



UNIVERSITY OF
GOTHENBURG

THE QOG INSTITUTE
QUALITY OF GOVERNMENT

Corruption in the Carbon Market?

International Organisations, Transparency and the Clash of Values

Monika Bauhr

QoG WORKING PAPER SERIES 2009:15

THE QUALITY OF GOVERNMENT INSTITUTE
Department of Political Science
University of Gothenburg
Box 711
SE 405 30 GÖTEBORG

June 2009

ISSN 1653-8919

Corruption in the Carbon Market?
International Organisations, Transparency and the Clash of Values
Monika Bauhr
QoG Working Paper Series 2009:15
June 2009
ISSN 1653-8919

Abstract

Are international organizations a positive force in improving good governance and reducing corruption? International organizations have traditionally been perceived as a positive force in international politics. This paper suggests that the effect of interaction with international organizations on quality of government (QoG) norms may depend on the type of system international organizations promote. In a study on the role of international organizations as constructors, supervisors and catalysers of the carbon market through the clean development mechanism (CDM), the paper shows that there are at least three major explanations why international organizations may promote bad rather than good government norms: leadership explanations, market logic explanation and informational explanations. The paper thereby shows the benefits of moving beyond descriptions of system level features, such as inbuilt transparency mechanisms, to also study the effect that systems have on participants involved. The analysis has implications for our understanding of the influence of international organizations in an area often ignored by good governance scholars: how and in what way international organizations influence quality of government through their important and growing role in the implementation of international environmental agreements.

Key words: International Organizations, Corruption, Transparency, Quality of Government, Clean Development Mechanism, Climate Change, Carbon Market.

Monika Bauhr
The Quality of Government Institute,
Department of Political Science
University of Gothenburg
Box 711
405 30 Göteborg, Sweden
monika.bauhr@pol.gu.se

Introduction*

International organizations are typically perceived as a positive force in promoting good governance and reducing corruption around the world (McCoy 2001; Kandholt 2004). Since the early 1990s, international organizations have championed the cause of good government world wide, and anticorruption policies have become a central part of the programs of all major international organizations. International organizations can provide strong economic incentives for countries to comply with good government norms, through conditional aid, membership or trade (Sandholz and Gray 2003). Normative pressure, socialization or, in the words of Jacoby (2006) “inspiration”, is another way of promoting this agenda (Prevehouse 2002). Sometimes, the mere effect of interaction with and integration into international organizations is seen to yield positive results on good government values.

This paper suggests that the effect of interaction with international organizations on quality of government (QoG) norms may depend on the type of system international organizations promote. Some global governance mechanisms may be more successful than others in promoting transparency and reducing corruption, and for a number of both internal and external reasons international organizations may promote good, but also bad government norms and incentives. The paper suggests that there are three reasons why international organizations may not effectively promote good government norms in their role as constructors, supervisors and catalysers of the carbon market through the clean development mechanism: inadequate leadership, market logics and lack of information.

The clean development mechanism allows developed countries to buy emission reduction credits from industries in the developing world as one way of meeting their internationally agreed upon emission reduction target. The system has been accused of promoting corruption and fraud. However, the paradox of this system is that it seems to share many features that signify systems that may reduce the opportunities for corruption, such as transparency and decentralization. It is also led by international organisations, the UN and the World Bank, that are viewed as principal advocates of the international good government agenda. Although scattered accounts of “corruption” abound, there are few systematic studies on what this mechanism does to the level of corruption, transparency and accountability, and why.

* I thank Naghmeh Nasiritousi for excellent ideas, critical scrutiny and research assistance.

This paper therefore also argues for the need to move beyond accounts of particular system level features in order to determine the contribution of international organizations to promoting quality of government. A more holistic approach is called for to study the influence of international organizations on the norm, values and behaviour of the actors involved.

The paper is structured as follows. The first section presents a short account of the innovative features of the CDM and explores these in relation to governance issues. Section two to four outlines the three suggested reasons why international organizations may not promote good government norms. In section two constraining factors within and external to the bureaucracy of international organizations are looked at to explain why institutions may fail to meet their goals in promoting quality of government norms. Section three describes how international agreements are increasingly implemented through networks led by international organizations but driven by market forces and analyses how this may impact on the norms that international organizations diffuse. Section four examines the limits to procedural transparency. The final section concludes and discusses implications for the research agenda on the influence of international organizations on the quality of government.

The Carbon Market as a Venue for Norm Diffusion

International organizations are not only a venue of cooperation and policy formulation, they also play a central role in the implementation of international agreements. The role of international organizations as the bureaucracies of international policies make a potentially important venue for diffusing norms, even when the policies that they implement are not specifically directed towards diffusing certain values. The unintended persuasive effect of integration into some types of systems can potentially be greater than systems specifically designed to promote particular norms. However, we know comparatively little about the role of these systems in the promotion of quality of government norms.

International organizations play an important role in the implementation of the international agreement on climate change – the Kyoto Protocol. A recurrent theme in international negotiations on how to limit human impact on the global climate is how to include developing countries in efforts to reduce greenhouse gases without impeding their development paths. As large parts of future emissions will in effect originate from developing countries, and because these countries

host cheap opportunities to mitigate climate change, the interest in designing a system that would allow for lowering the cost of emission reductions and integrating developing countries has been great. A mechanism was therefore sought that could aid developing countries avoid the energy intensive development path of the developed world while allowing developed countries to reduce emissions at a lower cost.

The Kyoto Protocol therefore set up the Clean Development Mechanism (CDM) as one of its “flexible mechanisms”. The CDM allows developed countries that have an emission reduction target under the protocol to invest in emission reduction projects in developing countries (for instance finance a dam, install wind turbines etc.) and in return receive tradable carbon credits corresponding to the volume of emission reductions generated by that project.¹ These credits can then be used by the industries or governments in the developed world to meet their emission reduction targets. The main goals of the CDM are therefore cheap emission reductions and promotion of sustainable development in developing countries. Thus the mechanism has no explicit objective to promote better government performance.²

International organizations play a central role in supervising and catalyzing this market. The innovative features of the CDM, that it has rapidly developed into being one of the most important avenues for cooperation between developed and developing countries on climate change, and the fact that it is the first global market mechanism in international environmental law, has made some laude its success (Streck 2004). Referring to the rapid increase in projects since 2005, an associate at a climate change capital firm concludes that “if the right signals are given by governments, the private sector has the capacity and incentive to move fast” (Gray 2008).

However, the mechanism has been accused of being deeply corrupt. While the market may move swiftly, the lack of oversight and perverse incentives that it creates makes it difficult to know in what direction it is going. The emerging literature on the performance of the CDM explores such issues as its contribution to sustainable development (Olsen 2007; Olsen and Fenhann 2008) and technology transfer (Dechezlepretre et al. 2008a & 2008b; Schneider et al 2008; Haites et al 2006). These studies conclude that in its current form, the CDM have rather mixed results when it comes to its contribution to sustainable development and technology transfer. In particular, there is a

¹ each of them worth one tonne of carbon dioxide removed from the atmosphere

² “The purpose of the clean development mechanism shall be to assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments”, Kyoto Protocol, Article 12, UNFCCC 1997, <http://unfccc.int/resource/docs/convkp/kpeng.html>

tradeoff between the market logic of low costs and the public value of high environmental integrity. Other studies deal directly and specifically with the fundamental problem of whether the CDM is actually reducing emissions and whether or not it is doing it in a cost effective way (Schneider 2007; Wara 2008; Michaelowa & Purohit 2007; Commission on Sustainable Development 2009; Kollmuss et al 2008).³ The overall conclusion of these studies is that the CDM performs rather poorly on these measures. The CDM, it turns out, may be an expensive way not to reduce emission.

Media has also picked up on these criticisms and accused the mechanism of fostering corruption and outright fraud (McCully 2008; Davies 2007)⁴. Fuelled by the experience of a financial crisis and the renewed political acceptance that markets need strong oversight and rules, the political establishment is calling for reform (EU Communication Towards a comprehensive climate change agreement in Copenhagen 2009).⁵ In the following sections, three challenges for the clean development mechanism, and its reform proposals, are discussed in more depth.

International Organizations, Conflicts of Interests and the Clash of Values

Do international organizations promote transparency and reduce corruption? Do they enhance effectiveness and trustworthiness? Scholarly work has traditionally treated international organizations as a positive force in international politics. However, for a number of reasons, outlined in Barnett and Finnemore (1999: 727), the effectiveness of international organizations in fulfilling their goals “should be an empirical [...] matter, not an analytic assumption”. Although most international organizations today firmly sign on to the good governance agenda⁶, external and internal pressure may hamper their ability to promote these norms.

³ The problem of whether emissions reductions would have happened anyway is known as the “additionality” problem and will be discussed further in coming sections.

⁴ Also “C is for Unclean”, Down To Earth Magazine, VOL 16, NO 14, December 2007, http://www.downtoearth.org.in/cover.asp?foldername=20071215&filename=news&sid=41&sec_id=9; “What’s CDM about?”, Down to Earth Magazine, VOL 14 , NO 12, Monday, November 07, 2005, http://www.downtoearth.org.in/cover.asp?foldername=20051115&filename=anal&sid=4&page=7&sec_id=7&p=1

⁵ The current financial crisis also paves the way for a deeper acceptance for the idea that markets need oversight and good rules, which increases the political leverage for reforming markets at this point in time.

⁶ For studies of norm diffusion at international organizations that have not signed up to the good governance agenda as promoted by for example the World Bank, see Ambrosio (2008) who discusses the promotion of non-democratic norms by the Shanghai Cooperation Organization.

The discussion in this section on the role of international organizations in constructing and catalysing the carbon market through the clean development mechanism points at four major reasons why international organizations may not effectively promote good government norms: legitimacy concerns, struggle for resources, bureaucratic logic and external pressure from strong member states. International organizations, like most other organizations, struggle with conflict of interests and the clash of values.

International organizations play two central parts in the clean development mechanism: managing the CDM process and catalysing the offset market. A UN body, the CDM Executive Board is the central bureaucracy in the CDM system, and the agency that ultimately approves CDM projects. The World Bank, through its Carbon Finance Unit, trades in carbon credits on behalf of countries and firms in OECD countries. Its role, according to the Bank's website, is "to catalyze a global carbon market that reduces transaction costs, supports sustainable development and reaches and benefits the poorer communities of the developing world." (World Bank Carbon Finance Unit 2009).

The CDM Executive Board (EB) has been accused of providing insufficient direction due to a lack of resources (Schneider 2007). The EB lacks adequate capacity to evaluate whether projects fulfil requirements, and relies on third party verifiers (private firms) to supply that service. For reasons outlined in the previous section and the next, this process faces many challenges. Moreover, the Board also faces pressure to approve projects, as delays in project approvals create bottlenecks in the system and increases transaction costs for project participants. In their investigation into a sample of Indian CDM projects, Michaelowa and Purohit (2007) find that good story tellers tend to get their projects accepted by the EB. They conclude that "if the project developer can obfuscate the attractiveness of the project, it is likely to pass."

The Board's supervising function of the CDM may therefore stem from the will to bestow legitimacy on the process rather than being based on an effectiveness criterion. In the words of Barnett and Finnemore (1999: 717), international organizations' practises "reflect a search for symbolic legitimacy rather than efficiency" (1999:717).⁷ Thus, although limited in its capacity and effectiveness, there is strong political pressure to keep the administration of the CDM within the UN, since the organization enjoys strong legitimacy among countries in the world.

⁷See Meyer and Rowan (1977).

If lack of capacity may be the main problem of the central bureaucracy of the CDM, the World Bank's role as catalyst has also received critique. In particular, its involvement in fossil fuel extraction has been criticized on the grounds that such involvement makes the bank less credible in its dealing with climate change. This involvement can even be seen as a conflict of interest as the World Bank's considerable investments in the fossil fuel sector create demand for the carbon credits that the Bank trades in. The Asian Development Bank defines conflict of interest as "a situation in which a party has interests that could improperly influence that party's performance of official duties or responsibilities, contractual obligations, or compliance with applicable laws and regulations".⁸ The World Bank itself classifies some forms of conflict of interest as corruption and states that "Even if there is no evidence of improper actions, a conflict of interest can create an appearance of impropriety that can undermine confidence in the ability of that person to act properly in his/her position."⁹ Most organizations have multiple agendas. The dual role of the World Bank does not necessarily undermine its integrity. It may, however, undermine confidence in the Bank's ability to deal with climate change.

Often, however, lack of confidence in the World Bank seems to emanate from its enactment of its overall goals: stimulating growth and cutting costs. Thus, bureaucrats at the World Bank, like many other bureaucrats are "organized around rules, routines and standard operating procedures designed to trigger a standard and predictable response to environmental stimuli" (Barnett and Finnemore 1999: 718). In the case of the World Bank, although increasingly involved in the international good governance agenda and good environment agenda, the organization may primarily value norms of efficiency and growth. One reason for this may be the Bank's constraining non-political mandate. The Bank's mandate states that its lending practices should be based on economic assessments (Marquette 2001). Another reason for the Bank's emphasis on economic values over other norms may be the "wrong incentives" present in the Bank's lending and staff promotion policies. According to a former staff member of the World Bank's Department of Institutional Integrity, Jose Ugaz (2008: 139-140):

⁸ Asian Development Bank, Anticorruption Policy: Proposed Clarifications and Related Changes to Consulting and Procurement Guidelines, p. 4

<http://www.adb.org/Anticorruption/procurement-guidelines.pdf>

⁹ World Bank, Introduction to Corruption, <http://siteresources.worldbank.org/PSGLP/Resources/corruptionunit1.pdf>

“Some bank members and staff understand that the main objective of the institution is to do business and “move the money out of the door,” without sufficient consideration as to how the money is used or considering the final results. They believe that other measures not central to this objective, such as the implementation of internal controls and other safeguards as a pre-condition for funding and the development of projects, put the bank at a financial disadvantage compared to commercial banks, and perhaps even to other MDBs.”

This lack of mainstreaming of good governance norms into the World Bank’s own projects was also the focus of an independent review headed by Paul A. Volcker. The absence of a “clear sense of direction” in the World Bank’s good governance work that Volcker et al (2007: 9) identify may explain why some of the Bank’s CDM projects have faced criticism for lacking environmental integrity and not showing adequate consideration toward the local population (Lohmann 2006: 306; International Rivers Network & CDM Watch 2004). An example is the Bujagali hydro-power dam that has been investigated for corruption and where the World Bank Inspection Panel found several areas of non-compliance with the Bank’s policies (World Bank 2008; Power Technology). Thus, while the World Bank has been criticized for not leading by example and even undermining its legitimacy in dealing with environmental issues and the promotion of good government norms, this may be resulting from its “standard and predictable response” to catalyzing a market - i.e. seeking out low cost options to carrying out their perceived mission.

A different type of explanation for why international organizations do not always effectively contribute to, or in some instances even undermine, their stated goals, can be traced to a realist and neoliberal view of international organizations. In this view, international organizations are mainly a means through which other actors, usually states, act. Thus, if international organizations fail to promote good government norms, it is because these norms were not valued highly enough among powerful member states. In this view, international organizations can be seen as just doing their job in implementing policies established elsewhere, or following rules set up in international agreements (Mearsheimer 1994; Jervis 1999). Taking this approach, the weakness of the CDM regime could be traced back to the negotiations of the Kyoto Treaty and the rules establishing the flexible mechanism. The negotiations meant that compromises weakened the final treaty and resulted in the criticized design of the CDM.

The discussion above has shown how international organizations’ ability to carry out their mission is constrained by a range of factors, including struggle for resources, conflict of interest and the clash of values within its own bureaucracy as well as within and among its member states.

Holding Markets Accountable to Public Goals

Having examined the constraints on international organizations as possible reasons for deficiencies in the CDM process, we now turn to the second explanation: market logics. An increasing amount of power over international policy making and implementation is exercised by non-state actors, such as the private sector and NGOs (Pierre 2008; Benner et al 2004). These actors influence policy making and implementation through a network of relations, some more institutionalized than others. In their more institutionalized form, such as in the case of the CDM, these are sometimes structured as public private partnerships (PPPs) (Bäckstrand 2008). PPPs are cooperative ventures involving public and private participants. This form of collaboration is increasingly used around the world in fields such as public service and infrastructure provisions. This development has generated a large body of literature on the subject, most however focusing on their use in a domestic setting (Matthew 2005; Domberger & Fernandez 1999; Peters 1998).

Proponents of the increased involvement of non-state actors in the implementation of policies, through public private partnerships or other forms of governance networks, point to the benefits of drawing expertise from a range of sources, involving more stakeholders, and sharing risks. The flexible nature of these structures is also credited for increasing efficiency and decreasing costs (Bäckstrand 2008: 78). In their analysis of different types of networks, Hafner-Burton et al (2009: 39) suggest that governance networks have “been touted as a solution for a multilateralism that is too often slow moving and inefficient”. Critics, however, point to a potential loss of public values and the problems of accountability and transparency that may result when actors such as corporations and NGOs that lack traditional representativeness gain increasing influence (Benner et al 2004; Pierre 2008).

One reason for why the involvement of non-state actors in the implementation of policies causes concern is the confusion over who the “principal” of these actors should be and whether or not they can be held accountable to public goals. When governance networks take a horizontal rather than the traditional vertical form, accountability mechanisms risk becoming diffused (Considine 2002). The verification process in the CDM has been seen as a source of corruption, precisely because the issue of who verifiers are and should be responsible to is unclear.

In the clean development mechanism the control of the projects is outsourced to consultancy firms. Since the CDM Executive Board does not have the capacity to verify project developers' claims of additionality, it relies on the analysis produced by these firms. These firms, however, face conflict of interest issues as they are paid by the project developers. Schneider (2007) describes how these firms face an increasingly competitive environment of companies seeking to perform that service. Project developers are able to "shop around" for a consultancy firm (a so called Designated Operational Entity,DOE) that will validate their project in case other DOEs raise concerns about the project, to the extent that payment could be made conditional upon the successful registration of projects (Schneider 2007: p 20-22). When prices are dropping, DOEs are likely to spend less time on each project. Furthermore, detailed standards and instructions as to what exactly should be assessed by the DOEs as part of the validation and verification process are currently not available and the consulting firms face a potential brain drain since working for a project developer generally pays much better (Wara and Victor 2008). Schneider (2007:6) therefore concludes that "This market environment could result in a 'race to the bottom' regarding the quality of the validation and verification process, because those DOEs that spend less time on validation and verification can offer lower prices and will thereby gain a larger market share."

When the CDM Executive Board, performed spot checks on three DOEs in 2006 the results showed serious faults in the work of the DOEs to the extent that all three companies were required to undertake corrective measures (Schneider 2007: 24). Spot checks were again undertaken in 2008 and this time the largest DOE was suspended by the Executive Board (Galbraith 2008).¹⁰ Several measures have been suggested to strengthen the integrity and independence of the validation process, such as better defining the role and responsibilities of the DOEs, allowing the CDM EB to select DOEs and pay them directly, and even making DOEs directly liable for CERs which they incorrectly issued and that later proved to be excessive (Schneider 2007: 7). The suggested measures would however increase the cost of the process, which may not sit well with project participants wish to keep the costs down. Stricter control may also move the problem to other arenas, since it would still be in the interest of project developers to have consultants deal with the work involved in having projects accepted by the executive board.

This example illustrates the difficulties of holding markets accountable to public goals and the conflicts and trade-offs involved in attempts to do so. It raises questions about the amount of

¹⁰ due to "a 'deficient' internal audit process, as well as project-related issues like lack of documentation".

regulation and control that the government needs in order to hold markets accountable to public goals. At some point, more regulation and control may deter private sector participation. It also raises question about what amount of public resources the state should devote to control markets and under what conditions the involvement of market forces decreases the cost of implementation. Although there are no simple answers to these questions, what is clear is that when all actors share an incentive for a speedy approval process, the checks and balances of the system may succumb to market logics.

When Transparency does not Provide Enough Information

Transparency is sometimes seen as the flagship of good governance and a precondition for reducing corruption and improving accountability. Unwarranted secrecy “corrodes democracy, facilitates corruption, and undermines good public policymaking” (Florini 2007). Making information available on such things as why decisions are made and where the money goes is expected to reduce illicit behaviour. International organizations sometimes seek to increase their transparency in an attempt to remedy their weak accountability record (Keohane 2006). There are, however, limits to the positive effects of transparency. Secrecy on military strategies and personal data may be essential for protecting the public interest (Florini 2007). Moreover, certain conditions may have to be met in order for transparency to have an effect on actors’ behaviour. Transparency is not important in and of itself. Unless the information is made available to relevant actors, and these actors are interested in and able to act upon the information received, the effect of transparency may be limited (Naurin 2006, Hale 2008).

However, accounts on the importance of transparency, and arguments for why certain conditions have to be met in order for transparency to matter, sometimes pay less attention to a more fundamental condition: whether the information needed to evaluate performance is at all there to made available (Fung et al 2007; Gupta 2008). If the crucial information needed in order to evaluate actors’ performance is very hard to obtain, or even unavailable, this also puts a limit to the positive effect of transparency.

The transparency of the clean development mechanism has been lauded a success. Information on all current projects are made available to the public on the UNFCCC website, as is information on who verified what project, and motivations of the decision making board approving the projects. The mechanism has also attracted a substantial amount of mass medial attention. Furthermore, the

large public interest in the issue of climate change suggests that there is a large and interested audience for the information displayed about the workings of the carbon market.¹¹

However, the fundamental reason why the amount of information disclosed about this market may not provide an effective basis for evaluating whether the actors involved are doing what they are supposed to do, i.e. reduce emissions and promote sustainable development, is that the fundamental information upon which this system builds is very hard to get at, or maybe even unavailable. The assessment of CDM projects rests on a counterfactual estimation of what project developers would have done in the absence of CDM support. This is because in order to make sure that real emission reductions occur, it is important to verify that CDM projects would not have happened anyway. This concept is known as “additionality” and is a key criterion for valid CDM projects¹². For a number of reasons this is very difficult information to display. Not even project developers may be aware of what they would have done in the absence of the additional incentives offered by the CDM. This weakness in the CDM methodology, the fact that it relies on a hypothetical scenario, has according to Hepburn and Stern (2008: 273) “generated opportunities for gaming”.

However, the problem of additionality is neither new nor specific to the clean development mechanism. Determining what would have happened in an absence of financial support is a general problem that most political agencies struggle with. What makes verification of CDM projects particularly important, however, is that since credits are used as offsets, non authentic credits mean a net-increase in emissions. In other words, as the emission reductions that are certified can be bought and used to offset emissions in developed countries (Annex 1), total emissions will increase if the system fails to determine that the CDM project is indeed additional. Uncertainty about the extent to which credits are authentic reduces the transparency and undermines the legitimacy of the CDM system. Schneider (2007: 44), for example, calculates that about 40% of the registered projects by July 2007 may have been implemented even in the absence of the CDM mechanism. Similarly, Wara and Victor (2008) find that “Experience with the CDM suggests that many CDM projects do not reflect real reductions in emissions.”

¹¹ The president and CEO of the International Emissions Trading Association said “The CDM can be accused of a lot, but not lack of thoroughness” (Derwent 2008)

¹² “the project activity is expected to result in a reduction in anthropogenic emissions by sources of greenhouse gases that are additional to any that would occur in the absence of the proposed project activity”, FCCC/KP/CMP/2005/8/Add.1, 3/CMP.1, Annex, paragraph 37(d), <http://cdm.unfccc.int/Reference/COPMOP/08a01.pdf#page=6>

Accounts of how the system works illustrate the difficulties involved. There seem to be at least two types of accounts of how the CDM provides incentives to claim credits for non additional reductions. In the first account, the system produces perverse incentives since the price paid for emission reductions through the carbon market becomes too high relative to the costs associated with reducing emissions. Much of the emission reduction credits generated from the CDM has historically been generated by the relatively cheap destruction of a gas (trifluoromethane or HFC-23). This gas has two characteristics that make it very attractive for the market: it has very high global warming potential and it is very cheap to destroy.¹³ In fact, because of the way in which emission reduction credits are awarded to projects with these characteristics, it ended up being more profitable to sell CERs from producing and then destroying the gas, than to manufacture the industrial gases that lead to its creation in the first place (Schneider 2007: 11). When the CDM Executive Board became aware of these perverse incentives they “implemented a number of restrictions that limited, but failed to eliminate, the perverse incentive to produce refrigerant in order to produce waste HFC-23, capture this waste, and so create enormous quantities of CERs”(Wara and Victor 2008:11).

A second problem is the difficult conflict between what additionality claims make individual, firm level sense and what makes collective sense for the host country. Using alternative energy sources and reducing fossil fuel use makes both economic and social sense for many countries, including CDM host countries. Many of the more advanced developing nations, such as China and India, have rather ambitious political plans of reducing fossil fuel dependence. These countries are also the most attractive host countries for CDM projects. China will potentially produce about half the emission reduction credits issued up to 2012.¹⁴ In China “essentially all new hydro, wind, and natural gas fired capacity is applying to claim credit for emissions reductions under the CDM” (ibid 2008:13). At the individual project level this makes sense, since they all replace the traditional reliance on coal in China. Using other sources of energy than coal may face greater barriers than business as usual. The CDM may provide a financial incentive to switch to a more climate friendly technologies. However, taken collectively, these individual claims of additionality “amount to the claim that the hydro, wind, and natural gas elements of the power sector in China

¹³ HFC-23 is a very potent green house gas, 11, 700 more potent than CO₂. The gas is produced mainly as a waste product when producing another gas used as a feed stock for high performance plastics and air conditioners, HCFC-22.

¹⁴ The numbers were taken from Jorgen Fenhann, UNEP –Riso centre, CDM-JI Pipeline Database, at <http://www.cdmpipeline.org> and assumes that all projects undergoing validation in January 1 2008 are registered. (updatera dessa siffror eventuellt.)

would not be growing *at all* without help from CDM” (ibid. 2008:14.). In light of state policies in China, Wara and Victor conclude that this is “simply implausible” (p.14).

These stories illustrate the difficulties associated with accessing the information needed to evaluate whether projects are additional or not. They also illustrate that even if certain project developers claim credits for projects they know are not additional and would have happened anyway, and that the system may promote such behaviour, more transparency is not a quick fix to this problem. A number of reform proposals aim to improve and facilitate the additionality assessment. These reform proposals may contribute to improving the process. Bernow et. al (2001: 242) recognized the additionality problem as early as in 2001, and proposed measures to make “eligibility criteria more restrictive, additionally testing more rigorous, and baseline emissions levels more stringent and/or dynamically updated”. The authors however acknowledge that these measures come at a cost. The proposed measures would raise the bar for projects so as to potentially make some legitimate projects ineligible, and make the validation process more costly which, in turn, could reduce the financial incentives for project participants to initiate CDM-projects. Another suggestion for CDM reform focuses on creating a positive list of approved additionality activities that could receive credits without the administrative costs of verification. Certain technologies that are deemed additional could for example be eligible for CERs without going through a lengthy verification process. However, negotiations of such a list are fraught with difficulties and have not yet been forthcoming (United States Government Accountability Office, 2008: 50-51). Thus, a fundamental uncertainty about what share of projects are authentic is likely to remain. The “additionality requirement” in the clean development mechanism is one of the most intensively discussed topics in relation to the clean development mechanism, and will likely be around as long as the mechanism relies on counterfactual assessments.

Conclusion

This paper suggests that there are three major underlying reasons as to why international organizations may not effectively promote good government norms in their role as constructors, supervisors and catalysers of the carbon market through the clean development mechanism.. First of all, the *leadership explanation* suggests that the lack of capacity and effectiveness of the international organisation supervising the mechanism (the UN) may hinder the effective upholding

of the CDM rules; that the difficulties involved in mainstreaming the good governance agenda within the organisations catalysing the mechanism (the World Bank) may weaken the normative standing and legitimacy of the CDM; and that state interest may be behind the deficient design of the mechanism. Secondly, the *market logic explanation* suggests that the conflict of interests that market actors encounter when implementing public policies can create confusion over who the principals of these actors are and whose or what goal they could reasonably be expected to promote. Third, *the lack of information* explanation suggests that the counterfactual nature of the mechanism makes it very difficult to assess whether projects reduce emissions. Consequently, the in-built transparency mechanisms do not always succeed in determining whether actors indeed comply with the rules governing the CDM.

The paper highlights the importance of broadening the scope of research on the influence of international organizations on the promotion of quality of government norms.

First, previous studies on quality of government promotion by international organizations typically do not examine their growing role in implementing international environmental agreements.. Studies on the influence of international organizations on the quality of government tend to focus on such things as the effect of financial incentives, including conditional lending (Riley 1998), structural adjustment programs (Gerasimova 2008; Khan 2002), aspiration for membership (Jacoby 2006) and aid (Knack 2001; Hanlon 2004) or the general norm diffusion or socializing effect of integration in international organizations (Sandholz and Gray 2003).¹⁵ Although designed with a different goal in mind than promoting good government, many features of international environmental agreements influence government performance, whether through their system design or provisions for capacity building. Second, in order to understand this effect, studies need to move beyond descriptions of system level features, such as the level of transparency and accountability mechanisms in the system design, to instead focus on the effect that these systems have on the values and beliefs of the actors involved. Rather than studying whether or not systems embody good government norms, it may be more fruitful to study whether or not such norms and incentives are diffused to its participants. The carbon market provides an excellent venue to study the influence of international organizations, since a number of both private and public sector participants, with varying national experiences, participate in the market.

¹⁵There is also a growing literature on whether or not international organizations practice what they preach, ie the extent to which they have internalized principles of transparency, accountability and anti-corruption (Woods 2000).

Third, such accounts should be open to the idea that different tasks of international organizations may diffuse alternative, competing norms. Rather than taking the assumption for granted that international organizations always promote good government norms, research should focus on providing empirical support for the mechanisms involved in norm diffusion, whether supportive of the good government agenda or not.

References

- Ambrosio, Thomas. 2008. "Catching the 'Shanghai Spirit': How the Shanghai Cooperation Organization Promotes Authoritarian Norms in Central Asia", *Europe-Asia Studies*, 60:8, 1321—1344
- Asian Development Bank, Anticorruption Policy: Proposed Clarifications and Related Changes to Consulting and Procurement Guidelines,
<http://www.adb.org/Anticorruption/procurement-guidelines.pdf>
- Bäckstrand, Karin, 2008. "Accountability of Networked Climate Governance: The Rise of Transnational Climate Partnerships", *Global Environmental Politics*, Volume 8, Number 3, August
- Barnett, M. and M. Finnemore. 1999. "The politics, power, and pathologies of international organizations", *International Organization* 53(4): 699–733
- Bernow S., S. Kartha, M. Lazarus, T. Page. 2001. "Cleaner generation, free-riders, and environmental integrity: clean development mechanism and the power sector", *Climate Policy*, Volume 1, Number 2, June
- "C is for Unclean", *Down To Earth Magazine*, VOL 16, NO 14, December 2007,
http://www.downtoearth.org.in/cover.asp?foldername=20071215&filename=news&sid=41&sec_id=9
- Commission on Sustainable Development, Four policy scenarios for Copenhagen - An analysis of four possible outcomes of the COP15 negotiations, February 2009
- Considine, Mark. 2002. "The End of the Line? Accountable Governance in the Age of Networks, Partnerships, and Joined-Up Services." *Governance* 15(1):21-40.
- Davies, Nick. 2007. "Abuse and incompetence in fight against global warming", *The Guardian*, Saturday 2 June,
<http://www.guardian.co.uk/environment/2007/jun/02/energy.business>
- Dechezleprêtre, Antoine, Matthieu Glachant and Yann Ménière. 2008a. "The Clean Development Mechanism and the international diffusion of technologies: an empirical study", 36(4), *Energy Policy*, pp 1273-1283
- Dechezleprêtre, Antoine, Matthieu Glachant and Yann Ménière. 2008b. "Technology transfer by CDM projects: A comparison of Brazil, China, India and Mexico" *Energy Policy*, 37(2), pp 703-711
- Derwent, Henry. 2008. The Opposition's Closing Statement, *The Economist Debate*, 12 December, p. 66
- Domberger, Simon and Patrick Fernandez. 1999. "Public-Private Partnerships for Service Delivery", *Business Strategy Review*, Vol. 10, Issue 4, pp. 29-39
- EU. 2009. Questions and Answers on the Communication Towards a comprehensive climate change agreement in Copenhagen, MEMO/09/34, Brussels, 28 January,
<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/34&format=HTML&aged=0&language=EN&guiLanguage=en>
- FCCC/KP/CMP/2005/8/Add.1, 3/CMP.1, Annex, paragraph 37(d),
<http://cdm.unfccc.int/Reference/COPMOP/08a01.pdf#page=6>
- Fenhann, Jorgen. 2009. UNEP –Riso centre, CDM-JI Pipeline Database, <http://www.cdmpipeline.org>
- Florini, Ann (ed.). 2007. *The Right to Know: Transparency for an Open World*, New York: Columbia University Press

- Fung, Archon, Mary Graham, and David Weil. 2007. *Full Disclosure: The Perils and Promise of Transparency*. Cambridge, UK: Cambridge University Press
- Galbraith, Kate. 2008. "Trouble in Europe's Carbon Offsets Business", *The New York Times*, December 10, <http://greeninc.blogs.nytimes.com/2008/12/10/trouble-in-europes-carbon-offsets-business/?scp=4&sq=cdm%20doe&st=cse>
- Gray, Steven, 2008. "Carbon finance and the new economy", 08 December, *Chinadialogue* <http://www.chinadialogue.net/article/show/single/en/2611>
- Gupta, Aarti. 2008. "Transparency Under Scrutiny: Information Disclosure in Global Environmental Governance", *Global Environmental Politics* 8:2, May
- Hafner-Burton, E. M., Miles Kahler and Alexander H. Montgomery. 2009. "Network Analysis For International Relations", *International Organization*, Spring 2009.
- Haites, E., M. Duan and S. Seres. 2006. "Technology transfer by CDM projects", *Climate Policy* 6 (3), pp. 327–344
- Hale, Thomas N. 2008. "Transparency, accountability, and global governance", *Global Governance*, January
- Hanlon, Joseph. 2004, "Do Donors Promote Corruption? : The Case of Mozambique. *Third World Quarterly*. Vol 25. No 4. pp747-763.
- Hepburn, Cameron and Nicholas Stern. 2008. "A new global deal on climate change", *Oxford Review of Economic Policy*, *Oxf Rev Econ Policy* 24
- International Rivers Network & CDM Watch. 2004. *The World Bank and CDM large hydros: Status Note for COP10 Buenos Aires, Argentina, December*, <http://www.internationalrivers.org/files/COP10hydrostatusnote.pdf>
- Jacoby, Wade. 2006. "Inspiration, Coalition and Substitution: External Influences on Postcommunist Transformations", *World Politics* 58, July.
- Jervis, Robert. 1999. "Realism, Neoliberalism, and Cooperation: Understanding the Debate." *International Security* 24(1):42-63.
- Keohane, Robert O. 2006. "Accountability in World Politics", *Scandinavian Political Studies*, Volume 29, Number 2, June, pp. 75-87(13)
- Knack, Stephen 2001. *Aid Dependence and Quality of Governance: Cross-Country Empirical Tests*. *Southern Economic Journal*. 68(29).pp. 310-329.
- Kollmuss, A, M. Lazarus, C. Lee, and C. Polycarp. 2008. *A Review of Offset Programs: Trading Systems, Funds, Protocols, Standards and Retailers*, Research Report, Stockholm: Stockholm Environment Institute
- Kyoto Protocol, Article 12, UNFCCC 1997, <http://unfccc.int/resource/docs/convkp/kpeng.html>
- Lohmann, Larry ed. 2006. *Carbon Trading: A Critical Conversation on Climate Change, Privatisation and Power*, The Corner House, October, <http://www.thecornerhouse.org.uk/pdf/document/carbonDDlow.pdf>
- Marquette, Heather. 2001. "Corruption, democracy and the World Bank", *Crime, Law and Social Change*, Volume 36, Number 4, December, pp. 395-407(13)
- Matthew, Flinders. 2005. "The Politics of Public-Private Partnerships." *The British Journal of Politics & International Relations* 7(2):215-239.

McCoy J.L. 2001. "The Emergence of a Global Anti-corruption Norm", *International Politics*, Volume 38, Number 1, March, pp. 65-90(26)

McCully, Patrick. 2008. "Discredited Strategy", *The Guardian*, Wednesday 21 May, <http://www.guardian.co.uk/environment/2008/may/21/environment.carbontrading>

Mearsheimer, John. 1994. "The False Promise of International Institutions", *International Security* 19 (3):5–49.

Michaelova, Axel and Pallav Purohit. 2007. "Additionality Determination of Indian CDM Projects: Can Indian CDM Project Developers Outwit the CDM Executive Board"

Naurin, Daniel. 2006. "Transparency, Publicity, Accountability – The missing links", *Swiss Political Science Review*, 12, 3, 90-98

Olsen, Karen Holm. 2007. "The clean development mechanism's contribution to sustainable development: a review of the literature", *Climatic Change* 84

Olsen, Karen Holm and Jørgen Fenhann. 2008. "Sustainable development benefits of clean development mechanism projects: A new methodology for sustainability assessment based on text analysis of the project design documents submitted for validation", *Energy Policy* 36

Peters, B. Guy. 1998. 'With a Little Help from our Friends': Public-Private Partnerships as Institutions and Instruments. In Pierre, J. (ed) (1998), *Partnerships in Urban Governance, European and American Experiences*. Basingstoke and New York: Palgrave

Pierre, Jon. 2008. "Stealth Economy?: Exploring the Limits of Market Arrangements in the Public Sector", Paper to be presented at a conference on "Economics and Democracy", hosted by the Research School of Social Sciences, Australian National University, December 8-10

Power Technology, "Bujagali Hydro-Power Dam, Jinja, Uganda", <http://www.power-technology.com/projects/bujagali/>

Sandholtz, Wayne and Mark M. Gray. 2003. "International Integration and National Corruption." *International Organization* 57(04):761-800.

Schneider, Lambert. 2007. *Is the CDM fulfilling its environmental and sustainable development objectives: An evaluation of the CDM and options for improvement*, Öko-Institut e.V., prepared for WWF, November

Schneider, M., A. Holzer and V.H. Hoffmann. 2008. "Understanding the CDM's contribution to technology transfer", *Energy Policy* 36

Streck, Charlotte. 2004. "New Partnerships in Global Environmental Policy: The Clean Development Mechanism", *The Journal of Environment Development*; 13

Ugaz, Jose. 2008. The World Bank and the struggle against corruption, in "The fight against corruption: international organizations at a cross-roads", *Journal of Financial Crime*, Vol. 15 No. 2

United States Government Accountability Office. 2008. *International Climate Change Programs: Lessons Learned from the European Union's Emissions Trading Scheme and the Kyoto Protocol's Clean Development Mechanism*, GAO-09-151 November 18, p. 50-51, <http://www.gao.gov/new.items/d09151.pdf>

Volcker, Paul A. (ed). 2007. Independent Panel Review of The World Bank Group Department of Institutional Integrity, Washington, D.C., September 13, 2007,
[http://siteresources.worldbank.org/NEWS/Resources/Volcker_Report_Sept. 12. for website FINAL.pdf](http://siteresources.worldbank.org/NEWS/Resources/Volcker_Report_Sept.12_for_website_FINAL.pdf)

Wara, Michael. 2008. "Measuring the Clean Development Mechanism's Performance and Potential", 55 UCLA LAW REVIEW 1759, p. 1787
<http://www.uclalawreview.org/articles/content/55/ext/pdf/6.1-7.pdf>

Wara, Michael W. and David G. Victor. 2008. "A Realistic Policy on International Carbon Offsets", PESD Working Paper #74

"What's CDM about?", Down to Earth Magazine, VOL 14 , NO 12, Monday, November 07, 2005,
http://www.downtoearth.org.in/cover.asp?foldername=20051115&filename=anal&sid=4&page=7&sec_id=7&p=1

World Bank, Introduction to Corruption, <http://siteresources.worldbank.org/PSGLP/Resources/corruptionunit1.pdf>

World Bank. 2008. "World Bank Board Discusses Investigation by the Independent Inspection Panel of Power Project in Uganda", Press Release No:2009/166/AFR, <http://go.worldbank.org/252UGM4TD0>

World Bank Carbon Finance Unit. 2009. <http://go.worldbank.org/ALHZMY49B0>