



EDC2020



European Development Cooperation to 2020: can Europe meet climate change challenges for development cooperation?

The Overseas Development Institute (ODI), the Institute of Development Studies (IDS) and the German Development Institute (Deutsches Institut für Entwicklungspolitik- DIE) co-hosted the workshop *'European Development Cooperation to 2020: can Europe meet climate change challenges for development cooperation?'* on 22 April 2009. This meeting was a component of the 'European Development Co-operation to 2020 [EDC 2020]' project being led by the European Association of Development Institutes (EADI) and was held at the Residence Palace, in Brussels.

1. Introductory session. Future challenges for European Development Cooperation

The workshop began with an introductory session, with presentations by Leo Peskett from ODI and James Mackie from the European Centre for Development Policy Management (ECDPM).

Leo Peskett outlined the background of the EDC2020 project and its first working paper. The paper had identified three key challenges for climate change development cooperation: (i) filling the financing gap; (ii) ensuring coordination, complementarity and coherence (the '3Cs') between climate change initiatives and other development processes; and, (iii) mainstreaming of climate change into development cooperation. Leo also introduced the three main objectives of the workshop:

1. To gain insights into two key challenges that feature strongly in the climate change and development debate (as discussed in the two substantive sessions).
2. To improve understanding of different perspectives being taken in overcoming these challenges.
3. To help shape further dialogue and research over the next two years.

James Mackie, from the ECDPM, gave his perspective on the future challenges of European development cooperation (DC). He argued that we need more and better aid, and that the EU (Member States plus the European Commission) should take a leadership role. Meeting the MDGs by 2015 is the main challenge for the development sector. In addition, the Paris and Accra declarations are key statements in the debate on aid effectiveness. Member States (MSs) should look for results and greater effectiveness before asking for more money to taxpayers. He stressed the importance of the Maastricht Treaty in organising EU development cooperation, as it introduced the need for sharing competences and relying on the '3Cs'. One factor that can help push MSs to move forward is peer pressure, such as the Development Assistance Committee (DAC) peer review.

James discussed the size and shape of the EU and EC, and the fundamental questions surrounding the format of 27+1. He estimated that the EU (MS+EC) currently provides approximately 55% of global ODA and 64% of funding to the UN. This raises the question of what EU citizens should expect from such investments. In addition, questions of EU



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enlargement and differences between MSs in relation to DC are key challenges. EU institutional change, with new Commissioners and forthcoming elections, sets a new opportunity for European DC. With these changes, James conjectured that the Lisbon Treaty was a tool to help MSs achieve greater policy coherence. He concluded by outlining the key current debates on EU DC, including complementary working in-country; aid architecture and proliferation of funds; the need to learn from past experience; and the need for policy coherence for development. Finally, he laid out the DC challenges to climate change:

- (i) take the lessons of the aid effectiveness themes seriously: ownership, alignment, harmonisation;
- (ii) simplify the aid architecture and ensure transparency;
- (iii) respect the need for an integrated approach;
- (iv) recognize that financing will come from multiple sources; and
- (v) DC must keep its eye on the ultimate goal – poverty reduction.

After his presentation, there was a short debate around the issue of trade liberalisation and development, and how it affects the climate change agenda.

2. Session One. The climate finance challenge: what role for Europe?

The introductory session was followed by the first session of the day: ‘the climate finance challenge: what role for Europe?’, chaired by Imme Scholz, from DIE, and debated by Andrew Hingham of the Energy Research Centre of the Netherlands, Marco Tulio Cabral from the Brazilian Mission to the EU, Sebastian Wienges from the German International Climate Initiative and Neil Bird from ODI.

Imme Scholz from DIE began the session by putting the debate into context. One key issue to be addressed is the incorporation of environment into the development agenda, and she gave the example of MDG 7, the environmental target of the MDGs. Instead of separating the climate change agenda from the development agenda, there is a need to foster low-carbon and climate resilience development in developing countries.

Andrew Hingham, from the Energy Research Centre of the Netherlands (ECN), gave the first presentation of the session: ‘*Financing Technology in the Copenhagen Agreement*’. He started by showing the importance of finance and technology to a post-2012 climate change agreement, as stressed in the Bali Action Plan. It is widely accepted that there will be no agreement in Copenhagen if sufficient finance is not provided. He outlined the methodology used by the ECN to calculate the financing needs for mitigation and adaptation technologies. Andrew stressed the need for work on a technology typology, as there is currently no agreement on the definition of climate change technology. The concept of additional cost has not been defined with precision either.

Funding for adaptation needs to increase at least a hundred fold, while the funding for mitigation needs to increase by at least a factor of ten. Of the available finance for mitigation, the public and private sectors share almost 50/50 and the instruments within the Convention and ODA are very small. 60% of mitigation technologies face large economic barriers, while adaptation technologies are to a large extent already available at the local level. He then demonstrated that the financial mechanisms of the Convention are very small in relation to





need, and that 90% of the current finance is outside of the UNFCCC. Growth of venture capital and private equity finance are required, but it is not clear as yet how to stimulate the private sector efficiently and effectively. Part of the answer will lie with public sector finance leveraging private investments. A complex, multi-layered response will be required, and this raises significant coordination challenges. He questioned the future role of the Global Environment Facility (GEF) and suggested the creation of a new and decentralized international project development facility and an international technology financing scheme. He concluded his presentation by outlining three policy package options for Copenhagen:

- Option A: enhancement of existing mechanisms and emerging financing arrangements.
- Option B: a comprehensive new international technology financing scheme.
- Option C: Some combination of Option A and B.

Marco Túlio Scarpelli Cabral, from the Mission of Brazil to the European Community, gave the presentation '*Financing Climate Change: a View from Brazil*'. He first discussed the topic 'Do the development cooperation and climate change finance agendas overlap in developing countries?', and concluded that many actions that require development cooperation are directly related to climate change mitigation or adaptation; and that we need new and additional funds to complement already scarce funds for development.

Second, he reinforced the central role that the EU should play in terms of climate finance, as the EU is the largest economic block in the world; the biggest provider for ODA; has the largest organized carbon market; and is an actor seriously committed to addressing climate change. At the same time, the EU is the third largest GHG emitter; ranks first or second in terms of historical contributions; and has one of the world's largest per capita energy consumption levels.

Finally, he presented the Amazon Fund, a new mechanism set up by the government of Amazonas state to channel resources in support of actions to reduce emissions from deforestation in the Brazilian Amazon. The Fund aims to play a key role in reaching the objectives of Brazil's National Climate Change Plan, which aims to:

- Halt net forest cover loss by 2015 (including planted forests);
- Reduce deforestation by 70% by 2017 (¼ of Brazilian GHG emission come from deforestation).

Sebastian Wienges, from the German International Climate Initiative (ICI), gave the third presentation of the session. He began by describing the ICI, which is an innovative financing mechanism funded by a percentage of auctioned emissions allowances from the EU Emissions Trading Scheme (ETS), that supports national and international actions. He stressed the small size of the mechanism compared to the climate finance gap: the volume is only €120 million. This is not enough to solve the problem. This initiative therefore wants to use its funds to mobilize private funds and to contribute to the development of new solutions that can be multiplied.

He then discussed the ICI in terms of the '3Cs'. As the ICI is a bilateral initiative, it faces the criticism that multilateral actions are more 'mainstream' to international demand. However, bilateral and multilateral funds have different strengths and weaknesses. In his opinion, bilateral funds should test and apply pilot initiatives, while multilateral funds have the task to





spread the solution and multiply it globally. Although coordination is essential for aid effectiveness, he noted that some degree of redundancy of activities might also contribute to aid effectiveness. He used the analogy of a plane that has two engines, where although the second engine may not be necessary to keep the plane in the air, it makes the whole system safer.

The ICI work is based on the idea of an imperfect market and there are high transaction costs, thus the funds should pay these costs, and the federal ministry should provide funding to projects where the private sector is not willing to invest. Regarding the future of the ICI, he stressed the fact that Germany has elections in September, so future developments remain uncertain.

Neil Bird, from ODI, made the last presentation of the first session: *'Recent initiatives for climate financing: what is the European view?'*. He outlined three key questions for Europe. First, the mechanism of providing finance (and technology) to support developing countries is one of the most prominent issues in the climate change debate. Many options are being tabled, including traditional public and private sector investment and more innovative approaches such as levies and market mechanisms. Second, the balance between adaptation finance and paying for international mitigation efforts that will be based in developing countries is not yet clear. And third, the relationship between the financial flows associated with official development assistance and climate finance has yet to be clarified.

Neil pointed out the importance of the country classification within the UNFCCC Convention (annex I and annex II countries), and how the different European member states (MSs) fit into this categorization raises certain challenges for a pan-European position. He described existing international public financing initiatives and the recent proliferation of new funds, and also provided an outline of proposed innovative financing mechanisms, such as charges or levies on emissions, defined budgetary contributions, hybrids and public-private partnerships.

Neil then gave information on the scale of funding available and the amounts pledged in existing international public financing initiatives, and the split between adaptation and mitigation projects. Key issues that need to be clarified include how to move to programmatic delivery, perhaps through support for NAPAs and NAMAs; the relationship with official development assistance (ODA); and the fund disbursement modalities (grants versus loans).

Discussion: After the four presentations, the discussion centred on the following issues:

- Differentiation and equity: who pays what, and what is a fair distribution of the burden has yet to find international agreement.
- How support can reach local communities: Marco Tulio said the Amazon Fund aims to support many initiatives at the local level, such as sustainable extractive activities, infrastructure, microfinance, etc.
- The relationship of ODA and climate change actions: Using the example of Brazil, Marco Tulio described how the Amazon Fund was now receiving money from the Brazilian and Norwegian governments. He then gave the example of the PPG7, a project that had been supported by European official development assistance, through which much useful experience had been gained that could now be used for other projects such as those funded by the Amazon Fund.





3. Session Two. EC-Member State relationships: coordination, complementarity and coherence of EU development cooperation on climate change

The second session of the day was chaired by Merylyn Hedger from IDS and debated by Walter Kennes from DG Development, Johan Schaar from the Swedish Commission on Climate Change and Development, and Helena Princová, from the Slovakian environment ministry.

Walter Kennes, from DG Development, began by presenting an overview of the European Global Climate Change Alliance (GCCA), an initiative that followed on from the 2004 EU Climate Action Plan. The GCCA aims to be a European response to support the most vulnerable developing countries, in particular LDCs and SIDS, coping with climate change. The initiative has two broad components: deepening climate policy dialogue between the target countries and the EU and stepping up support activities in some key areas. The GCCA was welcomed and endorsed by the EU Member States (Council Conclusions of November 2007). The Commission identified €60 mn extra resources from the budgetary reserve to kick-start GCCA implementation. In dialogue with development partners, other programmable resources may also be used for the GCCA, as was already done for the 10th EDF intra-ACP strategy. So far Sweden and the Czech Republic have also provided financial support to the GCCA. The EC has also started three regional dialogues, in the Caribbean, the Pacific, and Africa (three joint declarations were signed during 2008); and a further joint ACP-EU declaration is under preparation. Fifteen countries have initially been selected for support activities of which four (Cambodia, Maldives, Tanzania and Vanuatu) are the first for which a decision is to be made during 2009. GCCA support in principle builds on the national adaptation programmes of action (NAPAs).

The GCCA is targeting the most vulnerable countries. Although mitigation is also important in developing countries, especially with regard to renewable energies and green growth, the GCCA's focus is on adaptation, which includes disaster risk reduction. The GCCA also exploits synergies between mitigation and adaptation such as encouraging to reduce deforestation. There is a need to avoid the creation of parallel mechanisms for implementation, and climate work on adaptation should be integrated into wider development strategies. This does not mean that there should be a single source for all actions, but coordination is crucial. Coordination must primarily be an in-country task and a key priority will be to avoid fragmentation by the pooling of resources. The principles of aid effectiveness must be applied. In the run-up to Copenhagen, there is a debate ongoing towards determining the fair share for EU and within the EU for the member states, to assist developing countries. Work on this difficult issue is progressing, with some outcome expected by June this year.

Johan Schaar, from the Swedish Commission on Climate Change and Development, described how the Swedish government had launched the Commission in 2007 to address the issues of adaptation and risk reduction (before the Bali action plan). The Commission has therefore addressed two main streams of policy: (i) how to build the adaptive capacity that enables people to cope with extreme climate change and (ii) what adaptive measures are necessary to protect vulnerable groups from sea level rises, etc. With greater extreme weather patterns being experienced in developing countries, the poor are being affected. So, what people need





is increased asset wealth, in the form of insurance, material assets, social protection, social networks, social transfers, etc. The institutional framework is also very important. Adaptation needs will be very context specific and so the key is to find the right balance and mix of responses. In addition, it is impossible to think of adaptation and mitigation measures without development processes, as they are all very interlinked.

The Swedish government has created a new US\$ 495 million climate package, with a focus on adaptation and disaster reduction measures. It will use existing channels of disbursements, and have a geographical focus on Africa. Resources will be channeled as follows:

- 25% to mechanisms under the UNFCCC convention;
- 25% to the World Bank's Clean Technology Fund;
- 25% to SIDA (including support of NAPAs);
- 25% for mixed disaster risk reduction through different channels, as well as forests and agriculture.

Climate change will be a priority for the Swedish presidency of the EU that starts in July. Johan stressed the importance of coordination and coherence within the EU towards the same goal of global development, and the importance of the aid architecture that allows for the division of labour. We should also look at what kind of climate policies and strategies developing countries already have. Bangladesh and Bolivia have interesting examples of cross-sectoral strategies. All countries should create integrated strategies for climate change, and development agencies should support country ownership and reduce their transaction costs through programmatic forms of support. Johan gave a brief overview on the situation of fragile states. They should be treated separately, as they do not fit in with what was discussed. Such countries will be most severely affected by climate change.

Helena Princová, from the Slovakian environment ministry, was the last presenter of the day. She outlined the Slovakian position on ODA. Slovakia moved from being an aid recipient country to a donor country in 2003, with the creation of the Slovak Agency for International Development Cooperation (SlovakAid). She gave background information on the type of projects supported in the period of 2003-2008, of which 20% were environmental projects. The geographical focus of Slovakian aid is on eastern Europe, the Balkan countries, the former Soviet Union and some African countries. Lessons learned from this first period showed a limited level of national expertise, together with a lack of internal coordination among different ministries and stakeholders. Positive outputs from cooperation at a trilateral level were experienced, through partnerships with the EC and other donor countries (such as Canada and Austria). A revised strategy for 2009-2013 will narrow the sectoral focus, and see an increase in ODA from 0.12% (2005) to 0.17% in 2010 and 0.35% in 2020.

She concluded by saying that the Slovakian case study shows that cooperation with other EU MSs was essential for Slovak Aid, both for scaling-up resources and for the efficient and targeted support of mitigation and adaptation activities in developing countries.

4. Closing discussion

A fruitful discussion followed the two sessions. The main issues, for which more questions than answers were raised, can be grouped in the following items and sub-items:





Recipient country ownership and aid effectiveness agenda

- Importance of using NAMAs and NAPAs for enhanced national ownership, as well as coordination at the recipient country level.
- Need for greater transparency, ownership and accountability (as required by the Paris declaration on aid effectiveness).
- Importance of building local capacity to manage funds at national and sub-national levels. The involvement of local communities is also crucial.
- Importance of the notion of direct access to the Adaptation Fund. The continuing problem of conditionality. Accountability should be to national partners and not only to donors. Downward accountability should also be promoted.

EU member states and the '3Cs'

- There appears to have been slow development of the '3Cs' at the donor level.
- What are the incentives for European collaboration? At present, Member States are not rewarded for collaboration; equally, they are not penalized for non-collaboration. How can this situation be addressed?
- There is need to restore strong European leadership and credibility before the EC can apply coordination.
- New aid organisations such as that created by Slovakia are examples of proliferation of new institutions, which raised implementation challenges for coordination at the EU level.
- MSs have their own constituencies, which makes it very hard to find a solution to the coordination issue.
- Agencies should use the same tools and methodologies, and use a more structured approach to facilitate coordination to end users.
- The DAC peer review is a good system for monitoring individual members' policies and efforts in the area of development cooperation. A similar process could be implemented for climate change initiatives.

ODA and additionality of climate financing mechanisms

- It is difficult to talk about additionality when countries have not achieved the ODA target of 0.7% of GNI.
- It will be important to use the markets as a complement to ODA to achieve the level of scale required for climate finance.

Rivalry between environment and international development ministries within donor countries





- There remains an important question over how to ensure coordination within donor countries and not see different ministries in competition over the national response to climate change.
- Sweden and Netherlands have organized structures to deal with climate change. In other countries, energy security measures are overshadowing development objectives.

Mainstreaming climate change into the development agenda

- Climate change continues to be seen as an environmental issue. As environmental areas receive so little attention in the development agenda (even within the MDGs) climate change needs to be seen primarily as an economic development concern if it is to achieve the prominence it deserves.

Low carbon development

- Assisting developing countries 'leapfrog' over existing energy technologies and move to a modern era of energy production and use is a major challenge for development cooperation. However, there is an opportunity to develop in a different way, through low carbon development.

Fragile states

- The issue of implementation of climate change policies in states where no institutional capacity exists has not received much attention to-date. Building local capacity and institutions in fragile states is problematic and hence regional institutions are important.
- The notion of climate refugees will soon become a significant international concern.

