

NGO Group Bulletin on Climate Change Research and Development

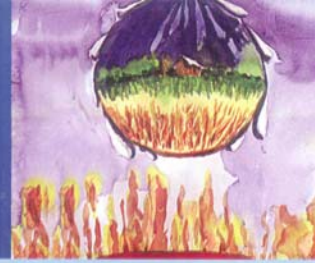
issue 2 • august 2008

More Action and
More Commitment
on Adaptation

Melting Glaciers



Adaptation Financing: Some Options and Ways Forward



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Adaptation is not an option but an urgent necessity for many developing countries. The cost of climate change impacts has been estimated at 5-20% of global GDP annually in the absence of adaptation (Stern, 2006). The World Bank has estimated that up to 10% of domestic and foreign direct investment (FDI) flows in developing countries, and up to 40% of Organizational Development Agency (ODA) and concessionary finance, might be at risk from climate-related damages (World Bank, 2006). The adverse impacts of climate change and cost of adaptation have become a substantial challenge to developing countries, since these countries have inadequate resources and capacity, inefficient institution and a weak knowledge base.

Against this backdrop, there is now an urgent need to identify financial ways and means for adaptation financing, both at national and international

levels. It is particularly important to implement anticipatory adaptation actions effectively and in time, otherwise the cost of reactive adaptation will be much higher. Exploration of appropriate financial mechanisms is relevant for us in Nepal, since the National Adaptation Programme of Action (NAPA) is in the process of formulation. There are different types and nature of mechanisms or processes that can help to effectively finance adaptation actions. They include:

International Level

At the international level, there are different kinds of funds available for developing countries. Global Environment Facility (GEF) operates three funds: GEF Trust Fund, Least Developed Countries Fund (LDCF), and the Special Climate Change Fund (SCCF). Further, funding opportunities currently available for developing countries to





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fund adaptation projects include: the adaptation funds under the Kyoto Protocol, funds from other multilateral environmental agreements, and national and international organizations and agencies. But accessing these funds has become a daunting task for developing countries like Nepal due to the complex and lengthy processes involved. Besides this, allocated funds are not sufficient to address burning issues that developing countries are facing currently. Hence, it is imperative to both improve the processes, as well as determining other financial mechanisms to provide sustainable and sufficient funds for adaptation actions. There are different burden-sharing mechanisms proposed to finance adaptation at the international level. These include 'adaptation beneficiaries pay principle', 'emitters pay principle', 'ability to pay principle', and 'climate change winner pay principle.' 'Adaptation pay principle' is based on the basic rule of trading of private goods and entails that beneficiaries of adaptation policies and measures bear the cost, since they are benefiting from the actions. This is against the equity principle, since the most

vulnerable and poor people in developing countries suffer the most from the impacts of climate change, although they contribute the least to climate change. 'Emitters pay principle,' like polluters pay principle, is based on the amount of emissions from a country or its industry or individual consumers. 'Ability to pay principle' is based on the ability to pay which is typically measured by using GDP or individual income, whereas 'climate change winners pay principle' is based on the positive impacts of climate change. Countries such as Russia and Canada are benefiting from climate change through increasing growing season and associated higher agricultural yields, lower consumptions of energy, and other effects. Based on facts and equity perspective, all these principles except 'adaptation beneficiaries pay principle' are suitable for developing countries.

National and Community Level

The adaptation financing principles can also be applied at the national level. For example, 'emitters pay principle' can start from some selected industries and aviation companies which emit large amounts of

GHGs. Based on learning gained, it can be extended to other transport systems and types of fossil fuel use. Important emitters can be brought under this scope after a thorough study of their GHGs emission. The fund collected through these sources can then be used in the most affected areas to minimize risks posed by climate change.

Besides accessing funds through different financial mechanisms, it is equally important to identify and properly prioritize effective and efficient adaptation actions at the national as well as community level. In general, capacity for prioritization, basic information and research on adaptation actions are inadequate in our context. However, a community consultation carried out in one of IUCN Nepal project sites revealed that there are several adaptation actions being undertaken by communities and they have been selecting and prioritizing adaptation actions based on resource availability, effectiveness of technology, suitability at local level and locally manageable. Development of an adaptation matrix in order to assess the effectiveness of adaptation actions is

also important to finance adaptation at different levels.

These mechanisms and processes at all levels — international, national and community are vital to select and prioritize adaptation actions and to use limited resources judiciously.

Way Forward

In order to avoid costly, reactive and unplanned adaptation actions in the future, it is important for policy makers to proactively mainstream adaptation concerns into development planning, and to seek and mobilize resources for climate proof investment in existing development interventions. It is clear that without international co-operation, financing adaptation actions within Nepal is not possible. Nepal should raise issues of climate justice and adaptation financing very strongly in international forum.

Government should start integrating adaptation issues into development planning including NAPA, and search for appropriate adaptation financing mechanisms in order to manage the most

pressing development challenges created by climate change.

Research in these issues is very important to plan and manage, hence adequate attention should be given in this front.

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