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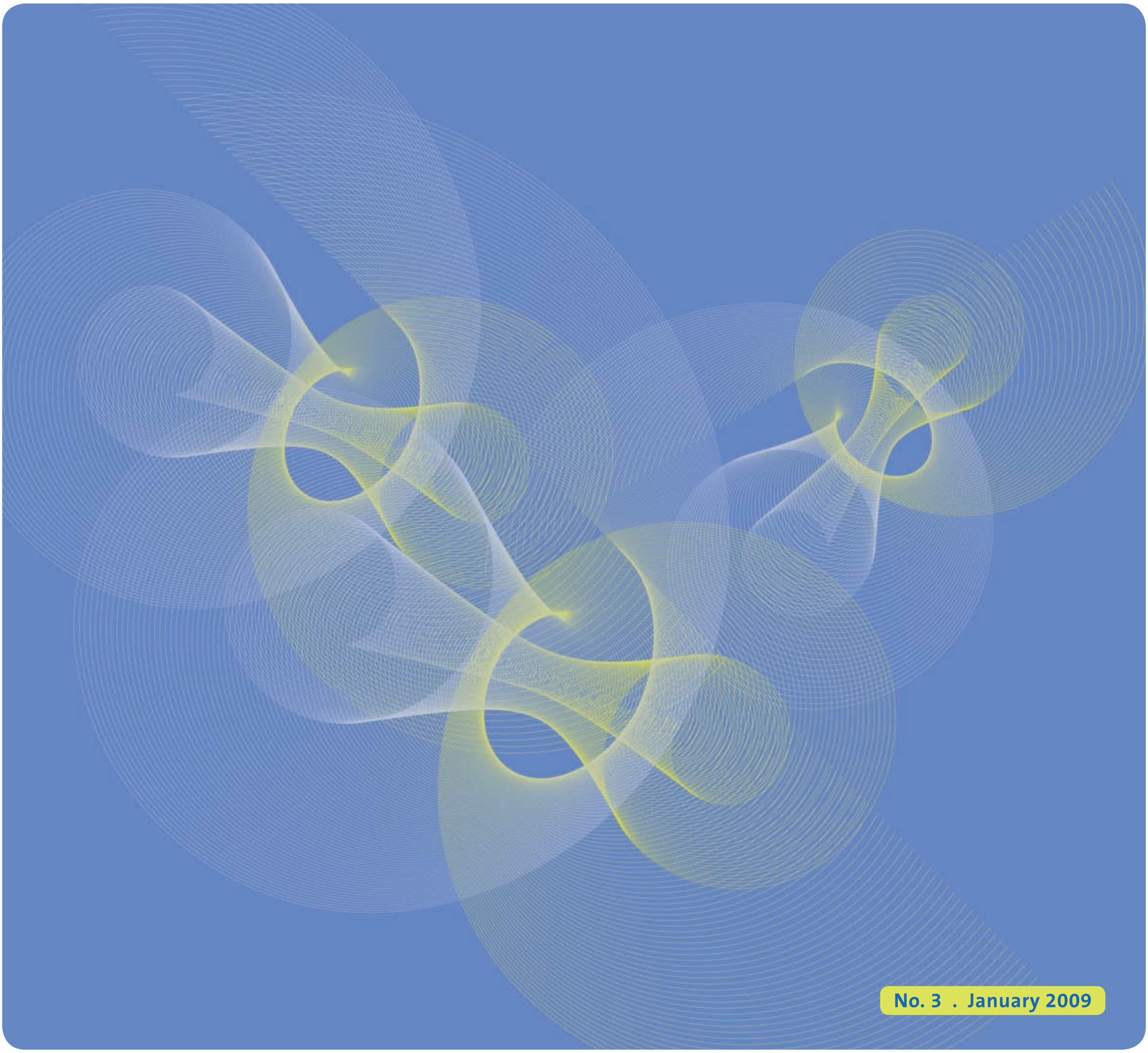
[WORKING PAPER]

Climate change challenges for EU development co-operation: emerging issues

By Leo Peskett, Natasha Grist, Merylyn Hedger, Tessa Lennartz-Walker and Imme Scholz



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Leo Peskett, Research Fellow at ODI, focuses on climate change mitigation and adaptation in relation to developing countries and forestry in developing countries. He analyses impacts of climate change on agriculture in developing countries, including the analysis of donor agricultural policies.

Natasha Grist, Research Fellow at ODI, specialises in climate change, adaptation and international development, with a background in social and environmental science. Prior to joining ODI in August 2008, she was a post-doctoral researcher at the Tyndall Centre for Climate Change Research.

Merylyn Hedger, Research Fellow at IDS, is an environmental policy specialist who has worked within international, national and local levels of governance. She has specialised on climate change for 15 years. Her research interests are on international negotiations, adaptation, and sectorally, water and forestry.

Tessa Lennartz-Walker is a Research Assistant at ODI working on climate change and development issues. Before joining ODI she completed a stage at the European Parliament. She holds a degree in Social and Political Sciences from the University of Cambridge.

Imme Scholz, Research Fellow at DIE since 1992 and head of the department "Environmental Policy and Management of Natural Resources". Her work focuses on climate change and development as well as issues related to tropical forest management. Between 1999 and 2002 she was an environmental advisor for German development co-operation in Brazil.

Summary

Developing countries are expected to be most severely affected by the impacts of climate change, in terms of physical impacts such as increased severity of droughts and floods and in terms of potential adverse effects of policy measures taken by developed countries to mitigate climate change, such as the promotion of biofuels. The task of factoring these implications into development co-operation is proving far from straightforward and it poses new problems for the development co-operation agenda.

The European Union (EU) is widely regarded as the world leader in taking action to combat climate change, both through the implementation of domestic policy measures and through pushing policy processes at the international level. Since 1998 it has also been developing policies to deal with the linkages between climate change and development co-operation, reflected in the EU Action Plan on Climate Change and Development (2004) and more recent initiatives such as the Global Climate Change Alliance (GCCA) and the Climate Change and Energy Package currently under discussion.

This paper reviews that main policy processes that have been developed within the EU for addressing climate change in the context of development co-operation. It then looks at progress within the EU in terms of three of the main challenges that climate change poses to development co-operation, including:

1. How to bridge the large gap in funding climate change response efforts in developing countries;
2. How to ensure well coordinated, complementary and coherent efforts between different donors and between climate change and development policy processes; and
3. How to 'mainstream' climate change into development co-operation in the EU.

These questions are now at the top of both the international climate change and development agendas, and significant progress will be required in the lead up to the UN climate change conference in Copenhagen in December 2009, where a new global deal on climate change needs to be agreed. The paper concludes with a summary of some of the further issues that need to be resolved, especially as regards:

1. The suitability of different financing options in terms of meeting the needs of developing countries and domestic interests;
2. The added value of the European Commission's (EC) own initiatives compared to other options, including those of the Member States;
3. The role of development co-operation vis-à-vis new emerging funding mechanisms under the UNFCCC; and
4. What the options are for more quickly building on progress in mainstreaming climate change in the context of new aid modalities and within other sectoral European policy areas.

The paper is the first in a series of outputs on climate change and development co-operation in the EDC2020 project, which will look in more depth at these issues.

Table of Contents

List of Acronyms

ACP	Africa, Caribbean and Pacific
CAP	Common Agricultural Policy
CDM	Clean Development Mechanism
CEP	Country Environment Profiles
CIF	Climate Investment Funds
CSP	Country Strategy Paper
DG	Directorate-General
DIE	German Development Institute / Deutsches Institut für Entwicklungspolitik
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	European Court of Auditors
EIA	Environmental Impact Assessment
EIB	European Investment Bank
ENRTP	Thematic Programme for Environment and Sustainable Management of Natural Resources, including Energy
EP	European Parliament
EU	European Union
EU ETS	European Union Emissions Trading Scheme
EU FLEGT	European Union Forest Law Enforcement, Governance and Trade
EUR	Euro
FAA	Framework for Action and Adaptation
FCPF	Forest Carbon Partnership Facility
GBP	British Pound
GCCA	Global Climate Change Alliance
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GEF	Global Environment Facility
IDS	Institute of Development Studies
IPCC	Intergovernmental Panel on Climate Change
JI	Joint Implementation
MDG	Millennium Development Goal
MEP	Member of European Parliament
NAPA	National Adaptation Programme of Action
NSSD	National Strategy for Sustainable Development
ODA	Overseas Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PCD	Policy Coherence for Development
PRSP	Poverty Reduction Strategy Paper
REDD	Reduced Emissions from Deforestation and Degradation
SEA	Strategic Environmental Assessment
UK	United Kingdom
UNFCCC	United Nations Framework Convention on Climate Change
USD	US Dollar

1 Introduction

The EU is widely regarded as the world leader in action on climate change. It has set ambitious emission reduction targets for its own policies, pioneered innovative instruments such as the European Union Emissions Trading Scheme (EU ETS), and is one of the strongest supporters of more stringent emission reduction targets for developed countries in a post-2012 climate change agreement. Since 1998 it has also been developing policies to deal with the linkages between climate change and development co-operation, reflected in the EU Action Plan on Climate Change and Development (2004) and more recent initiatives such as the Global Climate Change Alliance (GCCA) and the Climate Change and Energy Package currently under discussion.

However, the process of incorporating climate change into development co-operation is proving far from straightforward. The main challenges concern:

- how to bridge the large gap in funding climate change response efforts in developing countries;
- how to ensure well coordinated, complementary and coherent efforts[1] between different donors and between climate change and development policy processes; and
- how to 'mainstream' climate change into development co-operation.

Furthermore, within the United Nations Framework Convention on Climate Change (UNFCCC) discussions, developing countries have made it clear that they require additional and separate finance and technology for climate change, as a due obligation under the Convention which has not been delivered since Rio but is a prerequisite to an agreement on a post 2012 deal. This working paper examines the ways in which these challenges are being addressed within European climate and development co-operation policy.

2 *What is the climate change challenge for development co-operation?*

Recent modelling projections indicate that climate change could result in large negative impacts for many developing countries (IPCC 2007). These include problems such as declines in agricultural productivity in many areas due to increasingly severe droughts and floods and increased conflict over natural resources. Some of these impacts are already being observed, and their severity is expected to increase over the next century. Even in the relatively short period to 2020, projections indicate that up to 250 million more people in Africa could face increased water stress and agricultural yields could decline dramatically (IPCC 2007). Within individual countries, the poor are likely to be most adversely affected by such impacts, due to their existing vulnerability.

Climate change also challenges existing development processes in developing countries, as these can cause increases in greenhouse gas emissions and hence exacerbate the negative impacts. Emissions in emerging economies are growing rapidly and there is therefore urgent need to promote 'green growth' that is de-linked from emissions. Given that both historic and current per capita emissions

[1] The 'three Cs' established to guide practical implementation of the Maastricht Treaty.

are much lower than developed countries, there is widespread support for the argument that developed countries should take responsibility for providing necessary assistance (i.e. by supporting technology transfer and research and development).

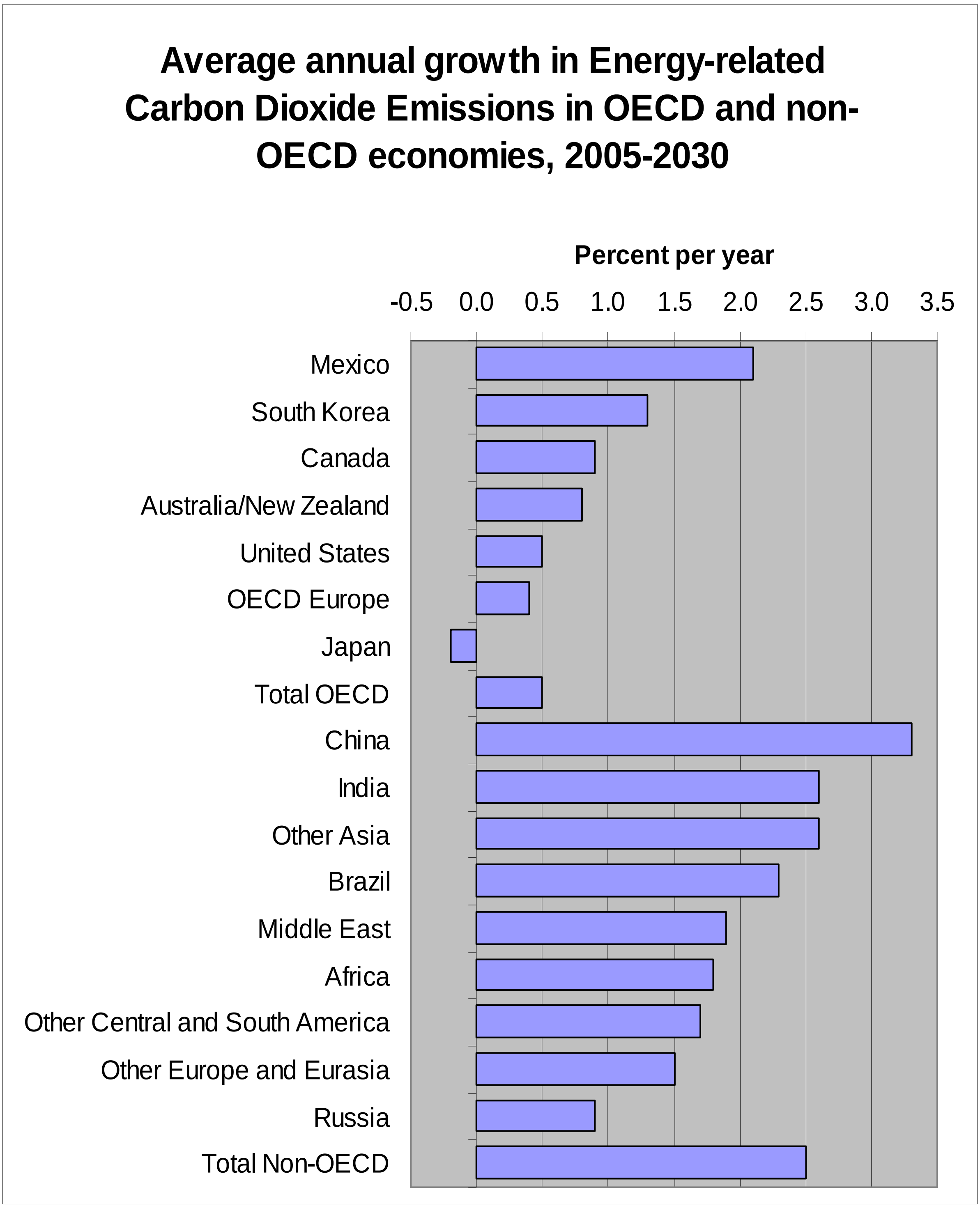

Figure 1: Average annual growth in Energy-related Carbon Dioxide Emissions in OECD and non-OECD economies, 2005-2030. Source: International Energy Agency 2008

The challenges raised by the impacts of climate change and need to reduce further impacts related to development processes underpin two main objectives for development co-operation in order to address climate change. Firstly, development co-operation should aim to increase the resilience of poorer regions, communities and individuals to shocks and stresses of climate change; and secondly, it should promote and support low carbon development paths to address the problem at source.

In the last two years there have been significant shifts in interest amongst the international donor community to try to meet these objectives. But as the process begins to mature, three major challenges have come to light that have implications for the effectiveness of this response:

1. **A large gap in funding available for supporting climate change responses:**

   Development co-operation funds targeting climate change mitigation and adaptation will have to grow from a very low base to fill a sizeable funding gap, even if Overseas Development Assistance (ODA) funding should be complementary to funding mechanisms under the UNFCCC (Table 1). Developing countries are calling for additional funding to be provided under the Convention, which is seen as the best option for ensuring additionality to existing aid commitments.

Estimated costs for developing countries	Financial scale (USD)
Adaptation	Three estimates: Oxfam 2007 - At least 50 billion USD UNDP 2007 - 86 billion USD by 2015 UNFCCC 2007 - 28-67 billion USD by 2030
Mitigation	UNFCCC 2007 – 176 billion USD additional investment and financial flows to developing countries in 2030

Table 1: Climate change related funding needs for developing countries

2. **Ensuring coordination, complementarity and coherence (3Cs) between climate change initiatives and with other development processes:**

   As concerns over climate change have grown, so have the number and types of responses, with a multitude of initiatives being developed through different bilateral and multilateral channels. Lessons from the aid effectiveness debate indicate that such fragmentation may end up doing more harm than good. Harmonization with existing development processes at international level (e.g. the Millennium Development Goals (MDGs)) and national level (e.g. Poverty Reduction Strategy Papers (PRSPs)) as well as with agreed principles on co-operation procedures (e.g. the Paris Declaration on Aid Effectiveness) may be a requirement for ensuring more effective responses.

3. **Mainstreaming climate change into development co-operation:**

   Mainstreaming climate change requires incorporating climate science and response measures into development processes. Research indicates that many donors are aware of the risks of climate change and have generated high level policies, but these are not being carried through and mainstreamed at the implementation level (OECD 2006). Furthermore, although most major donors recognise threats to development from climate change, it is often at the level of risk-proofing rather than how to ensure their future aid activities reduce vulnerability to climate change and support adaptation (Klein 2008). These problems relate to difficulties in defining what adaptation is, resource constraints in donor agencies and how to cope with the large uncertainties of climate change, particularly at more regional and local scales (McGray et al. 2007).

The EU has taken some steps towards addressing these three challenges in recent climate policy processes. The following sections review progress so far and future potential for the EU to lead the global response effort in this area of the climate change debate.

3 *Climate change in EU development co-operation*

A number of policies have been put in place over the last ten years by the EC and at Member State level, for addressing the climate change implications for development. The major Commission policies include:

1. The **Action Plan on Climate Change and Development** (adopted 2004) focuses on mainstreaming climate change "as an integral part of mainstream EU development co-operation activities and in complete coherence with the overarching objective of poverty reduction". It has four objectives: (i) raising the political profile of climate change; (ii) support for adaptation in developing countries; (iii) support for mitigation and sustainable development paths; and (iv) developing administrative capacity in vulnerable countries. (COM(2003) 85 final).
2. The **Global Climate Change Alliance (GCCA)** is an international climate change fund spearheaded by DG Development. It aims to provide a platform of dialogue and co-operation between EU and poor developing countries, as well as financial and technical assistance for mitigation and adaptation measures and for the integration of climate change into development strategies. Assistance focuses on (i) developing and implementing concrete adaptation strategies, (ii) reducing emissions from deforestation (REDD), (iii) helping poor countries to take advantage of the Clean Development Mechanism (CDM), (iv) helping developing countries to prepare for natural disasters, and (v) integrating climate change into development co-operation and poverty strategies.
3. The **Adaptation Green Paper:** First put forward in 2007, this initiative covers adaptation in Europe but also a section on "integrating adaptation into EU external actions" which deals specifically with adaptation measures in developing countries. It suggests actions in three areas: (1) promotion through UNFCCC processes (i.e. National Adaptation Plans of Action and the Nairobi Framework); (2) strengthening adaptation in geographical programming through the EU Action Plan, country and regional strategy

reviews in 2010 and the mid-term evaluation of the Action Plan; (3) supporting the GCCA.

4. EU **Global Energy Efficiency and Renewable Energy Fund (GEEREF).** The GEEREF was designed in 2006 to support small and medium sized energy projects in order to support sustainable development in developing economies and economies in transition, with a priority in the Africa, Caribbean and Pacific (ACP) region. It offers loans in order to mobilise private investments in energy technologies and currently has funding of around EUR 110 million.
5. The **Climate Change and Energy Package**. Whilst this focuses mainly on domestic actions, some aspects of the package have implications for development co-operation and/or developing countries. For example, the package includes proposals for new funding sources linked to the EU ETS (discussed below), production of biofuels and proposals for support on deforestation and degradation.

Climate change also features in other policy areas, such as the Policy Coherence for Development (PCD) process and in various sectoral strategies. Most recently, the EU has proposed a 'Framework for Action on Adaptation' (FAA) to enhance the implementation of adaptation measures in developing countries. This would aim to incentivise actions by Parties to help ensure adaptation effectiveness and could help guide the financial mechanism of the UNFCCC and other multilateral and bilateral efforts (France 2008).

Member States have also developed policies and work programmes on the overlaps between climate change and development policies. Whilst it is challenging to track the full extent of the various Member State activities, there are a few notable initiatives in terms of their financial scale:

- Germany spent about EUR 1 billion in 2008 on climate change issues in developing countries, mainly on mitigation activities. This sum includes the new International Climate Protection Initiative, which is run by the environment ministry and funded by ETS revenues. The Initiative will raise EUR 120m annually split between clean energy and adaptation, primarily administered through bilateral projects.
- The UK's GBP 800 million Environmental Transformation Fund, much of which is being channelled through the World Bank's Climate Investment Funds (CIFs).

4 *Can the EU meet the climate and development challenge?*

The evidence provided above indicates that climate change mitigation and adaptation concerns are firmly on the agenda of the EC and Member State development co-operation efforts. But what is the potential for Europe to address the three overarching challenges of: meeting the climate funding gap; achieving the 'three Cs'; and mainstreaming climate change response efforts? This section provides an initial analysis of these challenges.

4.1 Filling the funding gap

It is difficult to track exactly how much EU funding is going towards supporting developing countries responses to climate change. The reasons for this include the lack of a standardized reporting system, diverse financial channels (which vary between central multilateral and bilateral member state mechanisms), difficulties in defining what constitutes 'climate change-related' spending and overlapping involvement between the different EU Directorates-General (DGs). The Commission is developing a reporting system based on the 'Rio Markers', which may enable a better picture of funding flows within different areas of development co-operation (Behrens 2008). The evidence that is available indicates that existing funding remains very low in relation to the required needs. Concerns have been raised particularly in relation to the GCCA, which currently has only EUR 60 million budgeted for 2008-2010 (EP 2008b), with an additional EUR 5.5 million pledged by Sweden through the EU budget.

Several Members of European Parliament (MEPs) are calling for much larger volumes of funding to be allocated: EUR 2 billion per year for 2010 and between EUR 5 and EUR 10 billion per year by 2020 (EP 2008b). Whilst these figures seem massive compared to existing climate-related funds, the EU offers some promising options (Table 2) and has some comparative advantage over other donors. This is because the EU ETS (by far the largest emissions trading scheme in existence) acts as a source of finance, through the purchase of emissions reduction credits from mitigation projects in developing countries and possibly by raising additional funding by auctioning emissions allowances in the system. Currently most emissions allowances are allocated for free to companies regulated under the ETS. Auctioning at least a portion of allowances is expected to become compulsory for some sectors in the next phase of the ETS (2013-2020) and in the long term could raise up to EUR 25 billion per year to support developing countries, if 50% of revenues are dedicated to an international fund as called for by the European Parliament (EP) (EP 2008a).

However, in December 2008 negotiations between the Commission, the Parliament and the Council did not allow to earmark a specific percentage for international co-operation. Instead, Member States are only called to voluntarily commit 50% of the revenue available for climate purposes. No reference is made to international co-operation. Therefore, it will be important to ensure that an adequate proportion is allocated to development co-operation efforts, which will require negotiation with those wishing to use the funds to support domestic actions and a better understanding of the effects on the competitiveness of EU industry through such measures. Such funds could be linked to another proposed option - the Global Climate Finance Mechanism – which would raise funds by issuing a bond on the international markets. This would enable 'frontloading' of funding for immediate use in a similar way to the Global Fund for Aids. Used together, these two instruments could therefore help to address both the scale and urgency of the funding challenge.

SOURCE		DESCRIPTION	SCALE (million EUR)
EXISTING SOURCES			
Action Plan		Focuses on mainstreaming climate change as an integral part of core EU development co-operation activities. EC funding will mainly come from the Thematic Programme for Environment and Sustainable Management of Natural Resources, including Energy (ENRTP) and through country/regional geographical funds.	**23**
ENRTP		Addresses the environmental dimension of development and other external policies and helps to promote the EU's environmental and energy policies abroad. It is currently the main instrument for climate change related funding in EC development co-operation.	**200** (2007-2010)
GCCA		Aims to provide a platform of dialogue and co-operation between EU and developing countries, as well as financial/technical assistance for mitigation/adaptation.	**60** (under ENTRP) **5.5** (from Sweden)
European Investment Bank (EIB)	Global Authorisation Mechanism	Facilitates small-medium sized projects aimed at promoting climate change related investments in developing countries. Special emphasis on carbon credit generating projects.	**100** (2006-2008)
	Climate Change Technical Assistance Facility	Aims to promote CDM and Joint Implementation (JI) projects by providing assistance throughout the whole project cycle.	**5**
	Multilateral carbon credit fund	Buys carbon credits from eligible projects in transition countries from Central Europe to Central Asia and thus increases their internal rate of return.	**190** (-2013)

SOURCE		DESCRIPTION	SCALE (million EUR)
EXISTING SOURCES			
European Investment Bank (EIB)	Carbon Fund for Europe	Intended to help European countries meet their Kyoto commitments whilst supporting investment in clean technology projects in developing countries.	**50** (-2017)
	Post-2012 carbon credit fund	Focuses on purchasing Kyoto-compliant carbon credits generated after 2012, potentially until 2020, by entering into forward agreements with project owners.	**125**
EU ETS project (CDM) category (primary transactions)		Investments in renewable energy and energy efficiency projects mainly in emerging economies.	**7500** (2007)
GEEREF		Aims to mobilise private investments for the benefit of developing countries and economies in transition. Financed by the ENRTP, the EBRD and EIB.	**114**
NEW SOURCES			
Global Climate Financing Mechanism		A bond issued on the international markets, enabling 'frontloading' of adaptation funding for immediate use. Future repayment over a long period financed through revenue of EU Member States derived from the future auctioning of emission rights.	**1300** per year (for 5 years)
Auction Revenues from EU ETS (assuming ~ 50% allocated for international action as called for by the EP in October 2008)		Funds raised through the sale of ETS emissions allowances via auction.	**25000** per year
EU ETS project (CDM) category		Ceiling of 1400 MtCO2e until 2020 proposed for the EU ETS will limit future value but depends on post-2012 policy.	Depends on post-2012 policy
Reallocation of Common Agricultural Policy (CAP) funds		Proposed by European Parliament	N/a
Humanitarian Funds		Proposed by European Parliament	N/a
Common Foreign and Security Policy Funds		Proposed by European Parliament	N/a
Instrument for Stability		Proposed by European Parliament	N/a

Table 2: Summary of climate change related finance in the EU. Note that due to difficulties in ring fencing finance specifically for climate change and overlaps between sources and instruments, these figures are only indicative. Sources: Behrens 2008; Capoor and Ambrosi 2008; EP 2008a

Other public and private sector funding options are also being promoted. In the public sector these include re-allocation of funding from other policy areas such as the CAP (EP 2008b), though these options need to be further explored. There is strong interest in the role that public finance can play in harnessing private sector funding to address mitigation and adaptation, given that estimates indicate that 85% of climate related finance may need to be raised through the private sector (UNFCCC 2007). The GEEREF, support facilities of the EIB and the structures of the EU ETS linked to the CDM may all provide such opportunities.

However, whilst market-based mechanisms may offer potential for significantly increased finance, the options for spending such finance are limited and do not necessarily address some key development needs, such as those of the poor, who have limited access to markets. This problem has arisen with the CDM, whose implementation is concentrated on China, India and Brazil, and similar problems could arise in emerging mechanisms such as the Reduced Emissions from Degradation and Deforestation (REDD) (Peskett et al. 2008). So far, there has also been a tendency to focus on supporting mitigation, with much less clarity on the options for public-private partnerships to support adaptation. Klein (2008) suggests that this lack of incorporation of the needs of the poor may also arise in adaptation funding, as long as new funding mechanisms under the UNFCCC are not geared towards them or climate change impacts are not effectively taken into account in development co-operation.

All funding options are susceptible to fluctuations in global markets, such as the current 'credit crunch', which highlights the need for longer term commitments and the development of strategic recovery plans that factor in energy efficiency and greener growth.

4.2 Achieving the 'three Cs'

The second challenge that the EU has to contend with is achieving high levels of coordination, complementarity and coherence within its climate change and development programming (Box 1). These issues have relevance at two interlinked levels in relation to EU development co-operation on climate change:

1. The EU's role in relation to other bilateral and multilateral initiatives of climate change and development;
2. The internal division of labour between Brussels and the Member States.

Box 1: Coordination and complementarity as a self-evaluation tool for EU development policy

Coordination and complementarity were adopted as part of efforts to monitor the EU's development performance. They are defined as follows:

Coordination, defined as 'activities of two or more development partners that are intended to mobilise aid resources or to harmonise their policies, programmes, procedures and practices so as to maximise the development effectiveness of aid resources'. A lack of coordination may lead to a donor driven agenda, excessive demands on scarce management capacities, and inconsistencies of approach.

Complementarity: referring to the need to ensure that the EU's development policy is complementary to the policies pursued by the Member States. This indicates that development co-operation is a shared competence between the Union and the Member States, which can be jointly exercised.

Coherence: The third criterion for evaluation is coherence which is probably the most debated of the three terms, and is defined as: 'the non-occurrence of effects of policy that are contrary to the intended results or aims of policy'. It refers to a subjective judgement based on whether side effects of the policy undermine the policy's aims. With regard to policy coherence this means that it can focus on one terrain or field of policy only, or try to make links with other fields, domains or policies. An important aspect is the distinction between intended and unintended incoherence in policy-making.

Source: Three-Cs.net/3Cs-Defined

There is an increasingly complex landscape of bilateral and multilateral initiatives on climate change. The general trend appears to be diverging away from, rather than converging towards, trends in development co-operation underlined in the Paris Declaration for increased donor coordination and developing country ownership of processes. In the past two years at least 14 new international financial initiatives on climate change have been launched, creating a 'patchwork quilt' of mechanisms (Porter et al. 2008). Particularly prominent are debates surrounding new vertical funds to be managed by institutions such as the Global Environment Facility (GEF) (the main financial mechanism for the UNFCCC), and the World Bank. Concerns have been raised by developing countries about the lack of representation in the governance structures of such funds, long lead times for accessing funding, complex application procedures and the type of finance (e.g. whether grants or loans).

The EC has so far kept some distance from this debate, though some funding is already channelled to support the various UNFCCC climate funds, EUR 5 million may be channelled into the World Bank's Forest Carbon Partnership Facility (FCPF) (SEC(2008) 2619/2) and it has discussed the Global Climate Finance Mechanism with the World Bank (European Commission/World Bank 2008). Instead, it is establishing its own approaches and it may be that it is treading a fine line between adding to the complexity of the existing system and providing complementary measures. The GCCA is interesting in this regard, as it has been set up to become a 'clearing house' for European development co-operation on climate change, which in theory should help to streamline different efforts. It also promotes the use of the General Budget Support aid modality for supporting developing countries on climate change. This may turn out to be a more effective approach for mainstreaming at the country level through alignment with other development processes and greater 'trust' from developing countries in terms of addressing the equity, fairness and institutional concerns of developing countries (Lawson et al. 2007; Klein 2008). Such an approach is less prominent in many other climate funds (Porter et al. 2008).

Despite these positive attributes, the GCCA has not been as prominent in the climate change debate as other multilateral climate change initiatives and has faced calls from Member States and the Parliament to demonstrate its 'added value' compared to other options, before further support is offered (Box 2). This implies that the EC has yet to reach its full potential in terms of overcoming the challenges of coordination and complementarity, at least in this specific area. Demonstrating added value is likely to require a more detailed understanding of how the approach and structure of the GCCA differs from other initiatives, and more evidence of how effectively the GCCA approach is in addressing climate change in different countries, possibly through pilot activities carried out at scale. The likelihood of increased financial clout through the innovative new financing options discussed above could be a major factor in changing this situation.

Box 2: The GCCA and the United Kingdom (UK): watch and wait?

The GCCA is one of the European Commission's flagship initiatives for addressing climate change in the context of development co-operation by providing a platform of dialogue between the EU and poor developing countries, alongside technical and financial assistance.

The UK's Select Committee on European Scrutiny considered funding the GCCA in October 2007, and rejected the proposal on the grounds that:

- More evidence was needed for the added value of the GCCA in an arena where there are many multilateral initiatives on adaptive capacity;
- Another thematic fund could undermine the Paris Declaration on ownership and harmonisation and "overload recipients' capacity";
- The GCCA initiative was possibly not demanded by the target countries.

The EC responded, detailing the GCCA's focus on incorporating the National Adaptation Plans of Action into Poverty Reduction Strategy Papers of the poorest countries, specialising in areas not covered by other multilateral initiatives (Least Developed Countries and Small Island Developing States), and closely adhering to Paris Declaration principles including using budget and sector support as key vehicle for aid.

Despite these assurances, the Parliamentary Under-Secretary of State for the Department for International Development concluded that "we should allow the GCCA to proceed, not provide any money at this stage and continue to watch it closely". The UK government instead would remain in a monitoring role, whilst pursuing its own bilateral mechanisms. "We will stay closely engaged in the design of the GCCA to ensure that it meets these aspirations of coherence, complementarity, alignment and ownership. In particular, we will ensure that the GCCA and the UK's GBP 800m Environmental Transformation Fund, which will support clean energy, avoided deforestation and adaptation, are complementary".

Source: European Scrutiny Committee Second Report (2007)

The final issue emerging within the 3Cs framework surrounds the coherence of climate change and development co-operation policies. Issues of policy coherence arise in numerous areas in relation to domestic climate change policies, but biofuels policies and carbon markets have been the subject of particularly intense debate. For example, there are concerns that the European target by 2020 of renewable energy for at least 10% of the EU's total fuel consumption in all forms of transport target could largely be sourced from biofuels, which could have negative implications for developing countries in terms of impacts on global food prices and accelerated tropical deforestation. This has led to some revision of the policy in terms of the size of the target and the development of safeguards such as environmental standards for the sourcing of biofuel feedstocks.

Interrelationships between policies may be also used strategically by the EU in order to help achieve climate change objectives. One example of this is in synergies between European Union Forest Law Enforcement, Governance and Trade (EU FLEGT) policies and the emergence of a REDD mechanism under the UNFCCC (Nussbaum et al. 2008). As with biofuels policies, the positive and negative implications of such approaches need to be much more carefully assessed. Whilst there could be large financial opportunities for developing countries from REDD (globally up to USD 53 billion per year by some estimates) it is possible that market-based incentive mechanisms could end up being detrimental for the poor, for example where governments try to suppress activities such as cyclical cultivation in an attempt to preserve forests. Whilst the EC is still resisting the incorporation of forestry within the EU ETS (mainly due to concerns about the environmental integrity of forest carbon markets) it is cautiously supporting such initiatives in the international process. In the medium term it has been suggested that large volumes of finance could be allocated for forest protection in developing countries in order to try to meet climate change objectives (EC SEC(2008) 2619/2). There are many different options for establishing such forest protection systems at international and national levels, with varying implications in terms of equity and poverty and these factors will need to be taken into account in the development of coherent and effective approaches (Brown and Peskett 2008).

4.3 Successful mainstreaming

The EU Action Plan states that "the EU will support and promote mainstreaming of adaptation concerns and national action plans for climate change reported in national communications or national adaptation programmes of action (NAPAs), where they exist, into strategic frameworks such as national strategies for sustainable development (NSSD) and PRSPs". The Green Paper on Adaptation has a stronger emphasis on integration, suggesting that support for mainstreaming adaptation into development has grown (Klein et al. 2007). Beyond these high level policy objectives there is some evidence of progress on the challenge of environmental and climate change mainstreaming, which is reviewed in this section with a focus on EC development co-operation.

Tools for mainstreaming environmental issues within EC development co-operation include, for example, Country Environment Profiles (CEP), Environmental Impact Assessments (EIA), Strategic Environmental Assessments (SEA) and progress indicators. One of the most important instruments is the

CEP, which is prepared as an annex to Country Strategy Papers (CSP) and used as a basis for mainstreaming into different strategy areas.

A 2006 report by the European Court of Auditors (ECA) found that progress with environmental integration into the 2002-2006 strategy papers "was mostly weak" and "the environment had not been satisfactorily mainstreamed". Climate change was not mentioned in the CSPs of any of the African countries (Williams 2007). They concluded that the reasons for the lack of attention to the environment include:

- failure to appreciate the obligations arising under Article 6 EC;
- inadequate policy guidelines;
- lack of data;
- insufficient resources or adequately trained staff;
- insufficient analysis by the Commission of the CSPs and the projects they foster.

Since the report was completed, there appears to have been some progress. Palerm et al. (2007) studied the effectiveness of CEPs for the 2007-2013 CSP process by taking a selection of six country case studies and measuring performance on the basis of 'environmental integration outcomes' within CSPs. This is a basic measure of how influential the CEP is over the formulation of CSPs, and not a measure of actual environmental outcomes. The study indicates a good level of environmental integration even for non-environment sectors in the six cases and represents a big improvement compared to the previous generation of CSPs, as investigated by Dávalos (2002). The findings are supported by another report from environmental NGOs which surveyed 63 EC delegations, finding that 44 made reference to current or planned environmental profiles – representing major progress in the recognition of the importance of this tool. Whilst the reasons for these improvements cannot be proven, they may be partly due to the establishment of an Environment Helpdesk[2] and the provision of training on environmental mainstreaming to EC staff (Palerm et al. 2007).

Progress on the specific issue of mainstreaming climate change appears to have been slower. Climate change considerations will be "systematically addressed" at the occasion of Country and Regional Strategy papers and considered when preparing Country and Regional Strategy papers for the next cycle starting 2012 (reported in Hedger 2008). Out of four countries examined by DG Development in this assessment, none had climate change integrated as priority in their CSP, and only two had climate change integrated in their national development plans. There is great variation from country to country. For example, Tanzania fails to integrate climate change into its most recent CSP for 2007-2013, whilst Indonesia is looking at integrating the trade component of CSP into climate change projects.

[2] Part of the Commission efforts to mainstream environment into development co-operation was the creation of an Environment Helpdesk to raise awareness and build capacities of staff to integrate the environmental dimension in EC development co-operation and into partner countries' sector policies and programmes. Its three main tasks for the years 2004-2007 are: 1) training of staff and stakeholders, 2) provision of tailor-made support services to the Commission desk officers and delegations and 3) update of the manual on environment integration.

There is scope for further improvements in all areas of mainstreaming, particularly in ensuring consistency with government and EC environmental commitments, ensuring that indicators measure performance in terms of actual environmental outcomes, greater transparency of information (especially in the use of EIAs and SEAs) and more clarity over why SEAs are being used (Palerm et al. 2007; Nicholson 2008). Perhaps the biggest obstacle to overcome – and one already recognized by the Commission (Williams 2007) – is that countries often have higher political priorities than the environment which, in combination with moves towards country ownership of aid, may decrease the ability of donors to shift the focus towards the environmental agenda. Better economic assessments of the impacts of climate change in particular countries, along with dialogue mechanisms in GBS (such as sector working groups and Performance Assessment Frameworks) may be good entry points for raising climate change up the agenda whilst maintaining country ownership.

Finally, framing climate change purely as an environmental issue may prove to be a more fundamental obstacle for effective mainstreaming. Such framing obscures the direct relevance of climate change for economic growth and development planning, i.e. the strategic changes needed in energy policy and other sectoral policies in developing countries and the risks included in the impacts of climate change for poverty alleviation (Klein et al. 2007).

5 *Conclusions: Laying the foundations for successful action*

Laying solid foundations with which to address the impacts of climate change on developing countries in the long term will require the international community to overcome a series of short term challenges. The most important of these include identifying additional sources of mitigation and adaptation related finance, finding better ways to coordinate its delivery and improving processes for mainstreaming climate change.

The evidence in this paper shows that Europe is at the forefront of climate policy processes and is well aware of these challenges. It offers great potential to overcome them, especially with possibilities for generating additional finance through innovative mechanisms and taking leadership in delivering more effective development co-operation on climate change. But in order to achieve these goals, further questions need to be answered, especially as regards the suitability of different financing options in terms of meeting the needs of developing countries whilst also satisfying developed country interests; the added value of its own initiatives compared to other options, including those of the Member States; the role of development co-operation vis-à-vis new emerging funding mechanisms under the UNFCCC and what the options are for more quickly building on progress in mainstreaming climate change in the context of new aid modalities and within other sectoral European policy areas. The Copenhagen Conference of the Parties to the UNFCCC in December 2009 means that 2009 will be a pivotal year in which to demonstrate progress on these challenges, in order to build confidence in an effective future global climate regime beyond 2012.

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EUROPEAN DEVELOPMENT CO-OPERATION TO 2020

European Association of Development Research and Training Institutes (EADI)
Kaiser-Friedrich-Strasse 11
53113 Bonn
Germany

Tel.: (+49) 228 . 2 61 81 01
Fax: (+49) 228 . 2 61 81 03
www.eadi.org

Over the next decade, Europe's development policies will have to act on a combination of old and new domestic issues and substantial changes in the global landscape. Change in Europe's internal architecture – with implications for development policy – takes place in times of wide-ranging global shifts, and at a time when questions of European identity loom large in national debates. A key questions is: How will the EU, how will "Brussels" and the member states be working together on common problems? Global challenges include three issues increasingly facing EU's development policy agenda:

- The emergence of new substantial actors in international development,
- The linkage between energy security, democracy and development and
- The impact of climate change on development.

Public and policy-making debates need to be informed about future options and their likely effects; and decisions need to be based on good research and sound evidence. EDC2020 seeks "to improve EU policy-makers' and other societal actors' shared understanding of the above named emerging challenges facing EU development policy and external action." EDC2020 will contribute to this shared understanding by promoting interaction across research and policy-making, aiming at establishing links to share perspectives across different arenas, and mutual learning. To this aim, EDC2020 will provide policy-oriented publications, a shared project website and high-level European policy forums.

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