

Final Plenary report

Title of Plenary

Climate Change & Corruption

Moderator (Name and Institution)

Fiona Harvey, Environment Correspondent, Financial Times

Rapporteur

Farzana Nawaz, Assistant Research Coordinator, Transparency International Secretariat

Panellists

Festus Mogae, Former President of Botswana and UN Special Envoy on Climate Change

David Nussbaum, Chief Executive, WWF UK

Hartwig Schafer, Director, Strategy and Operations, Sustainable Development, the World Bank

Paul Watchman, Partner, Dewey & Le Boeuf

Jacob Werksman, Programme Director, World Resources Institute

Daphne Wysham, Senior fellow, Institute of Policy Studies and SEEN

Summary (300 words)

The panellists concurred that climate change is one of the most important and urgent development issues of our time. Corruption exacerbates the effects and costs of climate change and thereby hampers our ability to combat it. Moreover, the poorest parts of the world who are most vulnerable to corruption are also the group most affected by climate change. Therefore, it is important now for the anti-corruption and environmental movements to work together.

The discussions emphasised that any sustainable solution to climate change will need to respect the right of the developing nations to raise their living standards. Therefore, investment in clean energy solutions for the developing world is needed to fulfil the dual goals of development and emission reductions. Greater involvement of the world community and transparency in these projects will guard against corruption and ensure their effectiveness.

New financing mechanisms for climate change, such as carbon markets were identified by the speakers as particularly vulnerable to corruption due to the discretionary nature of assets. These markets need robust governance structures to ensure that the carbon assets represent real emission reduction. Good governance will also need to prevent the convergence of bad interests of buyers and sellers which threatens to deteriorate the quality of the assets.

International financial institutions such as the World Bank have an important role to play in financing projects to reduce emissions. The Bank also acts as a standard setter and advisor for governments and intergovernmental bodies such as the G8. Therefore, it is important that it sets good examples of climate change governance in their projects and some panellists pointed out that the Bank needs to make stronger efforts in this area.

Good governance is also a concern in the management of funds after they are raised. The anti-corruption movement has valuable expertise to contribute in this area. For example, climate change adaptation funding is vulnerable to corruption and the experience and lessons from aid flow management can be useful here.



Finally, the panellists identified participatory governance by those most affected as key to ensuring effective management of climate change. They concurred that transparency and broad stakeholder engagement is needed for participatory governance to work.

Summary of presentations (300 words per panellist)

Festus Mogae:

His Excellency Festus Mogae highlighted climate change as the most important development issue of the 21st century. It affects all other areas of economic growth and development, both large and small. The urgency of this issue will only increase as climate change makes natural resources scarcer which will also create opportunities for corruption. Corruption and mismanagement of resources will in turn make our responses to climate change more costly, thus creating a vicious cycle. This cycle will ultimately affect our ability to fight poverty.

He observed that currently the climate change debate is dominated by political manoeuvring and blame shifting. For example, Asian countries would like per capita emissions to be the sole criteria for emissions measurement, which, given their large population sizes, shows them in the best possible light while ignoring their net impact. On the other hand, Europe and North America would like to blame the emerging economies, while keeping emission levels up to sustain their high living standards. Mr. Mogae emphasised that in order to find a solution, the responsibility of emissions should be shared by everyone.

It is of utmost importance that the global debate on emission reduction does not ignore the right of Africa to develop and raise its living standards. However, this need not be done at the expense of the environment. Large parts of Africa are currently without power and it has the potential to develop energy solutions without increasing emissions by utilizing its renewable natural resources. Mr. Mogae gave the example of the hydroelectric power plants on the Zambezi river which provides power to South Africa. Similar resources can be utilized elsewhere to supply power to all of Africa.

Mr. Mogae finished by reiterating that there is growing international recognition that we need to act quickly to curb climate change. The current UN secretary general is personally committed to pushing the negotiations forward so that a global climate change agreement can be reached in Copenhagen in December 2009. He has tirelessly campaigned with global leaders on this issue and they in turn have conveyed to him the importance of achieving concrete outcomes at the climate conference in Poznan in December this year.

Jacob Werksman:

Mr. Jacob Werksman of the World Resources Institute (WRI) discussed sustainable forestry management as one of the biggest risk areas of corruption in the climate change debate. Up to 20% of current emissions from climate change originate from deforestation and up to 70% of timber in the market originates from illegal sources. Climate change has increased interest and pressure on forestry resources which exacerbates corruption problems in an already very corrupt sector.

Mr. Werksman highlighted carbon markets as a powerful new mechanism to reduce deforestation and raising revenues. However, if carbon markets are to work properly then they will have to divert current drivers of deforestation, such as demand for timber, agriculture, urban sprawl, etc. into virtuous efforts such as leaving forests intact and providing sustainable livelihoods to forest dependent peoples. Moreover, the market will need to take into account and find a way of valuating other ecosystem services that forests provide – e.g. preserving biodiversity.



Important concerns remain as to whether the new markets in carbon assets will be less vulnerable to corruption than existing timber markets. The vested interests in this area are very strong which is why the existing body of national and international laws and regulations have not worked so far. Carbon markets might exacerbate the problem by enlarging the role of the state with poor governance structures, which is the case in many forest dependent countries.

On the other hand, if carbon markets function properly then great environmental benefits will be generated. In order for carbon assets to be recognized as valid, the seller (the developing nation) will need to demonstrate good governance structures and real reduction of emissions as a result of reduced deforestation. It is promising that investors in carbon markets now recognize the importance of good governance and anti-corruption measures. This is leading to willingness to invest upfront in building governance and sustainable forest management structures.

Mr. Werksman posited that sustainable forest management will also require the development of rules that increase our capacity to police logging and international borders and ensure equitable land use. We will need to respect the rights of forest-dependent peoples, including indigenous people and ensure that revenues generated by the carbon markets actually reach these people. He emphasised the role of anti-corruption in the effective implementation of these rules.

Finally, Mr. Werksman pointed out that in order for these governance efforts to succeed it is essential that civil society takes ownership of the definition of governance. Civil society in both forest rich and consumer countries need to be engaged to make sure that forestry management and good governance work in the right interests. Organizations such as the WRI and TI are taking an active interest in this emerging market in terms of building capacity in civil society and ensuring that real emission reductions are achieved over the long term.

David Nussbaum:

Mr. David Nussbaum of the WWF UK focused in his presentation on the management of the financial flows of climate change. The amount of money involved is large – according to the UNFCCC 2007 reports on investment and financial flows, it is around 133 billion dollars a year. Future commitments also signal a huge ramping up of funding. Mr. Nussbaum highlighted three key areas where we need to consider the risks of corruption – in raising the money, managing the money and spending the money.

There are great corruption challenges in raising the money - this involves not only government efforts but also market mechanisms. Mr. Nussbaum emphasised the corruption risks in the market under the cap and trade mechanism. Because of the way the markets are arranged and regulated, the auctioning and trading of rights to emit CO₂ creates opportunities of policy capture. The experience of round one of the EU's emissions trading scheme already illustrates some of these challenges. Offset buying mechanisms, such as CDM, can also give rise to corrupt standards that lower the quality of the offsets and hamper emission reduction goals.

In managing the money there are also important concerns about corruption. A lot of the funds are going to be managed through existing institutions such as the World Bank and the GEF which have varying degrees of governance and anti-corruption mechanisms in place. Emerging financial mechanisms to manage the money, especially in climate change adaptation under the UNFCCC, are also big risk areas. Mr. Nussbaum drew comparisons here with the anti-corruption movement's experience with asset recovery under the UN Convention against Corruption (UNCAC). Similar to the asset recovery debate, discussion of adaptation funding management is prefaced with the fact that this funding is compensation by



the developed world for polluting and it's a right of the developing nations, which makes it more difficult to raise governance concerns in managing these funds.

In the delivery of the money, the expertise of the anti-corruption community needs to be drawn on in order to ensure effectiveness. One way of delivering the money is through existing government mechanism, similar to aid flows; this is particularly true of adaptation funds. The anti-corruption community has substantial experience in this area. Delivering the money through market mechanisms also raise huge concerns for corruption. There is real danger that countries rich in forestry resources and poor governance structures can suffer under the REDD and CDM mechanism due to corruption. Similar to the "resource curse" in countries rich in natural resources, corruption here can undermine development goals and poverty in these countries can be made worse.

Mr. Nussbaum finished by stating that it is time for the anti-corruption and environmental movements to work closely together to ensure that the flows of finance to tackle climate change function properly and the government and business confidence in the carbon financing systems are not undermined.

Daphne Wysham

Ms. Daphne Wysham focused her presentation on the role of international financial institutions, especially the World Bank, in combating climate change. She claimed that the Bank suffers from bad practices and significant conflicts of interest in this area.

Ms. Wysham pointed out that the Bank continues to invest in unclean energy such as fossil fuel projects and does not invest sufficiently in renewable energy sources in spite of advice from civil society, governments and businesses to the contrary. It also invests in other greenhouse gas emitting projects such as hydropower.

Ms. Wysham claimed that the Bank also suffers from significant conflicts of interest: it is a growing broker in the carbon market where they charge an overhead of 13% which generates large revenues for them. This is problematic because the Bank is a governance standard setter in carbon markets – its approach greatly influences other development banks and also private sector banks such as the equator principle banks. Finally, the Bank acts as an advisor to the G8 on climate change; therefore, they are a powerful player whose actions have far reaching consequences.

The Bank's carbon market portfolio also gives observers cause for concern. It suffers from lack of transparency – it is difficult to determine the additionality of many of the projects. This is particularly troubling because dirty industry dominates much of the carbon credits of the portfolio, with 75-85% going to coal, steel and other energy intensive industries. The projects being incentivised by the carbon market are also problematic because they all but ignore poverty reduction goals and encourage projects like large hydroelectric dams which have a bad track record of human rights abuses. Indigenous people are often the groups most affected by these projects but they are one of the last people consulted. The Bank has also taken measures such as downgrading energy efficiency guidelines to make projects more attractive to developing countries.

Ms. Wysham finished her presentation by proposing some solutions. First, all development assistance provided by any public entity that is using public finance should be considered additional. Second, a carbon debit mechanism needs to be developed that can be overseen by the CDM board. These carbon debits would accrue to investors of the Bank (e.g. the US government) and would have cash value equal to the market value of CO₂. Debits would be placed in a UN fund or channelled to adaptation funds. These debits would be paid to poorest of least developed countries first, where adaptation need is greatest. The debit mechanism



would also mitigate the volatility of the carbon markets and push it towards clean energy finance.

Hartwig Schafer

Mr. Schafer in his presentation focused on the linkages between climate change and corruption and the measures the World Bank is currently taking in combating them.

Mr. Schafer started by emphasising that the Bank's core mission is to support and promote growth and poverty reduction. The fact that there are 1.7 million people worldwide without power necessitates its involvement in coal. However, total lending to renewable energy and energy efficiency in the Bank last year rose by 87% and currently counts for about a third of the Bank's total lending to energy. The Bank also has substantial investments in low carbon energy.

Corruption affects both climate change mitigation and adaptation. For example, corruption can lead to the construction of bad roads that deteriorate quickly and lead to poor transportation systems in the form of congested roads. Cars stuck in traffic leads to loss of energy and creation of excessive emissions. In climate change adaptation, corruption can affect areas like disaster prevention and relief – procurement procedures are cut short, building standards are not adhered to etc. which undermines adaptation efforts.

Mr. Schafer emphasised that adherence to good governance principles, transparency and accountability at both global and community levels are essential to combat corruption in climate change. The Bank followed these principles in their consultations with 70 countries and 2000 stakeholders in the Climate Change and Development framework. The Bank's Climate Investment Fund similarly has a governance structure that involves equal number of representatives from developing and developed countries and independent monitoring. In carbon fund and carbon trading the Bank is involved in community based projects where local communities are developing their own plans for risk mitigation, for example, in Kenya and Ethiopia.

Mr. Schafer also identified illegal logging as a big culprit in global emissions. Illegal logging makes a few people very rich at the expense of many – the costs include both money and climate degradation. In order to combat this we need to ensure good governance in the forest carbon finance initiative. Good forest leadership by the indigenous and forest-dependent people is of vital importance.

The Bank has mainstreamed governance and anti-corruption issues in its country system strategies and is incorporating these measures into all project designs. They are willing to work with any government and organization that wants to combat corruption. For example, the Bank has supported the establishment of a Forest Protection Committee in the Philippines to alert authorities to illegal logging and to induce accountability. This initiative was undertaken together with representatives of state agencies, local governments and NGO leaders and has been very successful. A similar project was undertaken in the Ghanaian village of Fatedua where illegal logging was stemmed through sustainable use of the forests by the community living there. In the Democratic Republic of Congo, in 2002, 25 million hectares of logging concessions were cancelled due to mismanagement. The government there worked with Global Witness in detecting illegal logging which demonstrates that if there is commitment at the highest level then progress can be made and deforestation can be stopped.



Main Outputs (200 words, narrative form)

All speakers emphasised that corruption exacerbates the severity and cost of climate change. They highlighted the particular risks of corruption that arise in this context. For example, carbon markets can be more prone to corruption than traditional timber markets because it is much easier to fake the validity of a carbon offset than to fake the validity of timber. Carbon markets can also lead to the convergence of perverse interests - the validity of these assets derive from them being certified by associations in the selling country which has an interest in asserting that they come from a legal source to generate revenue. At the same time, the buyers have incentives to buy cheap offsets which can lead to lowered governance standards.

Oversight and governance of the financial mechanisms that will fund solutions to climate change is vitally important. Both Mr. Schafer and Mr. Nussbaum emphasised the need for transparency and anti-corruption measures to ensure that new mechanisms such as carbon markets functions properly and the revenues generated reach the intended beneficiaries. Ms. Wysham highlighted the need to deal with conflict of interests in international financial institutions, such as the World Bank.

Finally, the need to develop participatory decision making and governance by the people most affected was emphasised by all the speakers in order to reach an equitable and just solution to climate change.

Recommendations, Follow-up Actions (200 words narrative form)

Mr. Werksman recommended that we convert perverse incentives in carbon markets to virtuous ones by rewarding efforts to leave forests intact and providing sustainable livelihoods to forest dependent peoples. Civil society in both forest rich and consumer countries need to be engaged to make sure that forestry management and good governance work in the right interests.

Ms. Wysham recommended that carbon markets be supplemented with a debit mechanism that will provide incentive for clean energy development.

Mr. Schafer recommended transparency and involvement by all stakeholders to achieve effective climate change governance. Transparency is also of paramount importance because with full transparency everybody will have access to the information that will allow for fruitful participation and discussion by all parties. It is particularly important that disclosure not only happens in the developed countries, but also in the developing countries where the projects are taking place so that the communities are empowered to hold their governments accountable.

Mr. Watchman recommended utilising the private sector and voluntary initiatives designed by the UN and other public bodies. For example, the Equator Principles, which now includes about 90% of banks that provide project finance has brought some degree of social and environmental assessment by lenders. Big investors such as pension funds can lead the way in improving practices in the companies they invest in and by depriving irresponsible companies of funding. He recommended that we not only focus on linkages between environment and anti-corruption, but also include corporate governance and human rights.

Mr. David Nussbaum recommended that we put financial values on some of the eco-system services due to climate change. For example, if we measure how much it would cost to replace by man made technology the environmental benefits provided by standing forests or rivers then that would put the real cost of climate change into context. He also recommended



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that the climate change community draw on the expertise of the anti-corruption movement for effective management of climate change financial flows.

Mr. Mogae commented that developing countries have a tough choice between generating jobs by allowing dirty industries to operate in their countries and saving the environment. He highlighted the need to demonstrate that cultivating cleaner energy options are not only the right choice morally but it is also beneficial to developing nations.

Highlights (200 words please include interesting quotes)

Ms. Wysham commented that a critical tool in fighting illegal logging could be the UN declaration on the rights of indigenous people. Indigenous people have traditionally been one of the best stewards of forest resources. There is an initiative already in place in the Brazilian Amazon where the indigenous population is involved in monitoring illegal logging. This initiative is highly successful because it takes advantage of the traditional knowledge of the indigenous people and empowers them in their land ownership rights.

Mr. Patrick Alley, director of Global Witness, pointed out that illegal logging is not just done by small, rogue companies, but a lot of European companies with logging concessions also engage in illegal logging.

Mr. Hassel Logas of Transparency South Africa commented that a system that promotes greed, whether in forestry or elsewhere, and is committed to maintaining the excessive consumption patterns in the West is unlikely to lead to sustainable solutions.

Mr. Paul Watchman commented that climate change has been the most important challenge to companies, businesses and financial institutions since the industrial revolution because of its ubiquitous effects - the impact of climate change is felt not just in expected sectors like energy, but also in sectors such as insurance and food.

Signed

Farzana Nawaz, December 19th, 2008
