

Financing adaptation to climate change: What is Europe's role?

The EDC2020 project organized a session in the context of the 7th Open Meeting of the International Human Dimensions Programme of the UN on 30 April in Bonn.

The session was chaired by **Imme Scholz** from the German Development Institute / Deutsches Institut für Entwicklungspolitik. Madaka Tumbo (University of Dar es Salaam), Annett Möhner (UNFCCC Secretariat), Walter Kennes (European Commission DG Development) and Neil Bird (Overseas Development Institute) participated as discussants.

Imme Scholz opened the session by introducing the project “European Development Cooperation to 2020” [EDC2020] which seeks to bridge the gap between research and policy in three thematic areas: New actors in international development; energy security, democracy and development and climate change. The topic of the session “Financing adaptation” had not only proven important to adaptation policies but also to European development cooperation – given the pioneering role of Europe in climate change policies, and in financing mitigation and adaptation actions in developing countries.

Ms. Madaka Tumbo asked why the EU should take action with regard to climate change. What should the EU do? Even though the UNFCCC has its own funds which are operated by the Global Environmental Facility (GEF), the EU and its member states play a major role already in financing adaptation to climate change. A main question remains to be answered: How much is the EU supposed to finance? Ms Tumbo identified three major challenges:

1. Real figures on adaptation needs are to be calculated. The EU could assist developing countries in fulfilling this important task.
2. Although climate change is a global concern it has mostly regional and local impacts. Therefore, strong regional initiatives are needed to cope with them.
3. The relationship between all institutions needs to be clarified in order to allocate existing resources effectively.

Mr. Walter Kennes pointed out that there is a lack of clarity on the concept of adaptation. It includes various aspects such as drought resistance, early warning systems or coping with disasters. These are all fields where the development community has a lot of experience that should be used. Also, the principles from the 2005 Paris Declaration on Aid Effectiveness which brought together for the first time DAC members, developing countries and the civil society should be taken into account in climate adaptation policies and financing mechanisms. Mr. Kennes underlined the necessity to share experiences between different Directorates General such as DG Environment and DG Development.

In his presentation he outlined the main pillars of the Global Climate Change Alliance (GCCA) which is designed to deepen policy dialogue between different parties and to increase



financial co-operation. Its main objective is to help poor developing countries most vulnerable to climate change. The GCCA is an opportunity for dialogue both on the international and the national level, enhancing a joint vision for action after 2012. Effective co-operation within the GCCA focuses on five areas: adaptation, disaster risk reduction, Reducing Emissions from Deforestation and Forest Degradation (REDD), participation in the Clean Development Mechanism (CDM) and integrating climate change policy into national poverty reduction strategies. The implementation framework should preferably integrate climate policies into development strategies and allow a programmatic approach, i.e. through budget support. In 2009 four pilot countries have been chosen for support: Vanuatu, Maldives, Cambodia and Tanzania, receiving EUR 12.5 million. Further countries will be chosen in 2009 and 2010.

Closing his presentation, Mr. Kennes identified the next steps for action:

1. Making the GCCA a real EU initiative,
2. Continuing the political dialogue with partner countries,
3. Implementing co-operation in selected pilot countries during 2009 and
4. Supporting the integration of development issues in the negotiations process in the run-up to Copenhagen.

In response to Mr. Kennes, **Ms. Annett Möhner** agreed on the lack of clarity with regard to the concept of adaptation. However, she said that there is no lack of clarity regarding necessary steps to be taken.

One could either address people and define strategies for reducing their vulnerability to the impacts of climate change or directly address the impacts of climate change itself. The first scenario would translate into ODA being used for adaptation while the second would stress the use of climate funds on adaptation. Both approaches are complementary and not exclusive.

Ms. Möhner outlined the principles of the United Nations Framework Convention on Climate Change (UNFCCC) adopted in 1992 which states inter alia that developing countries will be assisted by developed countries in meeting costs of adaptation and that a financial mechanism will be established. She said that a number of funds exists both inside and outside the convention but that in total, funding resources are insufficient. There is also a tendency to provide funding through bilateral development agencies where money is attributed under procedures of development co-operation, rather than through funds under the Conference of the Parties (COP) where developing countries also have a say on funding priorities and procedures. A clear controversy therefore is the question of new and additional funding under the convention and whether ODA expenditure for adaptation could be included in the statistics.

However, other questions remain unsolved and need to be discussed for a post-2012 financial framework:



- Mobilization of financial resources and investment: New and additional resources?
- Institutional arrangements: Existing or new arrangements?
- Delivery: Support for what? What are the criteria for distribution? Should the most vulnerable people receive resources first? How should funds be distributed (budget, programme or project support)?

With Copenhagen in sight, a scaling up of financial resources was decided in March 2009 in Bonn. Efficient institutions and equitable governance are needed and a balanced allocation of resources taking into account the most vulnerable countries should be reached.

Mr. Neil Bird spoke about the characteristics of climate funding. According to him the scale of the problem remains much larger than many people acknowledge. It is estimated that 2% of global GDP needs to be spent to address the problem and the costs are rising every year. National and regional assessments of costs are needed.

With regard to current funding initiatives, less than 15 billion dollars have been pledged over the last few years, most of it outside the UNFCCC Convention. And developing countries have only received a fraction of what was promised. Comparing the volume of funds dedicated to mitigating the effects of the global economic crisis it would become clear that this is as much an issue of political will as it is about available finance and technical definitions of adaptation.

On the question of how to raise funds Mr. Bird named some guiding principles that have secured widespread support. First, many believe that the polluting countries should pay. Second, any assistance should be additional to ODA. Third, all funding should be sustainable and hence predictable. And finally, funds should be adequate with regard to the estimated level of need. So far this has not been the case. In this context he named a number of proposals for new and innovative sources of funding which include the auctioning of assigned amounts of emission allowances, a uniform global levy on CO₂ emissions, taxes on emissions from maritime transport and aviation and a levy on market-based mechanisms under the Kyoto Protocol.

The aid effectiveness debate should feed into the debate on delivery systems. Adaptation funding has so far been channeled through projectised assistance, and programmatic forms of delivery need to be developed more quickly. There are also weaknesses apparent in the climate change financing governance system. Many of the funds and mechanisms do not yet ensure the participation of key stakeholders in the design, implementation and monitoring of the projects and programs financed. Democratic ownership – which is surely an ideal that Europe shares - suffers as a result.

During the debate, the uncertainty on climate economics was discussed. Uncertainty is not only linked to funds and costs but also to the scope of climate change. Today the expected global average warming is 2°C, but already pessimism is growing that this limit is unrealistic.



However, even though we do not know definite costs of climate change, preventive adaptive action, i.e. in the sense of reducing vulnerability, has to be taken now.

In this context the assessment of costs was criticized because none of the numbers delivered and discussed have been peer-reviewed to ensure their accuracy. High-quality research is needed to feed the policy debate.

Another area of concern was the nature of new and additional funding and whether sufficient quality checks in delivery are ensured. It was pointed out that more and more countries develop adaptation plans, but still rarely differentiate between development and adaptation. Climate change funding should come on top of development co-operation, but this does not mean that development and adaptation measures need to be separated on the ground, as there is large overlap between them. It was emphasized that despite these problems, resources have to be scaled up and mechanisms made visible, even before a new deal is operational.

With regard to the distribution of funds, there are no mechanisms in place to assess whether activities reach the most vulnerable people. However, despite the fact that there is no vulnerability index in place yet, certain states have been singled out as especially vulnerable.

Closing the discussion the importance of a new deal in Copenhagen was underlined. Climate change financing should be additional to ODA and channeled through fair and effective institutions. Finally, the EU should take a leading role in action.