

**FINANCING FOR CLIMATE CHANGE ADAPTATION
A DISCUSSION PAPER**

PREPARED FOR THE CCIC POLICY ROUNDTABLE

**RECLAIMING THE COMMONS:
PROMOTING A NORTH-SOUTH AGENDA FOR ENVIRONMENTAL JUSTICE**

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FINANCING FOR CLIMATE CHANGE ADAPTATION

*“Forget about making poverty history.
Climate change will make poverty permanent.”¹*

1.0 SUMMARY

This briefing note is part of a series of CCIC policy briefs designed to serve as an orientation to the emerging environmental justice agenda for CCIC. The briefs are intended to build upon Point 7 of the sectors’ Global Challenge to End Poverty and Injustice: A 10 Point Agenda which is to *Promote Global Environmental Justice*. Development and social justice organizations must integrate a holistic environmental justice perspective in our work.

This policy brief explores the financing mechanisms currently available to assist developing countries contend with climate change, with a focus on adaptation funding. It reviews the funding mechanisms available at the Global Environment Facility (GEF) and their connection to the UNFCCC, the emergence of the World Bank’s Climate Investment Funds as well as some alternative proposals. It also outlines the initiatives of the Canadian government in climate change adaptation and financing.

2.0 BACKGROUND

Industrialized, rich countries in the global North have been the most responsible for the current crisis of climate change due to their historically high levels of greenhouse gas (GHG) emissions and have an obligation to those countries that will suffer its worst effects. The 2007 report of the Intergovernmental Panel on Climate Change (IPCC) demonstrates that the countries least responsible for climate change will bear the brunt of it through impacts of extreme weather, sea-level rise, drought and food insecurity, among others. Changes that must be made to mitigate climate change, adapt to its effects and support a transition to an alternate system that will keep us from a dangerous level of climate change require a significant amount of investment and financing.

Financing, together with *mitigation* of GHG emissions, *adaptation* and *technology transfer*, is one of the four principle building blocks of the Bali Action Plan, the plan of the United Nations Framework Convention on Climate Change (UNFCCC) designed to develop a sustainable, global climate change regime after 2012 (the end date of the Kyoto Protocol). Financing (concessional resource flows, loans and investments) for climate change relates to and is intricately linked to mitigation, adaptation and the transfer of technology.²

¹ Chowdhury, N. Practical Action. Quoted in *Degrees of Separation. Climate Change: Shared Challenges, Shared Opportunities*. Department for International Development (DfID), United Kingdom. p.2.

² *Mitigation* refers to the measurable, reportable and verifiable reduction of emissions of greenhouse gases, which has been at the heart of climate change negotiations since their start. *Adaptation* refers to the changes and adjustments that need to be made in order to increase resilience to the adverse social and economic impacts in vulnerable countries and sectors as a result of human induced climate change. *Technology transfer* refers to the development and deployment of technologies that will help put country economies on clean development paths through increased energy efficiency and clean technologies. Technology development and deployment can be considered a mitigation measure.

Many Southern groups and movements have called for “climate justice”³ and broader participation in the climate change debates to reflect the needs and views of those who will be the worst affected by climate change in the post-2012 framework. Some of those views have included demands for long term solutions for alternative economic frameworks. Those frameworks exclude market-based mitigation measures, promote peoples’ sovereignty, stewardship and control over natural resources (challenging the roles of the International Financial Institutions (IFIs) or Transnational Corporations), confront over-consumption in the North, promote gender justice and accept short term adaptation funding as a form of ecological debt and not charity, among others.⁴

Article 3 of the 1992 United Nations Framework Convention on Climate Change addresses climate justice in the principles upon which Parties to the convention shall be guided. Article 1 states that:

The Parties should protect the climate system for the benefit of present and future generations of humankind, on the basis of equity and in accordance with their common but differentiated responsibilities and respective capabilities. Accordingly, the developed country Parties should take the lead in combating climate change and the adverse effects thereof.⁵

It is upon this principle of “common but differentiated responsibilities” that developed countries have committed to take the lead in tackling climate change and supporting developing countries by providing financing for adaptation and the transfer of technology.⁶

2.1 Financing for Climate Change Adaptation

So, how much money does the developed world actually need to put forward to support the adaptation efforts in the global South? Some estimates have been made. Despite significant measurement difficulties and a lack of consensus on the degree of adaptation needed, “most estimates that have been presented in the last few years indicate that the investments required could be of the same magnitude as, or greater than, recent global ODA flows” (102 billion

³ In July 2008, over 170 activists from social movements, indigenous peoples’ groups and civil society organizations came together in Bangkok for a conference to affirm their commitment to climate justice. www.focusweb.org/climatechange.

⁴ One such campaign is the People’s Protocol on Climate Change (<http://peoplesclimateprotocol.aprnet.org>) that began before but gained momentum during the UNFCCC negotiations held in Bali in December of 2007. Another example is Climate Justice Now!, a network of organizations and movements from across the globe committed to building a diverse movement for social, ecological and gender justice based on a set of principles which were elaborated during the UNFCCC climate talks in Bali 2007.

⁵ United Nations Framework Convention on Climate Change. Version FCCC/INFORMAL/84. United Nations. 1992.

⁶ In discussions about the transfer of appropriate technologies for combating climate change, it is important to note two things: that many Southern based groups continue to warn that technological fixes cannot address the climate crisis while maintaining current growth and consumption levels; and that there are many issues of technology transfer that must still be resolved, such as barriers in the trading system relating to patents and intellectual property rights, among others. While those issues require critical attention, for the purposes of this paper, a focus on financing for adaptation will be maintained.

USD).⁷ At the higher end of the estimate spectrum is the UNDP 2007 Human Development Report, which put annual adaptation costs at approximately 90 billion USD. A lower estimate includes the World Bank at 10 billion USD, whereas Oxfam estimates the costs at 50 billion USD annually.⁸ Whatever the actual amount associated with climate change adaptation specifically, further costs will most certainly need to respond to the actual impacts of climate change on peoples' health, livelihoods and human rights.⁹

A July 2008 report “New Finance for Climate Change and the Environment”, commissioned by the World Wildlife Fund and the Heinrich Böll Foundation, clearly demonstrates donor proliferation of climate change funds pointing out that eight bilateral and six multilateral funds have emerged in just over a year. Among other conclusions, the report affirms that despite the UNFCCC and the principles of the Paris Declaration,¹⁰ “governments, in particular donor governments, have risked overlooking many of the hard learned lessons and best practices that have been adopted for other development and environment purposes”.¹¹ While 14 new financing mechanisms may appear welcome in the current climate crisis, years of administering official development assistance can remind us that money alone does not always generate results. These concerns were reinforced at the September 2008 High Level Forum on Aid Effectiveness where donors, recipient governments and multilateral organizations agreed that “as new global challenges emerge, donors will ensure that existing channels for aid delivery are used, and if necessary, strengthened before creating separate new channels that risk further fragmentation and complicate coordination at country level”.¹²

2.2 Emerging Channels for Financing

2.2.1 The UNFCCC mandated funds and the Global Environment Facility (GEF)

At present, the Global Environment Facility (GEF) is the multilateral body designated to house financing mechanisms to meet country obligations of the UNFCCC. Since its inception in 1991, the GEF has also structured and administered financing mechanisms for several environmental multilateral agreements and conventions including the UN Convention to Combat Desertification (UNCCD), and the Convention on Biological Diversity (CBD).¹³ The GEF is not a UN fund, but a joint fund implemented by the World Bank, United Nation Development Program (UNDP) and the United Nations Environment Programme (UNEP). It is jointly governed by donors and recipients (after restructuring in 1994 to make the fund more equitable with a double majority

⁷ CONCORD AidWatch Themed Discussion Paper. AidWatch Seminar October 20-21, 2008, Brussels.

⁸ *Ibid.*

⁹ Nelson, Daniel. *Climate Will Add \$100B to Development Costs*, October 14, 2008. OneWorld UK.

¹⁰ Donors and recipient governments have agreed that aid is effective when it is guided by country-owned development strategies, donors align their funding with these strategies utilizing country systems for managing aid funding, harmonize the terms for their aid reducing transaction costs for recipients, manage their aid for results, and put in place processes for mutual accountability for commitments by both donors and recipients.

¹¹ Porter, Gareth, Neil Bird, Nanki Kaur and Leo Peskett. *New Finance for Climate Change and the Environment*. July 2008. http://assets.panda.org/downloads/ifa_report.pdf

¹² *Accra Agenda for Action*, Third High Level Forum on Aid Effectiveness, paragraph 19c, September 2008, <http://www.accrahlf.net>.

¹³ The Global Environment Facility. Accessed on October 28, 2008 at <http://www.gefweb.org/interior.aspx?id=50>.

required for all decisions – 60% of all member countries and 60% of funds weighted by donors), though the World Bank continues to play a central role and innovations in governance have seldom been put to the test as most decisions are by consensus.

The GEF currently manages four funds that support climate change adaptation on behalf of the UNFCCC. Those include the *Strategic Priority on Adaptation (SPA)*, the *Least Developed Countries Fund (LDCF)*, the *Special Climate Change Fund (SCCF)* and the *Adaptation Fund*. The GEF serves as the operating body of the SPA, LDCF and SCCF. The GEF provides secretariat services to the *Adaptation Fund* although its operations are managed by a separate Board in attempt to ensure it functions more effectively and overcomes past concerns with GEF (some of which will be detailed below).

The *Strategic Priority on Adaptation (SPA)* of the GEF Trust Fund was established in response to guidance from the Conference of Parties (CoP) of the UNFCCC to support pilot and demonstration adaptation projects based on country needs. The SPA is guided by the overall mandate of the GEF. It is not exclusively dedicated to development-related adaptation, but also supports adaptation projects of global environmental benefit such as adaptation of vulnerable ecosystems.¹⁴ It is further limited to providing funding for incremental costs, those additional costs associated with costlier environmental projects.¹⁵ The GEF itself has provided an initial 50 million USD to this fund.¹⁶

The *Least Developed Countries Fund (LDCF)* exists to support LDCs in the development of National Adaptation Programs of Action (NAPAs) and is funded through voluntary contributions. Some 14 countries have pledged a total of 120 million USD to date.¹⁷

The *Special Climate Change Fund (SCCF)* addresses adaptation and the transfer of technology through project support for a broad range of activities from agriculture to monitoring of diseases to disaster preparedness. The SCCF has received voluntary contributions from 12 developed countries, including Canada, and has pledged a total of 60 million USD.¹⁸ The SCCF as well as the LDCF are managed by the GEF, however with their own set of rules and procedures.¹⁹ Their operational modalities have been criticized for being too heavily influenced by donor desires and too stringent in their co-financing requirements.²⁰

¹⁴ Frequently Asked Questions about GEF's Work on Adaptation. Accessed on November 30, 2008 at http://www.gefweb.org/projects/focal_areas/climate/documents/adaptationFAQs.pdf.

¹⁵ Action Aid Discussion Paper. *Compensating for Climate Change: Principles and Lessons for Equitable Adaptation Funding*. December 2007. p.10.

¹⁶ International Institute for Sustainable Development (IISD). *A Way Forward: Canadian Perspectives on Post-2012 Climate Policy - DRAFT*. February 2008. p.102.

¹⁷ The Global Environment Facility, Least Developed Countries Fund. Accessed on October 28, 2008 at: http://www.gefweb.org/interior.aspx?id=194&ekmense1=c580fa7b_48_62_btnlink.

¹⁸ The Global Environment Facility, Special Climate Change Fund. Accessed on October 28, 2008 at: http://www.gefweb.org/interior.aspx?id=192&ekmense1=c57dfa7b_48_60_btnlink.

¹⁹ The Global Environment Facility, Climate Change Adaptation. Accessed on November 19, 2008 at: <http://www.gefweb.org/interior.aspx?id=264>.

²⁰ IISD. 2008. p.82.

The *Adaptation Fund* was established by the countries party to the Kyoto Protocol of the UNFCCC as a mechanism to finance concrete adaptation projects and programmes in developing countries. It is not yet operational (as of December 2008) though it will be financed by 2% of the Certified Emission Reductions (CERs) from projects of the Clean Development Mechanism (CDM) and expects to levy between 160 and 190 million USD until 2012.²¹ The CDM is a market mechanism for trading emissions credits created under the Kyoto Protocol where polluters purchase verifiable offset investments in projects which provide sustainable development and emission savings.²²

Though the GEF provides for several funding streams for the UNFCCC, its critics have noted both strengths and weaknesses as a multilateral institution for managing climate change resources. On the one hand, it has a long standing mandate to support environmental projects in developing countries by transferring resources to meet environmental convention obligations and has long-standing institutional linkages between the Bank and UN development and environmental agencies. Since its inception the GEF has provided 7.4 billion USD in grants and generated over 28 billion USD in co-financing revenue from donor countries to support environmental projects. In 2006, 32 donors pledged 3.13 billion USD to fund the GEF through to 2010.²³

On the other hand, the GEF has been strongly critiqued for being slow to disburse funds, inaccessible and procedurally burdensome.²⁴ Furthermore, it has also been critiqued for not attracting sufficient funding, lacking a strategic approach to climate change and for being an illegitimate mechanism, due to the continued involvement of the World Bank in traditional i.e. “dirty” carbon-based energy lending to developing countries. The GEF has worked on the underlying assumption that small amounts of project based funding could leverage transformational change,²⁵ an inherently unsound assumption. With regard to the lack of a strategic approach, the GEF has operated through project-based cycles without a programmatic approach to address the challenges associated with climate change at a global level. Lastly, with regard to the question of legitimacy in its association with the World Bank, statistics from the Bank Information Center show that the World Bank’s private sector arm, the International

²¹ *Ibid.* p.102.

²² By 2006, the annual amount traded through offset programs had reached 174 million tonnes CO₂e. In the voluntary, unregulated market the units traded are Verified Emission Reductions (VERs), amounting to an estimated 13 million tonnes in 2006. The record for offset projects is patchy, at best, and the practice has generated a lot of controversy (issues in verification of legitimate offsets, no actual reduction in emissions by the offsetter, designing sustainable development projects to meet the exclusive goal of offset rather than human development, and the ethics of transferring adaptation to the poor in the South and avoiding hard choices in the North). A number of NGOs are increasingly participating in the CDM market to raise funds for development projects. These initiatives require due diligence to assure additionality and address issues with the mechanism itself as a strategy for reducing emissions. See *Is Offsetting Suitable for NGO Development Projects*, BOND Newsletter, March 2008.

²³ The Global Environment Facility, Funding. Accessed on November 19, 2008 at: <http://www.gefweb.org/interior.aspx?id=44>

²⁴ Action Aid Discussion Paper. *Compensating for Climate Change: Principles and Lessons for Equitable Adaptation Funding*. December 2007. p.3.

²⁵ Porter, G. et al. *New Finance for Climate Change and the Environment*. July 2008. p.16.

Financial Corporation (IFC), increased lending for fossil-fuel projects by 165% in 2008 while there was only a 9% rise in for renewable projects. The World Bank Group as a whole was said to have increased fossil-fuel lending by 60%.²⁶

The *Adaptation Fund* has also been criticized in terms of its revenue source, which is generated through a levy from the Kyoto Protocol's Clean Development Mechanism (CDM). The CDM is controversial and has been criticized by some for doing more harm than good through limited technological-fixes and market-based interventions through transactions of Certified Emission Reductions (CERs).²⁷ The management of this fund is different than the others under the GEF as a separate Adaptation Fund Board has been created to manage its activities. This alternative structure responds to developing country critiques of the LDCF and SCCF modalities being heavily influenced by donor interests, inequitable financing requirements and excessive GEF control.

There is significant and strong sentiment among civil society groups and Southern movements that any funding mechanism for climate change mitigation, adaptation or technology transfer must be based within the United Nations Framework Convention on Climate Change to ensure support for the international system while simultaneously ensuring that the post-2012 agreement is inclusive, equitable and transparent to both civil society actors and developing country governments.

The UNFCCC needs to open up negotiations with the GEF and all parties to the Convention on reforming the GEF as the financing mechanism for the Convention and particularly for future funding emerging from an inclusive and equitable post-2012 agreement. In order for the GEF to realistically overcome its own inaccessible, burdensome and undemocratic management, it must become more flexible, adaptive and innovative, shed its legal rigidities,²⁸ scale up its scope and strengthen its institutional arrangements as the main financial mechanism of the UNFCCC. Any reform should also occur through negotiations within the UNFCCC framework and ensure that effective engagement by developing countries is institutionalized in the early stages of public debate.²⁹ The voluntary basis for current funding mechanisms of the UNFCCC have largely failed to deliver and a future financing regime will require binding, long-term and predictable commitments from developed countries in order to provide the financial resources necessary to meet the obligations assumed in the post-2012 agreement.

2.2.2 World Bank Climate Investment Funds

The World Bank has seemingly launched a parallel set of adaptation and mitigation funds. Gathering together financial pledges made by G8 leaders for climate change, the Bank launched the Climate Investment Funds (CIFs) at the G8 in Hokkaido, Japan in July of 2008. The CIFs are part of a broader World Bank framework for climate change, called the *Strategic Framework on Development and Climate Change for the World Bank Group (SFCCD)* agreed by the Bank

²⁶ See Roy, Srabani. Bank Information Center. 'Climate bank' or 'fossil fuel bank'? World Bank Group increases lending to high-carbon projects. September 28, 2008. Accessible at: <http://www.brettonwoodsproject.org/art-562437>

²⁷ Andrew Scott in BOND Newsletter, March 2008. *Is offsetting suitable for NGO development projects?* <http://www.bond.org.uk/News/offsetting.htm>.

²⁸ Porter, G. et al. *New Finance for Climate Change and the Environment*. July 2008. p.53.

²⁹ *Ibid.*

governors in the spring of 2008. This Framework is premised on the Bank's belief that there is a "need for increased financial resources and instruments to fill the financing gap to scale up clean energy investments and to integrate climate resilience into development assistance".³⁰ The CIFs are made up of the *Clean Technology Fund (CTF)* and the *Strategic Climate Fund (SCF)*. They are expected to take the form of a combination of grants and concessional loans.

The *Clean Technology Fund (CTF)* is a mitigation fund intended to provide climate change financing for mitigation actions aimed at sustainable development through loans that are concessional at rates lower than the regular multilateral bank standard. It is intended to scale up demonstration, use and transfer of low-carbon technologies for energy, transport, agriculture and industry.

The *Strategic Climate Fund (SCF)* is said to be broader and more flexible in scope (addressing both mitigation and adaptation) and is intended to provide a range of climate change financing (loans, credits, guarantees, grants) for scale-up activities or pilot programs in areas such as enhancing climate resilience, access to "green" energy and investments to reduce deforestation.³¹

In September 2008, donors gathered and pledged a total of 6.1 billion USD to the CIFs. Of the 10 countries who pledged support of the CIFs,³² the largest donors were the United States at 2 billion USD, the United Kingdom at £800 GBP (approximately 1.5 billion USD) and Japan at 1.2 billion USD. While the funds are not yet operational, they expect to begin approving proposals by early 2009.

A significant number of developing countries and civil society voices from northern and southern countries have challenged the Bank's involvement in climate change financing. They point to its support of traditional energy projects, its lack of transparency and accountability, its climate change financing taking the form of loans not grants, and its lack of credibility, among other critiques. They have called for support of the UNFCCC process and funds over those of the Bank. Largely in response to these concerns by developing countries and civil society organizations, the Bank funds and programs under the CIFs now have a sunset clause that will see them possibly phased in a post-2012 climate change regime. Also in response to this pressure, developing countries have now been included in the governance structures and decision making bodies of the CIFs. While these concessions have been made, they are considered largely inadequate and ignore more fundamental opposition to the World Bank Climate Investment Funds.³³

³⁰ World Bank. Climate Investment Funds Q&A. July 1, 2008. p.1. Accessed at: http://siteresources.worldbank.org/INTCC/Resources/Q&A_CIF_July_1_08.pdf.

³¹ World Bank. Climate Investment Funds Q&A.

³² See World Bank press release, *Donor Nations Pledge Over \$6.1 Billion to Climate Investment Funds* on September 26, 2008 for pledge amounts by country: <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21916602~pagePK:34370~piPK:34424~theSitePK:4607,00.html>.

³³ For a summary and analysis of the CIFs from a Canadian coalition working on issues relating to the International Financial Institutions, see the Halifax Initiative Issue Brief on the *World Bank, Climate Change and Energy* available at: http://www.halifaxinitiative.org/index.php/worldbank_factsheets/1116.

The Third World Network has also done an extensive analysis titled the *World Bank's Climate Funds will undermine Global Climate Action* available at: <http://www.twinside.org.sg/title2/climate/info.service/climate.change.20080401.htm>.

Further concerns have been raised about the World Bank itself for both reasons of legitimacy (support for dirty energy projects) and its accountability. The Bank's track record of continued intensive investment in coal, oil and gas infrastructure, suggest at a minimum issues of conflict-of-interests with the new CIFs.³⁴ Furthermore, the Framework within which the Bank's CIFs are included: the Strategic Framework on Development and Climate Change (SFDC), does not give priority to "new" renewable energy sources or decentralized, locally-driven mitigation or adaptation efforts, despite rhetoric about urgent action on climate change.³⁵

Lastly, the Climate Investment Funds have seen strong criticism about the modality of funding through loans. While we know that some funds will be dispersed in grant form, significant financing is expected to be given through concessional loans. Lending money to developing countries to adapt to climate change that is not their doing violates the notion of climate justice and the principle of common but differentiated responsibilities. Furthermore, money in the form of loans is in violation of the Polluter Pays Principle (PPP) which is widely acknowledged as a general principle of environmental law.³⁶ Further concerns have been raised about the likely possibility that World Bank loans and grants may subject developing countries to new conditionalities or informal pressures to agree to donor positions in the post-2012 negotiations.³⁷ Over 140 civil society groups from North and South have signed a statement urging rich countries not to support the CIFs until these issues have been resolved, including the issue of loans, Bank energy-lending patterns as well as clearly definitions for "clean technology".³⁸ Other CSOs have called for the CIFs to be shut down completely and transferred to mechanisms accountable to the UNFCCC.

2.2.3 CIDA and Climate Change

An early Canadian contribution to climate change adaptation was the 100 million CAD, Canadian International Development Agency (CIDA) administered Canada Climate Change and Development Fund (CCCDF) which began in 2000 and expired without renewal in 2006. The purpose of the CCCDF was "to promote activities addressing the causes and effects of climate change in developing countries, while helping to reduce poverty and promote sustainable development", mainly through CIDA administered projects.³⁹ According to an International Institute for Sustainable Development report, the CCCDF was Canada's largest and most prominent contribution to support climate change in developing countries. Since its expiry in 2006, CIDA has not been provided with significant financing for climate change activities in developing countries while also being less engaged politically on the issue at the international

³⁴ See Janet Redman, *World Bank: Climate Profiteer*, Sustainable Energy and Economy Network, Institute for Policy Studies, April 2008, accessible at <http://www.ips-dc.org/reports/#292>.

³⁵ See Janet Redman, *Dirty is the New Clean: A Critique of the World bank's Strategic Framework for Development and Climate Change*, Sustainable Energy and Economy Network, Institute for Policy Studies, October 2008, Accessible at: <http://www.ips-dc.org/getfile.php?id=287>.

³⁶ IRIN Humanitarian News and Analysis. *A dollar more for climate change adaptation, a dollar less for health*. July 21, 2008.

³⁷ Tomlinson, Brian, *Reality of Aid Report 2008*. "Aid Trends", p.19.

³⁸ Global Civil Society Statement on World Bank Climate Investment Funds. June 5, 2008. Accessed at: <http://www.endoilaid.org/wp-content/uploads/2008/09/cif-sign-on-statement1.doc>.

³⁹ Canadian International Development Agency (CIDA). *Canadian Climate Change Development Fund (CCCDF)*. <http://www.acdi-cida.gc.ca/CIDAWEB/acdicida.nsf/En/JUD-4189500-J8U>.

level. CIDA is still guided by a 1992 Environmental Sustainability Policy, which urgently requires updating to include the incorporation of climate change considerations.⁴⁰ There is concern that CIDA is lagging behind in addressing climate change bilaterally, through strategy and financial support, as well as with Canadian CSOs through its Partnership Branch.⁴¹

Since 2006, Canada has also contributed 13.5 million CAD to the UNFCCC Special Climate Change Fund in two instalments, 11 million CAD of which was earmarked for adaptation. Canada made another contribution of 158.9 million CAD to the GEF as part of its Fourth Replenishment (GEF-4). During this period, approximately 35% of the total GEF-4 funds (approximately 55 million CAD of Canada's replenishment) will be directed to its climate change focal area programming.⁴² The GEF-4 climate change funding will be directed primarily toward mitigation related projects.⁴³ In 2007 in Bali, Canada announced that it would contribute 1.5 million CAD to the Clean Development Mechanism (CDM) also towards mitigating climate change. Canada has further supported the Nairobi Work Programme on Impacts, Vulnerability and Adaptation as well as has been a member of the Least Developed Countries Expert Group (LEG) of the UNFCCC.⁴⁴

In April of 2006, Canada joined other donors in adopting an OECD Development Assistance Committee (DAC) *Declaration on Integrating Climate Change into Development Co-operation*, which acknowledges the need for adaptation as a serious response to climate change in developing countries, specifically the Least Developed Countries (LDCs) and the Small Island Developing States (SIDS).⁴⁵

In October 2008 at the recent Summit of the Francophonie, Prime Minister Harper announced that Canada would contribute 100 million CAD for climate change adaptation. While this is the same amount originally designated to the previous CIDA managed CCCDF, media reports speculate that these new monies will likely go to the CIFs. Canada is one of few G8 countries who have not yet pledged any commitments to the CIFs.

3.0 FINANCING FOR CLIMATE CHANGE AND OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

Those advocating climate justice, Southern coalitions, Northern NGOs and environmental groups have been calling for the rich, industrialized countries to assume the costs for any climate change mitigation as well as adaptation in developing countries due to the rich countries' disproportionate contribution to the current climate crisis. Many advocates also seek to ensure that this funding is additional to current commitments to increase ODA. Furthermore, any

⁴⁰ Canadian International Development Agency (CIDA). *CIDA's Policy for Environmental Sustainability*. January, 1992. <http://www.acdi-cida.gc.ca/CIDAWEB/acdicida.nsf/En/REN-218124547-P3B>.

⁴¹ IISD. 2008. p.p. 71-74.

⁴² *Ibid.* p.p. 71-72.

⁴³ United Nations Framework Conventions on Climate Change. *Report of the Global Environment Facility to the Conference of the Parties*. FCCC/CP/2007/3 27 November 2007.

⁴⁴ IISD. 2008. p.p. 71-72.

⁴⁵ *Declaration on Integrating Climate Change Adaptation into Development Co-operation*. Adopted by Development and Environment ministers of OECD Member Countries, 4 April 2006. <http://www.oecd.org/dataoecd/44/29/36426943.pdf>.

funding and attention to adaptation should not replace the need to mitigate climate change by reducing emissions in the North while transitioning globally to an alternative (low carbon) economic system.

While it may be difficult to disaggregate and distinguish finances for climate change adaptation as separate from project financing for sustainable development in current ODA allocations, diverting urgently needed resources from another sector of aid spending such as health or education has certainly been criticized. Commitments made in the Kyoto Protocol were for additional financing beyond ODA.⁴⁶ When G8 country leaders met in Japan in July of 2008 and pledged to fund the clean technology and adaptation climate investment funds, largely from ODA resources, they were criticized for diverting resources away from other important assistance sectors. A senior policy advisor at Oxfam was quoted as saying, “this (diversion of ODA funds) is terrible news – every ODA dollar diverted towards climate adaptation would mean a dollar less for health and education (programmes) in developing countries”.⁴⁷

Diverting ODA finance from other sectors towards climate change adaptation would clearly not be in the interests of climate justice and strengthening the capacities of the poor to claim their rights. Those advocating for increased financing for climate change adaptation have called for funding to be additional to each donor’s commitment to reach the 0.7% aid target for ODA. This makes good sense in that developed countries must assume their obligations in line with the principle of common but differentiated responsibilities, which were above and beyond their aid commitments.

Nevertheless, much of the funding provided for adaptation likely fits within the OECD DAC definition of ODA. It may also be practically difficult to factor out bilateral project financing for adaptation given the intimate connection between sustainable development and climate change adaptation (in rural development for example), thus causing difficulties in identifying additionality in bilateral aid. The practice of including donor funding for the GEF as ODA is unclear and can be challenged. Most donors already count as ODA at least part of their contributions to the GEF. However, this seems to contradict a core GEF operational principle: the facility explicitly does not fund the development component of projects; GEF financing only covers the “incremental” or additional costs associated with transforming a project with national benefits into one with global environmental benefits.⁴⁸ Integrating climate change considerations into bilateral development assistance priorities and programming compounds this issue of additionality to ODA as climate change clearly will exacerbate conditions of poverty and cause new vulnerabilities in those populations least responsible for this crisis.

⁴⁶ The 1992 Framework Convention on Climate Change states “The developed country Parties and other developed Parties included in Annex II shall provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties in complying with their obligations” [Article 4,3].

⁴⁷ Antonio Hill, Oxfam, quoted in IRIN Humanitarian News and Analysis. *A dollar more for climate change adaptation, a dollar less for health*. July 10, 2008. Accessed at <http://www.irinnews.org/report.aspx?ReportID=79164>.

⁴⁸ See <http://www.gefweb.org/interior.aspx?id=80>. While this issue applies to core GEF programming, the Least Developed Country Fund and the Special Climate Change Fund do include development activities. See also the discussion of this issue in CONCORD, “Aid and Climate Change”, AidWatch Themed Discussion Paper. AidWatch Seminar October 20-21, 2008, Brussels.

The possibility of identifying ODA additionality for multilateral contributions is easier as donor contributions are earmarked for distinct multilateral funds at the GEF or in the Bank. So while the Bank points out that the CIFs are new monies, it suggests that funding eligibility is based on ODA eligibility and the expectation is that most countries will include contributions to the CIFs in their ODA reporting.⁴⁹ In this context, it is important to take note of the distinction between adaptation and mitigation measures. Adaptation measures often share concerns for sustainable development affecting poor people and mitigation, while equally important, addresses the obligation of developed countries and donors to reduce their emissions and finance clean energy investments as part of their historic and unequal contribution to climate change and is less directly connected to poverty reduction measures.

A key consideration for the Canadian context will also be the newly passed ODA Accountability Act which clearly focuses Canadian ODA on poverty reduction, in line with international human rights standards and with consideration for the perspectives of the poor. This law, implemented well, could put Canada in a position to take a leadership role for financing just, equitable and human rights based development assistance that addresses climate change adaptation. Canada should clearly identify any contributions to climate change adaptation or mitigation that it determines meets the criteria for ODA under the Act, in the interest of identifying additionality to current and future ODA increases.

4.0 CONCLUSION: MOVING FORWARD A JUST MODEL FOR FINANCING

The UNFCCC clearly identifies that major commitments must be made by developed countries “in accordance with their *common but differentiated responsibilities and respective capabilities* and their social and economic conditions”.⁵⁰ The Convention explicitly notes that developed countries have the largest responsibilities due to their historic contributions. Developing countries will only be able to implement their own commitments dependent on “the effective implementation by developed country Parties... related to financial resources and transfer of technology”.⁵¹ Ensuring that there is an adequate flow of financial resources is therefore a key component of a post-2012 climate change agreement.

An overarching issue for financing climate change mitigation, adaptation and technology transfer is the lack of an overall strategic framework for setting global priorities and approaches. While there is recognition that developing country Parties to the Convention will need significant financial assistance, current arrangements and additional investments still need to be analyzed and prioritized between now and 2012 to ensure adequate, predictable and sustainable financing within an overall strategic framework that also addresses good governance and effective disbursement.⁵²

⁴⁹ World Bank. Climate Investment Funds Q&A.

⁵⁰ United Nations Framework Convention on Climate Change. Version FCCC/INFORMAL/84. United Nations. 1992.

⁵¹ UNFCCC Article 4.7.

⁵² *The Bali Action Plan: Key Issues in the Climate Negotiations, Summary for Policy Makers*. UNDP. September 2008.

The South Centre, based in Geneva, recommends that the Conference of the Parties (CoP) be *directly* responsible for the operation of the UNFCCC financial mechanism by setting up a Climate Change Fund (CCF) funded from mandatory contributions, accountable to the convention with a transparent system of governance and equitable and balance representation of the Parties.⁵³ China and the G77 have called for an enhanced financial mechanism as an attempt to counter the proliferation of uncoordinated funds based on the principle of “common but differentiated responsibilities” of the Convention, with strong developing country ownership and a transparent governance system.⁵⁴ This call for a new Global Climate Fund could be consistent with CSO proposals for enhanced financial architecture set up under the control of the UNFCCC and based upon the principles of substantial, obligatory and automatic funding, representative governance, participatory planning, capacity building, access for the most vulnerable, strengthening rights and addressing the root causes.⁵⁵

Based upon the issues discussed in this policy brief and the alternative aforementioned proposals, the following recommendations lay out the policy changes necessary for financing for climate change adaptation in the context of a just, equitable and ambitious post 2012 climate change agreement.

RECOMMENDATIONS

- ❑ Generous financial assistance to developing countries for climate change adaptation and mitigation by Canada cannot displace the Canadian obligation to substantially reduce greenhouse gas emissions as part of a comprehensive, just, ambitious and globally equitable post-2012 climate change agreement. Specifically, Canada and other wealthy countries must agree to a reduction in greenhouse gas emissions of 25-40% below the 1990 level by 2020 and 80–95% below the 1990 level by 2050.
- ❑ Canada, along with other developed countries, must contribute its fair share to a massive scaling up of financing for adaptation as a fundamental part of the post-2012 climate change agreement that meets its obligations to assist vulnerable developing country Parties under the UNFCCC. A post-2012 agreement must ensure an overall strategic framework for climate change financing, including consideration of a Global Climate Change Fund, which is adequate, predictable and stable and addresses equitable governance and effective disbursement, respecting the rights of developing countries to pursue their development.

⁵³ *Financing the Global Climate Change Response: Suggestions for a Climate Change Fund (CCF)*. The South Centre. May 2008. Accessible at: www.southcentre.org

⁵⁴ CONCORD, “Aid and Climate Change”, AidWatch Themed Discussion Paper. AidWatch Seminar October 20-21, 2008, Brussels.

⁵⁵ The statement was to be presented to representatives of the Group of 77 developing countries during the second week of the climate negotiations in Poznan in December 2008, to begin a global conversation on the new institutions needed to fight climate change. See the *Global Climate Fund: Principles for Poznan and beyond*, at: <http://www.choike.org/campaigns/camp.php?3>

- ❑ The emerging international climate change financing architecture must be democratic, transparent and accountable to the rights of those most affected by climate change (including women, indigenous peoples and civil society organizations and movements) and set up under the authority of the UNFCCC.
- ❑ The post-2012 agreement should include a binding formula for adaptation funding and this funding should be considered additional to existing and future commitments to increase Canadian Official Development Assistance (ODA) to meet the UN target of 0.7% of Canadian GNI for ODA.
- ❑ Canada should promote an approach to international climate change financing architecture that considers the lessons of the 2005 Paris Declaration on Aid Effectiveness, the 2008 Accra Agenda for Action and the importance of emerging discourse on *development* effectiveness.
- ❑ Additional financing for adaptation by CIDA and other federal departments should be transparent and identifiable in CIDA's Statistical Reports to Parliament and should take into account the purpose of Canadian ODA set out in the 2008 ODA Accountability Act (reduces poverty, takes into account the perspectives of the poor and is consistent with international human rights standards).
- ❑ CIDA should update its 1992 Environmental Sustainability Policy to reflect both programmatic priorities related to climate change adaptation and an environmental justice approach.
- ❑ In the absence of an existing comprehensive Global Climate Fund, we encourage Canada to contribute the recently announced commitment of 100 million CAD for climate change adaptation to the Adaptation Fund rather than to other multilateral alternatives, such as the World Bank's Climate Investment Funds, due to concerns about the governance arrangements and funding track record of the World Bank.