

To: Hon. Jim Prentice, Minister of the Environment

From: Members of the Canadian Coalition on Climate Change and Development (C4D)¹

Date: October 30, 2009

cc: Hon. Jim Flaherty, Minister of Finance; Mr. Stephen Kelly, Chief of Staff; Mr. Michael Martin, Chief Climate Change Negotiator

Financing for Climate Adaptation in Developing Countries

Summary:

This memo addresses key issues regarding financing to help vulnerable communities adapt to climate change, which is a lynchpin of the UNFCCC negotiations due to culminate in Copenhagen in December.² In this brief, major Canadian organizations concerned with international development and relief recommend that Canada:

1. Commit to the scale of resources needed
2. Ensure adaptation financing is additional to the aid budget
3. Support an enhanced international financial architecture that incorporates the following principles:
 - Governance should be fully inclusive of developing countries
 - Mechanisms should be based within the UNFCCC
 - Disbursements should be in the form of grants, not loans
 - Funding should be additional to existing aid commitments
 - Resource flows should be predictable and sustainable
 - Funding should be coherent with other dimensions of sustainable development, particularly human rights and ecosystem resilience and diversity

Scale of resources

While the numbers vary due to the unpredictability of local impacts, the World Bank estimates a minimum of US\$75 billion annually is needed for developing countries to cope with the effects of climate change. Canada's fair share would be significant, likely in the range of \$3 billion per year for adaptation support alone. Support for mitigation in developing countries would require an additional commitment.

As a very large absolute and per-capita emitter of greenhouse gas pollution and the world's 13th largest economy, Canada has both the responsibility and the capacity to finance this level of adaptation efforts in developing countries, even in the context of current economic downturn. Canada represents nearly four percent of the economic might of donor countries and should commit to at least that level of support in any global agreement.

¹ Canadian Council for International Co-operation, Canadian Foodgrains Bank, CARE Canada, CUSO-VSO, Mennonite Central Committee, Nature Canada, North-South Institute, Oxfam Canada, Oxfam-Québec, Resource Efficient Agricultural Production-Canada, USC Canada
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² A previous memo from C4D members (June 26, 2009), prepared at the request of Mr. Stephen Kelly, addressed questions related to financing for climate adaptation in the near term, previous to a new agreement coming into force.

Additionality

Canada ought not to diminish its commitment to overseas development assistance in order to finance adaptation in developing countries, and should work for a global agreement that will not undermine aid budgets in donor countries. While adaptation financing can be complementary to ODA (for example, strong health systems can help deal with increased disease impacts of climate change), funding for adaptation should not be diverted from much needed support for children going to school or progress towards a universal access to primary health care, for instance. Adaptation finance should be accounted for separately from development assistance.

Architecture

Developing countries have voiced strong opposition to giving either of the two primary existing financing mechanisms a leading role in the funding architecture emerging from a post-2012 agreement.

The main financing mechanism under the UNFCCC, the Global Environmental Fund (GEF) has been widely criticized for its inaccessible, burdensome and undemocratic management. While its ability to link the World Bank and UN development and environmental agencies is important, the GEF has been inordinately slow to disburse funds, incapable of attracting sufficient funding and lacking a strategic approach to climate change.

The Climate Investment Funds (CIFs) of the World Bank have also been critiqued regarding the Bank's lending record and the CIF's funding modalities and accountability. Critics argue that having a sizeable investment fund operating outside of the UNFCCC undermines ongoing UN negotiations and draws financial support away from existing mechanisms within the UNFCCC.

Any new or reformed financing mechanisms must address the problems identified to date. The following principles would provide a way forward.

1. *Governance structures should be fully inclusive of developing countries governments*

To achieve maximum effectiveness, the governance of financing mechanisms should provide at least parity of decision-making power for those who have the local knowledge and expertise: developing country governments. Mechanisms should encourage the engagement and participation of local communities and civil society in the development, decision-making and implementation of adaptation activities at the country level. And financing should be undertaken in a manner that is transparent and accountable, to ensure public oversight by citizens, civil society and the media.

2. *Funding mechanisms should be based within the UNFCCC*

As the key multilateral arena for addressing climate change, the UNFCCC should oversee adaptation finance. This would rightly place the oversight and governance of adaptation finance under the control of all negotiating countries. We believe this principle would secure support for the international system while simultaneously encouraging a

post-2012 agreement that is inclusive, equitable and transparent to both civil society actors and developing country governments.

3. *Funding should be disbursed in the form of grants, not loans*

The cost of adapting to climate change should not be paid by those who did little to cause the problem. Lending money to developing countries for adaptation would violate the principle of common but differentiated responsibilities enshrined in the UNFCCC, and the polluter pays principle that is widely acknowledged in environmental law and was officially recognized by the OECD in 1972: “The polluter should bear the expenses of carrying out pollution prevention measures or paying for damage caused by pollution.” Furthermore, over the longer term the added debt burden would undermine the prospects for poor and vulnerable countries to adapt successfully.

4. *Funding for adaptation should be additional to existing aid commitments*

As indicated above, developed countries ought not to diminish their commitment to development assistance in order to finance their obligation to support adaptation in developing countries. Agreement on an enhanced funding mechanism should specify that adaptation finance be accounted for separately from development assistance.

5. *Funding should be predictable and sustainable*

Adapting to climate change is by necessity a multi-year effort. Funding must be predictable and sustainable so that developing countries can undertake medium and long-term investments. The Bali roadmap includes, as a negotiating mandate, “improved access to adequate, predictable and sustained financial resources and technical support, and the provision of new and additional resources” for both. This was underscored by developing countries throughout the 2008 and 2009 intercessional meetings.

6. *Funding should be coherent with other dimensions of sustainable development, particularly human rights and ecosystem resilience and diversity*

People affected by climate change deserve an overarching strategic framework that ensures coherence with other dimensions of sustainable development that respects, protects and promotes fundamental human rights, especially of the most vulnerable, and supports the resilience and diversity of ecosystems. Financing mechanisms should incorporate the best practices accrued from the long experience of development assistance and the effective management and restoration of natural systems.

A role for Canada

By assuming its share of the global financing responsibilities, supporting an enhanced financial architecture, and positioning itself as a leader in the fight against climate change, Canada has the opportunity to make a crucial difference in the lives of the vulnerable people who suffer most from the adverse effects of a changing climate. Canada would also reinforce the fragile trust between developed and developing countries and help lay the foundation for a concerted response to the global challenge of climate change.