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Adaptation funding and development assistance: some FAQs

It's becoming ever clearer that development and climate change are intertwined issues. Unsustainable development drives climate change; sustainable development can reduce vulnerability to it. Development issues can constrain capacity to adapt to climate change; climate impacts can be a barrier to development. So adaptation* to climate impacts is increasingly seen as part of good development practice – and development to improve the lives and resource access of people facing climate challenges is viewed as a prerequisite for successful adaptation. But when it comes to adaptation funding, confusion and contention remain over the role development institutions play.

Cutting through the complexities

The realisation that development and adaptation policy and practice share common goals has led to calls for climate change and development organisations to coordinate adaptation funding. Such a move begs a number of important questions, however.

How do adaptation and development actually differ? Should development funding be used for adaptation, and should climate change institutions support sustainable development? This briefing tackles these and other frequently asked questions, clarifying the roles of institutions in both fields in helping build the resilience of the poor and the most vulnerable to climate change.

1. What are the synergies between development and adaptation?

The impacts of climate change impede development, and threaten the efficacy and sustainability of development work. For example, some Millennium Development Goal (MDG)* targets can be affected directly by climate impacts. These include addressing hunger caused by droughts and floods; providing access to water and sanitation; and preventing and treating malaria. Up to 40 per cent of Official Development Assistance (ODA)* is sensitive to climate risks.[1]

Likewise, the capacity of a society to adapt to climate-related hazards is dictated by its access to resources, effective institutions, governance, adequate infrastructure and other economic factors related to development.[2] That adaptive capacity* is so dependent on the development context can be seen in the fact that those most vulnerable to climate change are also the poorest people, living in the poorest countries: the Least Developed Countries (LDCs),* Small Island Developing States (SIDS),* and African nations. Barring South Africa, these 100 countries – with a combined population of more than a billion people – account for only 3.2 per cent of global carbon emissions.

Progress towards the MDG targets – including reducing poverty, providing general education and health services, improving living conditions in urban settlements, and providing access to financing, markets and technologies – will improve the livelihoods of the most vulnerable people and thus their adaptive capacity.

2. How do adaptation and development differ in practice?

In practice, adaptation and development methodologies overlap quite a lot. The Washington DC-based World Resources Institute provides a useful framework for understanding the variety of adaptation options and practices in this context in their report *Weathering the Storm: Options for framing adaptation and development.*

This suggests that adaptation activities may be placed along a continuum, ranging from those more oriented to development to those focused more on climate change-specific impacts. At one end, the most vulnerability-orientated adaptation efforts overlap almost

Words with an asterisk are defined in the 'Jargon buster' box on page 4.

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completely with traditional development practice, where activities take very little account of specific climate change impacts and instead increase general resilience. At the opposite end, highly specialised activities exclusively target distinct climate change impacts.

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At the 'development end', adaptation and development activities on the ground can seem interchangeable. The difference is that adaptation is implemented in the light of changing climate trends and shocks. While both adaptation and development often seek to address the same issues, such as livelihood security, the difference between adaptation and development is often not the intervention itself but the inputs to it – not what is being done, but why, and with what knowledge.

With specialised climate change adaptation, activities respond specifically to climate change, as opposed to wider climate variability or environmental fragility, and therefore take into account climate trends and data.

Development does not always contribute to adaptation, however. It may even result in maladaptation*. An example is when isolated development investments fail to take into account the implications of climate change and climate variability for the development activity itself.

Likewise, adaptation does not necessarily contribute to development, as development activities are sensitive to a range of climate variables, only some of which can be reliably projected by climate models.

3. What are the costs of adaptation?

Estimates remain vague, especially for poorer countries. But the costs are expected to be in the range of tens of billions of dollars a year. The World Bank estimates that climate-proofing development investments – such as ODA and concessional finance (supplied at relatively favourable terms) and foreign direct investment – in low- and middle-income countries alone will cost between US$10 billion and US$40 billion annually.[3]

This figure has since been criticised for not taking into account the cost of climate-proofing existing natural and physical capital where no new investment was planned, or of financing new investments specifically to deal with climate change. The cost to households and communities to fund their own adaptation needs has not been factored in here either. More recent estimates by Oxfam put the costs of adaptation in developing countries closer to US$50 billion annually.[4] The longer it takes to implement an effective international agreement to curb greenhouse gas emissions, the higher these costs will be, and the more likely that the limits to effective adaptation will be exceeded.

4. How is adaptation funded?

The main source is under the UN Framework Convention on Climate Change (UNFCCC)*. This is currently channelled through four funding streams:

* the Least Developed Countries Fund (LDCF)*
* the Special Climate Change Fund (SCCF)*
* the Global Environment Facility (GEF)* Trust Fund's Strategic Priority for Adaptation (SPA)
* the Adaptation Fund (AF)*, which sits under the Kyoto Protocol*.

The LDCF, SCCF and Trust Fund are relatively small funds based on voluntary pledges and contributions from donors. All three are managed by the Washington DC-based GEF, the primary financial mechanism of the UNFCCC.

5. Does UNFCCC funding meet adaptation needs?

No. As of March 2008, the total resources pledged to the LDCF, the SCCF and the SPA totalled US$298 million (US$172.8 million to the LDCF, US$75.6 million to the SCCF, and US$50 million to the SPA). Donors are also delaying meeting pledged commitments because of an alleged lack of adequate, accountable mechanisms in poorer countries for receiving and disbursing money.

This means actual funds in the LDCF are US$91.8 million, in the SCCF US$59.9 million, and in the SPA US$50 million.[5] This leaves almost US$100 million pledged to the UNFCCC outstanding. Developing countries have also expressed concern over the difficulty of accessing adaptation funding through the GEF. This carries burdensome criteria for reporting, additionality and co-financing, which most vulnerable developing countries simply do not have the capacity to meet.

The AF could generate more significant sums because it is funded by a 2 per cent levy on Clean Development Mechanism (CDM)* transactions. The revenue generated from this alone is projected to be between US$160 million and US$950 million. There is also talk of applying the levy to international air travel, which could generate US$4 billion to US$10 billion a year.[6]

The AF also has a unique governance structure that avoids many issues of ownership and accountability faced by the other funds. It is independently managed by the Adaptation Fund Board (AFB)*. Countries can make funding submissions directly to the AF – which is not possible with GEF funds – and can also designate agencies such as NGOs to make these submissions. So of all the funds associated with the UNFCCC, the AF is the most promising. However, funding through the AF is not yet operational, and still falls very short of meeting the finance needs of adaptation.

6. Can UNFCCC funding address climate variability?

No. UNFCCC funding addresses adaptation in the narrowest sense, as adaptation to climate change, distinct from climatic variability (see FAQ 2). In climate negotiations this distinction is key to political concerns centring on costs and burden sharing. The distinction should prevent developed countries mainstreaming* adaptation into development activities to avoid having to provide new and additional funding for adaptation under the UNFCCC (see FAQ 7).

So as recently as the June 2008 meeting for UNFCCC subsidiary bodies (which advise on science and technology, and implementation of the convention) in Bonn, developing countries were calling for stand-alone adaptation activities. These would allow for the measurable, reportable and verifiable use of new and additional funding, as stipulated by the Bali Action Plan (BAP)* at COP*13.[7]

But given that climate vulnerability is closely tied to the development context, it is very difficult to isolate this vulnerability from wider vulnerability to climate variability and other factors, especially at the grassroots. People are vulnerable not only to climate change, but also to other interlocking stresses related to a lack of development, which in turn exacerbate their vulnerability to climate change. Addressing the other stresses is vital.

7. Is there a role for ODA in financing adaptation?

Yes. A recent analysis of ODA activities reported by the Organisation for Economic Co-operation and Development (OECD) demonstrates that more than 60 per cent of all ODA could be relevant to building adaptive capacity and facilitating adaptation.[8]

ODA should not, however, be seen as an opportunity to 'plug the gap' in UNFCCC processes that fail to support adaptation adequately. The responsibility of helping the most vulnerable countries adapt must be additional to existing aid commitments, and based on the 'polluter pays principle'. Financing for adaptation is not owed to poor countries as aid but as compensation from high emissions countries to those at the climate change frontline.

This principle is recognised by the UNFCCC through Article 4.4, which specifies that developed countries have committed to helping 'particularly vulnerable' countries meet the costs of adaptation, and that this assistance must be 'new and additional' to existing aid commitments.

ODA should therefore not become a substitute for UNFCCC funds, but should support them. Building adaptive capacity through development can involve a much broader approach to vulnerability reduction than is offered by UNFCCC channels, allowing ODA to target the wider vulnerability context of climate variability rather than just climate change.

Development activities can also complement the UNFCCC process by building the climate change capacity of partners in developing countries, to facilitate UNFCCC-financed activities.

8. How can ODA funding support adaptation? [9]

There are two main avenues. The first is to generate specific bilateral or multilateral funds applicable to adaptation, and independent (but supposedly supportive) of the UNFCCC. The second is to mainstream climate change to 'climate-proof' existing development investments, maximise potential of development projects to enhance adaptive capacity, and avoid maladaptation.

The first approach capitalises on the experience of development agencies in reducing vulnerability and channelling funding for international development objectives. One of the largest, most recent examples is the World Bank Climate Investment Funds (CIFs)*. The CIFs adaptation programme is the Pilot Programme on Climate Resilience (PPCR)*(originally called the Adaptation Pilot Fund).

The fund was initially criticised for being donor-driven and – because funds are made available through loans – for going against principles of funding for adaptation as compensation for poor and vulnerable countries. In response, proposals for the fund were revised to include a more balanced representation of donor and recipient countries (and now include the AFB chair). The fund was also renamed to remove the sense of competition with the AF and reframe the PPCR as complementary to the UNFCCC process.

Although still under discussion, these revisions do point to progress on understanding ODA's role in contributing to broader adaptive capacity – or 'climate-resilient development' – rather than specific additional adaptation like that targeted under the convention. Climate-resilient development can complement specific UNFCCC adaptation actions by addressing wider aspects of vulnerability not covered by the convention.

As for the second approach, one way of mainstreaming adaptation into ODA is through development portfolio screening*. This helps to identify both existing development projects particularly threatened by climate change, and opportunities for incorporating climate change more explicitly into future projects and programmes.[10]

This 'climate-proofing' of development can offer immediate opportunities for 'win-win' climate and development options. However, as shown in FAQ 2, climate-proofing development investments is not a 'one-stop shop' for tackling climate change vulnerability. Particular caution should be taken with increasing development assistance to climate-sensitive sectors at the expense of other, less sensitive ones.

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Jargon buster

adaptation: An adjustment in natural or human systems to help them better cope with, manage or adjust to climate change impacts.
Adaptation Fund (AF): A fund under the Kyoto Protocol* intended to assist developing countries in carrying out 'concrete' adaptation activities and financed from a levy on the CDM*.
Adaptation Fund Board (AFB): The independent board of the AF*, with representation from the five UN regions and special seats for LDCs* and SIDS*.
adaptive capacity: The capability or potential of a system to adapt to the impacts of climate change.
Bali Action Plan (BAP): One of a number of forward-looking decisions from the 2007 COP*13 in Bali, intended to chart the course for a new negotiating process to tackle climate change in the run-up to the 2009 COP15 in Copenhagen. (www.unfccc.int/meetings/cop_13)
Clean Development Mechanism (CDM): A carbon trading mechanism under the Kyoto Protocol* that allows countries with greenhouse gas reduction targets to invest in projects that reduce emissions in poorer countries.
Conference of the Parties (COP): The annual meeting of the parties to the UNFCCC*. Each COP reviews progress under the convention. (www.unfccc.int)
Global Environment Facility (GEF): A global partnership of 178 countries, international institutions, NGOs and businesses addressing global environmental issues while supporting national development initiatives. The GEF is the designated financial mechanism for a number of multilateral agreements and conventions, including the UNFCCC*. (www.gefweb.org)
Global Environment Facility (GEF) Trust Fund's Strategic Priority for Adaptation (SPA): A fund under the UNFCCC* that pilots 'operational approaches' to adaptation*.
Kyoto Protocol: An international agreement linked to the UNFCCC* but requiring separate ratification by governments. Among other things the protocol sets binding targets for reducing greenhouse gas emissions by industrialised countries.
Least Developed Countries (LDCs): The world's 49 poorest countries, according to UN Economic and Social Council (ECOSOC) criteria of low income, human resource weakness and economic vulnerability. (www.unfccc.org)
Least Developed Countries Fund (LDCF): Established under the UNFCCC* to help LDCs* prepare and implement National Adaptation Programmes of Action (NAPAs), which identify their most urgent adaptation priorities.
mainstreaming: Integrating policies and measures addressing climate change into development planning, decision-making and investments.
maladaptation: Actions or investments that enhance vulnerability to climate change, for instance by shifting vulnerability from one social group to another. Removing maladaptations is often the first task to be addressed even before new adaptations.
Millennium Development Goals (MDGs): Eight goals targeting the most urgent global development challenges, to be met by 2015. The MDGs are derived from material in the Millennium Declaration, adopted by 189 nations and signed by 147 heads of state and governments. They are: eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria and other diseases; ensure environmental sustainability; develop a global partnership for development. (www.un.org)
Official Development Assistance (ODA): Flows of official finance administered primarily to promote the economic development and welfare of developing countries, and which have a grant element of at least 25 per cent. By convention, ODA flows comprise contributions of donor government agencies, at all levels, to developing countries ('bilateral ODA') and to multilateral institutions. (www.oecd.org)
portfolio screening: The systematic examination of an agency's set of policies, programmes or projects to identify how concerns about climate change can be combined with an agency's development priorities.
Pilot Programme on Climate Resilience (PPCR): The adaptation programme under the World Bank CIFs*.
Small Island Developing States (SIDS): Small island and low-lying coastal countries that share similar sustainable development challenges, such as lack of resources and susceptibility to natural disasters. (www.Sidsnet.org)
Special Climate Change Fund (SCCF): A fund under the UNFCCC* to support climate change activities such as mitigation and technology transfer, but which places top priority on adaptation.
UN Framework Convention on Climate Change (UNFCCC): The overall framework for intergovernmental efforts to tackle climate change. A product of the 1992 Earth Summit in Rio de Janeiro, this international treaty has been ratified by 192 countries. (www.unfccc.int)
World Bank Climate Investment Funds (CIFs): Intended to provide concessional loans for policy reforms and investments that achieve development goals through transition to a low-carbon development path, and climate-resilient economy.

Notes

■ [1] Burton, I., Diringer, E., and Smith, J. 2006. *Adaptation to climate change: International policy options.* PEW Centre on Global Climate Change. ■ [2] Klein, R.J.T., Schipper, E.L. and Dessai, S. 2003. *Integrating Mitigation and Adaptation into Climate and Development Policy: Three research questions.* Tyndall Working Paper 40. Tyndall Centre, University of East Anglia, Norwich.
■ [3] World Bank. 2006. *Clean Energy and Development: Towards an investment framework.* World Bank, Washington DC.
■ [4] Oxfam International. 2007. *Adapting to Climate Change: What's needed in poor countries, and who should pay.* Oxfam Briefing Paper 104. Oxfam. ■ [5] GEF. 2008. *Status Report on the Climate Change Funds as of March 4th, 2008 (Report from the Trustee).* GEF, Washington DC. ■ [6] Müller, B. 2008. *International Adaptation Finance: The need for an innovative strategic approach.* Background Policy Paper for the Climate Strategies Project on post-2012 Policy Framework: Options for the Tokyo G8 Summit. Oxford Institute for Energy Studies, Oxford. ■ [7] Klein, R.J.T. and Persson, A. 2008. *Financing Adaptation to Climate Change: Issues and priorities.* SEI Briefing Note for the European Climate Platform. ■ [8] Levina, E. *Adaptation to Climate Change: International agreements for local needs.* Document prepared by the OECD and IEA for the Annex I Expert Group on the UNFCCC. OECD/IEA, Paris.
■ [9] Ayers, J., and Huq, S. 2008. *Supporting Adaptation through Development: What role for Overseas Development Assistance?* Paper presented at DSA Annual Conference 2008: Development's Invisible Hands. ■ [10] Klein, R.J.T. *et al.* 2007. *Portfolio Screening to Support the Mainstreaming of Adaptation.* Tyndall Centre Working Paper 102. Tyndall Centre, University of East Anglia, Norwich.

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