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Can the Gold Standard Reliably Ensure the Sustainability of CDM Projects?

by Frederic Rudolph*

The Gold Standard is a premium label for CDM/JI activities and for voluntary carbon credits. Its development was initiated in 2003 by the non-governmental organisations WWF, South-South North(SSN) and Helio International. A wide range of experts and stakeholders from different development organisations, e.g. the German Technical Cooperation (GTZ), and key actors of the carbon market were involved in the development of this standard.

The objective of the Gold Standard (GS) is to promote climate change mitigation activities that also yield a local development dividend by bringing about environmental, social and economic benefits and by minimising potential negative effects. As a market-based instrument, GS aims at putting a monetary value on these sustainability benefits. The assumption is that buyers will be willing to pay a higher price for CERs from projects with a certified exceptionally high quality.

At the same time, the conventional CDM pipeline is being criticised for hardly yielding any development dividend. On the contrary, several studies find that a number of CDM projects might even yield a negative local impact. Therefore, a number of NGOs have proposed that best practice of the GS should be carried over to the conventional CDM pipeline in order to strengthen the mechanism's overall contribution to sustainable development.

The Wuppertal Institute has conducted an in-depth analysis of the GS and five GS-certified CDM projects. The project analysis covered not only *ex ante* project design but also an assessment of the actual impact of the GS during project implementation, by interviewing project developers and local/national stakeholders. The analysis is part of a study commissioned by the German Federal Ministry for the Environment on the further development of the CDM under a post-2012 climate regime. The question of the in-depth analysis was whether the GS procedures could be considered as sufficiently robust and applicable to the conventional pipeline.

The Gold Standard sustainability requirements

The GS sustainability assessment is essentially a set of 'Screens' that guide project proponents through the project development process. Firstly, GS only allows renewable energy supply or end-use energy efficiency

improvement projects. For some project types, additional eligibility criteria have been stipulated, such as compliance with the latest guidelines of the World Commission on Dams for hydroelectric power plants with an installed capacity larger than 20 MW.

Secondly, project proponents have to consider sustainable development impacts. This is a key point that differentiates the GS from the conventional CDM pipeline and includes three sequential steps:

- 1 The project proponent has to apply the **UNDP safeguarding principles**, which are derived from the Millennium Development Goals. They encompass 'do no harm' principles with respect to human rights, labour standards and the environment.
- 2 The project developer must provide a detailed impact assessment in terms of sustainable development ('**sustainable development matrix**'). They have to score their project on environmental, social and economic indicators. They are required to select one parameter for each of the indicators given. For instance, the project developer may select NOx as a quantitative parameter for the environmental indicator 'air quality'. For GS eligibility the project must contribute positively to at least two of the three categories (environmental, social and economic) and be at least neutral in the third category.
- 3 The project developer has to submit a **sustainability monitoring plan**. This is used to verify *ex post* if the CDM project has indeed contributed to sustainable development as assessed *ex ante*. All non-neutral indicators must be monitored.

Finally, the GS demands a comprehensive stakeholder consultation. This includes at least two meetings, which have to be prepared and carried out in a non-technical manner. This is to be proven by detailed documentation. The GS requires specific agenda items to be included in the consultations, such as a discussion on monitoring sustainable development.

The current practice

We analysed five GS and found that they received very positive feedback from local residents, public authorities and other stakeholders. The projects

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rendered the following benefits:

- improvement of electricity supply through local power plants and electrification in rural areas;
- additional job opportunities for the local population linked with training and capacity building measures for the respective persons;
- implementation of sustainable land-use measures such as harvesting techniques and reforestation programmes;
- improvement of air, water and soil quality; and
- other benefits such as reduction of oil imports and increased tourism.

Evaluation of GS sustainability requirements

GS only allows renewable energy and end-use energy efficiency projects in order to focus efforts on projects that are seen as most important for climate change mitigation and most likely to contribute to sustainable development. However, such a positive list can be considered an arbitrary definition of sustainability, since there are certainly other project types that also contribute to sustainable development, such as sustainable waste management practices. The members of the Gold Standard Foundation acknowledge this.

The sustainable development matrix requires projects to contribute positively to at least two of the three dimensions of sustainability. According to Michael Schlup, director of the Gold Standard Foundation, the respective criteria are estimated in a “bottom-up review process”, meaning that they are handled flexibly. In order to avoid unnecessary costs and to assure that the application is feasible, the project’s proponents are not required to assess criteria that will obviously not be affected. Moreover, GS does not require to commission quantitative impact assessments, but settles on doing a plausible qualitative explanation of the potential impacts.

On this basis, it is clear that there is a certain degree of subjectivity involved in the matrix assessment. This was also confirmed by the interviews. But there may be a trade-off between objectivity and transaction costs, especially for a voluntary standard like the Gold Standard. Requiring detailed quantitative analysis of project impacts would substantially increase implementation costs and thus make using GS increasingly unattractive. The value of the matrix can therefore be seen in making project participants think about how their projects impact local conditions with regard to aspects that are of great importance, such as water quality and employment. It also serves to make the assessment transparent by requiring presentation in an easily accessible scoring format.

As CDM projects may significantly affect the livelihoods of local populations, GS organises a stakeholder consultation process that precisely stipulates who needs to be consulted, how to consult, how to present the information (*i.e.* in a non-technical manner, in local languages, *etc.*), how to document the consultation, *etc.* GS emphasises that local opinions are more important than external sustainability assessments. Therefore, GS has recently approved a project that includes mass-animal farming which received a positive feedback from stakeholders.

The sustainable development monitoring can be regarded a very innovative instrument, as it verifies afterwards what was expected beforehand. However, it is a relatively new instrument and therefore its practical applicability remains to be ascertained.

As for feasibility, all of the interviewed project developers and validators agreed that the additional effort required by GS was reasonable.

Conclusions

GS sets high requirements for CDM projects to contribute to sustainable development. It demands project proponents not only to respect precautionary principles but also to locally foster socio-economic benefits. Thus, GS demands more than a mere compliance of internationally acknowledged principles. The analysis of the five projects shows that these requirements are indeed being met in practice.

However, the evaluation is not completely transparent. This can mainly be explained with a trade-off between practicability and objectivity. This shortcoming may not become relevant as long as the GS is a voluntary quality standard backed by Greenpeace and WWF, *etc.* Moreover, due to the voluntary nature of GS, it can be assumed that mainly projects are entered for certification that would be sustainable in the first place. But the evaluation criteria would have to be much more precise in order to be applicable for the conventional pipeline. The simplest way to immediately improve the sustainability check of the conventional pipeline would be to adopt GS requirements for local stakeholder involvement.

The study “Further Development of the Project-Based Mechanisms in a Post-2012 Regime” of the Wuppertal Institute gives recommendations on how to improve additionality and how to foster the CDM’s contribution to sustainable development.