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Funding International Climate Adaptation

Supporting Developing-Country Needs in the Absence of a Federal Climate Bill

Workshop Summary Report

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On February 24, 2011, the National Religious Partnership for the Environment (NRPE)[1], together with the Nicholas Institute for Environmental Policy Solutions at Duke University, presented a workshop on US funding for international climate adaptation. Last year's collapse of the effort to enact comprehensive federal climate legislation, together with a change in congressional priorities following the 2010 elections, have created a difficult funding environment for all international aid, including funds for climate adaptation. This workshop was an opportunity for NRPE members and allied partners from within the faith-based environmental movement to hear about the state of US support for international adaptation and to learn about major proposals that have been put forward for raising additional resources.

This workshop report summarizes key points that were made by the presenters—a group that included policy experts and key US government representatives involved in the funding and implementation of international climate adaptation work—and identifies areas for continued engagement going forward.

The Big Picture

The need for investments in climate adaptation is great. Even under the most optimistic mitigation scenarios for emissions of greenhouse gases, countries face increased hardship resulting from climate change across a range of critical areas. These include threats to water security, food security, coastal zones, and health, and more frequent and severe occurrences of droughts, floods, and other extreme weather events. Poor countries are particularly at risk, because they tend to be located in parts of the world where climate hazards are high, because their economies are more heavily concentrated in climate-sensitive sectors such as agriculture, and because they lack the resources to respond to climate change on their own.[2] Absent investments that reduce the vulnerability of at-risk populations, climate change may become a potent driver of poverty.[3]

While the UN climate negotiations have been the focus of much of the world's hopes and attention, Nigel Purvis, visiting scholar at Resources for the Future and President of Climate Advisers, counseled against an overreliance upon the UN process to deliver all the necessary climate action, including sufficient financing for adaptation. Drawing upon a paper[4] that he and colleague Andrew Stevenson released in March of 2010, Purvis suggested that the most likely outcome of negotiations under the

1. The National Religious Partnership for the Environment was founded in 1993 by four major religious organizations and alliances that together serve tens of millions of Americans: the US Conference of Catholic Bishops (USCCB), comprising the bishops of the United States and the Virgin Islands, which participates in the Partnership through its Environmental Justice Program and Catholic Coalition on Climate Change; the National Council of Churches of Christ (NCCC), a federation of 34 Protestant, Eastern Orthodox, and African-American denominations, which participates in the Partnership through its Eco-Justice Program; the Coalition on Environment and Jewish Life (COEJL), an alliance of agencies and organizations across all four Jewish movements; and the Evangelical Environmental Network (EEN), a coalition of 23 evangelical Christian programs and educational institutions. The NRPE was established through its founding faith groups and denominations to further inform their efforts, and to amplify their voices in communities of faith and in the public square on issues of Creation stewardship.

2. Intergovernmental Panel on Climate Change (IPCC), "Summary for Policymakers," in *Climate Change 2007: Impacts, Adaptation, and Vulnerability; Contribution of Working Group II to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change* (Cambridge, UK: Cambridge University Press, 2007).

3. World Bank, "The Cost to Developing Countries of Adapting to Climate Change: New Methods and Estimates; The Global Report of the Economics of Adaptation to Climate Change Study" (Washington, DC: The World Bank, 2010).

4. Nigel Purvis and Andrew Stevenson, "Rethinking Climate Diplomacy: New Ideas For Transatlantic Cooperation Post-Copenhagen," Brussels Forum Paper Series (Washington, DC: The German Marshall Fund of the US, 2010).

United Nations Framework Convention on Climate Change (UNFCCC) is for a "bottom-up, weak regime" model, where individual country mitigation targets are driven by domestic politics as opposed to science, and the institutions that monitor and enforce country pledges are relatively weak, with little in the way of significant consequences for countries that fail to live up to their international commitments.

For advocates of greater US support for international climate adaptation, there are several key takeaways from Nigel Purvis's keynote. First, mitigation and adaptation are linked, and if the concern is for the poor, both responses to climate change are necessary and inform each other. Second, the UN process is unlikely to provide adequate funding for adaptation or mitigation. Using the Copenhagen pledge by developed nations of $100 billion in annual funding for climate action for developed nations (includes both mitigation and adaptation), Purvis predicts a shortfall of $30 billion annually under an optimistic scenario that includes increased revenue from carbon markets.

Moreover, absent a cap-and-trade bill in the US, securing congressional support for increased climate funding is a major challenge. Assuming a US share of 20%—or $20 billion—of the Copenhagen pledge based on past contributions to multilateral initiatives, meeting this benchmark through foreign assistance alone would represent a roughly 20-fold increase in climate aid from current levels. Given that US politics have reached an indefinite impasse on climate policy, a strong case exists for consideration and development of alternative financing mechanisms.

Unique Challenges Presented by Adaptation

Despite the compelling evidence of significant risks to much of the world's poor absent investments in adaptation, there are some real challenges to both "selling" and implementing adaptation. As Heather McGray, Senior Associate at the World Resources Institute, noted, questions of what to spend money on and how to know if adaptation interventions are working are "real puzzles and in many instances, a barrier to getting money from donors." Climate-ready outcomes, such as improvements in the capacity of developing countries to manage information and develop vulnerability assessments, are different from traditional measures used to assess the progress of development work, such as improvements in health or increases in agricultural production. Moreover, there is likely to be a time lag between adaptation interventions and evidence that they have saved lives—a point that was echoed by presenters Dave Evans of Food for the Hungry and Dina Brick of Catholic Relief Charities. An example of this would be determining the benefits of increased storm readiness—an impossible task absent a real storm event.

These issues extend to the UN negotiations, where despite the progress made in Cancún with the establishment of the Green Fund, the matter of how to allocate climate funds among developing countries has been left on the table for future negotiations. More work is also needed on ways to track adaptation investments, measure outcomes, and set up a learning process to increase the effectiveness of investments over time.

An open question surrounding adaptation is whether or not there will be ways to mobilize private investment to support these activities. Many of the projects for which adaptation funds are needed—such as changing agricultural practices in poor villages, for example—are not the kinds of investments that tend to attract private capital.

John Furlow of USAID says USAID has sought to integrate adaptation into its development work and to make adaptation relevant to stakeholders. Adaptation work is currently being undertaken in 19 countries. USAID is targeting its adaptation investments where there is an overlap between development priorities, high climate risks, and high opportunity for success. John also pointed to the challenges of moving from an adaptation funding level of $24 million in FY 2009 to $123 million in FY 2010.[5]

Innovative Climate Adaptation Finance

Three proposals for raising funds to support international climate adaptation were discussed in length at the workshop, while others—a tax on financial transactions, a redirection of fossil fuel subsidies, and carbon market set-asides—were briefly mentioned. Below we summarize the key points that were made by presenters about the proposed funding mechanisms.

Proposal by International Monetary Fund (IMF) staff for a "Green Fund," presented by Catherine Pattillo, Chief of Low-Income Countries Strategy Unit, IMF

Noting that the current approach to climate finance of regular "pledging conferences" suffers from delays and uncertainties that inhibit investment, staff members in IMF's Strategy, Policy, and Review Department have proposed a "Green Fund" for climate investments. The overall concept, upon which many design variants are possible, is for the following:

5. Total US funding for adaptation in FY2010 was $246 million; the $123 million is USAID's share.

1. The creation of a fund capitalized by an injection of developed-country Special Drawing Rights (SDRs)[6]
2. Issuance of highly-rated (and therefore low-cost) "green bonds" in capital markets, using the fund's reserve assets as collateral, and thereby scaling up public contributions through private lending
3. Disbursing grants for adaptation and loans for mitigation to developing countries through the combined proceeds from green bonds and additional subsidy payments from developed countries.

IMF authors propose that the fund divide financing equally between adaptation and mitigation investments. Assuming all adaptation funding is in grant form, and that mitigation financing is a mix of concessional and nonconcessional loans, the authors estimate that for every dollar of overall financing provided, 60¢ in subsidies would be needed. This translates into $60 billion per year of required funding from developed countries (separate from the initial endowment contribution) to achieve the goal of $100 billion per year in disbursements.

Pattillo notes that a key difference between the IMF staff proposal and one proposed by financier George Soros that also involves SDRs is that under the IMF proposal, countries retain ownership of their SDRs—they only repurpose them to sit in the balance sheet of the fund as capital. Other key features of the proposal are the ability to generate funds on a scale commensurate with the Copenhagen pledge of $100 billion annually, a burden-sharing and long-term commitment mechanism based on the size of developed country's SDR reserves and the capacity to disburse funds quickly.

Proposal by the International Emissions Trading Association (IETA) for "Green NAMA Bonds," presented by Kim Carnahan, International Policy Director, IETA

Highlighting the urgent need to get the private sector more involved in financing low-carbon development in developing countries, including projects with both adaptation and mitigation benefits, IETA has proposed a financing mechanism that seeks to raise funds from international bond markets. The system works as follows:

1. Developing countries develop National Appropriate Mitigation Action[7] (NAMA) plans, which will result in quantifiable emissions-reduction benefits. These are projects that are presumed to have co-benefits such as economic development, climate adaptation benefits, or improved public health, but that cannot be undertaken by a host country without outside financial assistance. An example would be modernization of a portion of the host country's electricity supply system.
2. A new international institution, here called the "Green NAMA Bond Board," would estimate the emissions reductions likely to occur from the project, as well as assess the conventional economics of the project (return, risk, etc.).
3. If project assessment by the Green NAMA Bond Board proves satisfactory, an international lending institution, such as the World Bank, would provide insurance against the project defaulting, thereby allowing the project to be financed through sales of highly rated bonds. Money to support the insurance issued by international lending institutions would come from developed countries.
4. Low-risk Green NAMA Bonds would be sold on international bond markets. The return to investors would include low interest payments and also a share of the carbon credits generated from the verified emissions reductions attributable to the underlying project. Some share of project returns—returns from domestic electricity sales, for example—could also be part of investors' returns.
5. Project developers would repay the low-interest loan through project revenues and some share of the carbon credits generated.

One important feature of the IETA proposal is that it depends upon the continued growth and expansion of carbon markets to drive demand for emissions-reduction credits. It's also unlikely that all adaptation projects could be financed by such a mechanism, as a project must be able to generate revenue or carbon credits or both to repay the loan.

6. SDRs were created in 1969 by the IMF as an international reserve asset to be used by member countries in times of financial crisis. At the time, a central perceived threat to international financial stability was the potential lack of currency liquidity from expansion of international trade. However, as the developed world has shifted from a fixed-currency system to one of floating exchange rates, the need for SDRs has diminished. SDRs are valued according to a weighted average of four major currencies, and essentially constitute additional foreign exchange issued to member states by the IMF according to a quota system. For a member country to use its SDRs, the SDRs must first be converted into hard currency, at which time they begin to carry interest (require interest payments). The IMF proposal suggests that contributors agree to scale their equity stakes in proportion to their IMF quota share (the US share of total SDR allocation is currently 17.3%) as one way to agree upon cost sharing among contributing countries.

7. NAMA is a term used in UN climate change negotiations to mean policies or actions, usually on a large scale, that will reduce a country's greenhouse gas emissions profile below business-as-usual.

Mitigation and revenue generation from a mechanism(s) covering the aviation and shipping sectors, presented by Lou Leonard, Managing Director of Climate Change, World Wildlife Fund

Greenhouse gas emissions from international aviation and shipping together constitute a significant portion of global emissions—around 8%—and are growing rapidly. Some researchers predict a doubling in size by 2020, with these sectors comprising 10%–15% of all global emissions by 2050.[8] Moreover, because these emissions are inherently international—that is, they don't belong to any one country—they are not covered under the UNFCCC rules or the Kyoto Protocol.

Several proposals for generating revenue and driving emissions reductions from these sectors have been put forward. One is to tax marine and aviation fuels while another is to subject these sectors to an emissions cap. An additional proposal is for a ticket levy on international flights. The ticket levy proposal, while it would generate revenue for adaptation, would likely not mitigate emissions.

Because levies and caps would affect both developed and developing countries, it is proposed that a portion of the revenue generated be used to lesson the impacts on developing countries. In addition, an exception to the mechanism could be made for very small or poor nations that rely heavily upon food imports and tourism. The balance of revenue would go towards financing low-carbon development and adaptation in developing countries, and possibly research and development for the aviation and shipping industries as well.

The impacts of such a program, as measured by price increases or a reduction in trade, would be slight, while the potential for revenue generation is significant. An International Maritime Organization (IMO) study predicted an overall reduction in trade of 0.2%, while an airline trade group found a 2%–3% increase in the cost of air travel.[9] At the same time, the US Climate Action Network estimates this mechanism could generate $19–$35 billion in climate finance by 2020, with the portion attributable to emissions originating in the US at $1.5–$2.8 billion.[10]

Such a sectoral mechanism could be created by the UNFCCC process, by the respective international bodies that regulate these industries—the International Civil Aviation Organization (ICAO) and the IMO—or by domestic legislation that harmonizes and links programs from participating nations.

Currently, there is industry support for a market-based mechanism among several large airlines, with US-based carriers so far less supportive. Several national shipping associations are also supportive of these kinds of proposals. Most developed-country governments support a market-based mechanism of some kind for the aviation and shipping sectors with some share of the revenue being used for adaptation. Indeed, starting in 2012 the EU will put an emissions cap on all outgoing and incoming flights into the EU. Among developed countries, the US has been least supportive, but its position is beginning to soften.[11]

Political insights from Angela Anderson, Program Director, US Climate Action Network

Other proposals for generating adaptation revenue that have attracted the attention of policymakers include imposing a small tax on international financial transactions such as currency exchanges; a redirection of subsidies for fossil fuels towards climate action; and setting aside a dedicated portion of emissions allowances or revenues from carbon taxes in countries that implement carbon-pricing programs. Angela Anderson, Program Director at the US Climate Action Network, recounted a conversation she had on climate finance in 2010 with Lawrence Summers, who at the time was serving as Director of the White House National Economic Council. She says Summers and the Obama administration were generally open to raising climate revenue from a redirection of fossil fuel subsidies, international aviation and shipping mechanisms, and from setting aside a dedicated portion of emission allowances. In contrast, the administration was not supportive of proposals to tax international financial transactions or to use SDRs for climate action.

Administrative and Congressional Support for International Climate Action

Billy Pizer, Deputy Assistant Secretary for Energy and Environment, outlined the administration's current and historical funding for international climate action, as well as its FY2012 budget request. Funding is divided into three core areas of clean energy, sustainable landscapes, and adaptation. Pizer emphasized that this is not all the administration is doing internationally on

8. Oxfam International, "Turning Carbon into Gold: How the International Community Can Finance Climate Change Adaptation Without Breaking the Bank" (Oxford, UK: Oxfam International, 2008).
9. Lou Leonard, presentation at the NI/NRPE workshop on international adaptation funding, February 24, 2011.
10. US Climate Action Network, "Investing in the Future: Options for Climate Finance the US Can Support," Policy paper. (Washington, DC: US Climate Action Network, 2010).
11. Leonard, NI/NRPE workshop.

Table 1. US core funding for international climate change action (in millions).

	FY2009	FY2010	FY2011*	FY2012 req.
Adaptation	24	246	334	256
Sustainable Landscapes	123	233	347	421
Clean Energy	169	531	710	652
Total	**316**	**1,010**	**1,391**	**1,329**

*At the time of writing no final funding bill for FY2011 has been passed. It is likely that FY2011 will be funded at 2010 levels or lower.

climate, as there are many expenditures—certain agricultural investments for example—that have adaptation or mitigation co-benefits. Table 1 shows how US funding for international climate change financing has changed over time.

The Deputy Assistant Secretary said the relative allocation of resources among the three core areas is likely to change over time, and that the administration is prioritizing mitigation, including cost-effective opportunities to reduce deforestation in the short term, while cognizant that adaptation investments will require increases in the capacity of developing countries to absorb these investments—something that will take time in many of the countries where adaptation is most needed.

Pizer also highlighted the administration's roughly equal balance of support for bi- and multilateral programs (not shown above), noting that each serves a different purpose, with multilateral funding allowing the US entry into international negotiations (among other goals), and bilateral funding affording the US greater control over those investments.

Echoing the words of Lawrence Summers, Pizer said the administration is strongly against proposals to tax international financial transactions, viewing them as inefficient, difficult to administer, and fraught with potentially adverse consequences; he said the administration is also opposed to repurposing SDRs. At the same time, Pizer said the administration would be open to exploring other ways to capitalize a large international fund for climate action. The administration is supportive of redirecting fossil fuel subsidies, open to dialogue on aviation and shipping mechanisms, and still views market-based mechanisms as the most promising approach for generating climate finance in the long term.

Additional insights were provided by Brent Woolfork of the House Foreign Affairs Committee. To no surprise, Woolfork said given the current House politics it's very difficult to move any climate agenda, domestic or international. New priorities for the House following the 2010 midterm elections are to cut government spending and perceived waste. As a window into where the House is on climate change, Woolfork noted that the sponsor of a recently passed amendment to HR 1 that cuts all funding to the Intergovernmental Panel on Climate Change (IPCC) (the measure passed 244-179 with nine Democrats supporting and three Republicans voting no) described the IPCC process as "fraught with waste and engaged in dubious science," and called scientists associated with the IPCC "nefarious."

Forging a Path Forward on US Climate Finance

The final panel of the workshop offered a chance for all attendees to reflect on the day's events, and suggest ways of moving forward. Tim Profeta, Director of the Nicholas Institute, began the session by posing three questions to audience members:

1. Given what we've heard today, what actions should we take as a partnership?
2. How should we go about achieving these actions?
3. How much do we need to go back to a broader approach that focuses on inspiring people to act?

Below are key points and comments raised by audience members in the final discussion session.

- Several audience members and presenters stressed the need for advocates to do a better job of defining what they hope to achieve with adaptation investments.
- The need for stories that illustrate adaptation work in the field and the challenges faced by at-risk communities was raised by many attendees.
- Alexei Laushkin of the Evangelical Environmental Network (EEN) spoke of a need to give adaptation a distinctive identity and life that is more than policy-oriented.
- Walter Grazer stressed that while the faith community needs to be knowledgeable about climate and adaptation funding proposals, the community should focus on the larger values that are stake, and not get too lost in the policy details.
- Jim Ball, Executive Director of EEN, spoke of the logic

of having a "diversified portfolio" of policy options to pursue over the short- and mid-term, and urged the faith community to not back away from engaging in the kinds of innovative finance mechanisms presented at the workshop simply because they are unfamiliar.

- Kathy Brown of Catholic Charities USA warned of the risk of advocates for foreign aid fighting over a smaller and smaller pool of available funds. She said all relief and development advocates, including climate aid advocates, need to stick together in this difficult funding environment.
- Dan Misleh, Executive Director of the Catholic Coalition on Climate Change, said that while members should not underestimate the convening power and role of the church, synagogue, mosque, or temple in conveying the need to act on climate change, partners need to think strategically about who among faith leaders is best positioned to do this convening, and where and how it should be done.

Workshop Attendees

Angela Ledford Anderson, US Climate Action Network
Mathew Anderson-Stembridge, NRPE
Jim Ball, Evangelical Environmental Network
Ryan Bartlett, Nicholas Institute
Barbara Bramble, National Wildlife Federation
Kolya Braun-Greiner, Catholic Coalition on Climate Change
Dina Brick, Catholic Relief Services
Kathy Brown, Catholic Charities USA
Cecilia Calvo, United States Conference of Catholic Bishops
Galen Carey, National Association of Evangelicals
Cassandra Carmichael, National Council of Churches
Kim Carnahan, International Emissions Trading Association
Richard Cizik, New Evangelical Partnership for the Common Good
Celeste Connors, National Security Council
Carrie Constantini, Lutheran World Relief
DeWayne Davis, The Episcopal Church
Vanessa Dick, WWF US
Rabbi Fred Scherlinder Dobb, Adat Shalom Reconstructionist Congregation
Derek Duncan, United Church of Christ
Christine Elliott, Franciscan Action Network
Dave Evans, Food for the Hungry
Frank Femia, Connect US Fund
Shaun Ferris, Catholic Relief Services
Marc Friend, NPRE/Religious Action Center of Reform Judaism
John Furlow, USAID
Walter Grazer, NRPE
Anita Grazer, NRPE
Jessica Haller, Hazon
Ben Henneke, Clean Air Action Corporation
Mitch Hescox, Evangelical Environmental Network
John Hill, United Methodist Church
Ryan Hobert, UN Foundation
Kathleen Kahlau, Catholic Relief Services
Cathleen Kelly, White House Council on Environmental Quality
Lucas Koach, Food for the Hungry
Greg Laszakovits, Church of the Brethren
Alexei Laushkin, Evangelical Environmental Network
Lou Leonard, World Wildlife Fund
Nick Mann, Friends Committee on National Legislation
Heather McGray, World Resources Institute
Kathy McNeely-Maryknoll, Maryknoll Office for Global Concerns
Mary Minette, Evangelical Lutheran Church in America
Dan Misleh, Catholic Coalition on Climate Change
Mike Neuroth, United Church of Christ
Joelle Novey, Greater Washington Interfaith Power & Light
Megan Nykyforchyn-Clark, World Hope
Bill O'Keefe, Catholic Relief Services
Stephanie Pappas, National Wildlife Federation
Catherine Pattillo, International Monetary Fund
Billy Pizer, US Dept. of Treasury
Tim Profeta, Nicholas Institute
Nigel Purvis, Climate Advisers
Tonya Rawe, CARE
Annalise Romoser, Lutheran World Relief
Sybil Sanchez, Coalition on the Environment and Jewish Life
Jake Schmidt, Natural Resources Defense Council
Josh Schneck, Nicholas Institute
Todd Scribner, USCCB Migration and Refugee Services
Jean Elizabeth Shockley, NRPE
Alexandra Stark, Friends Committee on National Legislation
Jonah Steinbuck, American Meteorological Society

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