

Research Center (SFB) 700

Governance in Areas of Limited Statehood

 New Modes of Governance?

Project D3: Emerging Modes of *Governance* and Climate Protection: Green Companies in Newly Industrializing Countries

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Two sets of research questions:

- a) Can we consider the CDM to be a new form of governance? Under which conditions has it evolved? What are the motivations of private actors to become active? How to evaluate the effectiveness of the CDM?
- b) Does the CDM introduce new forms of governance at the host country level? Case studies on Brazil, China and India

Content

1. Old and new forms of governance
2. The CDM as a new form of governance
 - Involved actors
 - Modes of steering
 - Deliverance of governance outputs
3. Evaluation of the CDM as a market mechanism
 - History of the CDM: From PPP to market
 - Critique of the status-quo
 - Policy lessons

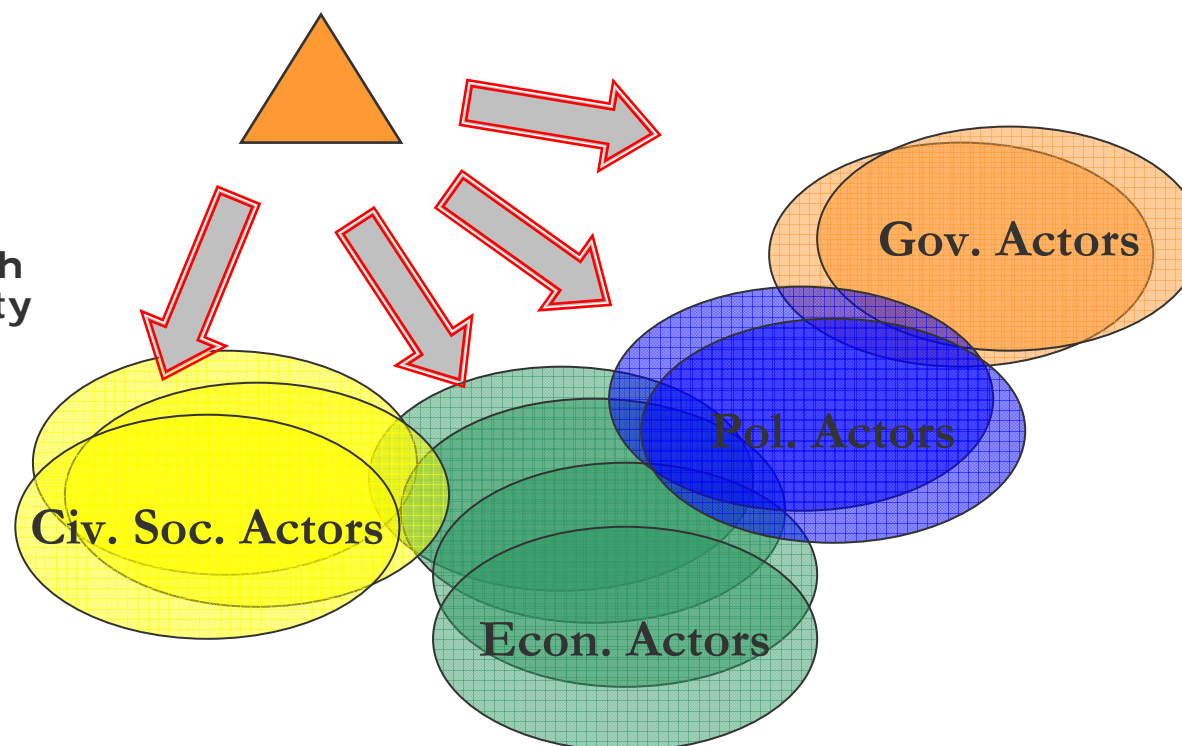
“Classical” governing ...

Main concern:

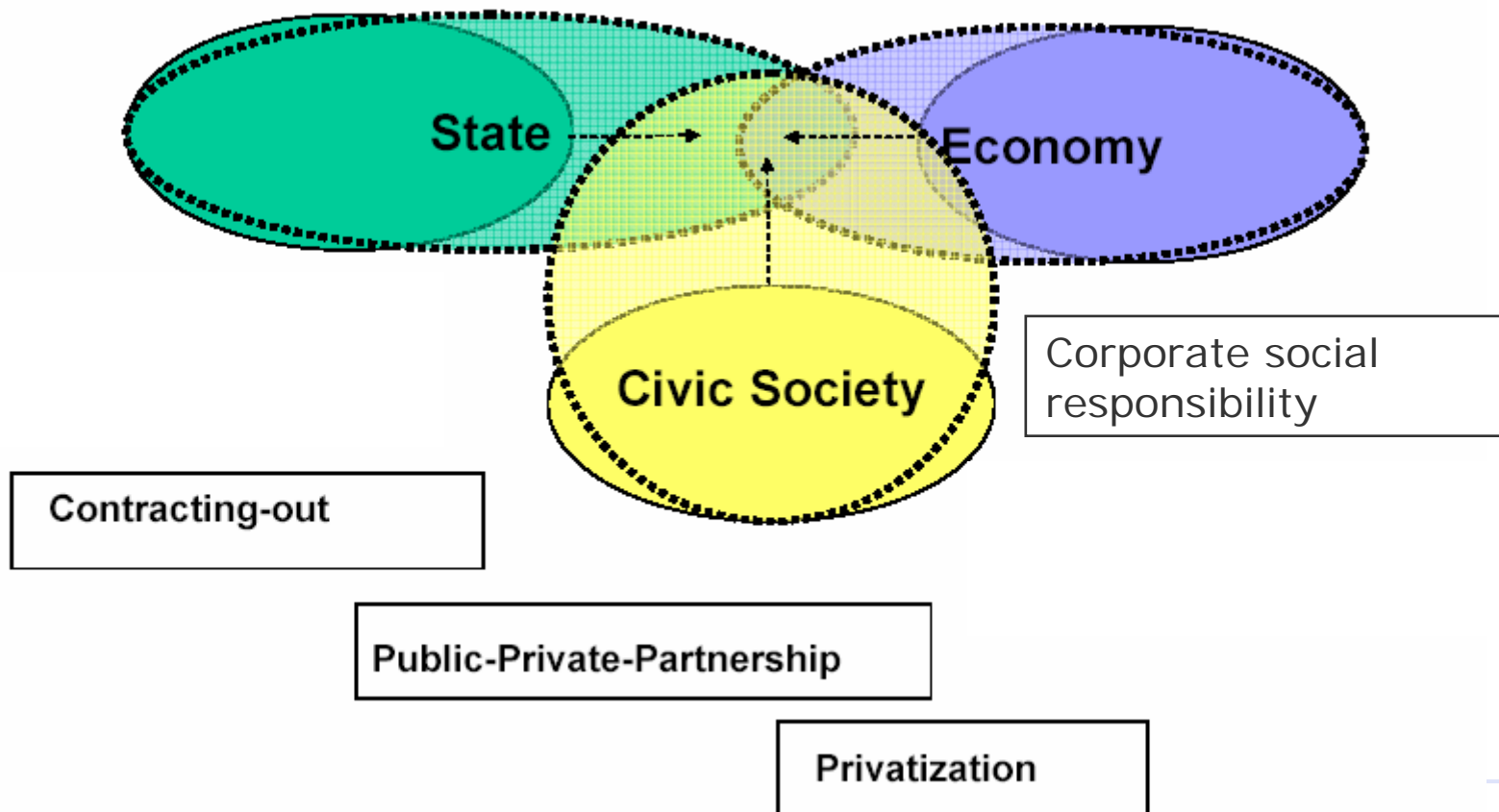
Capacity of the state to
steer and control

(= is government
capable of governing ?)

... and how to reestablish
and improve this capacity
under new conditions



... and „new“ governance



... a new form of governance is characterised by

1. involvement of non-state actors
2. soft steering: non-hierarchical cooperation
3. intentional contribution to the provision of public goods

1. Involvement of non-state actors in the CDM

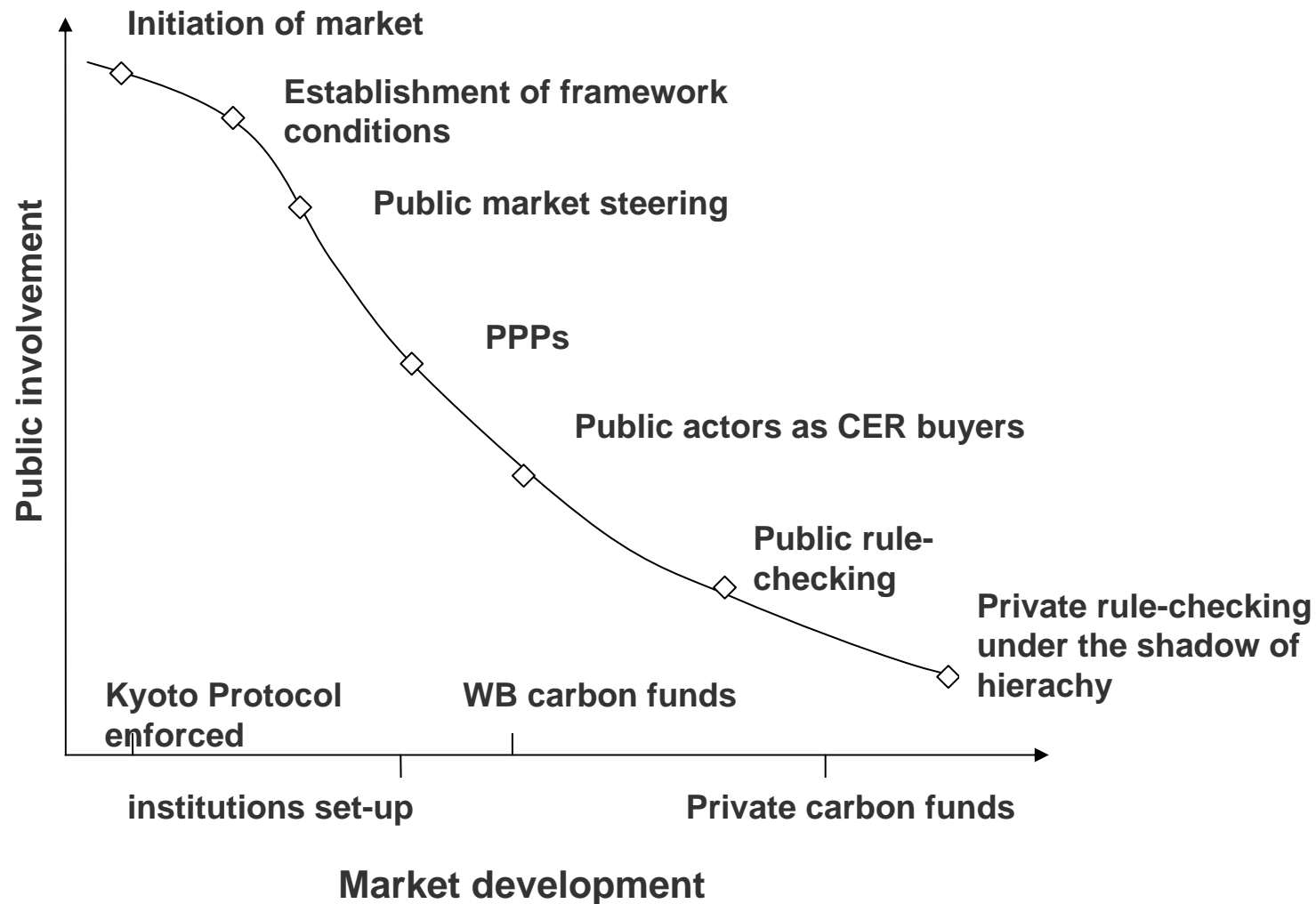
Different groups of non-state actors

- Business and consultants
- Finance
- NGOs, stakeholders, epistemic communities
- DOEs

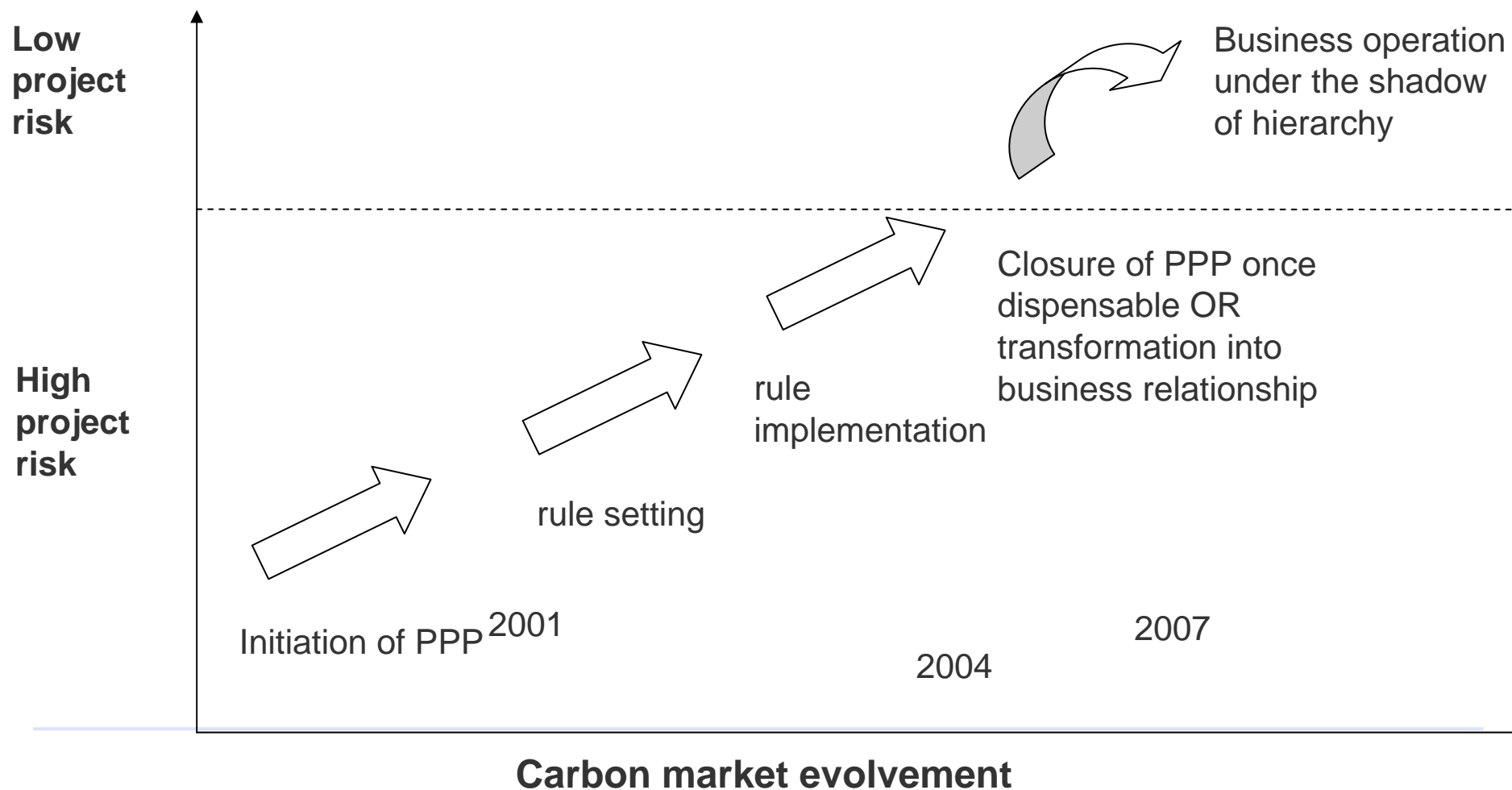
Influence of state and non-state actors differs by market phase

- Market initiation by states
- Market facilitation by public private partnerships
- Output at micro level: Deliverance of CERs by private actors
- Impact on macro level: Deliverance of climate stabilization by interaction of state and non-state actors

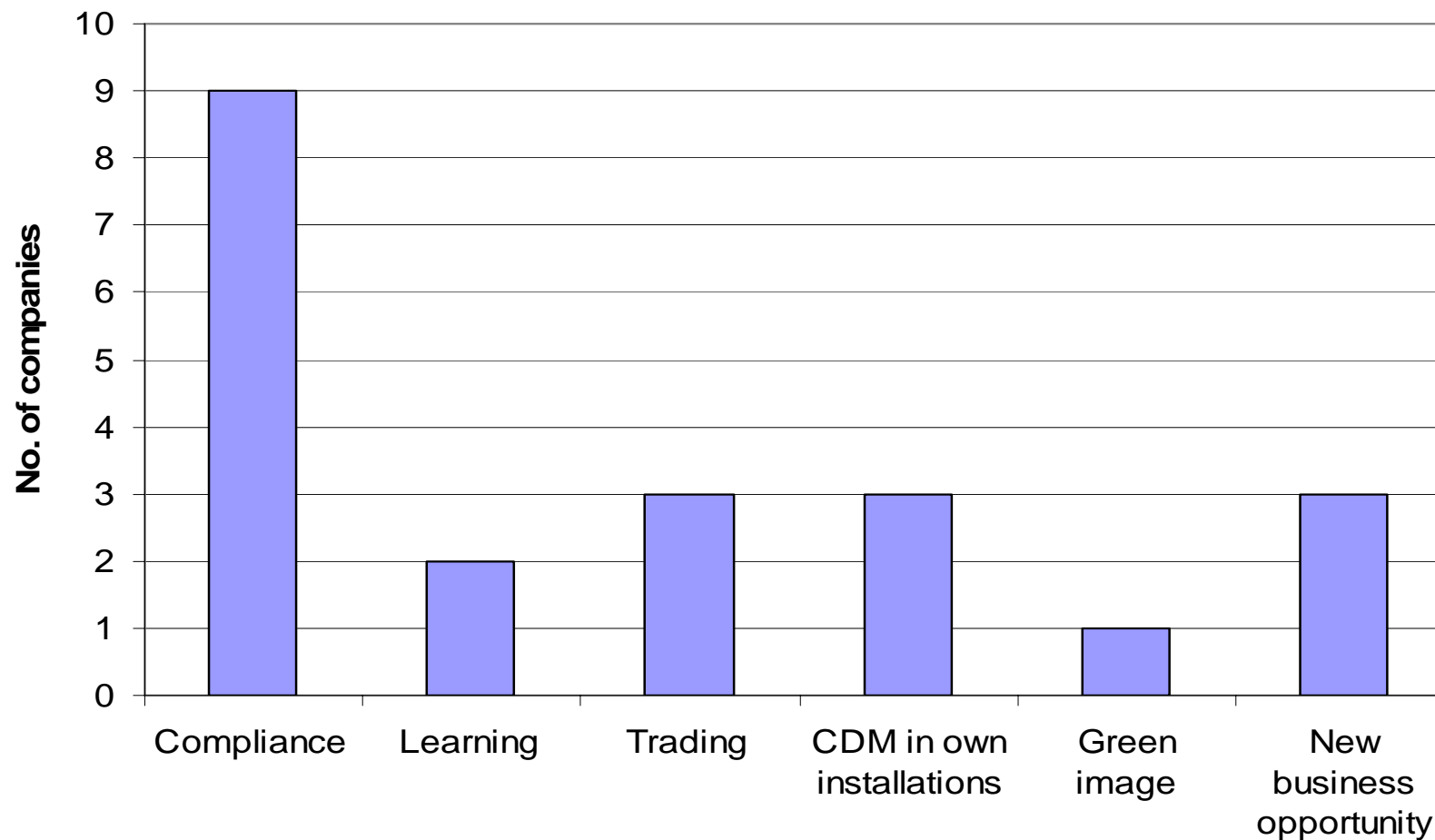
How has the role of public actors changed?



Changing role of public private partnerships



Motivation of business actors in the CDM



2. Hard versus soft steering modes

Regulatory structure of the CDM

Hard steering by

- by nation states which initiated institutional set up, and decided on constitutive “rules of the game”
- Strong “shadow of hierarchy”

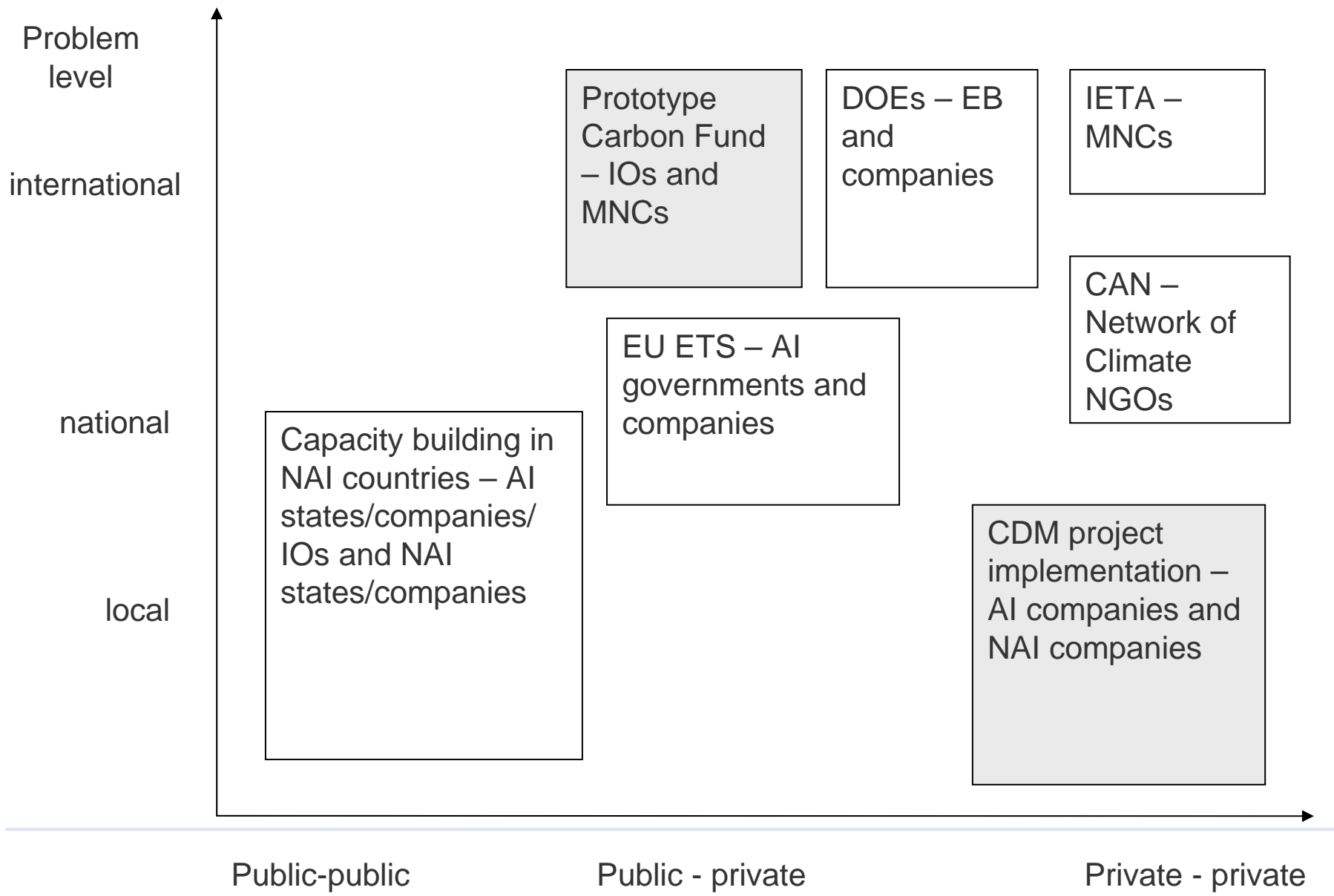
Operational structure of the CDM

Soft steering by

- Non-state agenda-setting, e.g. case law approach of EB involving business actors
- Private checking of rule compliance by DOEs
- Watchdog function of private actors (NGOs, business)

→ **Development towards hybrid rule-making**

Multilayered problem – diverse set of partnerships

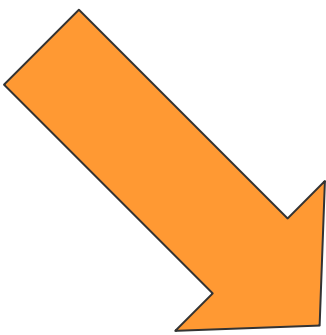


3. Deliverance of governance outputs

- CDM was designed with the intention to have cost-efficient possibilities for GHG emission reductions
- It indirectly contributes to the provision of the global public good “stable climate”
- Due to the dual goal of the CDM, it should – in theory – also contribute to the public good of sustainable development

→ **CDM is effective for deliverance of cost-efficient GHG emission reduction options, less so for sustainable development benefits**

Provision of public goods

Rivalry in consumption Exclusion in consumption	Rivalry in consumption	Non-rivalry in consumption
Exclusive in consumption	Private goods CERs 	Club goods <ul style="list-style-type: none"> • Job creation • Local environmental protection • Regulation structures/carbon market • Capacity building for institutions
Non-exclusive in consumption	Common goods	Public goods <ul style="list-style-type: none"> • Cost-efficient GHG reduction • Climate protection

Summary: The CDM and governance

- Involvement of non-state actors in PPPs can be considered to be a new mode of governance
- PPP was preferred mode in embryonic stage of 'policy experiment' with establishing a market for carbon reductions
- With less risk and growing demand, private actors got more engaged and there is a decreasing need for PPPs
- PPPs are still important for kick-starting niche markets, either regionally or for certain CDM project types

II. Evaluation of the CDM as a market mechanism

Concerns, complaints and disillusiones:

- The CDM will not make a difference as there are not enough CERs generated
- Additionality of emission reductions under CDM are questionable, additionality test is too complicated, not fully reliable
- Too much bureaucracy, slow regulatory process, corruption etc.
- No adequate monitoring, large portion of projects will underperform
- Not enough capacities at the local level
- Few sustainable development benefits
- Little technology transfer
- Political uncertainty hampers the market

Nevertheless: The CDM as a market instrument works

- Provision of cost efficient GHG reductions
- CDM allows for flexibility with EU ETS/KP compliance, allows for hedging of risks, companies prefer mixed compliance strategies
- Prices influence supply, so large projects with small transaction costs are done first
- Mainstream climate change issues in Business via carbon pricing

→ CDM is an efficient trading mechanism

Actors change behavior

- Businesses (Insurance, banks, DOEs like TÜV, Consultants...) are looking for business opportunities → new associations and new risk allocations
- Countries are looking for business opportunities
- Governments of DC join the environmental discourse

→ **Many unintended but positive effects**

→ **but local NGOs lack capacity to get involved**

The market needs regulation

- A market instrument cannot provide equity or fairness, only regulation can (Regional redistribution)
- A market instrument alone cannot induce sustainable development (Set-up of new incentives)
- Counterproductive incentives must be stopped (HFC23)
- Avoid conflict of interests (DOEs)
- Every market needs oversight, but too much bureaucracy is bad for business

→ **Need for better governance of the CDM**

What kind of governance is needed?

Majority of business want:

- > A more streamlined, professional, less bureaucratic procedure governing the CDM.

NGOs call for:

- > More equitable regional distribution of CDM and more tangible sustainable development benefits.

Ideas of how to further improve the CDM

- Consolidate more methodologies for CDM,
- Include Carbon Capture & Storage,
- Compile list of approved project types that automatically fulfil additionality criteria,
- Provide certainty for the validity of CERs post-2012,
- Scrap the % cap of CER use in EU ETS,
- Develop forms for inclusion of programmatic, sectoral and policy CDMs.

Points for discussion: Where to go from now?

- > Improvement of the CDM: e.g. monetary incentives for sustainable development benefits?
- > “Brothers and sisters of the CDM”: Programmatic or policy CDM? A market-mechanism for technology transfer?
- > Or a retreat to state-centred modes of climate governance, e.g. scaling up of GEF and launch of other mitigation & adaptation funds?

Thank you for your attention!

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