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[POLICY BRIEF]

Climate change challenges for European Development Co-operation: Emerging issues

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What challenges does climate change present for development co-operation?

Climate change raises two sets of issues for developing countries and related development co-operation efforts:

1. Climate change-related events, such as increased severity of droughts and floods, are projected to affect developing countries and poorer people disproportionately, because of their higher vulnerability. Development co-operation could play a role in helping to increase the resilience of poorer regions, communities and individuals to such shocks and stresses;
2. Future greenhouse gas emissions associated with development are likely to be greatest in the largest emerging economies. Whilst these countries have historically contributed less to climate change than developed countries, without the adoption of low carbon development paths, the stabilisation of global temperatures may be difficult to achieve. Development co-operation could play a role in helping to support such efforts.

These objectives are now high on the agendas of many donors and are key issues in discussions surrounding a post-2012 international climate change agreement, to be negotiated in Copenhagen in December 2009. But the process of meeting them is proving far from straightforward. Among the most pressing emerging challenges:

1. **Filling the funding gap:** Additional investment and financial flows to developing countries in 2030 have been estimated at USD 28 to 67 billion for adaptation and USD 176 billion for mitigation.[2]
2. **Achieving coordination, complementarity and coherence ('the three Cs'):** A multitude of different bilateral and multilateral initiatives have been developed to address climate change. This raises concerns in the context of the aid effectiveness debate, where there is evidence to show that such fragmentation can reduce effectiveness.

1. Based on the working paper of the same title, available at: www.edc2020.eu
2. UNFCCC (2007) 'Report on the analysis of existing and potential investment and financial flows relevant to the development of an effective and appropriate international response to climate change',, Dialogue working paper 8, Fourth workshop, Vienna, 27–31 August 2007.

Climate change has significant implications for developing countries. These include both increased severity of events such as floods and droughts and the potential need to implement low carbon growth strategies. Development co-operation could help to address these issues, but progress is likely to depend on addressing at least three challenges: (1) how to raise the necessary finance; (2) how to ensure fundraising efforts are well coordinated, complementary and coherent; and (3) how to 'mainstream' climate change into development co-operation.

This policy brief considers how these problems are being handled within the context of European development co-operation and what the prospects are for building effective future climate change and development responses.

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Policy instrument	Description
Action Plan on Climate Change and Development (adopted 2004)	Focus on mainstreaming climate change in development. Objectives: (i) raising the political profile of climate change; (ii) support for adaptation in developing countries; (iii) support for mitigation and sustainable development; and (iv) developing administrative capacity in vulnerable countries.
The Global Climate Change Alliance (launched 2007)	Establishes a fund aiming to provide a platform of dialogue and co-operation between EU and poor developing countries, as well as financial/technical assistance for mitigation/adaptation and for integration of climate change into development strategies.
The Adaptation Green Paper	Covers primarily adaptation in Europe but also suggests actions in: (i) promotion through UNFCCC processes; (ii) strengthening adaptation in geographical programming; (iii) supporting the GCCA.
The Global Energy Efficiency and Renewable Energy Fund (designed in 2006)	Aims to support small/medium sized energy projects in developing economies and economies in transition, with a priority in the Africa Caribbean and Pacific region. It offers loans in order to mobilise private investments in energy technologies.
Energy package (adopted December 2008)	Focuses mainly on domestic actions, but some aspects have implications for development co-operation. E.g. it includes suggestion for member states to use funding sources linked to the EU ETS, to support developing countries on climate change.

Table 1: Major EU policy initiatives on climate change and development co-operation

3. **Successful mainstreaming of climate change science and response measure into development co-operation:** Research indicates that many donors are aware of the risks but these are not being mainstreamed at the implementation level.

EU efforts to integrate climate change and development co-operation

The EU is widely regarded as a front-runner in terms of developing domestic and international policy responses to climate change. A number of policies have been put in place by the EC and at Member State level, to address climate change implications for developing countries (Table 1).

Climate change also features in other EU policy areas, such as:

- The Policy Coherence for Development (PCD) process which has considered the implications of European renewable energy policies for developing countries;
- Interaction with the international process. For example, in December 2009 the EU proposed a 'Framework for Action on Adaptation' to enhance the implementation of adaptation measures in developing countries, at the UNFCCC talks in Poznan;
- At the Member State level, numerous policies and work programmes exist. For example the UK GBP 800 million Environmental Transformation Fund and German international climate financing, which totaled EUR 1 billion in 2008,

Can the EU meet the climate and development challenge?

The initiatives outlined above indicate that climate change is firmly on the agenda of EU development co-operation. But what is the potential for the EU to meet the emerging challenges of filling the funding gap; achieving 'the three Cs'; and mainstreaming climate change?

1. Filling the funding gap

It is difficult to track exactly how much EU funding is currently being channelled into supporting developing countries to respond to climate change. The reasons for this include the lack of a standardized reporting system, diverse financial channels and difficulties in defining what constitutes 'climate change related' spending amongst different EU institutions. The evidence available indicates, however, that existing funding remains very low in relation to the required needs.[3] The Global Climate Change Alliance, for example, has only EUR 60 million budgeted for 2008–2010, with an additional EUR 5.5 million pledged by Sweden through the EU budget. This is very small compared to the estimates of up to USD 67 billion and USD 176 billion additional finance required for adaptation and mitigation in 2030.

Despite this shortfall, the EU offers some promising options for raising climate change-related finance. It may

3. Estimated volumes of some of the main financial sources are listed in the long version of this paper. Available at: www.edc2020.eu

also have some comparative advantage over other donors. Of particular note is the EU Emissions Trading Scheme (ETS), which acts as a source of finance, both through the direct purchase of carbon credits from mitigation projects in developing countries, and indirectly through the auctioning of emissions allowances. Transactions in the ETS totalled around USD 7.5 billion in 2007[4] for financing mitigation projects in developing countries through the Clean Development Mechanism. Auctioning of ETS emissions allowances could in theory raise up to EUR 25 billion per year[5] if significant volumes are allocated to climate change. Other mechanisms have been proposed, such as the Global Climate Finance Mechanism, which would raise funds by issuing a bond on the international markets, enabling ›frontloading‹ of funding for immediate use.

However, there are problems with many of the existing and proposed funding options, including:

- Achieving even a fraction of the financial volumes from auctioning could be challenging, because Member States have sovereign rights over the finance raised and some are averse to spending revenues on international actions.
- The global credit crisis has already led to decreased investments in areas such as carbon markets, and may make private and public investors more risk averse.
- (Carbon) market mechanisms tend to be affected by efficiency-equity tradeoffs and rarely address the needs of the poor, who have limited access to markets.

There is clearly an urgent need to identify new financial sources, both in Europe and beyond.

2. Achieving the ›three Cs‹

The issues of coordination and complementarity have relevance at two interlinked levels:

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

There is an increasingly complex landscape of international initiatives on climate change. These are being driven by different multilateral organisations such as the World Bank and the Global Environment Facility, and bilaterally. There is still little sense of what a coherent future financial architecture could or should look like, or how European-led efforts fit into the picture. There is a risk that amid such confusion, Europe could add to the complexity albeit through well intentioned efforts.

The GCCA is an interesting example of this coordination and complementarity issue. Its establishment as a 'clearing house' for European development co-operation on climate change and promotion of general budget support aid modality, is an approach that differs from some of the other climate change initiatives, and in theory could help to streamline efforts and increase effectiveness. However, the GCCA has not been as prominent as other multilateral climate change initiatives and has faced calls from Member States and the Parliament to demonstrate its 'added value' compared to other options, before further support is offered.[6] This is likely to require a better understanding of how the approach and structure of the GCCA differs from other initiatives, and how effective the approach is in different contexts, possibly through pilot activities carried out at scale. If innovative financial sources, such as auction revenues from the EU ETS, are channelled into the GCCA on a large scale, this could significantly increase the prominence and effectiveness of the instrument.

The issue of coherence has been more widely discussed. In the context of biofuels policies, for example, there have been some policy revisions relating to the potential negative environmental and developmental impacts. As our understanding of the impacts of climate change on developing countries increases, further efforts to evaluate the coherence of policies in other areas, such as agriculture and trade, will need to be looked at in more detail. There may also be opportunities for more strategic connections to be drawn between different policy areas. For example, exploring synergies between the FLEGT process and international mechanisms to reduce carbon emissions from deforestation may enhance its developmental impact.

3. Successful mainstreaming

Various tools exist for mainstreaming environmental issues into development co-operation. One of the most

4. Capoor, K and Ambrosi, P (2008) 'State and Trends of the Carbon Market 2008', World Bank, Washington, D.C.
5. EP (2008) ›EU Emission Trading Scheme: use permit revenues to fund climate change protection, says Environment Committee‹, European Parliament Press Release, 07-10-2008.
6. European Scrutiny Committee (2008) Select Committee on European Scrutiny ›2nd Report of session 2007–2008‹, UK Parliament, www.parliament.uk

important of these in the context of European development co-operation is the Country Environment Profile, used as a basis for mainstreaming into Country Strategy Papers. A 2006 report by the European Court of Auditors found that progress with environmental integration into the 2002-2006 strategy papers was “mostly weak” and “the environment had not been satisfactorily mainstreamed”, due to reasons such as inadequate policy guidelines, lack of data and insufficient resources or adequately trained staff.[7] Since then, there appears to have been some progress, with more recent studies finding a good level of environmental integration even for non-environment sectors, at least in some countries.[8]

The need to mainstream climate change is now well recognised, but in practice it seems to be lagging behind more traditional environmental issues. Few countries have so far integrated climate change issues into their CSPs in detail, though they will be “systematically addressed” and considered when preparing Country and Regional Strategy papers for the next cycle starting 2012.[9] There is clearly scope for further improvements in all areas of mainstreaming, particularly in ensuring consistency with government and EC environmental commitments, ensuring that indicators measure performance in terms of actual environmental outcomes and greater transparency of information (especially in the use of EIAs and SEAs). Better economic assessments of the impacts of climate change, along with dialogue mechanisms associated with general budget support may be good entry points for moving climate change up the agenda whilst maintaining country ownership.

7. Cited in Williams, R (2007) ›Environmental Policy Integration in EC Development Cooperation, EPIGOV Conference on Mainstreaming Environmental Concerns in European Governance, 15 February 2007.
8. Palerm, J; Ledant, J-P and Brinn, P (2007) ‘Environmental integration in EC Development Co-operation programming: experiences in the use of Country Environmental Profiles’, available at: *__ec__.europa.eu/__development__/icenter/repository/env_helpdesk_CEPs_en.pdf*
9. Cited in Hedger, M (2008) ›Support study for establishment of Global Climate Change Alliance (GCCA) Potential role, scope and Activities of GCCA‹, report prepared for the European Commission.

Laying the foundations for successful action

Laying solid foundations to address the long-term impacts of climate change on developing countries will require the international community to overcome a series of short term challenges. The most important of these are to identify additional sources of mitigation and adaptation related finance, to find better ways to coordinate its delivery and to improve processes for mainstreaming climate change.

Europe is well aware of these challenges and could offer great potential to overcome them. In order to do so a number of further issues need to be urgently resolved, especially as regards:

- The suitability of different financing options in terms of meeting the needs of developing countries whilst also satisfying developed country interests;
- The added value of its own initiatives compared to other options, including those of the Member States;
- The role of development co-operation vis-à-vis new emerging funding mechanisms under the UNFCCC; and
- What options exist for more rapid progress in mainstreaming climate change in the context of new aid modalities and within other sectoral European policy areas.

The Copenhagen Conference of the Parties to the UNFCCC in December 2009 means that this year will be pivotal in demonstrating progress on these challenges, in order to build confidence in an effective future global climate regime beyond 2012.

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