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[POLICY BRIEF]

Climate change challenges for European Development Cooperation: issues towards 2020

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Strategies on climate change and development cooperation are both evolving rapidly within Europe. Improved scientific understanding about climate change, and responses to it, show the need for urgent action to fill the ›gigatonne gap‹. This is the chasm between emission reductions pledged by countries and the actual reductions needed to stay within a safe global carbon budget. The aid landscape is also changing fast, after years of seeming stability. With the emergence of new donors (both sovereign states and private foundations) complexity is likely to increase through to 2020. As a result, the traditional multilateral and bilateral donors are likely to lose influence and power. But within the climate change framework there is still unfinished business for traditional donors, particularly in relation to the provision of finance and technology for developing countries.

The European Union (EU) has stepped up to its historic responsibilities and climate change has become an increasingly important component of its development cooperation effort. It has contributed most of the committed Fast Start Funds that will be critical to achieve a new global climate deal. But how will all this play out over the next decade and what can we learn from recent trends?

What role for Europe?

Major outstanding issues on policy coordination are well reported to Europe's citizens, and include roadblocks in some critical areas of climate change policy, such as the EU Emissions Trading System and new and additional climate funding. But successive EU Presidencies have managed to fix enough of a deal for Europe to provide consistent global political leadership on climate change within the UNFCCC[1]. This is vital, given the uneven political commitment from other industrialised countries, notably the US, Canada, Japan and Australia. Europe has already demonstrated an agreed sense of commitment on climate change with several European countries stepping up their efforts, for example Sweden established the Commission on Climate Change and Development in association with its Presidency of the EU.

1 The UNFCCC works entirely separately from the other geopolitical fora (MEF,G8 and G20 where EU countries and the EC operate more separately.

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Coordination has been secured by combining member states' efforts and the European Commission's- not by establishing consistent criteria. One area where successful coordination has yet to be secured is in agreeing what is ›new and additional‹ for fast start funding: each member state has defined its effort differently. Significant differences exist between MSs in their levels of ambition, which seem to be differentiating further due to global financial pressures and Euro zone difficulties. Also, due to the financial pressures on many European Governments, there is an anticipation of increased pressures on aid budgets. In 2007, the EU-27 increased aid as a share of GNI from 0.08 per cent to 0.42 per cent but decreased in volume to € 49 billion. A total of 12 EU member states maintained or increased their budgets, but others (Germany, Italy, Austria, Greece and the Netherlands) cut theirs[2].

On climate change finance a few key European players operate bilaterally in addition to supporting European action. In the EDC 2020 case studies it was found there was competition both within countries and between countries as a result of this dual action. For example, as the ED2020 project was getting underway there was development of both the EC's Global Climate Change Alliance (GCCA) and the World Bank's Pilot Programme for Climate Resilience (PPCR), financed in part by the UK, with projects supported by both GCCA and PPCR in place when fieldwork was being undertaken in Bangladesh.

Issues of ownership, alignment and harmonisation are as relevant within Europe as for framing Europe's relationship with developing countries. This arises not only due to differences among the MSs but also reflects the differing roles played by the European institutions: the Council, the European Parliament and the Commission (with the emergence of the new CC DG and the changes in AIDCO). Development cooperation and climate change are shared areas of policy, with the EC and the MSs having their own budgets, policies and programmes. Because of this, there is a constant flux on policy development which impacts on climate change, and it is difficult to see constant coherence. With the re-emergence of the energy security agenda there have been recent tensions in Europe on energy and CC policy, with a pushback on the 30 % emissions reduction target.

2 EDC 2020 European Climate and Development Financing before Cancun- Imme Scholtze, Opinion no7 Dec 2010

What challenges does CC present for development cooperation?

Climate change and development cooperation policies and practice are becoming more integrated. This trend is likely to continue, with both areas of policy changing and influencing each other. This is particularly the case with climate change adaptation where there is uncertainty about how far climate change should be handled separately in view of its close relationship with long-established aid investments in agriculture, food security and livelihoods, and disaster risk reduction. Some development projects are being rebranded as each donor's portfolio responds to the changing policy environment.

Climate change is changing and modifying the development cooperation agenda at country level in several ways:

- Evolutionary approaches: some European donors are evolving their development portfolios to accommodate climate change in an incremental manner;
- Step change in response to international political developments: other donors (e.g. the UK) see climate change as an imperative to shift their international development relationships;
- Response to country drivers: increased activity by national governments on climate change is prompting donors to re-align their development work;
- Response to donor country politics: the way that climate change is being handled by each development partner reflects the extent to which the donor Government works bilaterally or multi-laterally.

Overall, climate finance presents new challenges for development cooperation at all scales. There is need for more funding. At the same time, there are challenges of capacity that development partners have to address. Whilst it is evident there is a need to scale up climate finance on the adaptation side, budgets of national Governments are likely to dwarf international public climate finance, even if the $100 billion / year is achieved. It is vital that a clear, additional role be identified for climate finance for it to be effective, lever additional funds, and be capable of Monitoring, Reporting and Verification (MRV). On the mitigation side, the EDC2020 country case studies suggest that the pressures to create a new institutional architecture to handle climate change funds is diverting effort to work out exactly what needs to be funded. At present, the funding modalities are guiding activities, rather than the other way around. With new models emerging under the UNFCCC, first with the Adaptation Fund and now the Global Climate Fund, care needs to be taken that international finance remains responsive to country needs.

What is relevant from development cooperation for climate change?

Development cooperation is influencing how both MSs and the EC are going about delivering climate change support to their traditional aid recipient partner countries.

First, the development cooperation relationship has helped to *raise the adaptation agenda* within climate change policy circles. This is a positive development that meets the needs of climate vulnerable countries in the south. However, there is also the major challenge of not knowing where climate actions begin and development actions stop. This has been extensively reviewed and there appears no simple answer. It constrains efforts to measure these actions separately; perhaps the answer is better reporting on both. At present, there are poor levels of transparency on climate change actions *and* aid delivery, holding back both domestic and international accountability.

Second, the development cooperation relationship has helped to raise *the importance of governance and institutions* for an effective response to climate change. This aspect will increase in importance at the focus of climate finance moves from the international to the national (and sub-national) levels. Non-government organisations have benefited from standards set under the development cooperation relationship, which has helped to raise the profile of civil society within climate change policy circles.

Counter-intuitively, the development cooperation relationship does not appear to have strengthened thinking on *equity* issues of climate change support. Despite the recent aid focus being on the Millennium Development Goals, identifying those most vulnerable to climate change appears to remain at an early stage of understanding. More needs to be done to target international climate change support to those most in need.

A new emphasis within both development cooperation and climate change policy is to highlight the role of *the private sector* and using public funds to lever substantial additional resources from private enterprise. There will likely be a strong trend in this direction over the next few years (at least up to 2015) as the fiscal space for public spending remains tight throughout Europe.

Another important synergy between the two policy areas lies in the emphasis given to systems that can demonstrate improved performance. The climate change interest in MRV parallels the aid effectiveness emphasis on results, which is now being re-emphasised through the ›value for money‹ focus within European aid agencies.

Finally, development cooperation provided some important insights into the challenges facing long-term, within-country capacity strengthening associated with implementation actions. Getting the right balance of funding modalities is a challenge currently facing the international community, as both EDC2020 country case studies demonstrate. One development cooperation principle that needs to be respected is acknowledging national ownership over the development process. As Europe supports new CC funding channels this principle should not be forgotten.

Looking forward to 2020

In 2008, the EDC project started by examining emerging issues on climate change at a time when Europe had an opportunity to coordinate the work of the MSs and ensure its strength was used effectively. In 2011, Europe has achieved climate change actions at an international scale, and is a key player on Fast Start Funding with commitments by the EC and member states (although this is not necessarily all new and additional funding.)

Major changes are now underway at the global level, with the emergence of new actors, the global financial crisis, a weak euro, increased economic growth in MICs and some LDCs. All these factors will mean there is a constant iteration and short time scales of policy development in climate change, at least until a global agreement is reached. Some form of international agreement can be expected by 2020, which should mean that the following decades exhibit less policy uncertainty than at the present time.

European development cooperation itself is likely to be in constant change up to 2020, being affected by an increased number of drivers. Already the next round of the international aid effectiveness process is prompting policy renewal in Brussels. This is also recognising increased pressures from the United Nations Millennium Development Goals (MDG) process for more impact on policy alleviation at the same time as there is likely to be increased pressure on donor country aid budgets.

So, not all the potential has been fulfilled over the past three years, but in a global context on climate change Europe has a vital role to play and must continue to aim to act in a coordinated manner to be a global force. The danger signs are there:

»*There were worrying signs at the recent World Economic Forum of lucklustre concern from policy-makers as to the scale of the climate change challenge. Even if existing commitments are implemented fully they are not enough to put the word on a path that would give us even a 50–50 chance of avoiding a warming of 2 above 19th century temperatures*«[3].

Tremendous challenges remain.

3 Financial Times 09-03-11 Dr Fatih Birol and Lord Nicholas Stern.

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This series provides summarised research outcomes of the EDC2020 project on European Development Co-operation to 2020. This project carries out research on three major emerging issues: new actors in international development, the linkage between energy security, democracy and development and the impact of climate change on development.

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