

POLICY BRIEF

Delivering Co-Benefits for Sustainable Development



Developing countries in Asia and the Pacific are implementing projects that both mitigate greenhouse gas emissions and foster sustainable development. Photo credit: ADB

Clean Development Mechanism projects supported by the Future Carbon Fund are reducing greenhouse gas emissions while delivering social, environmental, and economic co-benefits that contribute to sustainable development.

Introduction

Asia and the Pacific has become a major source of greenhouse gas emissions. This has exposed the region to the vagaries of climate change, threatening to undo the development gains from economic prosperity over the past decades. Operational since 2009, the Future Carbon Fund has supported greenhouse gas emission reduction efforts in the region by providing carbon finance through the purchase of certified emission reductions generated by Clean Development Mechanism projects. The Future Carbon Fund is rendering bridging and enabling support to a portfolio of high quality mitigation projects by purchasing more than 10 million certified emission reductions, incentivizing successful implementation of greenhouse gas mitigation efforts and enhancing the competitiveness of low-carbon technologies.

The Clean Development Mechanism, established under the Kyoto Protocol, has been highly successful in facilitating greenhouse gas emission reduction activities, with 7,789 registered projects delivering over 1.89 billion tons of carbon dioxide equivalent. Until now there has been no systematic assessment of the contribution of the Clean Development Mechanism to other aspects of sustainable development—the delivery of co-benefits. This is likely because assessment of the delivery of co-benefits was not mandated under the Clean Development Mechanism reporting requirements. Consequently, there has been limited analysis of the project features and circumstances that allow co-benefits to be maximized.

It is possible to implement projects that both mitigate greenhouse gas emissions and foster sustainable development, according to an assessment of projects funded by the Future Carbon Fund. The Fund is pursuing 36 Clean Development Mechanism projects that cover a spectrum of renewable energy, transport, waste management, and energy efficiency technologies in 12 developing countries in Asia. This includes least developed countries and small island developing states where it has been historically difficult to implement Clean Development Mechanism projects and there are relatively fewer project opportunities. The co-benefits being delivered by the Future Carbon Fund portfolio projects are assessed using a methodology to track the social, environmental, and economic impacts of the projects. These impacts are then mapped on to the relevant Sustainable Development Goals.

The assessment demonstrates that the projects supported by the Future Carbon Fund are providing a broad set of co-benefits to the beneficiary communities. Among others, these include improving energy access and energy security, employment generation, diffusion of low-carbon technologies, technological innovation, health benefits associated with reduction in air pollution, reduced dependence on imported fuels, reduced traffic congestion, and an increase in net trade of technologies and services.

Co-Benefits of the Future Carbon Fund Portfolio Projects

The extent to which sustainable development is considered in the monitoring and reporting of Clean Development Mechanism projects varies significantly and is therefore complex to assess. This is largely due to the absence of mandatory requirements to report on co-benefits as it remains the prerogative of the concerned country to determine whether a Clean Development Mechanism project assists in achieving sustainable development. The Future Carbon Fund is pursuing a diversified portfolio of 36 Clean Development Mechanism projects hosted in twelve different developing countries, with a collective potential to reduce 3.68 million tons of carbon dioxide equivalent per annum. In line with its objectives and the preference of its participants, the Future Carbon Fund has been selective in contracting certified emission reductions from high-quality projects that not only meet Clean Development Mechanism requirements and comply with social, environmental, and indigenous peoples safeguards policies, but also provide a range of local, regional, and trans-boundary co-benefits.

The decision to prioritize certain project types and its careful due diligence in project selection ensures that the Future Carbon Fund's portfolio projects deliver co-benefits, although to different degrees depending on local and project circumstances. A co-benefits assessment methodology was developed using the Clean Development Mechanism Sustainable

Development Tool, the Gold Standard Sustainable Development Tool, and the Social Carbon Standard. Based on the indicators used by these tools to define the social, environmental, and economic impacts of projects, a set of indicators suitable for the Future Carbon Fund portfolio projects was developed. Accordingly, 41 indicators were defined, covering 11 co-benefit impact areas. Individual projects were then assessed to determine which of the 41 indicators were relevant. Data was collected based on a literature review followed by field visits including one-on-one interviews with various stakeholders and beneficiaries associated with 33 of the total 36 projects that comprise the Future Carbon Fund project portfolio. The co-benefits being delivered by the Future Carbon Fund portfolio projects were then mapped against the 17 Sustainable Development Goals (SDGs). Both intended and unintended co-benefits were identified, and additional benefits delivered through project entities' corporate social responsibility activities were also captured.

Key Lessons

Project design that maximizes co-benefits. Climate change mitigation and co-benefits can go hand in hand if considered and planned from the early stages of the project. If co-benefits are carefully integrated into a project's blueprint it can ensure their delivery.

Importance of dialogue with local communities in the decision-making process. Close collaboration with a range of local stakeholders from the early stages of project development is crucial as they all play a pivotal role in the success of the project and delivery of co-benefits.

Corporate philosophy of the project entities. Regular engagement with the local communities through well-considered corporate social responsibility programs helps to create shared value for the business and society.

Smart domestic policies bring synergy for multiple co-benefits. Through the implementation of smart policies, governments can create an enabling environment to encourage a shift to a low-carbon approach by incentivizing investments in low-carbon technologies and providing the required stimulus to greenhouse gas mitigation projects for realizing their full potential.

Incentivize high-quality mitigation projects. The nature and scope of co-benefits and even the quantum of such benefits varies from project to project depending upon a variety of factors. It is the prerogative of certified emission reduction buyers to assess co-benefits as part of their due diligence and take them into consideration in their transactions.

Inclusion of co-benefits in the emission reduction purchase agreement. Certified emission reduction buyers can structure their transactions to provide results-based carbon finance linked to certain development activities and delivery of pre-defined co-benefits. This can motivate stronger

inclusion of co-benefits in greenhouse gas emission mitigation projects.

Secured stream of carbon finance. Long-term fixed price contracts and upfront payments can help project entities during project implementation and operations and therefore contribute to sustained delivery of the co-benefits.

The Way Forward

The 2030 Agenda for Sustainable Development (Agenda 2030) is an internationally agreed framework for countries to define and accelerate their pursuit of sustainable development. It is therefore reasonable to expect that future work on harmonized sustainable development standards will build on Agenda 2030. Through this assessment, the Future Carbon Fund has demonstrated that it is possible to link co-benefits from greenhouse gas mitigation projects to the Sustainable Development Goals, although it is more difficult for some goals than others, and quantification is often difficult. A universal standard for the monitoring and reporting of co-benefits will be of immense use for the project entities to look beyond the avoidance of greenhouse gas emissions and clearly demonstrate the contribution of their mitigation projects to the broader objective of sustainable development. This would be valuable for unlocking the hidden value of carbon for governments as well as the private sector.

The adoption of the Paris Agreement at the Conference of the Parties 21 raised expectations for the resurgence of carbon markets and has re-ignited interest in market mechanisms. At the same time, there has been a strong wish to build on the wealth of technical knowledge and experiences of the existing Kyoto Protocol mechanisms, such as the Clean Development Mechanism, as well as including elements in new mechanisms that were not part of the Kyoto Protocol mechanisms. Many have urged for an enhanced contribution to sustainable development.

Article 6.4 of the Paris Agreement provides for a new mechanism by which public and private entities can support greenhouse gas emission reductions and sustainable development. The Paris Agreement mentions the intrinsic relationship between sustainable development and climate change actions in the preamble and in Article 2, and in general has a greater emphasis on sustainable development compared to the Kyoto Protocol. However, addressing sustainable development in practice in mitigation activities is yet to be elaborated under Article 6.4 of the Paris Agreement.

The new mechanism under Article 6.4 may require greenhouse gas mitigation projects to demonstrate that they will deliver co-benefits. This could be achieved in part through stronger emphasis and better guidance on local stakeholder consultations. The delivery of the expected co-benefits could be monitored using a simple methodology based on the Sustainable Development Goal targets. Co-benefits may also be included in the scope of validation and verification. This would ensure transparency and could be an important reference for the carbon asset buyers.

An approach using the Agenda 2030 framework that puts stronger emphasis on monitoring and reporting of co-benefits could be considered while discussing “fostering sustainable development” under Article 6.4. One of the key issues is likely to be if it will be a mechanism for mitigation and sustainable development, but where only mitigation impacts will be quantified and verified, or if sustainable

development will be integrated in the mechanism itself.

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Related Links

Case Study: *Bringing Innovation to Bus Rapid Transit*.



Virender Kumar Duggal

Principal Climate Change Specialist, Asian Development Bank

Virender Kumar Duggal is Principal Climate Change Specialist at the Asian Development Bank. He is the Fund Manager of the Future Carbon Fund, a trust fund managed by ADB under its Sustainable Development and Climate Change Department. Mr. Duggal possess a wealth of experience in the areas of climate change, carbon finance, trust fund management and international trade cooperation. He has extensively worked in multilateral, public and private sector institutions, with expertise in the areas of project development, portfolio management, advisory services, technology transfer and strategic collaborations. He has wide-ranging leadership and teamwork experience of working in multi-cultural environments across Asia, Europe and Africa.

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