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Financing Mechanisms for Adaption

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The Commission is an international commission initiated and financed by the Swedish Government. The purpose of the Commission is to propose ways to integrate risk reduction and adaptation to climate change into the development and poverty reduction plans of poor countries. It is also to present proposals for how to design development cooperation programs that take account of climate impacts and the risk of disasters. The Commission will issue its report in spring 2009. The commissioners serve in their personal capacity. The Commission is supported by a Secretariat based in Stockholm, Sweden.

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Summary

Adaptation is making its way up the international agenda, reflecting agreement that adaptation and mitigation must be addressed in concert to effectively combat climate change. There is today an unprecedented increase in donor allocations for adaptation purposes through multiple funding mechanisms with different disbursement and governance structures. Concerns about proliferation of mechanisms are balanced by concerns about who should pay and how. There is a need to build on the current momentum by defining more clearly what is covered by adaptation finance and how it differs from traditional development; by reconciling effectiveness of funding with democratic governance systems; by ensuring that adaptation finance is additional to traditional official development assistance; by engaging the private sector and sustaining finance beyond ad-hoc voluntary contributions; and by clarifying responsibility and coordinating roles of different institutions involved in the financing of adaptation.

List of Acronyms and Abbreviations

AF	Adaptation Fund
CDM	Clean Development Mechanism
CERs	Certified Emission Reductions
CIDA	Canadian International Development Agency
COP	Conference of the Parties
DAC	Development Assistance Committee
ETS	European Union Greenhouse Gas Emission Trading Scheme
GEF	Global Environment Facility
GHG	Greenhouse Gases
GLCA	Global Leadership for Climate Action
IATAL	International Air Travel Adaptation Levy
IPCC	Intergovernmental Panel on Climate Change
JI	Joint Implementation
NAPA	National Adaptation Programme of Action
LDCs	Least Developed Countries
LDCF	Least Developed Countries Fund
MDB	Multilateral Development Bank
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PPCR	Pilot Programme for Climate Resilience
RAF	Resource Allocation Framework
SCCF	Special Climate Change Fund
SCF	Strategic Climate Fund
SIDS	Small Island Developing States
SPA	Strategic Priority "Piloting an Operational Approach to Adaptation"
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
WTO	World Trade Organization
WWF	World Wildlife Fund

Background

1. The Commission on Climate Change and Development has been mandated to make proposals on how to integrate risk reduction and adaptation to climate change into the development and poverty reduction plans of developing countries.
2. During its first meeting, in February 2008 in Stockholm, the Commission identified several issues that would require further investigation. One of these was the financing mechanisms for adaptation to climate change. This paper is a contribution to that investigation².
3. The paper summarizes information pulled together and reviewed during a 10-day desk study. It is based on existing literature, documentation found in the Internet as well as discussions with resource people over the phone or in face to face meetings³. This paper is not meant to be exhaustive. It is intended to illustrate the diversity and complexity of financial mechanisms and help in develop ideas for recommendations that the Commission may wish to make.
4. The paper is organized as follows. Section 1 describes the main features of financing mechanisms for adaptation that already exist or are under development. Section 2 discusses options to expand the adaptation financial envelope. Section 3 highlights issues that warrant attention while moving forward.

1. Description of Financing Mechanisms for Adaptation

5. The world has recently witnessed the proliferation of financial initiatives to address adaptation to climate change. In the past 12 months no less than four new funds have been created⁴. Together with the not-yet-operational Adaptation Fund (AF), these funds could provide up to \$1.1 billion⁵. This is at least four times⁶ what has been spent on adaptation over the past seven years through the Global Environment Facility (GEF) – the main channel for adaptation finance so far.
6. Adaptation is making its way up the agenda of the international community. This is good news, as all agree that adaptation must be addressed in concert with mitigation in order to effectively combat climate change. But this also raises a number of questions: Who should pay? For what? And how?
7. After introducing some elements of definition and a typology of financing instruments (1.1), this section looks at the following characteristics of adaptation funds: sources, disbursement and deliverables (1.2), eligibility criteria and accessibility (1.3), and governance (1.4).

² The Secretariat of the Commission is conducting a separate study on insurance mechanisms. Hence these mechanisms are not covered here. Note also that the WWF in partnership with ODI is preparing a mapping of financial instruments for climate change that should be available mid June 2008.

³ The author has sole responsibility for any errors in this paper.

⁴ See Annex 1 for a tentative list of international financing mechanisms for adaptation.

⁵ This number is based on the following estimates for the Adaptation Fund under the Kyoto Protocol (roughly \$500 million expected up to 2012), the Climate Resilience Pilot Programme under the World Bank Transformation Facility (\$500 million), the Global Climate Change Alliance of the European Commission (50 million), and the German Climate Initiative (60 million for 2008). There are two main uncertainties with these estimates. One is the amount of money that will be generated under the Adaptation Fund that depends on the volume of Clean Development Mechanism (CDM) activities and on the price of certified emission reductions (CERs). The other one is on further contributions to the Global Climate Change Alliance by member states (note that Sweden has pledged 50 million SEK to the Alliance in Bali).

⁶ According to its own estimations, the GEF has provided \$280 million for adaptation (GEF 2007, p.2). Other estimates are lower: e.g., \$110 million since 2005 (UNFCCC 2007) and \$26 million as of mid-2007 (UNDP 2007). The latter only considers what has been effectively spent on projects.

1.1 Definition and Instruments

8. The issue of financing adaptation depends in part on how adaptation is defined. The United Nations Framework Convention on Climate Change (UNFCCC) does not provide a definition of adaptation but refers to the “adverse effects of climate change”. The Intergovernmental Panel on Climate Change (IPCC) defines adaptation as any “adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities”⁷. This is wide.

9. Based on this definition adaptation actions, and thus finance, cut across many different sectors, e.g., health, agriculture, land use and infrastructure. And they involve many types of actors, e.g., households, governments and businesses at different levels and within different timeframes. Such a span makes it challenging to assess the costs of adaptation⁸. It also makes it complex to identify appropriate financing mechanisms for identified actions.

10. In theory, financial instruments for adaptation can take different forms depending on timing, scope, purposefulness and adapting agent. Adaptation can be financed by market-based mechanisms as well as by public policy measures. The two sets of instruments are used at the national level in developed and developing countries. In addition, the international community has created international instruments for adaptation.

11. Sagasti et al (2005) distinguish eight categories of financial instruments to address international (development) issues: bilateral instruments; international organizations and agencies; international financing institutions; private sources; international capital markets; international taxes; fees and charges; market creation; global and regional partnerships.

12. Until recently actions under the label “adaptation” have been financed by bilateral official development assistance as well as by international organizations and agencies through specific funds – mainly the GEF. Some of the more recent instruments are tapping private sources and are market-based. Table 1 describes the features of the main adaptation funds.

⁷ IPCC (2007, p. 869)

⁸ OECD (2008).

1.2 Sources, Disbursement and Deliverables

13. Existing funds coordinate the transfer of resources from developed countries to developing countries. This is the spirit of the UNFCCC, which acknowledges the common but differentiated responsibilities of countries with regard to climate change⁹. This principle recognizes the historical responsibility of developed countries for creating the greenhouse effect to which all countries – but developing countries most particularly – have to adapt. It is another version of the polluter-pays principle.

14. Most mechanisms are funded by voluntary contributions pledged by donors in an ad-hoc manner or through replenishment processes (e.g., the GEF Trust Fund). However, some of the financing mechanisms soon to be operational or recently established have different funding sources. One example is the Adaptation Fund (AF), created under the Kyoto Protocol, which is financed by 2% of the certified emission reductions (CERs) issued for Clean Development Mechanism (CDM) activities. The CDM is a mechanism under the Kyoto Protocol allowing industrialized countries with greenhouse gas reduction commitments to invest in greenhouse gas reduction projects in developing countries as an alternative to more expensive reductions in their own countries. Another example is the German Carbon Fund financed by a percentage of carbon allowances in the European Union Greenhouse Gas Emission Trading Scheme (ETS).

15. Existing funds disburse money in the form of grants. The proposal to disburse money partly in the form of concessional loans under the Pilot Programme for Climate Resilience (PPCR) of the World Bank¹⁰ has been identified as going against the common but differentiated principle¹¹. The risk is that the responsibility acknowledged by the international community under the UNFCCC might be denied.

16. Most of the money for adaptation has been spent on assessment and planning and less on actions¹². One of the clearly identified deliverables has been the preparation of National Adaptation Programmes of Action (NAPAs). NAPAs are prepared by the Least Developed Countries (LDCs) under the UNFCCC with the intent to prioritize a list of urgent and immediate adaptation projects. Out of 49 LDC Parties to the Convention, 30 have completed their NAPAs; 14 are expected to complete theirs before the end of 2008, and three before the end of 2009¹³.

⁹ The UNFCCC recognizes the common but differentiated responsibilities of countries and states that developed countries should assist developing countries vulnerable to the adverse effects of climate change in paying the costs of adaptation to these adverse effects (UNFCCC 1992, art. 3 and 4.4).

¹⁰ World Bank (2008a).

¹¹ See for instance Third World Network (2008).

¹² This is in line with the staged approach defined under the Convention. Stage I focuses on planning through studies to identify vulnerabilities, policy options and capacity building. Stage II focuses on identifying measures to prepare for adaptation and further capacity building. Stage III focuses on promoting measures to facilitate adaptation, including insurance and other interventions.

¹³ Barbut (2008).

Table 1. Main Adaptation Funds

Mechanism	Date of creation	Origin	Governing body	Amount pledged/envisioned	Amount delivered up to date	Nature of contributions	Beneficiaries/allocation criteria	Type of instruments	Purpose	Implementing agencies	Format
Strategic Priority on Adaptation (SPA)	2001	UNFCCC	GEF council with 32 representatives of constituency groupings – 16 developing, 14 developed and 2 transition countries. Decisions taken by consensus. If no consensus a member can ask for formal vote. Decisions then taken by double-weighted majority – a 60% majority of total participants and a 60% majority of total contributions.	\$50 million pilot within GEF trust fund	\$28 million has been committed of which \$14.8 disbursed	Voluntary pledges by donors through replenishment rounds	Incremental cost applies	GEF Trust Fund. Only grants (concessional finance possible in theory)	Reduce vulnerability and enhance capacities	World Bank, UNEP, UNDP.	Pilot projects
Least Developed Countries Fund (LDCF)	2001			\$165 million	\$59 million. Actual spending under projects is \$9.8 million to date	Voluntary contributions	49 LDCs. Additional cost of adaptation measures. Sliding scale.	Grants	Preparation of NAPAs		Small scale projects
Special Climate Change Fund (SCCF)	2001			\$65 million	\$9 million. Actual spending under projects \$1.4 million to date		All developing countries. Additional cost of adaptation measures. Sliding scale		Long term needs of developing countries with a remit covering health, agric., water and vulnerable ecosystems		Projects
Adaptation Fund	2001	Kyoto Protocol of the UNFCCC	Adaptation Fund Board with GEF as interim secretariat and WB as trustee. 16 representatives of constituency groupings – 10 developing, 4 developed and 2 transition countries. Decisions taken by consensus. If no consensus by 2/3 rd majority of participants.	\$160-950 million by 2012. Amount will depend on price of CERs	\$50 million from donors for interim operation until the CERs are monetized, no spending on projects yet	2 % levy on credits generated through CDM and voluntary pledges	Developing countries Parties to the Protocol that are particularly vulnerable to the adverse effects of climate change	tbd		Potential recipients propose their implementation agency.	Projects and programs
Pilot Programme for Climate Resilience under the World Bank Strategic Climate Fund	2008	World Bank following up on G8-2005 communiqué	Trust Fund Committee with 6 representatives from donor countries, 6 representatives from eligible recipient countries, a rep from the Bank, and a rep from partner MDBs. Decisions by consensus. IBRD trustee and secretariat	\$500 million initially		Voluntary pledges (to date UK, US, Japan are contributors)	Countries eligible to MDB concessional funds or SIDS. Expert group will select 5-10 highly vulnerable countries committed to shift towards climate resilient development	Grants and concessional loans, i.e. loans without interest.	Develop climate resilient development plans and help fund investments identified in development plans	MDBs	Technical assistance and direct investment (possibility of budget support)
Global Climate Change Alliance	Created 2007	European Commission	Alliance between the EC and developing countries for dialogue, exchange,	€50 million so far		Voluntary contributions	esp LDCs and SIDS	Grants	1) support dev of NAPAs for non-LDCs, 2) support implementation of		technical assistance, projects, possibility of

			and effective cooperation						existing NAPAs, 3) finance pilot projects on water and ag sectors, 4) support impact research, 5) support mainstreaming		budget support.
German Climate Initiative	Created 2007	Germany, Ministry of the Environment		€60 million for 2008		4.4% of carbon allowances in ETS		tbd		GTZ, KfW, and possibly NGOs	

17. Adaptation actions identified are project-based interventions¹⁴. The effectiveness of the project-based approach has long been criticized in the broader development framework where the international community has acknowledged the importance of direct budgetary support. But in the case of adaptation, the argument is further backed up by the widely recognized need to mainstream adaptation into development policies and strategies¹⁵.

18. Mainstreaming is a long-term goal where ultimately climate change is not seen as a stand-alone issue but is merged with the other dimensions of development. Yet we have to live with short-term and highly specialized politics, where it is easier to finance one-off projects than ongoing policies. The PPCR positions itself as a pilot initiative that will “demonstrate ways to mainstream climate risk management and climate resilience into core development planning and budgeting.” The latest documents on the proposed PPCR and on the GCCA emphasize budget support approaches¹⁶.

1.3 Eligibility Criteria and Accessibility

19. Recipients of adaptation finance are mainly developing countries – least developed countries (LDCs) and small island developing states (SIDS) more particularly. Several criteria are used to allocate funds. Some of them such as the incremental costs and the additional costs are very controversial.

20. The incremental costs are defined as the costs a country incurs in taking actions that generate global environmental benefits and that exceed what the country would do if guided solely by national self-interest. The notion of global environmental benefits is the “raison d’être” of the GEF. But it is hardly relevant for adaptation actions in which benefits are mostly local in scope. Yet the GEF was assigned by the COP to finance adaptation projects through different specialized funds (SPA, LDCF, SCCF). The SPA operates as a part of the GEF Trust Fund where the incremental cost applies. In practice this translates into very complex procedures for project proponents. See Box 1.

¹⁴ This is including the AF as per UNFCCC mandate.

¹⁵ Secretariat of the Commission on Climate Change and Development (2008).

¹⁶ See World Bank (2008c) and Commission of the European Communities (2007).

Box 1. Procedure to apply for an SPA project

Countries first have to outline a baseline scenario, which includes activities that countries are undertaking as part of their ongoing development efforts. Second, countries need to construct an alternative GEF scenario that includes activities that would generate global environmental benefits in the absence of climate change. Third, activities need to be added to the alternative GEF scenario that will ensure the robustness of the global environmental benefits by improving the resilience of the systems concerned. The difference between the costs associated with the baseline scenario and the alternative GEF scenario are considered the incremental costs of the proposed project. Those incremental costs associated with increasing resilience are to receive funding from the SPA, whilst those associated with generating global environmental benefits are to be funded from other programmes under the GEF climate change focal area or from other focal areas (*e.g.*, biodiversity and land degradation). Projects under the SPA thus receive GEF funding in the form of a “double increment”: one for adaptation and one for generating global environmental benefits. The remaining costs of a project need to be co-financed by either the recipient country and/or other bilateral or multilateral donors. (Möhner and Klein 2007, p.8)

21. The LDCF and SCCF are independent from the GEF Trust Fund. Hence projects financed under these funds do not have to produce global environmental benefits. Funding is subject to the additional costs of making development climate-resilient. Conceptually additional costs are the difference between development in the absence of climate change and development taking into account the adverse effects of climate change. As the calculation of additional costs is complex, the GEF has developed a proxy – the sliding scale. Under sliding scale funding, smaller projects receive proportionally more GEF funding as they are assumed to have a bigger adaptation component¹⁷. Many developing countries have reacted strongly to those criteria, saying that they are new conditionalities preventing full funding of adaptation projects.

22. Under the proposed PPCR of the World Bank, eligible countries are those eligible for MDB concessional funds and SIDS. Selection will be the decision of the PPCR Sub-Committee based on the countries’ vulnerability to climate change and their “readiness to shift toward climate resilient development”¹⁸.

23. Under the AF, countries will have direct access to the fund and the Board will define selection procedures.

1.4 Governance

24. As illustrated in Table 2, the funds for adaptation have different types of governance structures. The most sensitive issue here is the extent to which developing countries have a voice in these governing bodies. Even though some mechanisms are still in the making, it appears as though the Adaptation Fund sits at one end of the spectrum with large participation of developing countries while the PPCR/World Bank sits at the other end of the spectrum.

¹⁷ Möhner and Klein (2007).

¹⁸ The World Bank (2008a).

Table 2. Composition and Decision-Making of Main Adaptation Funds

PPCR	SPA, LDCF, SCCF	AF
<p>The Strategic Climate Fund (SCF) would be governed by a Trust Fund Committee with 6 representatives from donor countries, 6 representatives from eligible recipient countries, a rep from the Bank, and a rep from partner MDBs.</p> <p>The PPCR operations and activities would be overseen by a PPCR Sub-Committee with 2 members of the SCF Trust Fund Committee, 6 representatives from donor countries, 6 representatives from recipient countries, and the Chair of the AF Board.</p> <p>Decisions by consensus.</p>	<p>GEF council with 32 constituencies – 16 from developing countries, 14 from developed countries and 2 from countries in transition. Decisions taken by consensus. If no consensus, decisions taken by double majority weighted against 1) participation and 2) contributions.</p>	<p>AF Board with 16 constituencies – 10 from developing countries, 4 from developed countries and 2 from countries in transition.</p> <p>Decisions taken by consensus. If no consensus, decisions taken by two-thirds majority of participants.</p>

25. The composition of the Trust Fund Committee of the PPCR as proposed in the documents presented for the first donors meeting, held in March 2008 in Paris, had been heavily criticized as being solely donor driven¹⁹. A recent and revised proposal includes a more balanced representation of donor and recipient countries and includes the Chair of the AF Board in an attempt to link the World Bank initiative to the UNFCCC/AF²⁰. The arrangements are still in the making; so it is hard to provide a clear picture of the governance structure. Irrespective of the outcome, the current criticisms echo a much broader concern about the under-representation of developing countries in the overall governance of the World Bank²¹.

26. For SPA, LDCF and SCCF, the GEF Council operates under the guidance of and is accountable to the Conference of the Parties (COP) of the UNFCCC, which has close to universal membership. The GEF council balances donor and recipient representations. However the Council has sometimes been presented as donor-driven based on the existence of a double majority voting structure. Decisions at the GEF Council have always been taken by consensus but are influenced by would-be votes. Even though the double majority voting was introduced to bring developing countries back in the governance of a restructured GEF in 1994 and even though the voting structure of the GEF has often been presented as a reference model to reform the governance of other development agencies²², developing countries have expressed strong concerns about lack of ownership²³.

27. The composition of the AF Board is very innovative with strong representation of developing countries. So far the Board has met only once and focused on administrative matters on the way to becoming fully operational. Moving forward, the AF Board is faced with many challenges: It needs to demonstrate how it will be able to handle potentially high volumes of resources while avoiding administrative complexities such as those affecting the GEF.

2. Options for Expanding the Envelope

¹⁹ See for instance Müller and Winkler (2008) and Third World Network (2008).

²⁰ See World Bank (2008c)

²¹ See for instance International Task Force on Global Public Goods (2006).

²² See for instance Jakobeit (2005).

²³ Dissatisfactions were clearly expressed in Bali last November.

28. Six assessments of global adaptation costs have been published in the past two years. They estimate that developing countries will need between \$4 and \$109 billion per year to adapt to climate change²⁴. A recent study by the OECD (2008) demonstrates that these numbers, which have already been widely used in political statements and demands for more funds, should be handled with caution. If there is no consensus on orders of magnitude for adaptation, there is today widespread recognition that more should be done for adaptation in addition to efforts for climate change mitigation. Building on the political momentum, what are the options for expanding the adaptation envelope?

2.1 Official Development Assistance

29. Adaptation and development policies are intertwined²⁵. These linkages could justify increased contribution from ODA and in particular from resources to made available by donors' commitments to double aid by 2010 and reach the target of 0.7% of GNI by 2015²⁶. This proposal has met some strong opposition based mainly on the following two arguments. On the one hand, donors have so far had a poor track record in meeting their ODA commitments. On the other hand, the UNFCCC clearly calls for new and additional resources to assist developing countries in covering their adaptation needs²⁷. But most fundamentally, tapping aid money for adaptation is incompatible, for many, with the underlying principle of common but differentiated responsibility of the UNFCCC. In other words: "The motivation for providing adaptation assistance is different than for providing development assistance. The motivation is not compassion; it is an acknowledgment of a responsibility to pay"²⁸.

30. There are different ways to understand "new and additional resources": 1) resources additional to existing adaptation financing provided by developed countries; 2) resources additional to existing ODA flows; or 3) resources additional to existing ODA commitments²⁹. But in practice the distinction between sources of funding is complexified by the blurry distinction between adaptation strategies and development objectives. In addition there is a strong case for and a high-level political endorsement of mainstreaming. So the challenge here is to reconcile additionality with mainstreaming.

31. There are at least two precedents in implementing additionality in the context of climate/development finance. One procedural and one political. The definition and implementation of the incremental cost and the sliding scale by the GEF are one example. But we have seen how they have translated into complex and difficult accessibility procedures. Another example was the political debate around the possibility for donors to seek ODA credit for CDM investments. While the procedures for the CDM in the 2001 Marrakesh Accords clearly stated that public funding for CDM projects should not divert ODA, the matter was brought to the

²⁴ The lowest estimate is made in the Stern Review (2006) which estimates costs to be between \$4-37 billion per year. The higher estimate is made by UNDP (2007) which estimates costs to be between \$86-109 billion per year. Other estimates include The World Bank (2006), Oxfam (2007) and UNFCCC (2007).

²⁵ Klein et al (2007) identify three clear connections between adaptation and development projects: climate change may affect development projects; the community/ecosystem benefiting from development projects may be vulnerable to climate change; and development projects may have effects on the vulnerability of the community/ecosystem to climate change.

²⁶ See for instance Stern (2006).

²⁷ See UNFCCC (1992, art. 4.3). This call is reiterated in the Bali Action Plan (art. 1.e(i)).

²⁸ Barrett (2007b).

²⁹ Harmeling and Bals (2008).

OECD-DAC for further discussion, which resulted in concrete guidelines: "... the value of any CERs received in connection with an ODA-financed CDM project should lead to a deduction of the equivalent value from ODA. [And there is no] possibility of counting as ODA funds used to purchase CERs." ³⁰ The DAC also worked on technical issues to translate this agreement into practice.

32. The issue of additionality to ODA has also been discussed in the context of global public goods finance. The argument is that financing global public goods benefits all, including donors. This return on investment for donor countries is what justifies use of resources that are additional to traditional ODA. The International Task Force on Global Public Goods recommends a set of measures – including increasing traceability of GPG financing in the DAC reporting system – to ensure additionality³¹.

2.2 Beyond Voluntary Finance

33. In the context of limited resources, one-off projects are easier to finance than ongoing activities such as those required for mainstreaming. A system of voluntary contributions and ad-hoc funding cycles seems unlikely to sustain long-term finance for adaptation. It is also very unpredictable, depending on fluctuations of national budget priorities. Resource mobilization through replenishment processes has proven successful in enhancing predictability and sustainability of resources³². The key to successful replenishments is broad participation coupled with fair sharing of financial burden³³. This leads us back to the above discussions about governance and payment principles.

34. Moving forward experts and decision-makers concur on the need to explore new and innovative financing arrangements³⁴. In doing so they point to the importance of considering the interrelationships between adaptation and mitigation – the more we mitigate the less we need to adapt³⁵. They also point to the importance of involving the private sector.

35. Several concrete proposals have been made in this regard³⁶:

- ∞ *Levy on trading schemes.* At least two options have been put on the table. The first one is to expand the current funding model of the AF to include the other flexibility mechanisms defined under the Kyoto Protocol, i.e., Joint Implementation (JI) and Emissions Trading (ET)³⁷. The second one is a general levy on emission permits auctioned as initial allocations in emissions trading schemes on the model of the German Climate Fund.
- ∞ *Carbon tax.* The particularity of the carbon tax is to produce a double dividend – (1) provide an incentive to reduce GHG and (2) generate

³⁰ OECD (2004, p.3)

³¹ See Annex 3.

³² Global funds with replenishments include IDA, GEF, IFAD, AfDB, ADB and GFATM. See also Bezanson (2005).

³³ International Task Force on Global Public Goods (2006).

³⁴ See for instance Bali Action Plan, art. 1.e.(iii).

³⁵ The relationship between mitigation and adaptation is at the heart of the framework proposed by the Global Leadership for Climate Action (2007).

³⁶ Insurance-based instruments were omitted from this paper, as another study for the Commission is focusing on that.

³⁷ Countries benefiting from JI, i.e., countries with economies in transition with large surplus, are opposed to the idea. Note that under this mechanism, funds would not be ODA-eligible (Kartha et al 2006).

additional resources. This is, for the International Task Force on Global Public Goods, potentially the most significant tool. Six countries, including Sweden, have implemented this tool nationally. These countries have largely exempted their energy-intensive export-oriented industries. Also, countries are not allowed to tax products based on their carbon content, in accordance with international trade rules. Hence “serious talks about carbon taxes must involve the World Trade Organization (WTO)”³⁸.

- ∞ *Airline levy.* Building on similar proposals developed by some countries to help finance the MDGs – see the 2005 French initiative on airline tickets tax to finance global health issues such as HIV/AIDS – some experts have suggested to impose an International Air Travel Adaptation Levy (IATAL)³⁹.
- ∞ *International Financial Facility for climate.* The idea behind the IFF is to frontload the flow of aid to make it available for today’s development needs. The principle goes as follows. Participants to the IFF make a long-term commitment; based on this commitment the IFF can raise money by issuing bonds; the participants pay bonds as they mature some 10 years in the future. A pilot version of the IFF with a focus on immunization was launched in 2004. The same idea is proposed for climate change⁴⁰.
- ∞ *Public Private Partnerships.* The OECD (2008) notes that such partnerships would be most valuable for infrastructure projects and climate protection measures both in terms of physical structures such as sea walls and institutional arrangements such as emergency services.

³⁸ Cléménçon (2008).

³⁹ Müller and Hepburn (2006).

⁴⁰ Michel (2008).

3. Moving forward

36. Here we conclude by highlighting, based on the above presentation, issues that may warrant attention from Commissioners while discussing financing mechanisms for adaptation further.

37. **Building on the momentum.** Until last year the GEF was the only game in town when it came to multilateral adaptation finance. The past months have modified the landscape with the establishment of new funds outside of the GEF portfolio and even outside of the UNFCCC. In parallel, there is an unprecedented increase in pledged contributions for adaptation. These trends indicate a realization among donors of the urgency and importance of adaptation measures. The financing framework for adaptation is at an embryonic stage, and there is now a momentum to ensure that initiatives complement and build on each other rather than undermine each other.

38. **Defining boundaries.** While new instruments are being designed, the debate seems to crystallize around their management and the amounts they could possibly generate. The nature of the final objective, “adaptation,” seems much less debated. Nevertheless the appropriateness of financial instruments and the adequacy of the supporting institutional architecture will depend in large part on what is meant by adaptation. To what extent does “adaptation” differ from traditional development? Is “adaptation” addressing the adverse effects of climate change in general or of human induced changes only? Should actions undertaken without the label “adaptation” be also considered under the adaptation financing framework? Clear answers to these questions are needed to set the stage for financing recommendations.

39. **Combining effectiveness with democracy.** The financing mechanisms presented above fall into two different types. One type is perceived to be democratic but effectiveness is diminished by complex procedures: the UNFCCC/GEF type. The other type is seen to be effectively managed but less transparent, with smaller voices for developing countries: the G8/World Bank type. The largest volumes of money are currently being pledged under the latter. Donors’ preference for the less democratic approach may affect the trust relationship between developed and developing countries so vital for successful post-2012 climate negotiations.

40. **Ensuring additionality.** Additionality may become an obsolete concept in the long run, with effective mainstreaming of adaptation into development strategies. But when talking about adaptation financing, we are not working from a clean political slate, and many developing countries are concerned about aid money being hijacked for environment purposes. In the short term, offering proposals to ensure additionality of resources is important to engage all countries, in line with the universal commitments made in the UNFCCC.

41. **Engaging the private sector.** Experts agree that the high potential of private funding for adaptation has not yet been realized. Engaging the private sector would be critical to secure sustainable funds for adaptation. But to be unlocked, this potential requires that effective supporting public policies are defined.

42. **Clarifying responsibility.** There are strong connections between financing instruments and the institutions supporting them. Financing is about more than raising money. The financing issue has to be discussed with the overall institutional

architecture for adaptation. At least three institutional approaches for adaptation can be identified: (1) the climate approach embedded in the UNFCCC, (2) the development approach, and (3) the insurance approach. Moving forward, the regime for adaptation would have to compose with these three approaches and clarify the responsibility of institutions involved.

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Annex 1. List of International Financing Mechanisms for Adaptation

Name	Creation	Amount
Small Grants Programme, GEF	1992	\$120 million ⁴¹
Canada Climate Change Development Fund, CIDA	2000	\$100 million ⁴²
Least Developed Countries Fund, GEF	2001	\$165 million ⁴¹
Strategic Priority on Adaptation, GEF	2004	\$50 million ⁴¹
Special Climate Change Fund, GEF	2004	\$65 million ⁴¹
MDG Achievement Fund/ Thematic window on environment and climate change, Government of Spain and UNDP	2006	\$95 million ⁴³
Adaptation Fund, UNFCCC/Kyoto Protocol	2007	\$160-950 million by 2012 ⁴⁴
Global Climate Change Alliance, European Commission	2007	€50 million ⁴⁵
Climate change Initiative, Rockefeller Foundation	2007	\$70 million ⁴⁶
German Climate Initiative, Federal Ministry for the Environment, Nature Conservation and Nuclear Safety	2007	€60 million for 2008 ⁴⁷
Pilot Programme for Climate Resilience, World Bank Strategic Climate Fund	2008	\$500 million ⁴⁸

⁴¹ GEF (2007).

⁴² <http://www.acdi-cida.gc.ca/CIDAWEB/acdicida.nsf/En/IUD-4189500-J8U>. The fund was closed down in 2006.

⁴³ www.undp.org/mdgf/environment. Only part of the money under the thematic window for environment and climate change is dedicated to adaptation.

⁴⁴ UNDP (2007).

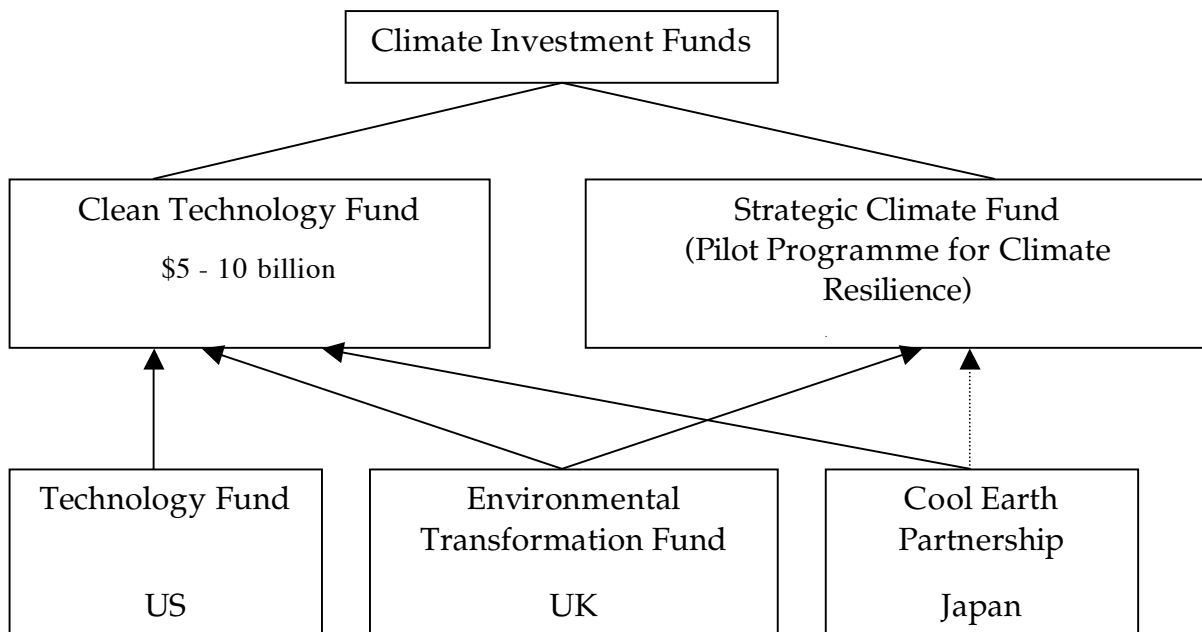
⁴⁵ Commission of the European Communities (2007). The Alliance would cover 4 specific areas: adaptation to climate change, reducing emissions from deforestation, enhancing participation in the Clean Development Mechanism, promoting disaster risk reduction, and one cross-cutting area: integrating climate change into poverty reduction efforts.

⁴⁶ http://www.rockfound.org/initiatives/climate/climate_change.shtml. The 5-years initiative will finance projects to build climate resilience with an emphasis on Asian cities and rain-fed agriculture in Africa.

⁴⁷ Information from Federal Ministry for the Environment, Nature Conservation and Nuclear Safety. The structure and functioning of the German Climate Initiative will be presented and discussed during a side-event to the SBSTA/SBI meeting held in Bonn in June 2008.

⁴⁸ World Bank (2008a). The PPCR is funded mainly by the UK Environmental Transformation Fund/International Window. The total amount under the International Window is £800 million. Japan may also add an adaptation window to its Cool Earth Partnership. See Annex 2 for more details on the World Bank Transformation Facility.

Annex 2. Structure of the World Bank's Climate Investment Funds⁴⁹



⁴⁹ Based on World Bank (2008 a,b, and c) and Reed (2008).

Annex 3. Proposal made by the International Task Force on Global Public Goods to improve national systems for global financing

“If funding for global public goods is to be additional to ODA, as it should be, states will have to adapt their national spending systems in four ways:

- ∞ Revise national budget mechanisms to allow for greater flexibility in spending abroad, including by the creation of new mechanisms for more flexible use of domestic, sectoral budgets to pay for international activities and capacity building within those sectors.
- ∞ Adopt dual-track national budgeting systems to ensure that global sectoral spending is properly allocated in national budgets and not incorrectly allocated against development budgets.
- ∞ Track expenditure on global public goods by introducing a line item for them in the OECD statistics (see below).
- ∞ Fulfil pledges for increased allocations for development assistance, ensuring that sufficient resources are provided for development activities that are also critical for the provision of global public goods (such as health sector capacity building).

One way to capture additional spending would be to introduce a line item for global public goods in the OECD statistics. Such an item would only include contributions for the purposes of global public goods that are not considered official development assistance. By highlighting these contributions more clearly in the official statistics—for which countries often get only limited recognition—one might address the inevitable tension between efforts by donors to achieve the target of 0.7% of gross national income as ODA and the financing of global public goods. In the financing of some UN specialized agencies, ODA and global spending are differentiated. For example, a fixed percentage of governments’ contributions to the WHO are counted as ODA, while the rest is considered spending on global issues. New tracking methods can build on these examples. Once such a line item is established in the OECD statistics, a “league table” (a ranking report) of spending on global public goods could be compiled. This would be helpful in generating domestic support for global public goods spending. ⁵⁰

⁵⁰ International Task Force on Global Public Goods (2006, pp. 110-111).