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The Nairobi Climate Change Conference: A breakthrough for adaptation funding*

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The November 2006 UN Climate Conference in the Kenyan capital Nairobi – the first of its kind in Sub-Saharan Africa – has been decreed by media and environmental pressure groups of the industrialised world as having been largely ineffectual, if not an outright failure. At the same time it was hailed by many of the participating delegations – particularly from Least Developed Countries (LDCs) and Africa – as having been a break-through success.

This marked difference in the evaluation of the conference is due to a difference in focus and expectations. The focus in industrialised countries has – for obvious reasons –always been, and is likely to continue to be, predominantly on emission reduction ('mitigation'). And it is true that there has not been much overt progress in the Nairobi negotiations on 'future action' and on the next phase of the Kyoto Protocol, post-2012, when its present commitments expire. But it was slightly naïve to expect that there would have been: agreement on this – as in any other negotiations – will not be forthcoming until the 'end-game.' And it was commonly accepted by those involved in the negotiations that this stage had not been reached.

Indeed, it was this realisation which provided a window of opportunity for discussing issues concerning adaptation to the adverse impacts of climate change; the main concern for many developing countries – particularly the poorest and most vulnerable ones. It is in regard to adaptation that there were a number of results which were hailed as breakthroughs. While some of them may have achieved that status chiefly because of low initial expectations, the outcome of the negotiations concerning the Kyoto Protocol Adaptation Fund well-deserves this epithet.

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Uniqueness of the Adaptation Fund (*AF*).

The Adaptation Fund is unique in a number of different ways. Fore one, there is the fact that – unlike the Least Developed Countries and the Special Climate Change Funds of the UN Framework Convention on Climate Change (UNFCCC) – the AF falls under the Kyoto Protocol. Politically, this means that it is outside the direct sphere of influence of countries such as the United States, who have not ratified that protocol. And it provides the European Union the opportunity to take on the leadership of the industrialised world in the negotiations on how the AF should be operated.

The Adaptation Fund is also unique in the way its revenue is generated, namely through a two per cent levy on the emission permits – 'Certified Emission Reductions' (CERs) – generated by emission reduction projects under the Kyoto Protocol's Clean Development Mechanism (CDM). These projects are carried out in developing countries, predominantly by private sector investors. The 2 per cent share of the CERs generated by the projects will be levied by an international body (the CDM Executive Board) and monetized and disbursed by the Adaptation Fund. In short, it is (possibly) the first genuinely international levy on private sector activities, which is why this may well be the most important of the AF's unique features, given its precedent-setting potential.

Moreover, the Adaptation Fund is unique among climate change funds with respect to the magnitude of revenues it is projected to generate for adaptation. According to a recent study, the revenue that will be generated from the sale of the two per cent CER share until 2012 is projected to be between $160m to $950m, while the funding presently given to or pledged by donor countries to the other two climate change funds is around $170m. It is politically very unlikely that bilateral donations could ever generate the sort of money needed to cover the cost of adaptation in developing countries, which the World Bank recently estimated to be in the tens of billions of €/$. This is why alternative sources of revenue – such as the CDM adaptation levy, or the recently proposed International Air Travel Adaptation Levy (IATAL), itself estimated to generate €/$ 4–10bn annually – are key to overcoming the 'adaptation funding deficit', particularly in developing countries.[1]

Last but not least, the Adaptation Fund is unique among the financial instruments of the international climate change regime in being exclusively dedicated to the funding of *concrete* adaptation activities. Given the relatively large but nonetheless limited size of the funding that is projected to be available through this instrument, potential interest in this funding source is bound to be considerable, and it is to be expected that a vast array of projects will be put forward as 'concrete adaptation activities', not necessarily all with the same legitimacy.

Given all these unique features, it will not be surprising that the governance and management of the fund has been of considerable interest both inside and outside the Kyoto Protocol negotiation process.

The Negotiations So Far and the Way Ahead

The negotiations on how to implement and organise the Adaptation Fund preceding Nairobi had been rife with acrimonious exchanges and a great deal of distrust between developed and developing countries. One of the main points of contention was whether the Washington-based Global Environment Facility (GEF) should be managing the Fund or not. The European Union, Japan and other industrialised countries, saw GEF management as self-evident. Many developing countries, however, were unhappy with the way the GEF had been managing climate change funding in general, and adaptation funding in particular, with the consequence that the negotiations six months prior to Nairobi had ended in an apparently insurmountable stalemate between the pro GEF faction led by the EU, and the developing country Group of 77 and China, who rejected the idea of giving the management of the AF to the GEF.[2]

It may thus have come as a surprise that the negotiations in Nairobi concluded in an Adaptation decision which was generally lauded as a significant step forward and considerable success. Indeed, given the constructive atmosphere in which these negotiations were resumed in Nairobi – with all the key Parties agreeing to focus on principle and general modalities, rather than on the 'GEF or not GEF' controversy – something must have happened in the meantime that brought about this radical change in atmosphere: but what? Key to the transformation was the realisation on both sides of the 'GEF-divide' that a continuation of this institution-centred debate would be utterly fruitless, and the fact that the EU decided as a consequence to 'go into listening mode.'

It was against this background that a number of informal intersessional meetings were held, such as a seminar in Oxford organised by the Fellowship Programme of the *European Capacity Building Initiative* (*ecbi*), bringing together a number of leading EU and developing country negotiators to discuss climate change issues in general, and the Adaptation Fund, in particular. The views of the developing country Fellows on the governance of the Adaptation Fund presented to the listening European participants were later published by three LDC negotiators in what turned out to be influential IIED/ecbi opinion piece.[3]

The key elements of the Nairobi decision which will make the AF differ even more from the other funds are about governance. For one, it was decided that the AF should be under the direct authority of the Kyoto Protocol governing body (the 'COP/MOP'). The operations of the two Convention funds – managed by the GEF – by contrast are merely subject to 'guidance' from the climate change process, but not bound by its decisions. The second feature which will distinguish the AF from the other climate change funds is the voting procedure. The procedure presently applied – at least in theory, for there has never actually been a vote – is that of the GEF in which a majority of both countries and donations is required to carry a vote, the latter essentially giving veto power to the group of the five largest donor countries. The Nairobi decision dispenses with this by stipulating that votes concerning the AF will have to be solely on a 'one-country-one-vote' basis.

Institutions, such as the GEF, have been invited to submit their views on how they would wish to implement the Nairobi decision by the end of February 2007, to enable the next Session of the Subsidiary Body for Implementation (SBI) next May to form a recommendation on the institution(s) to operate the AF, with a view to come to a decision at the next COP/MOP Session in December 2007. Other issues still to be considered concerning the running of the Adaptation Fund are eligibility criteria and priority areas for funding, as well as the issue of how best to 'monetize' the share of CERs at the heart of the currently envisaged income stream for the fund.

But there can be no doubt that, as concerns the future of adaptation funding, Nairobi has been a significant success and step forward – not least due to the fact that through informal contacts, the Parties managed to alleviate, if not overcome, the previously prevailing climate of distrust. The hope of anyone interested in a truly successful conclusion of these negotiations has to be that the "Spirit of Nairobi" will persist and not turn out to be just a 'one COP wonder.'

Endnotes

[1] For more on these issues see: (a) Benito Müller and Cameron Hepburn, *IATAL — an outline proposal for an International Air Travel Adaptation Levy*, EV36, Oxford: Oxford Institute for Energy Studies, October 2006, and (b) Benito Müller, Adaptation Funding and the World Bank Investment Framework Initiative: Background Report prepared for the Gleneagles Dialogue Government Working Groups, 2006. http://www.oxfordenergy.org/pdfs/Gleneagles.pdf

[2] For more on this, see Benito Müller, *Climate of Distrust: The 2006 Bonn Climate Change Adaptation Fund Negotiations*,: OIES, June 2006. http://www.oxfordenergy.org/pdfs/comment_0606-1.pdf

[3] Amjad Abdullah, Bubu Pateh Jallow, and Mohammad Reazuddin, *Operationalising the Kyoto Protocol's adaptation fund: A new proposal*, IIED/ecbi, http://www.eurocapacity.org/downloads/11061IIED.pdf.