carbon offsets" -- certificates that purport to represent the successful efforts of others to reduce their emissions beneath some notional baseline of activities. These certificates are then used to offset the sense of responsibility for GHG emissions associated with everything from industrial processes to family vacations.

The advent of the Kyoto Protocol and the European Union Emissions Trading Scheme (EU-ETS) created the first "compliance markets" for carbon instruments, enabling countries to trade both project-based offsets, and emissions allowances based on emissions budgets agreed under international law. Regulated entities operating under the European cap can use these offsets and allowances to cover emissions that exceed what they would otherwise have been allowed to emit.

Under the Kyoto Protocol, the Clean Development Mechanism (CDM) (for projects based in developing countries) and the Joint Implementation Supervisory Committee (for projects based in developed countries) have been established to regulate the effective functioning of project based mechanisms. Private consulting and accounting firms have been designated to ensure that credible project level baselines are prepared, and that emissions are reduced over the life of the project.

The rules necessary for a compliance market will, in theory, demand high degrees of transparency and accountability with regard to the emissions of countries and companies. Emissions inventories based on public and comparable data are essential to determine which regulated entities are above or below their budgets, registries are required to track transactions between these budgets, and so that investors and regulators can have confidence that offsets and allowances retain their value.

It might be expected that these publically managed “markets in virtue” should be less vulnerable to vice than markets driven purely by profit.^{xii} However, carbon markets may be more vulnerable to corruption than markets in other forms of natural resource-based assets in that they are based on intangible instruments that often derive their value from the assurances made by parties with inherently conflicted interests. While a tree is a tree, oil is oil and diamonds are diamonds, an offset certificate reflects the assurance of a project sponsor that it has met standards and followed procedures negotiated by parties that have a shared interest in generating the largest volume of offsets at the lowest price. Offsets necessarily operate in a counterfactual context: – the project sponsor must demonstrate that the emissions reductions would not have occurred in the absence of the investment – something inherently unprovable.

Combine this regulatory challenge with the large scale payments that may be made to countries through a proposed mechanism to fund REDD+, and the opportunities for fraud and corruption are formidable. Many have noted that some of the countries that are competing for the attention of REDD+ investors have ranked low on the Corruption Perception Index.^{xiii}

In circumstances of kleptocracy or spoliation, the calculations of public officials and private actors, of exporters and importers of illegal timber or of illicit offsets may be fundamentally the same. Billions of dollars are lost to national treasuries of forest rich countries through the loss of taxes and the depression of market prices caused illegal logging. Selling off carbon offsets at cheap prices could similarly lead to short term gains, but long term losses. It may be, however, that the relative uncertainty of long term carbon markets, where scarcity and demand will depend heavily on regulatory drivers, will lead to greater temptation for short term gains through corrupt acts.

Having said that, under pressure from civil society and like-minded governments, mechanisms for promoting greater transparency and methodological rigor in the design and operation of carbon markets have been introduced into the CDM and are being contemplated for REDD+. Offset markets, to demand any price at all over the long term will depend upon a regulatory rich environment. Unlike illegally logged timber, a discredited offset will have no value to an end user. Therefore, transparency and accountability systems that discredit offsets issued in violation of rules have a far greater potential to cut off drivers of demand than systems to track illegal timber.

Conclusions

Climate governance is still in its formative stage, at both the international and national level. If the institutions entrusted with climate policy begin to succeed they will have to reallocate power and resources in such a way that will confront and overcome opportunities for rent seeking, regulatory capture, and corruption.

Fortunately, climate policy makers have recognized the important role of transparency and accountability in good climate governance, have made commitment to measure, report and verify their actions, and to invest in the “readiness” of national institutions to manage climate finance and carbon markets. Civil society organizations need to seize on these opportunities.

Transparency and accountability must lead to the more effective mobilization and participation of civil society constituencies with an interest in seeing climate policy succeed, as well as those that have been focused on exposing its shortcomings. Strategies based primarily on identifying and

exposing corruption will be essential, but insufficient to improving climate governance and to generating fair and effective climate policies.

In other words, transparency in climate governance must become as much about citizen engagement in how to do things right as it is about what is going wrong. Accountability must become as much about demonstrating performance against specific policy goals as it is about removing corrupt officials.

Until “climate governance” and “climate policy” emerge as part of more fully operational institutions and procedures, efforts at improving governance should continue to focus on the existing national planning processes and on interventions in those sectors (energy, forestry, land use, transportation and water management) that are essential to mitigation and adaptation.

This will require building the capacity of civil society organizations in technical details that will be the essence of progressive climate policy in these sectors, including land tenure, indigenous peoples’ rights, integrated resource planning, coastal zone management and renewable energy feed in tariffs. Partnerships between technical specialists and those with expertise in promoting participatory democracy and fighting corruption will be essential to the success of climate governance, and to the future of planet’s climate system.

ⁱ “China and U.S. blame each other as climate talks conclude”, Agence France-Presse, 9 October 2010.

ⁱⁱ In response to the US Commerce Department’s decision to launch an investigation into the WTO compatibility of Chinese clean energy subsidies, an unnamed Chinese Ministry of Commerce official indicated that the US “is sending a wrong signal of trade protectionism to the rest of the world.” Noting that the US is also using subsidies to promote clean energy, the official concluded that “the U.S. has no reason to blame other countries’ efforts to improve the well-being of mankind.” (www.mofcom.gov.cn). See also “Japan Challenges Canadian Renewable Energy Incentives at WTO,” <http://ictsd.org/i/news/bridgesweekly/84814/>, 10 September 2010.

ⁱⁱⁱ See, “Think globally, sabotage, locally: How and why European companies are funding climate change deniers and anti-climate legislation voices in the 2010 US Senate race,” An investigation by Climate Action Network Europe - October 2010, available at <http://www.climnet.org/component/content/article/274-eu-energy-and-climate-policy/252-caught-eu-business-lobby-funding-climate-legislation-blockers-in-us-senate.html>.

^{iv} See, for example, <http://www.wri.org/stories/2010/03/world-bank-eskom-support-program>.

^v See, for example, *Indigenous Peoples and REDD-plus, Challenges and opportunities for the engagement of indigenous peoples and local communities in REDD-plus*, IUCN June 2010, http://cmsdata.iucn.org/downloads/a4_iucn_indigenous_peoples_and_redd.pdf.

^{vi} See, for example, <http://www.wri.org/publication/summary-of-developed-country-fast-start-climate-finance-pledges>.

^{vii} On file with author.

^{viii} See, “Power, Responsibility and Accountability, Rethinking the Legitimacy of Institutions for Climate Finance” a WRI Working Paper, (2009) at <http://www.wri.org/publication/power-responsibility-accountability>.

^{ix} http://ec.europa.eu/environment/etap/inaction/functions/New_Services/225_en.html.

^x See, for example, efforts by the UN-REDD and the World Bank hosted FCPF to jointly support “readiness” activities in the context of REDD in the Congo, http://www.un-redd.org/Newsletter12/UNREDD_FCPF_Congo_Joint_Mission_en/tabid/5539/Default.aspx. September 2010.

^{xi} See the seminal work of Lohmann, Larry. 2009. “Regulation as Corruption in the Carbon Offset Markets: Cowboys and Choirboys United”; <http://www.thecornerhouse.org.uk/sites/thecornerhouse.org.uk/files/>; Chan, Michelle. 2010. “Ten Ways to Game the Carbon Market”. Friends of the Earth, http://www.foe.org/sites/default/files/10WaystoGametheCarbonMarkets_Web.pdf; and the forthcoming World Corruption Report.

^{xii} UK Financial Services Authority Commodities Group, “The Emissions Trading Market: Risks and Challenges,” March 2008 at http://www.fsa.gov.uk/pubs/other/emissions_trading.pdf
^{xiii} Indonesia ranks 110, Guyana 116, Papua New Guinea 154, and DRC 164 out of 178 countries surveyed in the 2010 Index. http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results.

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