



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 20.10.2009  
SEC(2009) 1426 final

**JOINT PAPER**

**Presidency / Commission Services (14/10/09)**

**Climate Change and Development**

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## 0. Executive Summary

This joint paper from the Swedish Presidency of the EU and the European Commission follows from the work of the International Commission on Climate Change and Development and its report "Closing the Gaps" and the recent Communication from the Commission "Stepping up international climate finance: A European blueprint for the Copenhagen deal" (COM/2009/475). The paper takes a mid-term and long-term perspective, beyond the forthcoming Copenhagen Summit in December this year and highlights the importance of developing policies and strategies to cope with the climate change challenge in developing countries most vulnerable to climate change. It provides guidance on how the EU can best respond to the challenges of adaptation and mitigation in those developing countries and improve its development cooperation approaches and practices.

Adaptation to climate change and the move towards low-carbon growth will require rethinking development strategies. This paper draws attention of policy makers to the principles, objectives and modalities as well as the required additional finance for encouraging donors and partner countries to invest effectively and sustainably in adapting to climate change, while moving towards low-carbon development. Effective adaptation includes increased adaptive capacity among humans and societies, investments in technical adaptive measures, and building resilience. Effective adaptation is context specific and must start at the local level. But adapting to climate change will entail adjustments and changes at every level – from local to national, regional, and international. Strong institutions, tailored to needs, at all levels, are important in this regard.

The EU Member States should respect their individual ODA commitments and the EU should reach its collective ODA commitment of 0.7 % of GNI by 2015. Climate change imposes an additional burden on developing countries. The EU and its Member States should contribute their fair share of public financing for adaptation and mitigation and should contribute to fast-start financing for the first three years following an ambitious agreement in Copenhagen.

The paper includes a set of key recommendations to guide EU support which are summarised below.

Successful adaptation will depend on enhanced knowledge of climate impact, design of appropriate response measures and integration of these measures in each country's sector policies and strategies. It will also depend on the ability of each country to access the additional financial resources required and on effective delivery. **The EU should support partner countries' efforts to fully integrate climate concerns in their development**

**strategies and budgets.** The EU Member States and the Commission should use their programming and review processes to further enhance the integration of climate change issues in their country and regional cooperation strategies.

The EU should provide fast-start international public support, which is important in the context of a comprehensive, balanced and ambitious Copenhagen agreement. It should particularly target capacity building, including for designing Low-Carbon Growth Plans (LCGPs), readiness for mitigation, pilot projects, and immediate adaptation concerns. **EU support should be provided in particular for LDCs/LICs and SIDS** before 2013.

The **EU should commit to apply the established principles on aid effectiveness to all climate support.** This implies that the EU will align and harmonize its support especially at country level, avoiding duplication and parallel channels of financing;

To maximise the impact of available finance, the **EU should encourage developing countries to develop strategic and programmatic** approaches to adaptation which go beyond traditional project-based approaches. To be successful they should be people centred and should integrate local, national and regional levels of intervention. They will include the full integration of disaster risk reduction in adaptation plans supporting the implementation of the Hyogo Framework for Action.

For the credibility of donor commitments, tracking of financial allocations for adaptation and mitigation is of particular importance. The **EU should inter alia contribute to the work of OECD/DAC on a marker for adaptation finance**, in addition to the existing one on mitigation. It should support **work at country level to quantify finance needs for adaptation and low-carbon development** and report on financing flows, in particular through development of bottom-up approaches. It should also support further work on guidance on indicators measuring progress in adaptation efforts.

To maximise efficiency, foster division of labour and exploit synergies at country level, between EU Member States and the Commission, the **EU should establish and regularly update through ad hoc reporting, a mapping of its ongoing and planned climate interventions** at country level in developing countries.

It is important that poor developing countries most vulnerable to climate change, in particular LDCs and SIDS, can take better advantage from the global carbon market. In this respect, the **EU should support measures for a more effective participation of these countries in the carbon market.** The EU should also promote early action to assist developing countries in reducing emissions from deforestation and degradation, while stressing the importance of improving forest governance.

## **1. Climate is changing development**

Climate change is one of the biggest challenges that the international community has to face. Urgent and significant actions are needed to curb the emissions of greenhouse gases in the atmosphere, thus keeping global mean temperature change below 2°C compared to pre-industrial level. Mitigation of climate change and adaptation to its consequences require considerable political will and commitment to move towards growth and development patterns that are sustainable and will ensure prosperity for the future generations. Responses to this challenge cannot wait as the negative effects on livelihood and ecosystems are already visible. For instance, the recent report of the Global Humanitarian Forum led by Kofi Annan

suggests that 325 million people are already seriously affected by drought, disease, floods, loss of livestock and agricultural yields, and decline of fish stocks. A further 500 million people are at extreme risk, and 300,000 people are already killed every year by climate related effects. The call for immediate action to adapt and reduce the impacts of climate variability and change is clear.

While climate change is a global phenomenon, its negative impacts are more severely felt by poor populations and poor countries, especially at the local level, with over 90 % of those expected to be seriously affected living in developing countries. They are the most vulnerable because of their high dependence on natural resources and their limited capacity to cope with climate variability and extremes. Special attention should be given to gender equality and women's empowerment in development cooperation. Climate change is a serious risk to poverty reduction and threatens to undo decades of development efforts towards achieving the Millennium Development Goals (MDGs). Climate change also affects democratic governance, political stability and security as pointed out by the European Security Strategy. When resources – water, arable land, forests – become scarcer, the threat to stability and security increases. Developing countries' right to development is fundamental and must be supported so that climate change does not undermine progress.

The ongoing global economic and financial crisis is affecting all countries, slowing economic growth. But poor countries have the least capacity to foster recovery. They face simultaneous and interrelated crises of access to finance, security of energy supply and high food prices. The international response to the financial crisis has demonstrated that political resolve can trigger great mobilisation of wills and resources. There is a need for the same resolve to deal with climate change. The financial and climate change challenges should be tackled in a consistent and coordinated way. Enhancing the capacity of people and communities to deal with one also increases their capacity to deal with the other. Our response to the global recession can and should provide the basis for a new sustainable development path that responds to the intertwined crises and enhances the capacity to manage and reduce risk.

The focus of this paper is on the poor developing countries that are highly vulnerable to the adverse effects of climate change, in particular, the Least Developed Countries (LDCs), the Small Island Developing States (SIDS) and the African countries at risk of drought, desertification and floods.

## **2. The road to a new climate change deal and beyond**

The EU should continue to pursue a development perspective within the UNFCCC. The overall goal of climate change negotiations should be to safeguard a sustainable development for all. Despite some progress, a trust gap exists between developed and developing countries that has the potential of slowing down or stalling indispensable common action. Restoring confidence is also about OECD countries meeting their ODA commitments<sup>1</sup> and getting their trade policies right, and about developing nations ensuring transparent, effective and efficient financial management and the empowerment of their communities.

The EU is the largest provider of development assistance in the world and wants to make sure that its aid is spent in an efficient way. Climate change itself may put projects financed by Official Development Assistance (ODA) at risk and the way of delivery of climate change finance may also affect ODA. Therefore, the EU stresses the importance of reducing climate

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<sup>1</sup> The EU's collective commitment is to reach ODA of 0.56 % of GNI by 2010 and 0.7 % by 2015.

change risks in development programmes while ensuring climate resilient development. In order to bridge the trust gap, a new momentum should be created with a necessary refocussing of attention to the problems faced by the poor developing countries most vulnerable to climate change. Climate proofing development cooperation and ensuring necessary additional international financial flows, in combination with ambitious legally binding emission reduction commitments from developed countries, will build crucial confidence.

Adaptation and mitigation are both essential to secure sustainable development. Development cooperation has a vital role to play, especially with regard to adaptation, but also in terms of building capacity and technology development for mitigation combining emission reduction efforts with those necessary to ensure for developing countries energy security and the access to modern energy sources. It should be underlined that there are close links and synergies between emission reductions and adaptation. For example, sustainable forest and ecosystem management contributes to both mitigation and adaptation. Furthermore, investment decisions today will determine the path of growth of economies – and ultimately their contribution to solving the problem of climate change. So, for instance, promoting renewable energy sources will not only have a clear benefit for poverty reduction and economic growth, but will at the same time support countries to embark upon a low carbon development path. The magnitude and type of adaptation needed in the longer term will depend on the success of global emission reductions.

### **3. Fostering effective adaptation**

Adaptation to climate change is vital in order to reduce the impacts of climate change that are happening now and increase resilience to future impacts. According to the OECD adaptation contributes to reducing the vulnerability of human or natural systems to the impacts of climate change by maintaining or increasing adaptive capacity and resilience. This comprises a range of activities from information and knowledge generation, to capacity development, technology transfer to secure the necessary advances to meet adaptation challenges, to planning and the implementation of climate change adaptation actions. There is a clear link between adaptation and risk reduction efforts, two fields where synergies must be better exploited. Reducing and insuring against disaster risk is critical to managing and adapting to the impacts of climate change and avoiding an erosion of social and economic welfare.

Adaptation requires, according to the Commission on Climate Change and Development (see annex 1), fostering sustainable development, meeting the present needs without compromising the ability of future generations to meet their needs. Such development will be enabled by building adaptive capacity of people and investing in appropriate technical adaptive measures. Adaptive capacity results from investments in water resources management, maintaining and restoring resilient ecosystems, but also in human resources such as health, education, planning, and improving access to assets, all contributing to poverty reduction.

Adaptive measures include investments such as seawalls, crop insurance schemes, research on heat- and drought-resistant crop varieties, vaccines, upgraded drainage systems, enlarged reservoirs, restoration of mangroves, coral reefs and floodplains etc. Depending on the context, the balance between the adaptive capacity and adaptive measures components of adaptation varies. In practice, each country will require a mix of adaptive capacity and adaptive measures.

With the purpose of facilitating adaptation action in an effective, coherent and timely manner, the EU has put forward a proposal for a Framework for Action on Adaptation (FAA) that will be instrumental in helping mobilising and enlisting the necessary financial support to the most vulnerable while promoting the progressive integration of adaptation actions into national and sectoral planning processes (see annex 1)

### *3.1 From NAPAs to integration of adaptation in development plans*

The National Adaptation Programme of Action (NAPA) process was initiated at the Marrakech Climate Conference in 2001. NAPAs are an instrument "to communicate priority activities addressing the urgent and immediate needs and concerns of LDCs relating to adaptation to the adverse effects of climate change <sup>2</sup>". The NAPA identifies at national level a list of priority projects over 12-18 months. On top of their NAPA several LDCs undertook comprehensive and forward looking work to shape long-term national adaptation strategies. NAPAs have been finalised in 41 LDCs. However, implementation has so far been limited.

The experience with NAPAs is useful, but they need to be followed by long term strategic and vision features. A project based approach cannot support the wide ranging changes required to address effectively the adaptation challenges. While NAPA priorities and priorities identified in related planning documents need to be implemented urgently, adaptation planning should move beyond NAPAs towards a programmatic approach to adaptation, in order to deal with adaptation in a comprehensive and strategic manner.

In the short run, supporting capacity building on how to promote the integration of adaptation measures in national development strategies as well as ensuring adequate financial support to the urgent needs including through project-based interventions can contribute to speeding up urgently needed adaptation and building trust between developed countries and developing countries. This is the main rationale of recent initiatives such the EU's Global Climate Change Alliance (GCCA) and the Pilot Programme for Climate Resilience (PPCR) and a number of bilateral initiatives by EU Member States. These initiatives allow gaining experience that should gradually lead to effective integration of adaptation into a country's overall development strategy (see annex 1).

### *3.2 The importance of the local, national and regional capacities*

Adapting to climate change will entail adjustments and changes at every level – from local to national, regional, and international. Communities must build their resilience, including adopting appropriate technologies while making the most of traditional knowledge, and diversifying their livelihoods to cope with current and future climate stress. Local coping strategies and traditional knowledge need to be used in synergy with government and local interventions. To enable workable and effective adaptation measures, ministries and governments, as well as institutions and non-government organizations, must consider integrating climate change in their planning and budgeting in all levels of decision making. The right measures should be country-driven, and be taken at the right level (local, national, regional, international) as illustrated by the examples below.

#### *Local level*

The local level is key as the impacts of climate change are local and contextual. Therefore certain adaptation measures are best implemented at the local level and capacities need to be

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<sup>2</sup> UNFCCC, (2002) Annotated guidelines for the preparation of NAPAs. LDC Expert Group

strengthened at that level. Local authorities know their community best and should be given primary responsibility both for identifying groups at risk and for supporting them in their efforts to increase resilience. This will also necessitate that a share of financial support, domestic and external, is progressively devolved to the local level. In order to create the necessary links between national and local efforts (e.g. at municipalities, provinces and districts level) there is a need to involve local public authorities (for instance health, education, water, energy, spatial planning and agriculture) in the adaptation process.

#### *National Level*

Responsibility for integrating and coordinating adaptation policies with poverty reduction strategies should be concentrated at the national level. This covers areas such as infrastructure, technology transfer, gender equality and health, but also education and awareness raising. It also implies transfer of fiscal resources to local authorities as needed. Development cooperation programming shall reflect the developing countries priorities and involve in-depth dialogue. Gradually, when progress towards integrating climate adaptation in national strategies reaches a certain stage, budget support can become the preferred and most effective implementation modality. In this respect specific indicators should be developed. The capacity to cope with disaster risks can inter alia be improved with risk transfer mechanisms such as market based insurance and social protection schemes.

#### *Regional Level*

In many cases, regional coordination will provide great opportunities for dealing with the climate change response. Climate change is by nature a cross-border issue and many countries may have the same characteristics and face similar challenges as their regional neighbours. Regional organizations can play an important role in analyzing lessons learned, exchange of experience, ensure diffusion of information on best practices, develop regional level tools such as norms for building and protected areas based on further analysis of regional climate impacts and scenario. The regional level can bring important value added and cost effectiveness in coordinating of national policies and responses and developing activities such as research and innovation. For example, there is a need to address climate change at the level of river basins and agro-ecological zones, therefore increasing the importance of regional interventions and ensuring the involvement of mandated regional organisations. These should become more innovative in assisting countries to produce regional climate information and knowledge, design common early warning systems for extreme weather conditions, manage shared water resources, control regional infectious diseases and develop and create various agricultural and ecosystem management systems.

Given its own experience in both regional co-operation and developing comprehensive cross-border adaptation strategies, the EU has valid knowledge and practice to share on how to deal with the regional dimension of climate change.

### **4. Mitigation in Developing Countries**

While developing countries are not asked to commit to economy-wide quantitative absolute emission reduction targets until 2020, it is clear that significantly lowering the greenhouse gas intensity of economic growth in emerging economies is essential to achieve the objective of limiting global warming to 2° C. Based on recent analysis, developing countries as a whole will need to reduce the growth of their emissions trend by 15 to 30 per cent below

business as usual by 2020.<sup>3</sup> The development of Low Carbon Growth Plans (LCGPs), covering all key emitting sectors, is a central tool for developing and implementing a long-term low carbon growth pathway, and in particular Nationally Appropriate Mitigation Actions (NAMAs), to limit emissions to the levels set out in the pathway.

LCGPs including NAMAs should be encouraged in all developing countries, as they can increase the potential for sustainable growth and poverty reduction. LCGPs should be ambitious, include meaningful NAMAs and distinguish between actions that can be carried out autonomously and those requiring international support. Low Income Countries (LICs) in particular should be assisted in preparing such plans by capacity building. For LDCs the development of such plans should be optional. Priority should be given to low cost abatement strategies and actions intended to develop synergies between adaptation and mitigation. There are important synergies to be exploited between the objectives of adaptation, mitigation and poverty reduction: for instance, sustainable forest management and reducing deforestation and forest degradation would contribute to reducing disaster risks, preserving biodiversity, securing livelihood of forest dependent population and reducing emissions. Sustainable agricultural practices such as agroforestry also contribute at the same time to rural livelihood and increasing soil carbon levels.

In the framework of Low Carbon Growth Plans the issue of Reducing Emissions from Deforestation and Forest Degradation (REDD) has gained substantial importance and it offers mitigation opportunities in countries with sizeable tropical forests. Discussions are ongoing on how to set up and implement a performance-based financing mechanism. The Commission proposed a Global Forest Carbon Mechanism (GFCM) through which developing countries could be compensated for emissions reductions from deforestation and forest degradation.<sup>4</sup> In December 2008, the Environment Council invited the Commission to assess the implications of credits generated in the context of a financial mechanism addressing deforestation and forest degradation, under appropriate conditions, for a partial fulfilment of government commitments. Practical work is ongoing through the inter alia World Bank's Forest Carbon Partnership Facility and the UN REDD programme to prepare developing countries for the implementation of a future UNFCCC REDD mechanism. In a longer term perspective there may be scope for integrating REDD credits in the carbon markets, but a cautious and progressive approach is necessary. According to the Commission's Communication a first step should be a pilot scheme to test the inclusion of deforestation credits in the carbon markets for government compliance. Efforts to improving forest governance and combating illegal logging will continue to be crucial to reduce deforestation. The EU's Forest Law Enforcement Governance and Trade (FLEGT) initiative is working in that direction and can usefully support REDD objectives by improving forest governance in partner countries.

Recently there has been increased attention for the role of agriculture in mitigation. Improved land use and livestock practices can reduce emissions, while at the same time they are positive for food security and sustainability. Especially the African countries have been drawing attention to this. Mitigation in the agricultural sector in developing countries should be encouraged and options explored taking into account requirements for Monitoring, Reporting and Verification (MRV).

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<sup>3</sup> See COM(2009) 39 Towards a comprehensive climate change agreement in Copenhagen

<sup>4</sup> See COM(2008)645 Addressing the challenges of deforestation and forest degradation to tackle climate change and biodiversity loss.



The Clean Development Mechanism (CDM) is the flexible mechanisms under the Kyoto Protocol that channels financial resources towards mitigation projects in developing countries. The CDM investments have gone almost exclusively to emerging developing countries. It is important to enhance the contribution to sustainable development and to global emissions reduction of the CDM and to strengthen the participation of the LDCs. The Commission has recently proposed that, to ensure a dynamic development of the international carbon market, the existing CDM needs to be substantially reformed and focus on LDCs, and for economically more advanced developing countries and highly competitive economic sectors, a sectoral carbon market crediting mechanism should be phased in after 2012.

Private sector initiatives for the further development of the international carbon markets<sup>5</sup> will play a key role in the transformation towards low-carbon economies. Public finance will also be needed, including for catalytic activities spurring initiatives such as creating an enabling environment (incentives and regulatory structures), capacity building for optimal policy design, and in overcoming barriers and to crowd in private sector money e.g. through vehicles such as the Global Energy Efficiency and Renewable Energy Fund (GEEREF).

Development cooperation has an important role to play in facilitating and supporting a wide array of capacity building interventions targeting the shaping up and early implementation of Low Carbon Growth Plans, as well as their integration into development plans and strategies, in fostering and stimulating private investment and supporting technology transfer. Early action makes the transition towards a low-carbon economy smoother.

## **5. International Governance**

Participatory democracy, functioning institutions, and transparency are needed at all levels for effective response to the climate change challenge. People at risk need democratic and political space so that they can inform themselves and articulate their views and concerns. They need markets that work for them so that they can trade and build their assets.

Adaptation is best managed through domestic policy coherence and through coordination and cooperation among governments, civil society, and the private sector. The principle of subsidiarity should apply, and decisions should be taken at the level where they are most effective. The bulk of responsibility will fall on local and national authorities, supported by international actions for appropriate capacities and resources.

The scope of financing climate change-related action, both for mitigation and adaptation, encompasses all sectors of the economy, private companies, households and public procurement, and the required scale is well beyond present disbursement levels. The combined challenges of scope and scale call for efficient delivery, which is best built on the broad base of existing bilateral and multilateral financing mechanisms.

Multilateral and bilateral financing institutions and implementing agencies have already accumulated significant experience. Existing institutions should be used for the deployment of financial resources. If needed, they should be reformed and strengthened to credibly serve this purpose. Capacity building on climate change within these institutions will need to become a priority. Each of them should contribute to the solution of the global climate problem using its own comparative advantage in its own field of expertise. In addition,

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<sup>5</sup> "carbon market" refers to a market driven by private-to-private transactions.

coordination and knowledge sharing should become an integral part of their operations in this area.

At present support both for adaptation and mitigation is provided through several bilateral and multilateral channels. The multilateral channels include the UN system, particularly through the United Nations Development Programme (UNDP), the Adaptation Fund (AF) under the Kyoto Protocol, the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF) under the Global Environment Facility (GEF), the new Climate Investment Funds of the World Bank and other multilateral development banks.

Developing countries need clarity on the governance structures of any new climate financing architecture. There is a need for measurable, reportable and verifiable mitigation actions in developing countries and nationally owned low-carbon growth plans as a sound way to coordinate these activities and match resources to priorities. Support for adaptation and resilience should take place within wider sustainable development strategy

The governance structure should be efficient, effective and equitable. It should comprise a coordinating mechanism for mitigation that would validate low-carbon plans and strategies and register specific action and support. Implementation can take place through the existing bilateral and multilateral channels. The principles of aid effectiveness and good coordination must be respected. Given the difficulty to monitor adaptation financing, developing countries should be encouraged to establish a system of monitoring and reporting of financial needs and actual contributions from both national and international sources.

## **6. Financing and the role of ODA**

In accordance with the Bali Action Plan (adopted at the UNFCCC Conference of the Parties in 2007) the financing of emission reductions, adaptation and technology cooperation should be secured by means of improved access to adequate, predictable, new, additional and sustainable financial resources. Substantial sums will be required both for adaptation and for mitigation. According to the Commission Communication "Stepping up international climate finance: A European blueprint for the Copenhagen deal" finance requirements for adaptation and mitigation could reach roughly €100 billion per year by 2020.

Finance to support actions in developing countries will come from three main sources:

- 1- domestic finance (predominantly private sector, but also public flows for clean low-carbon and climate resilient development);
- 2- international private finance through the carbon market (in particular through the new sectoral carbon market crediting mechanism); and
- 3- international public finance.

The proportions of domestic finance, international public finance and carbon market will be different from one developing country to another, one sector to the other and from mitigation to adaptation. One of the roles of domestic and international public finance would be to mobilise a maximum amount of private sector finance, e.g. by bridging the financing needs during early uptake of new technologies.

Financial support for mitigation activities from the public sector in developed countries will be particularly needed to support institutional and regulatory capacities, especially in LDCs. The establishment of effective domestic institutions in those countries will need to be

assisted with capacity building already from 2010 onwards, for example, to prepare and implement effective national low-carbon Growth Plans as well as to build the necessary database and to integrate adaptation into national development strategies.

The amount of public finance required for mitigation will rise gradually and will focus mainly on capacity building and pilot actions. As of 2013, demand for international public finance is likely to accelerate with the increasing number of robust mitigation action plans and their implementation. Public finance will also be needed to stimulate private sector investment into research, development and demonstration, largely through public-private partnerships and joint ventures, including between developed and developing countries.

Adaptation financing is already much needed in the short term to increase the capacity of LDCs and SIDS to start the implementation of priority adaptation needs identified by them. Clarifying and increasing the global contribution to adaptation funding between now and 2012 would provide a bridge before any new post-2012 arrangements are in place. Apart from ODA, there are few ready alternatives for this effort towards increased adaptation in the next two to three years. It should be recalled that so far ODA has been the main source of adaptation finance.

ODA should be used in a catalytic manner, in order to “kick- start” other forms of financing. In the medium term, ODA will continue to play an important role in the public financing of adaptation measures, particularly in the LDCs and SIDS. The criteria for what is counted as ODA need to be fully respected. The EU Member States should respect their individual ODA commitments and the EU should reach its collective ODA commitment of 0.7 % of GNI by 2015. If all OECD/DAC countries were to achieve an ODA level of 0.7 per cent of GNI in 2015, world development assistance would more than double, as the present average for the OECD/DAC is 0.3 % (0.4 % for the EU). In absolute terms, this could mean moving from around € 80 billion in 2008 to around € 190 billion by 2015<sup>6</sup>. As climate change imposes an additional burden on developing countries, finance provided by the EU for adaptation and mitigation should, as a result, increase urgently and substantially beyond current levels.

Using ODA also means to apply fully the principles of aid effectiveness. However, these principles should apply to all finance, regardless of the source. A monitoring mechanism, such as the newly proposed OECD/DAC Rio marker<sup>7</sup> for adaptation finance, in addition to the existing one for mitigation, should be agreed and applied.

Climate change support is and will continue to be a blend of ODA and other funding sources, including from possible new and innovative sources. Such flows should be considered as complementary. Financial support for adaptation and mitigation should contribute to sustainable development and should not undermine or jeopardize the fight against poverty and continued progress towards the Millennium Development Goals.

Using multiple public funding sources increases the importance of applying national systems, including planning budget, reporting and auditing. The use of national systems enhances transparency and accountability to domestic constituencies as well as to the international donors. In addition, this will facilitate cross-country comparison of the funding needs and

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<sup>6</sup> Assuming an exchange rate of roughly 1.5 US\$/€, these figures would correspond to approximately US\$ 120 billion in 2008 and US\$ 280 billion by 2015.

<sup>7</sup> Rio markers provide an indication that an ODA funded project contributes to the objectives of the Rio Conventions; these are the Conventions dealing respectively with climate change, biodiversity and desertification. So far there was only a Rio marker for climate mitigation and not for adaption.

reports on efforts of different contributing partners and for making sure that developing countries have access to appropriate financial support. This system should build on the existing OECD/DAC reporting systems also allowing a systematic and regular review of the situation at the global level enabling to identify gaps which might have to be filled. This process should be complemented by the reporting arrangements described above.

Coordination, harmonisation and alignment of approaches and funding will also be essential to avoid fragmentation and to ensure effectiveness and efficiency within countries. This means that donor coordination will be essential to avoid overburdening the governments of developing countries. The EU Code of Conduct on Complementarity and Division of Labour should be applied in this regard. No new vertical funds should be established therefore, unless they clearly add value to mechanisms or funds already in place.

## **7. Implications for development policy**

Based on the above, there is a crucial role for development policy and cooperation. Development policy should further integrate climate change as a key challenge for achieving sustainable development. Development strategies should comprehensively address and enhance adaptive capacities of individuals, communities, ecosystems, and institutions, both to increase climate resilience and to move towards a low-carbon development pathway.

It is essential not to create parallel channels of delivery of ODA and of climate change finance. There should only be one national development strategy as a single reference for financing.

In the short term, the EU needs to support developing countries through ODA in order to increase their capacities, both for mitigation and adaptation. This will assist developing countries, depending on the circumstances, to better define their adaptation needs and/or to start implementing adaptation activities identified in the NAPAs and strategies and planning documents, while moving progressively in the medium and long term to a mix of financial sources with an increase of the private sector role, in particular for mitigation purposes. The short term support should also assist to provide a clearer picture of adaptation needs.

Disaster Risk Reduction (DRR) is an essential part of successful adaptation to climate change. Most vulnerable developing countries and societies should be supported in reducing disaster risk through focussed action on disaster prevention, mitigation and preparedness. In some cases, urgent and targeted support is needed to protect the most vulnerable groups, taking into account a gender perspective, and to deal with flooding, drought and other natural phenomena caused by climate change. The emphasis on support for individual projects, however, needs to be replaced in the long run by support for carefully prepared strategies to integrate adaptation into national planning processes decided on by the developing countries. Accordingly, the move towards sector wide approaches and gradually towards sector and general budget support should be favoured.

Success in this will depend on the ability to handle risks and to anticipate future scenarios as well as to strengthen the climate adaptive capacities and resilience of people, communities, ecosystems and institutions. The achievement of sustainable development will require action that is:

- ***fast*** – the climate is changing more rapidly than scientists predicted,

- *extensive* – with more people in risk zones, both needs and the scale and scope of essential measures will increase,
- *focused* – better risk and vulnerability management will be needed for the most vulnerable groups and
- *integrated* – development and climate change need to be seen together and synergies between measures to address adaptation and emission limitations need to be exploited.

## 8. Recommendations

- The EU (Member States and the European Commission) are urged to engage more strongly in a dialogue with partner countries and to strengthen the full integration of climate concerns into their development strategies and budgets. In this respect the 10<sup>th</sup> EDF Mid-Term Review and other relevant and similar reviews of geographic and thematic instruments should be an opportunity to enhance the integration of climate change issues into development cooperation. Similarly EU Member States should use their programming processes to pursue the same objective and ensure an overall EU alignment and harmonisation.
- The EU should commit to apply the established principles of aid effectiveness to climate support. Priority must be given to avoid duplication and parallel channels. Regular and enhanced use of coordination mechanisms, in particular at country level, should be promoted for climate support purposes.
- The EU and its Member States should contribute their fair share of public financing for adaptation and mitigation and should be ready to contribute to fast-start financing for the first three years following an ambitious agreement in Copenhagen.
- The EU Member States should respect their individual ODA commitments, and the EU should reach its collective ODA commitment of 0.7 % of GNI by 2015 and should consider a short term increase in public climate financing beyond current levels, particularly for capacity building and meeting urgent adaptation needs. This increase should be focused on poor developing countries that are highly vulnerable to the adverse effects of climate change, in particular, LDCs, SIDS and African countries at risk of drought, desertification and floods. Early action should also cover promoting energy efficiency and renewable energy in developing countries.
- An EU mapping of ongoing and planned relevant support to climate interventions at country level should be established and regularly updated in cooperation with the country concerned with the aim of fostering division of labour and synergies at country level between the EU Member States and Commission actions.
- The EU should support the proposed OECD/DAC Rio marker for adaptation finance, in addition to the one that already exists for mitigation, that will allow the tracking of ODA for adaptation and urges the OECD donors to apply it from 2010; the EU should also support further work or guidance on indicators measuring and evaluating progress in adaptation efforts at country level.
- The EU should recommend further methodological work at regional and country level to quantify finance needs for adaptation and low-carbon development strategies, in particular

including through development of bottom up approaches, based when appropriate on cost-benefit analysis and comparison of scenarios

- A greater emphasis must be put both on the human dimension of climate change and on the importance of the local, national and regional levels, particularly as regards adaptation and disaster risk reduction. In this regard, the EU should encourage developing countries to adopt a strategic and programmatic approach to adaptation.
- The EU should pay more attention to the synergies and links between disaster risk reduction and climate adaptation. This should include inter alia green infrastructure planning and the use of risk transfer mechanisms as a safety net for the most climate vulnerable population. Close coordination is needed with the efforts to implement the Hyogo Framework for Action and the International Strategy for Disaster Reduction (ISDR).
- The EU should support a more effective participation of LDCs and SIDS in the carbon market, including through the reform of the Clean Development Mechanism.
- The EU should also promote early action to assist developing countries in reducing emissions from deforestation and degradation.

## **Annex 1: Recent initiatives with focus on adaptation**

### ***The EU proposed Framework for Action on Adaptation***

International cooperation should be enhanced with a view to facilitate adaptation to the adverse effect of climate change in an effective, coherent and timely manner, by all Parties at local, national, regional and global levels, enabled by means of implementation. Such cooperation should take into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change.

With the purpose of facilitating adaptation action in an effective, coherent and timely manner and to enhance action as agreed in the Bali Action Plan, the EU has put forward a proposal for a Framework for Action on Adaptation (FAA).

The FAA would be established to facilitate and mobilise support and action on adaptation and to promote climate resilient development. It would set out the scope of, and provide a basis for action on adaptation in all countries, serving as a guide for Parties. In the EU's view, the FAA would be guided by a series of principles that would facilitate the implementation of adaptation action. It would foster adaptation action which is country driven, utilises national delivery systems, responsive to local needs and warranting decisions in line with the principle of subsidiarity.

In order to enhance ownership of the implementation of adaptation actions at local, national and regional levels, the FAA would be flexible and involve all relevant stakeholders while being informed by the best available science.

In the EU view, all Parties should commit to preparing and implementing strategies to integrate adaptation in all development planning. This is necessary to enable the transition from project-based adaptation, which is needed in the short term, to programmatic approaches in the long term.

### ***The Pilot Programme for Climate Resilience (PPCR)***

A group of developed and developing countries have recently designed a multilateral development bank-managed instrument to provide programmatic finance for the development and implementation of national climate resilient development plans. Its purpose is to provide lessons on the design and implementation of these plans over the next few years that might be taken up by countries, the development community, and the future climate change regime, including the Adaptation Fund. Approximately € 350 million (roughly half grants, half loans) is currently available to the programme. A number of pilot countries – selected by an expert committee - have been invited to participate in the PPCR: **Bangladesh; Bolivia; Cambodia; Mozambique; Nepal; Niger; Tajikistan and Zambia**. A sunset clause will apply and no new PPCR financing will be approved for activities after calendar year 2012 when a new climate change regime comes into force. The PPCR's approach is putting climate integration into practice and promoting a longer-term, transformative approach to adaptation. It is also piloting new governance mechanisms, with equal representation of developed and developing countries.

### ***The Global Climate Change Alliance (GCCA)***

In September 2007 the European Commission launched an initiative on a Global Climate Change Alliance (GCCA) between the European Union and poor developing countries most vulnerable to climate change<sup>8</sup>. The GCCA intends to step up cooperation between the EU and the developing countries that are hit earliest and hardest by climate change and have the least capacity to react. They are typically the **Least Developed Countries (LDCs) and Small Island Developing States (SIDS)**. There are more than seventy countries in these categories. The Alliance is based on two pillars:

1) **Improved dialogue** on and exchange of experiences with addressing climate change. The results of the dialogue will feed into the discussions on the post-2012 climate agreement under the UN Framework Convention on Climate Change (UNFCCC). The idea is to support the convergence of visions between Europe and the developing countries on the shape of an ambitious agreement.

2) **Concrete support** for adaptation and, where beneficial for the achievement of poverty reduction aims, for mitigation measures. Five priority areas are foreseen:

- (i) supporting adaptation to the effects of climate change;
- (ii) reducing emissions from deforestation and degradation (REDD):
- (iii) enhancing participation in the global carbon market,
- (iv) promoting Disaster Risk Reduction and
- (v) integrating climate change into poverty reduction efforts.

The European Commission has earmarked €70 million from the Environment and Natural Resources Thematic Programme (ENRTP) over the period 2008-2010 to start up the GCCA. A significant share of existing geographic and thematic funding will also serve the objective of the initiative. Around €30 million of ENRTP funds are expected to contribute to REDD. Under the 10<sup>th</sup> EDF intra-ACP funding €40 million is allocated to the GCCA in priority for regional action, in addition to €180 million for Disaster Risk Reduction. The Commission also appealed to the EU Member States to contribute resources to the GCCA.<sup>9</sup>

Based on a range of criteria including vulnerability and climate policy stance four countries have been identified to start up activities under the GCCA through the Environment and Natural Resources Thematic Programme (ENRTP). These are **Vanuatu, Maldives, Cambodia and Tanzania**. Eleven more countries have been identified for cooperation under the GCCA during 2009 and 2010: **Bangladesh, Belize, Guyana, Jamaica, Mali, Madagascar, Mauritius, Mozambique, Rwanda, Senegal and Seychelles**. This list is not exhaustive and other countries within the overall target group of the GCCA may be added.

The GCCA regional dialogue resulted in **Joint Declarations** on climate change **between the EU and the Caribbean** (in March 2008), **the Pacific** (October 2008) **and Africa** (November 2008). A **Joint ACP-EU Declaration** has also been adopted in May 2009.

### ***The International Commission on Climate Change and Development***

The Swedish Government decided to contribute to international efforts to integrate risk reduction and adaptation to climate change in the development agenda by launching in 2007 the International Commission on Climate Change and Development. Its objective was to present concrete proposals on how adaptation, risk reduction and climate-proof development

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<sup>8</sup> COM(2007)540

<sup>9</sup> Sweden is contributing € 5.5 million and Czech Republic € 1.2 million. Some other member states expressed interest to support the GCCA.



can be effectively integrated into development and poverty reduction plans in developing countries. The International Commission presented its final report on 14 May 2009 at the United Nations, with the participation of Secretary-General Ban Ki-moon. The report, *Closing the Gaps*, offered recommendations to strengthen the resilience of vulnerable countries and communities.

The International Commission called for the immediate mobilization of new and additional climate adaptation money but not at the expense of ongoing development programs. Priority should be given to the most vulnerable countries – African and Small Island states in particular. Existing National Adaptation Programs of Action are seen as entry points to long term integrated plans and strategies. As the creation of new mechanisms might delay essential action, the International Commission recommends a two-step approach in order to accelerate such process. As *a first step*, donors are urged to immediately mobilize USD 1-2 billion to assist vulnerable, low-income countries. In *a second step*, countries must agree on a mechanism with democratic and efficient governance, and the necessary flexibility to cater for the variety of needs. At the national level, countries must be able to receive and allocate funds from multiple sources with the lowest transaction costs. The current proliferation of financing mechanisms for adaptation remains problematic from the coherence point of view. No further vertical funds should hence be created for adaptation. While more work is required to better estimate adaptation needs, the report concludes that there are already promising options proposed to raise funds.

## **Annex 2: Adaptation in practice, the rural sector as an example**

Adaptation implies interventions in a broad range of sectors at the national level. Adaptation measures in the agriculture sector are likely to be important in virtually all developing countries since agriculture and related rural activities remain the basis of the livelihood and food security of the majority of the world's poor. Women play a key role as food producers as well as a major agricultural labour force, and it is necessary to actively support initiatives investing in opportunities for women within agricultural services in the context of climate change. Achieving climate resilience of the agricultural sector is fundamental for reaching the MDGs. Agriculture is already facing multiple climate related risks such as droughts and floods that may be exacerbated by unsustainable land use. Climate change is increasing the risks and further work on Agricultural Research for Development (ARD) is needed in the near future to avoid irreversible losses in production. Resilience can be increased using already existing knowledge, diversifying the agricultural production by mixing crops, combining improvements in infrastructure, promoting drought resistant crops, increasing the soils capacity of holding nutrients and water, technology, regulation, awareness raising etc. Further improvements can be obtained by orienting agronomic research towards improved climate resilience.

Enhancing adaptation in the agricultural sector has to build on local conditions and capacities. Investments in resilience will also increase yields. For certain extreme types of risks an insurance or risk transfer mechanism can be the most cost-effective response. Index insurance mechanisms have already been successfully applied in poor countries and there is scope for wider use as element of climate adaptation. Such mechanisms can be subscribed by the public sector and are an element of rural social safety nets.