

Capacity Development for the Clean Development Mechanism

Latin American Seminar on

Capacity Development for the Clean Development Mechanism: a Contribution to Sustainability

Buenos Aires 9 – 10 September 2003

Summary Report and Conclusions

Background and objectives

The Latin American Seminar on The Contribution of CDM to Sustainable Development was undertaken as part of the regional-scope activities scheduled under the UNEP Project on Capacity Development for the Clean Development Mechanism. The seminar, organised by the Fundación Bariloche with support of the Ministry for Foreign Affairs and the Secretariat for Sustainable Development of Argentina, took place in Buenos Aires the 9 and 10 September 2003.

The main objective of the seminar was to provide a forum for exchanging ideas and discussing perspectives on the real contribution of the CDM to support sustainable development in developing countries. The rationale for focusing the seminar agenda on CDM and sustainability stemmed from the evidence that, although the basic motivation for developing countries in participating in the CDM is to benefit from a flow of investments that could advance sustainable development goals, it is remarkable how little attention has been paid to the issue of sustainability in the discussions about the design and implementation of the CDM. Considerable advancements have been achieved in the efforts of making operational de mechanism, but the efforts of linking CDM and sustainable development have been relatively weak. There is a tendency both in the literature and in general to focus almost exclusively on the issue of assisting Annex I countries in fulfilling their commitments. Estimates of the GHG abatement potential of CDM projects and the rules and norms for verification, monitoring and certification have received the bulk of attention, while the question of how far the CDM will contribute to achieve sustainable development objectives is typically leaped over in an effort to push host countries towards specific policy responses.

The seminar addressed a range of issues related to the globalisation process, sustainability and climate change. The agenda of the seminar was established with the aim of bringing the currently separate discourses of CDM and sustainable development close together. The idea was to situate the CDM within a broader perspective in order to gain a greater understanding on how the processes of social, economic and environmental changes brought about by globalisation are shaping Latin American societies; how these transformations are affecting the search of more sustainable development paths; and to which extent the CDM could make a contribution to foster sustainable development initiatives. Both the presentations and discussions held in the seminar took place within five sessions organised around the following topics:

- 1) Globalisation and sustainability: opportunities and challenges;
- 2) The climate change negotiation process beyond Kyoto and the role of Latin American countries in this process.
- 3) Sustainable development priorities in Latin America.
- 4) Technology transfer, adaptation and development: looking for sustainable options.
- 5) The potential contribution of CDM projects to national and regional sustainable development.

The meeting was opened by the Undersecretary for Foreign Affairs of the Argentinean Government, who made clear the importance of Latin American countries in engaging in actions towards the limitation of GHG emissions but without jeopardising their legitimate development aspirations. The Undersecretary also stressed the significance of the seminar in contributing to the capacity development of the Region for its effective participation in the ongoing and future negotiations under the Climate Change Convention and the Kyoto Protocol in particular. Especial mention deserves the active participation of the Ambassador Raul Estrada Oyuela all throughout the seminar. Ambassador Estrada, as Chairman of the COP did play a pivotal role in the adoption of the Kyoto Protocol. The opening session was followed by a presentation of the objectives of the project on Capacity Development for the Clean Development Mechanism as well as by a short summary of the activities undertaken by each of the Latin American countries involved in the project.

A selected group of speakers from international organisations, government agencies and research centres were invited to make presentations covering the above mentioned topics. The presentations were followed by intensive discussions in which representatives from climate change and CDM offices of near twenty Latin American and Caribbean countries did take active participation. A summary of the presentations and discussions are highlighted next.

Globalisation and sustainability: opportunities and challenges

The Seminar started off by recalling the fact that Latin American has been immersed into the world economy since the sixteen century, and has played a decisive role in the capital accumulation process of the industrialised world. In the late twentieth century, with the decisive help of deregulation and liberalisation policies implemented by governments and international organisations, as well as on the basis of the new infrastructure provided by information and communication technologies, the world economy has entered into a new phase of capital accumulation and surplus appropriation – the globalisation process. In discussing how this process has affected Latin American societies, the Seminar stressed the relevance of the following facts:

- a) The process is characterized by a fundamental asymmetry between countries, in terms of their level of integration, competitive potential, and share of the benefits from economic growth. This differentiation extends to regions within each country, followed by the increasing segmentation of the population, and ultimately leading to an increasing inequality and social exclusion. The highly exclusionary feature of the global economy was a recurrent

theme all throughout the Seminar. The decreasing and marginal role of Latin American economies in the international exchanging flows as well as the increasing levels of poverty and polarization among social groups were presented as evidence.

- b) The crisis of the nation-state as a sovereign entity and the related crisis of political democracy was another topic emphasised during the Seminar. The performance of national economies depends now on the performance of a globalized core of institutions/activities including financial markets, international trade, and transnational production, which escape from the influence of individual states. Moreover, the privatisation of extensive areas of the economies has brought as consequence that policies of key sectors like energy, agriculture and industry respond more to the strategies and interests of transnational corporations rather than to the interests of local population. Since commands from the state cannot be fully enforced, and since some of its fundamental obligations cannot be fulfilled, both its authority and legitimacy are called into question. Both the social and political instability, which are pervasive in most of Latin American countries, are the expression of the crisis of the nation-state brought about by the globalisation of their economies and, under these circumstances, the search for sustainable development paths becomes an utopia.
- c) The environmental crisis accelerated by the globalisation process was made evident by the panellists of the session. International competition for a share in the global market plus progress in exploitation technologies means steadily decreasing real prices for most resources exported by the Region. To maintain export revenues, most countries are forced to increase production, further contributing to price erosion. Resource degradation continues at an accelerating rate. As dominant economic constraints demand increasing exports, and resources become scarcer and can only be harvested with increasing environmental impacts, the erosion of renewable resource bases accelerates and their regenerative potential diminishes. Thus, national resources are exploited and depleted at exponential rates to cover international debts, finance social burdens, and satisfy the needs of the growing population. As it was stressed by one of the panellists, exponential rates are certainly unsustainable, and the urgent task is to break down exponential tendencies.

The evidence that there is surely no more important consequence of 'free trade' and the new rules of economic globalisation than its effects on food production and distribution was illustrated by the Argentinean case of soybeans production. In the name of comparative advantages global markets have forced Argentina to enter into the circuit of soybeans production and commercialisation. As result, agriculture has shifted from a system based on farmers to one based on agro-business in some regions. Thus, extensive areas covered by forest or food producers for domestic consumption have suddenly been designated by transnational corporate agro-business to become soybean producers. The consequences of the global market efficiency are now evident: social dislocation, since small farmers are rapidly disappearing and forced to migrate to cities; once food self-sufficient regions are now experienced food shortages; and pesticide- and fertiliser-intensive monocrops posse serious threats to the environment. As it was noted during the discussions, the destruction of local food systems, the economy and culture counteract any efforts to introduce and maintain sustainability. Moreover, these developments must be taken into account when designing CDM projects that involve changes in the land use.

There was a common understanding among the participants in the Seminar that globalized economy cannot be made to work for the general benefit, and it cannot be maintained. The exponential economic growth, the prevalence of economies reoriented to export trade rather than local needs, and a continued emphasis on commodity accumulation, in short, the fundamental bases of globalisation cannot be sustained beyond the short-term. Some ideas about the viability of revitalized, local, and diversified economies hooked into by not dominated by outside forces were advanced by some of the participants. It was pointed out the need of exploring new development models that give preference to the issues of equity and environmental protection over purely economic considerations.

The Climate Change negotiations beyond Kyoto

It was stressed that the Kyoto Protocol represents a milestone in climate policy, and the CDM represents the its most globalized element of the Protocol in what it bridges the developing and industrialised worlds to collectively solve a universal problem. It was also recognised that even with its likely modest environmental achievements and low cost, implementation of the Protocol in the first commitment period offers an opportunity to refine its various elements, so that the agreement and its subsidiary institutions might be more effective in future periods. Viewed from this perspective, the less-ambitious targets are perhaps more in line with what is appropriate in a first commitment period. As some participants noted, the success of the Protocol should be evaluated within the context of the Climate Convention, as an instrument that makes possible the change of tendencies in GHG emissions from industrialised countries. Furthermore, from its inception the Protocol was not conceived as a solution but as an open structure whose elements need to be built up and improve throughout its implementation process.

It was recognised that governments and other interested parties have made significant efforts to shape the institutional design of Kyoto Protocol, and the CDM in particular, and to address the methodological challenges of project implementation. The stage reached with the Marrakech Accords has provided both industrialized and developing countries, as well as the business community, with basic clarifications to start evaluating options for operating in carbon-constrained environment. However, participants noted that the Protocol suffer from limitations and a number of key issues remain to be solved that could substantially undermine its environmental effectiveness. The fact of having considered the gross emissions (sinks are not included) as starting reference and the net emissions for establishing commitment targets was signalled as one of the inconsistencies of the Protocol. Limits on the use of the mechanisms including the use of the 'hot air', clear resolution of compliance issues, uncertainties about the control of the relevant trace gases were also mentioned as the unclear topics which require further clarification. Despite these limitations and the looser commitments adopted, there was a consensus on the urgency for the Protocol to enter into force and learn from experiences of its implementation. With some measure of success in meeting emissions reduction targets countries might be willing to negotiate tighter targets for succeeding commitment periods and/or tighten the definitions for the first period developed at Marrakech.

Concerning the participation of the region in the CDM it was acknowledge that Latin American countries, compared with other regions, have been able to capture an above proportionate share

of the emerging GHG market. This has been possible by the experience gained in early GHG mitigation schemes and the establishment of climate change or CDM offices with clear mandates. However, it was also recognised that this high share will decline as other important actors like China and India, without mention Russia and Ukraine, entering into the market. It was noted that compared with the Asian countries, Latin American countries, due to high share of hydropower in their energy systems, have relatively high marginal abatement costs and relatively low mitigation potentials.

With regard to the functioning of the MDL a number of issues were remarked by the Seminar. First, it was noted that the mechanism has to compete with the joint implementation and emissions trading at uneven conditions because of the levy for the adaptation fund. Second, the mechanism is a business between partners that have different objectives. Third, The CDM project cycle is rather complex resulting in relatively high transaction costs. Moreover, the role and responsibilities of the Executive still need a clear definition. Last, the environmental integrity of the mechanism requires complicated methodologies, especially to test the additionality of the potential projects. Concerning the size of the market for CDM projects it was expressed that at this stage the demand and supply of projects will mainly be driven by political considerations: there is an urgently pressure to demonstrate that the mechanism works out. The Seminar raised concerns about the carbon prices. It was acknowledged that initial expectations for relatively high prices were mainly driven by overestimations of marginal abatement costs in industrialised countries. Nevertheless, besides the price levels, the problem is that the CDM will surely tap the cheapest GHG reduction options leaving the more expensive ones for the eventual case in which some countries will have to assume some kind of commitments in the future.

Concerning the prospects of the evolution of the Protocol several scenarios were envisaged in the Seminar. In general, a consensus emerged about the driving forces of the plausible scenarios beyond Kyoto. These forces refers to assumptions about (i) whether there will be a second commitment period under current rules, (ii) if so, how stringent the targets will be, (iii) whether the US and other Umbrella group countries will participate and the stringency of their targets, and (iv) whether some of developing countries will assume abatement targets in the next commitment periods. In this respect some of the participants expressed that it is politically naïve to expect that developing will assume GHG reduction commitments in the future, and that the principle of historical responsibility in the climate change problem must continue being the cornerstone in future negotiations.

The issue of adaptation was also paid attention throughout the discussions about the future of the Kyoto Protocol. It was noted that since adaptation is seen as a local problem, mainly affecting developing countries, it has received scant attention in the international fora, while mitigation, perceived as a global problem, has received the bulk of consideration. This is evident in the Kyoto Protocol. It was stressed that the effects of climate change are already visible at global scale and therefore, it is necessary to think of mitigation measures and adaptive responses as components of a larger process of adaptation to changing conditions triggered by climate change. This approach will allow impacts, mitigation and adaptation, as traditionally constructed, to be combined in a much richer consideration of social change, helping in this way to bridge the gap between climate change and sustainable development discourses.

The role of technology: development, adaptation and transference

Discussions on the role of technology in Latin American economies made clear that the globalisation process have not produced the promising results in the countries in the last decade. The average annual growth rate in the region in the 1990s was just more than half the growth experienced in the 1960s under the import substitutions period. Throughout the region benefits from the slower economic growth have accrued disparities in income distribution and the percentage of population below poverty standards has increased. It was noted that openness, deregulation and privatisation policies have improved the export performance but they have actually increased dependence on primary commodities, thus undermining the efforts of some countries to diversify their economies to make them less vulnerable to the long-term deterioration of prices of primary commodities with respect to higher values added goods and services. On the other hand, imports have increased at even higher rates than exports and an important share of imports corresponded to equipment and machinery. This shows the increasing weight of the assemblage industries, especially in Mexico and Central America, located in export processing zones, disconnected from the local markets and with little local value added component. Participants raised the question whether the new international economic order has assigned the role of commodity exporter to South America countries and of cheap labour exporter through 'maquila' production to Mexico and Central America countries.

It was also stressed in the Seminar that globalisation has not succeed in reducing the productivity gap between Latin American countries and industrialised economies. An increase of productivity growth was observed at the end of 1970s and early 1980s. However, in spite of the acceleration in the pace of technological change in the North, a slowdown of productivity growth rates did take place throughout the last two decades. This downward trend of productivity has resulted in average levels of productivity in around 30 percent of international standards, being Argentina the exception, where increases in productivity were made possible by sharp substitution of labour by capital in the production function of the economy.

However, it was pointed out by some participants that the average behaviour of productivity aggregates requires sectoral specificity. Indeed, it was remarked that some branches of the economy reveal productivity indexes close or equal to international levels. These industrial branches happened to be those integrated to multinationals corporations and their production networks (automobile industry, for example) or those activities, which still possesses comparative advantages vis-à-vis international performance (food-oil industry in Argentina). These tendencies reflect the process of concentration of technological know-how in transnational production networks. In the same way as global economy is characterised by a fundamental asymmetry between countries, this differentiation extends to technological performance of different economic sectors within each country. Those connected to the transnational commercial networks show high dynamism and high levels of technical innovation, while those that are switched off the global economy remain at precarious levels of technological performance. Thus, the selective globalisation of the technology increases the segmentation of the productive systems in developing countries, with resources, high technology and dynamism concentrated in scattered pockets of wealth. It was acknowledge by the participants that the crucial challenge the Latin American countries confront to is how to avoid the dislocation of their economies and how

to come back to growth paths driven by the incorporation of higher levels of domestic value added.

In the discussion that followed the issue on technology transfer approached by participants. It was noted that the term 'technology transfer', which evokes technology as an object, and its transfer as a one-time transaction that maintains the dependence of the recipient, may not be adequate to reflect the process of technology diffusion and innovation within the context of the new economy. It was also noted that governments of industrialised countries have cut down expenditures in R&D and multinational corporations account for the overwhelming majority of R&D. As consequence multinational corporations and their production networks have become instruments of technological domination, and channels of technological diffusion. Therefore, the Seminar stressed the key role of the multinational corporations in making accessible technology innovations to developing countries. This can be done through direct foreign investment, trade of licenses, joint ventures and strategic agreements. With this respect it was remarked that the transfer of technology also works in the interest of the corporations: for trans-border production to operate efficiently, multinationals corporations must share some of their know-how with their partners, enabling firms in developing countries to upgrade their own technology and improve their learning curve. As it was noted by some participants, this process could be facilitated by Trade Related Aspects of Intellectual Property (TRIP) agreement, though it is probable that the TRIP will enhance intra-firm technology transfer rather than a horizontal diffusion through developing country innovation systems.

It was recognised the crucial role of governments in the process of technology diffusion and innovation. If it is true that this process become organised around transnational production networks, largely independent of government interventions, to a large extent governments remain essential in providing the technological infrastructure, organisational environment, and above all the human resources necessary to assimilate and develop the technology. One cannot pretend Latin American countries to develop and control whole technological clusters. The complexity and infrastructure required are beyond the regional capacity. However, a cost-efficient application of technological innovations, their integration in process-oriented production networks, and their adaptation to local management and organisation cultures could foster national innovation systems. The success of the Argentinean steel industry was presented as an example of how the application of distinct technologies can lead to the development of inter-phase technologies and innovative production systems.

With regard to the environmental effects of technological development the following tendencies were noted: (i) transition of end-of-pipe technologies to technologies more oriented on prevention; (ii) adjustment of inside-the-pipe productive process to less-resource intensive process; and (iii) emphasis on solutions based more on market mechanisms rather than command and control. In respect to this last point it was pointed out the role the CDM can play in providing financial incentives and in certain degree the enabling environment necessary to the transition towards more sound environmentally technologies. However, it was also signalled its limited capacity on influencing technology choices.

Sustainable development priorities in Latin America

Discussions on priorities for moving towards a path of sustainable development in the region started out by recalling that, throughout all the last two decades, Latin American countries have implemented measures to reduce the spending and direct economic involvement by the state, to move towards market allocation of resources and provide an ‘enabling environment’ for private enterprise. The basic reforms experienced include: (i) shifting economies from inward-oriented to outward-oriented growth strategies through liberalised trade regimes; (ii) diminishing the role of the state in economic and social affairs, particularly as a direct economic agent; (iii) supporting privatisation of major sectors of national economies; (iv) removing impediments to the international flow of capital and supporting the formation of national capital markets; and (v) deregulation and reforming domestic labour markets.

However, as it was stressed by participants, these uniform set of policy prescriptions, applied indistinctly to all countries in short time-periods, have not brought about the promised prosperity. Policy reform programmes have increased the economic vulnerability of economies, caused serious internal dislocations, fractured social cohesion, diminished the prospects for long term growth and development, and weakened the role of the state and institutions. In discussing the challenges faced by Latin American countries to pull their economies out of crises and instability, to recover economic growth and to promote the transition to sustainable development, the following priorities were underlined in the Seminar:

1. Achieving sustainability requires redefining and reinforcing the role of the state. The nation-state remains the basic, yet clearly not the exclusive, unit of decision-making, standard-setting, and public administration. Although the globalisation process has swiftly eroded the state’s sphere of influence, it is on the national level that basic development strategies are formulated and implemented and, in that context, the basic choices are made regarding human welfare and natural resource management. It is also on the national level that correcting unsustainable policies and practices is most urgently needed. However, a different understanding of the state’s role implies not only a reversal of current predominant ideology but also a departure from the abusive, predatory behaviour of governments in many countries.
2. Latin American countries need to work out a new development paradigm to replace the dominant orthodox economic thinking, with its exclusively reliance on the primacy of the market mechanism. The principle of a free-market competitive equilibrium, which leads to the optimal allocation of resources, has proved deeply flawed both in theory and practice. The corollaries resulting from orthodox economics – flexible labour markets, privatisation of public services, deregulation of financial markets, and so on – have disastrously bad results in most countries. It was noted that every country that has moved into strong sustained growth has done so in outright violation of pure, free-market principles. It was also stressed by some participants the need of rethinking on the Keynesian policies as effective mechanism to correct market failures and get back the economies into economic growth. The Economic Commission for Latin American and the Caribbean (ECLAC) has already started

the formulation of new model of endogenous development as an alternative to the free-market dominant paradigm.

3. Governments need urgently implement policies and mechanisms for poverty alleviation and promoting distributional equity. As it was remarked throughout the Seminar, the exclusionary feature of globalisation has led to worsen income distribution in many countries. Moreover, the short-term negative impacts of government retrenchment on delivery of social services and the dismantling of social institutions have fallen largely on those social groups that are least able to maintain their livelihoods during the crisis and dislocation caused by policy reforms. Equity should be the fundamental concern of governments for Latin American countries to move towards more sustainable development paths.
4. Latin American governments must put in place mechanisms to protect themselves from fluctuations and speculation waves in the international capital markets as well as in commodity prices. The Seminar made clear how national policies have been dictated by following interest rate fluctuations in international markets, and signalled the fact that the debt crisis in the 1980s was brought about by the huge increases of interest rates. The ability of countries to create a stable macroeconomic environment has been repeatedly undermined by their vulnerability to absorb external shocks and, therefore, the urgent tasks they are confronted to is the creation of safety nets, and at the same time decoupling in certain degree their economies from external contingencies.
5. The pressing need to meet international finance obligations has led governments to push both the intensive use of their natural resources and the promotion of non-traditional agriculture as a mechanisms for export expansion. Although the short-term economic benefits of this strategy have been significant in many countries, the issue of sustainability and resource conservation has become a focus of serious concern. The logic of the competitive advantage prevailing in the international trade prevents governments the internalisation of the environmental costs associated with the use and exploitation of their natural resources. A basic principle of sustainable development requires governments to account the depletion and degradation of the natural resource base, and design policies oriented to maintain or rebuild their natural capital stocks.

The contribution of CDM to sustainable development

Representatives from five Latin American countries (Argentina, Colombia, Chile, El Salvador and Uruguay) were invited to make presentations on how the issue concerning the contribution of CDM projects to sustainable development is being considered by their CDM offices. These presentations were preceded by a short exposition on the methodological developments undertaken by the UNEP Risø Centre (URC) in an effort to make operational the concept of sustainability in the context of the CDM.

The General Guideline to the CDM elaborated by the URC identifies a number of concrete steps for establishing linkages between CDM projects and national development goals. Since

sustainable development is a broad and not well-defined concept, the approach recommends narrowing the evaluation criteria down to a set of priorities and sectoral strategies that are relevant to the potential projects. The guidelines outline a general procedure for evaluating CDM project behaviour across the selected priorities and goals. This include (i) the selection of appropriated indicators, (ii) the design of an approach for assessing the indicators, and (iii) the definition of standard formats to condense both qualitative and quantitative information on the project performance across the economic, environmental and social dimensions. Considerations on comprehensiveness, consistency, and transparency must guide the definition and selection of indicators for sustainable development.

The country cases presented in the Seminar showed that the foremost criterion for testing a project contribution to sustainable development is its adequacy to norms and regulations established by governments in line with their national, sectoral and regional policies. Within this context, environmental impact assessments and environmental licenses, required whether the project is a CDM one or not, remain the basic test at least for checking the environmental dimension of the project sustainability. Concerning the economic and social performance of the projects, it is tested against a checklist of criteria or indicators explicitly established by or inferred from development objectives and strategies. In some cases, as in the example provided by Chile, more specific criteria have been established on a sectoral basis. Thus, the energy projects are evaluated by their contribution to (i) increasing the supply security as well as according the quality of delivered energy, (ii) energy self-sufficiency, (iii) environmental sustainability, and (iv) equity considerations. Uruguay stressed the participatory approach implemented for assessing the project contribution to sustainable development. The project performance is evaluated according a set of criteria grouped into three categories (social, environmental end economic). Through a participatory process, the criteria are weighted within each category, and importance judgements are assigned to each category.

Several remarks were pointed with regard to the operational implementation of an evaluation procedure. First, sustainable development objectives at national level are too broad and vague to provide clear guidance an operational support for assessing the contribution of individual projects to more sustainable development paths. Traditional development goals and conventional policy strategies tend to be compiled under the name of sustainable development rendering difficult the task of evaluating the effective CDM contribution to sustainability. Second, judgements about the performance of projects on indicators that can only be expressed in qualitative terms remains highly subjective and, therefore, some kind of formal treatment is needed to reduce the degree of uncertainty and subjectivism in the evaluation. Third, it might be hard to envisage projects that would perform equally on all criteria or objectives, rendering the introduction of priorities or ranking among the criteria unavoidable. Last, it is unclear what would happen if a project makes improvements for one of the criteria, but failed on another. These remarks stressed the need for providing national teams with operational criteria and methods for evaluating current situations and translating sustainability principles into practical guidelines for concrete action.

In a broader context, the discussions called for working out more strong linkages between CDM and sustainable development. Current definitions of indicators and the use of terminology are particularly confusing and some clarity and consensus is required about what an indicator is and

what it intends to measure. It was noted by some participants that indicators tend to be selected to fit explicit paradigms and in most cases they are overly dense in some areas, and sparse or even empty in other important areas. It was also noted that consensus on the set of indicators to be used in the evaluation of CDM projects cannot be based solely on political agreement; logical and epistemological soundness is also necessary.

Conclusions

There was a general consensus that the Seminar has been a pivotal event in bringing back to the CDM discussion for the topic of sustainable development. It was recognised that the theme of sustainability has been absent or at least has not received enough attention in the process of negotiation and implementation of the CDM. The discussions held throughout the Seminar demonstrated that the CDM cannot be thought in isolation from the sustainability of societies and, in its turn, the path to a sustainable development must be understood in the light of the circumstances Latin American countries are experienced as result of the overwhelming policy reforms started more than one decade ago.

During the Seminar it was highlighted the negative results brought about by the arbitrary implementation of orthodox liberalisation and free-market policies. A great deal of evidence was presented on the damaging effects of the indiscriminate open policies to trade and foreign investment. This evidence provided the background for some participants to challenge the unwritten assumption according to which CDM projects foster sustainable development because they promote foreign direct investment. As it was reminded throughout the discussions, FDI could play an important role in spurring economic growth under the condition that its abuses and distorting effects are kept in check by governments. This concern should be applied to CDM projects too. The widespread idea that CDM projects as mechanism for channelling foreign investment contributes to the sustainability of the balance of payments, to the macroeconomic stability and/or employment generation cannot be taken for granted and must be re-examined case by case. Participants expressed concerns about the danger of CDM being simple used as cost-reduction instrument for developing countries; instrument legitimised by secondary benefits that in reality might not be consistent with the development priorities of Latin American countries.

Participants acknowledge the potential of CDM for technology transfer and spurring technology innovation in Latin American countries. The question of how much technology transfer could be achieved through the mechanism was raised in the Seminar. The ECLAC conducted study on Carbon Market in Latin American and the Caribbean presented evidence that expectation on transferring the state-of-the-art technology through CDM projects does not match up to the ongoing CDM advances. Indeed, the pipeline of CDM eligible projects submitted by Latin American countries deals with conventional technologies, most of them very well implanted in the region, with some countries even being the world leaders as it is the case of hydropower technology. Participants also expressed some caution in respect of the conditions under which technology transfer would take place. Experiences have shown that technology licensing, royalty payments, and servicing costs –the hidden costs of technology transfer–have been used in the past as mechanisms for increasing the rate of return on investments. In the absence of domestic

controls and effective policy there is a risk that CDM fails to foster technology transfer and innovation in Latin American countries.

The Seminar clearly made evident the need for a clearer understanding of the CDM projects effective contribution to sustainable development. The implicit ideas that projects that achieve carbon reductions are good for sustainable development in developing countries or, since CDM projects attract direct foreign investment they automatically contribute to sustainable development cannot be taken for granted and require urgently re-examination. It was acknowledge that National CDM Offices face the challenge to translate broad national development objectives into clear and recognisable criteria that could provide the basis for assessing the project performance in achieving concrete goals and targets. Participants stressed the necessity for developing operational frameworks for identifying those goals and targets as well as for defining criteria against which the performance of projects can be assessed, and for ranking and selecting projects. Guidance and information is also needed on implementing more participative and iterative approaches in project evaluation.

Finally, participants recognised that the Seminar has made an outstanding contribution in bringing forward into the CDM agenda the theme of sustainable development. They also expressed their recognition and appreciation for Fundación Bariloche for its efficiency and professionalism in organising the Seminar.