

Environment annual thematic performance report 2007–08

Climate Change and Development

February 2009

Australian Government – AusAID

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Abbreviations

AusAID	Australian Agency for International Development
CSIRO	Australia's Commonwealth Scientific and Industrial Research Organisation
GEF	Global Environment Facility
IFCI	International Forest Carbon Initiative
IPCC	Intergovernmental Panel on Climate Change
REDD	Reducing emissions from deforestation and forest degradation
UNFCCC	United Nations Framework Convention on Climate Change

Summary

This performance report focuses on climate change, the issue whose importance has grown most significantly in the broader environment thematic area over the reporting period. Climate change is a major development challenge with the potential to affect economic growth, exacerbate food shortages and erode gains in poverty reduction. The Australian international development assistance program rapidly scaled up activity and investment from approximately \$10 million in 2006–07 to approximately \$80 million in 2007–08 to address climate change and its impacts in the Asia-Pacific region.

Major activities are now under way or are being designed to assist countries to adapt to the impacts of climate change and mitigate climate change through reduced deforestation. Smaller activities are being implemented in specific areas, including the Pacific and Mekong.

The report highlights the rapid expansion of the environment thematic area to respond to climate change and its impacts and the need to position climate change interventions strategically to maximise development effectiveness. Although it is difficult to show early results from investments, substantial progress has been made to position the international development assistance program so that a more substantial role in responding to climate change can be played in the future. The rapid recent growth in climate change related investment signals a need to consolidate current climate change activities and improve focus on integrating climate change considerations across the international development assistance program.

Major results

The initiatives discussed in this report have positioned Australia to enable it to provide much needed help to neighbouring countries to respond to the many pressures they face from climate change. There has generally been a strong focus on working with partners to maximise effectiveness and impacts with the resources available.

Early successes included:

- > effective partner country engagement in the Pacific and with Indonesia; and
- > establishing several important partnerships with key players in the region, including the World Bank and the Clinton Climate Initiative, and bilaterally with the United Kingdom and Norway on reducing emissions from deforestation and forest degradation (REDD).

These achievements have established sound foundations for more direct investments in mitigation and adaptation. Australia is moving relatively quickly from its existing program of small activities on climate change in the Pacific to large-scale initiatives with greater potential for impact.

The report highlights that it is too soon to have achieved any major outcomes. Climate change is a highly complex issue and capacities to deal with it in the region are generally low. The

limited experience to date confirms that major achievements will be hard to win and can be expected only from sustained high levels of investment and strong partner country commitment to overcome the many internal institutional and structural barriers to effectively address the issue.

Progress towards objectives

The objectives identified in this report are derived from initiatives announced in the 2007-08 Budget and from objectives identified in the international development assistance program's 2007 environment strategy:

- > The forest sector emission reduction demonstration objective has been derived from the International Forest Carbon Initiative, which largely aligns with an avoided deforestation objective in the 2007 environment strategy.
- > The adaptation to climate change objectives in the Pacific and Mekong regions are from the 2007 environment strategy.
- > There was no specific thematic objective relating to contributions to multilateral processes as these are delivery mechanisms aiming to enhance the achievement of the climate change objectives. This report rates the extent to which the multilateral engagement contributes to the thematic climate change objectives.

The thematic objectives will be revisited when the environment policy is updated in 2008-09 to reflect the priorities of the Government.

The ratings of progress towards achieving the objectives (Table 1) are based on assessments of whether the objectives are likely to be achieved in the timeframes of the initiatives. Overall, progress at this early stage is difficult to determine but appears mixed. Although progress is mostly on track, a strong and sustained effort will be required to fully achieve all of the major objectives.

Table 1: Assessment of progress toward achieving identified objectives

Objective	Rating
To demonstrate that reducing emissions from deforestation and forest degradation can form part of an equitable and effective international response to climate change	The objective is on track to be fully achieved in the timeframe
To build knowledge of regional climate systems and capacity for adaptive planning and adaptive responses in the Pacific	The objective will be partly achieved in the timeframe
To build knowledge and capacities in climate change adaptation in the Mekong subregion	The objective is on track to be fully achieved in the timeframe
To enhance achievement of Australia's climate change objectives through support for relevant multilateral processes	The objective will be partly achieved in the timeframe

Climate change — an important development challenge

In a relatively short time, responding to climate change has emerged as a major development challenge and is now a key policy focus within Australia, the Asia-Pacific region and globally. With scientific consensus building over the past decade and comprehensive confirmation of trends by recent projections and observations of the Intergovernmental Panel on Climate Change (IPCC)¹, there is now widespread acceptance that the earth's climate is changing as a result of human activity and that the impacts on environments and people will be profound.² As a result, the efforts of governments around the world to develop global responses to the challenges of climate change have escalated. The issue topped the agenda of every major international forum in 2007–08³ where it was discussed as an important constraint to development, with the potential to destabilise world economic growth, exacerbate food shortages and erode recent gains in poverty reduction. Climate change has been recognised as a mounting impediment to progress towards the Millennium Development Goals.

Australia's domestic capacities in climate science, policy, prediction, adaptation and mitigation are rapidly expanding. In domestic and international spheres, Australia is now strongly committed to tackling climate change and can play a constructive role in the region.

In the Asia-Pacific region, the majority of nations are not only highly vulnerable to climate change impacts (because of their particular geographies, already tenuous livelihoods in some areas and existing pressures from drought, floods and extreme weather events), but also lack resources and capacity to respond appropriately or to engage with international programs. Knowledge, skills and institutional capacities to mitigate greenhouse gas emissions and to build resilience and adapt to changing climates are generally weak.

Building these capacities is a challenging prospect for nations that are already struggling to provide basic services and sustain even modest economic growth. Countries in the Pacific, with a large number of communities living in vulnerable coastal areas and dependent on natural resources, face problems of rises in the sea level, local water scarcity and extreme weather events as well as security concerns about energy and food. Asian nations face the challenges of mitigating emissions while maintaining growth in high-carbon economies during a time of volatile oil prices and a world economic slowdown.

The international development assistance program has become a key element of Australia's overall response to climate change. Australia is now assessing how the international development assistance program can best respond to this urgent but highly complex issue.

¹ IPCC, 'Summary for policymakers', in *Climate change 2007: the physical science basis*, Contribution of Working Group I to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change, Cambridge University Press, United Kingdom and New York, 2007.

² IPCC, 'Summary for policy maker', 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 University Press, United Kingdom and New York, 2007.

³ Including Asia-Pacific Economic Cooperation (2007) and G8 (2008).

Given the potential scale of support required, low regional capacities and the uncertainties of climate science at the meso- and micro-level, it is important that responses are well designed with strong partner country support and confront the many barriers to their effectiveness. A high level of flexibility will be essential in order to manage risks and uncertainties and to track and build capacities in partner countries.

Australia's international development assistance program — responding to climate change

In 2007–08 international development assistance activities to address climate change focused on building knowledge, positioning Australia as a partner (primarily at that time in mitigation programs) with relevant expertise in this area, and increasing its influence internationally.

Australian efforts were and continue to be strongly oriented towards building institutional capacities in partner countries because, although currently weak, they are essential to long-term sustainable outcomes.

International development resources to address climate change have grown, but the challenges are significant. It is therefore important that activities are well targeted. In 2007 AusAID led the development of an environment strategy for Australian international development assistance to direct investment to priority areas where Australia could make a difference.⁴ This was driven primarily by a growing recognition of the importance of climate change as a development issue. The strategy signalled a significant scaling up of activity and investment from approximately \$10 million in 2006–07 to approximately \$80 million in 2007–08 to respond to climate change.

The goals and objectives of the strategy broadly set the directions and geographic focus for an expanding portfolio of programs in climate change mitigation and adaptation, with a renewed emphasis on working with partner countries to build stronger regional responses and to strengthen environmental governance. The strategy also provided a platform for consultation with non-government and other groups active in environmental management in the region.

The objectives reviewed in this report are primarily drawn from initiatives developed under the 2007 strategy. The strategy is in the process of being updated for 2009 to ensure its alignment with the Government's climate change priorities.

⁴ AusAID, *Aid and the environment—building resilience, sustaining growth: an environment strategy for the Australian aid program*, Australian Agency for International Development, Canberra, 2007.

Climate change initiatives

A range of international climate change initiatives began in 2007. These initiatives included:

- > the **International Forest Carbon Initiative (IFCI)**, which focuses bilaterally on Indonesia and Papua New Guinea but also with an emphasis on global partnerships
- > scientific research and **vulnerability assessments in the Pacific**
- > assessment of the impacts of climate change on **water management in the Mekong region**
- > a strategic research alliance with CSIRO to build **foundation knowledge of climate change impacts** in the Asia-Pacific region.

Objective:

To demonstrate that reducing emissions from deforestation and forest degradation can form part of an equitable and effective international response to climate change

Rating

The objective is on track to be fully achieved.

Summary of results

Key results included the following:

- > Australia is well positioned to contribute to forest carbon initiatives and is now viewed as playing an important role in this area
- > Several innovative partnerships were built and provide a sound platform for scaling up efforts in forest carbon initiatives
- > The IFCI demonstration activity in Kalimantan will be one of the first of its scale in the world.

Rationale

Around 20 per cent of global greenhouse gas emissions result from deforestation.⁵ It is estimated that halving the current rate of global deforestation would reduce global emissions by around 10 per cent or 3 billion tonnes of carbon dioxide equivalent.⁶ Close to half of total emissions from deforestation emanate from Asia, with Indonesia being by far the largest

⁵ Australian Greenhouse Office, *International facts and figures on the forest sector*, Department of the Environment and Water Resources, Canberra, 2007.

⁶ Australian Greenhouse Office, 2007.

source country. Reducing deforestation and forest degradation in the region is potentially a highly cost-effective means to reduce emissions. International carbon markets offer opportunities for developing countries but they do not currently provide incentives for reducing emissions from deforestation and forest degradation. By trialling and facilitating engagement in forest carbon emission reduction efforts and forest carbon trading, significant social and environmental benefits could be achieved in targeted partner countries.

Maintaining forest cover has a range of other potential benefits, including conservation of biodiversity—deforestation of tropical rainforests alone is estimated to result in the loss of up to 100 species every day⁷—and reduced risk of land degradation. Sustainably managing forests as a renewable resource also provides long-term livelihood opportunities for forest communities.

International Forest Carbon Initiative (IFCI)

IFCI was developed in 2007-08 and now represents a major initiative in the Australian international development assistance program's investment in climate change. Jointly managed by AusAID and the Department of Climate Change, it has total funding of \$200 million for the period 2007–12, of which \$31.3 million was for 2007–08. The Australian initiative is at the global forefront of activities to reduce emissions from deforestation and forest degradation (REDD) in parts of the Asia-Pacific region. The initiative is a substantial response to climate change in the region, targeting one of the major regional emission sources. It has the potential to capture a range of additional benefits for the environment and forest communities. IFCI operates as a partnership between Australia and counterpart governments and coordinates with other initiatives in the sector led by the United Kingdom, Germany, Norway and the World Bank.

Still in its early stages, IFCI has established formal forest carbon partnerships with Indonesia and Papua New Guinea and is designing a demonstration activity to show how emissions can be mitigated through avoided deforestation and peat land rehabilitation in Central Kalimantan, Indonesia. In the longer term, IFCI aims to demonstrate that REDD can form part of an equitable and effective future global climate change agreement. As part of this aim, IFCI is seeking to demonstrate that forest carbon emission reductions can be rigorously measured and are therefore amenable to financing through international carbon markets.

Progress towards objectives

In general, it was too early to sensibly evaluate outcomes of IFCI in 2007-08. Interim progress towards the objective was also difficult to assess because there was no baseline or regular performance monitoring data from the major activities. However, there was evidence of progress from assessments of the initiative's quality at entry, interim reports and corporate knowledge.

These sources suggest that as a result of substantial foundation work, notwithstanding future challenges, the initiative was on track at this preliminary stage. Early successes included the emerging partnerships with governments and other donors and agencies. Partnerships established through IFCI (and its predecessor, the Global Initiative on Forests and Climate) include:

⁷ Australian Greenhouse Office, 2007.

- > **High-level Forest Carbon Partnerships with Papua New Guinea and Indonesia**, launched in March and June 2008 respectively, which provide a basis for policy dialogue and cooperation with these countries
- > the **Kalimantan Forest and Climate Partnership**, the first demonstration activity under IFCI (and one of the first of its scale in the world), which aims to reduce emissions from deforestation and rehabilitate peat land areas in Central Kalimantan (design work is due to be completed in late 2008–09)
- > the \$11.7 million **contribution to the World Bank's Forest Carbon Partnership Facility** to support developing countries' readiness to undertake REDD activities
- > the \$3 million **research partnership with the Centre for International Forestry Research**
- > the **partnership with the Clinton Climate Initiative** to build on Australia's National Carbon Accounting System as a platform for a broader system to monitor global forest carbon emissions.

Strong support for IFCI and REDD activities from the Government of Indonesia provides a sound basis for the program of activities. In the lead-up to the United Nations Framework Convention on Climate Change (UNFCCC) meeting in Bali in 2007, the Indonesian Government and the provincial Government of Central Kalimantan have issued statements and policies to promote REDD as a key part of the country's climate change strategy. Indonesia has formed a national REDD working group to coordinate activity with a range of stakeholders. Australia and other donors funded expert research and analysis to inform Indonesia's preparation of a national policy framework for REDD and criteria for REDD demonstration activities.

Improved capacity of partner countries to demonstrate emission reductions through REDD activities will be key to IFCI's success. Australia is assisting Indonesia to develop a Forest Resource Information System to underpin a national carbon accounting system. Australia promoted exchange of expertise between Indonesian and Australian officials through a series of workshops in each country, and commenced negotiations to acquire satellite data that will enable countries in the Asia-Pacific region to help them analyse and project changes in forest cover. Australia also commenced support for improved fire monitoring, prevention and control (fire is a major source of forest carbon emissions in Indonesia).

While it is too early to assess outcomes from these activities, Australia's internationally recognised expertise in carbon accounting and forest inventory makes it well placed to provide expert support in this area (the Clinton Foundation partnership will reference Australia's national system as a model for global forest carbon monitoring). Drawing on Australian experience, IFCI activities are addressing a critical gap in regional capacities to engage in emerging international forest carbon markets.

These activities, together with the work through the World Bank's Forest Carbon Partnership Facility, and collaboration with research and development agencies (including the Centre for International Forestry Research, the Australian Centre for International Agricultural Research and the Australian National University), are addressing key institutional constraints and are expected to contribute to a stronger foundation for effective REDD programs in Indonesia and Papua New Guinea.

Challenges

The challenges inherent in IFCI are considerable and there are many technical and institutional difficulties that need to be overcome if the objective is to be fully met. A significant challenge is the need to test assumptions that underlie the measurement of forest-related emission reductions and to develop appropriate and affordable measurement systems in field conditions at a scale that can demonstrate their potential to support carbon trading for developing countries. The Kalimantan Forests and Climate Partnership represents one of the first attempts to trial such arrangements on a large scale anywhere in the world. While a significant step in itself, there is limited relevant experience to draw on or to measure success by.

Institutional structures and governance arrangements likewise need to be strengthened or developed in the forest sector to support REDD activities in the long term. The results of past international development assistance activities in sustainable forest management have been disappointing because of the difficulties in overcoming substantial and entrenched barriers to better forest management. These will need to be more effectively addressed if REDD activities are to be successful. It will be important for IFCI activities to demonstrate practical and timely lessons that can inform the current international climate negotiations while retaining sufficient flexibility to adapt to evolving national and international frameworks.

Quality

The majority of IFCI activities remained under design during 2007-08 and therefore quality at entry processes for these activities will be completed during 2008-09. Quality at entry has been assessed for the World Bank Forest Carbon Partnership Facility. Analysis and lessons was given a rating of 6 (very high quality); clear objectives and implementation and risk management were given a rating of 5 (high quality), and monitoring framework and sustainability were given a rating of 4 (adequate quality).⁸

⁸ AusAID's Quality at Entry Report incorporates a 6 scale quality rating assessment indicator where analysis and lessons, monitoring and evaluation, implementation and risk management, monitoring frameworks, and sustainability are assessed by a cross-disciplinary panel of development experts.

Objective:

To build knowledge of regional climate systems and capacities for adaptive planning and adaptive responses in the Pacific

Rating

The objective will be partly achieved in the timeframe.

Summary of results

Key results included the following:

- > Australia's early and continued support for long-term database on sea level and sea surface temperatures in the Pacific which currently informs regional modelling and vulnerability assessments in the region
- > Local improvements in risk reduction and preparedness for climate change impacts, including improved freshwater harvesting capacity in highly vulnerable Pacific communities
- > Initial steps in establishing the International Climate Change Adaptation Initiative.

Rationale

Pacific island countries are negligible contributors to global climate change but are particularly vulnerable to its impacts. Rising temperatures, changes in rainfall, rises in the sea level and more frequent intense tropical cyclones and storm surges are expected to lead to severe flooding of coastal areas, reduced fishery and reef resources, and local water scarcities. With high and increasing proportions of total populations residing in coastal communities, many island nations face high costs but have limited options or resources to adapt to the impacts of climate change. Low-lying atolls are especially at risk from rises in the sea level.

Initiatives

The key climate change challenges in the Pacific lie in applying better knowledge of trends and local vulnerabilities to build adaptive responses and resilience (for example, by predicting and preparing for sea-level rises and cyclones).

Australia has been providing small levels of assistance to the Pacific region for activities related to climate change for some time, and this assistance remained an important focus of the international development assistance program in 2007-08. A major aim of the programs was to ensure that high-quality, locally relevant climate/meteorological and oceanographic information became available and accessible to scientists and decision makers in the region. This information also has important wider application in understanding trends in global climate change.

Over the past five years a range of activities was implemented to build capacity within Pacific countries and regional organisations to access and use scientific information to guide local physical, social and economic planning and decision making. These activities included:

- > the South Pacific Sea Level and Climate Monitoring Project Phase IV (\$1.52 million in 2007–08)
- > the Pacific Islands Climate Prediction Project Phase II (\$1.36 million in 2007–08)

- > the Pacific Vulnerability and Adaptation Initiative (\$1.1 million in 2007–08)
- > the Kiribati Adaptation Project Phase II (\$2.9 million provided to the World Bank for 2006–09)
- > support to Pacific regional organisations on climate change—the Pacific Regional Environment Programme (\$1.4 million in 2007–08) and the Pacific Islands Applied Geoscience Commission (\$1.8 million in 2007–08).

International Climate Change Adaptation Initiative

The International Climate Change Adaptation Initiative (\$150 million over three years) will begin in 2008–09. In 2007–08 AusAID's Sustainable Development Group, working closely with Australia's Department of Climate Change, engaged in planning and preparing for the initiative.

The initiative aims to meet high priority climate adaptation needs in vulnerable countries within the region. The substantial scale up is expected to improve the impact of Australia's adaptation work in the Pacific.

Progress towards objectives

The knowledge-building activities in the Pacific have improved Australia's understanding of climate change and its likely impacts. In particular, the South Pacific Sea Level and Climate Monitoring Project has become a crucial information base for the Pacific and demonstrates the value of investing in long-term monitoring of trends (19 years at 12 sites). This database is now an important input to global and regional climate modelling, produces accurate tidal charts that are widely used, and provides a sound basis for further work to assess impacts and local vulnerabilities.

The Pacific Islands Climate Prediction Project has built and continues to build capacity to monitor and analyse local weather data in 10 participating countries and to make data accessible to local communities, climate-sensitive industries and government agencies.

Vulnerability assessments and adaptation activities, including mainstreaming adaptation into government policy and planning have in the past been relatively small in scale. For example, Australia's support has focused largely on securing better water supplies and revegetating mangrove forests on individual islands and atolls. As a result, some communities have reduced their vulnerability to drought and coastal erosion but those improvements are not proportional to the scale of the likely impacts of climate change. Overall, progress has been mixed and results are difficult to measure. The outcomes of contributions to regional organisations were not sufficiently detailed, and reporting on funds channelled through international agencies was slower than expected.

Challenges

Providing scientific data in a form that is useful to decision makers and planners in the Pacific remains a challenge. Some Pacific countries are better placed to make use of data, for example, with support from the enhanced Pacific Islands Climate Prediction Project, the Fiji Meteorological Service produces long-range climate predictions tailored to the needs of several key industries and water resource managers. A communication strategy for the South Pacific Sea Level Climate Monitoring Project aims to improve access for planners in adaptation and disaster management but is not yet fully operational.

Greater coordination and consolidation of bilateral, regional and multilateral efforts in climate change adaptation in the Pacific is expected to increase the overall impact of the international development assistance program. Such an approach was recently taken by the Pacific Regional Environment Programme which consolidated its activities into two programs—Island Ecosystems (which assists member countries to manage island and ocean ecosystems) and Pacific Futures (which assists members to respond to threats, including climate change).

Capacities and resources for adaptation and to manage climate risks in the Pacific are low, as are capacities to engage in regional and global climate programs, reflected in the disproportionately small share of GEF funding that has in the past been directed to Pacific island countries. To redress this issue, Australia worked with the GEF, New Zealand and Pacific island countries to establish the GEF Pacific Alliance for Sustainability which will substantially increase GEF funding flows to the Pacific in the next few years. In order to help build capacities and apply existing knowledge to assess vulnerabilities, Australia has supported, for example, the Pacific Islands Applied Geoscience Commission to record and use women's and men's traditional knowledge of short-term and long-term climate change impacts and their preparation for expected changes and disasters. Australia will continue to take a strategic and coordinated approach to improving local adaptation capacities and resources in the Pacific.

Recognising the need to increase the focus on gender in climate change adaptation, Australia, in collaboration with the United Nations Development Programme's Pacific Centre, organised a forum on 'Gendered Dimensions of Disaster Risk Management and Adaptation to Climate Change' in Suva in February 2008. The forum brought together representatives from government agencies, civil society, universities and non-governmental organisations across 10 Pacific island countries and represents an example of Australia facilitating improved coordination on emerging adaptation issues in the Pacific.

Quality

The quality at entry of the initiatives is considered to be 'good' based on concept peer review, external review, extensive consultation, and close engagement with partner countries. Furthermore, in 2007-8 none of the initiatives' quality at implementation received a rating of less than 3.⁹ The ratings in Table 2 indicate that 90 per cent of initiative criteria were considered satisfactory (rated 4 and above). This is well above the agency quality target of 75 per cent. As indicated in Table 2, 60 per cent of initiatives require improvement in their implementation progress and 80 per cent require improvement in their monitoring and evaluation. This is consistent with broader experience across the international development assistance program and is a result in line with expectations considering the complexity of the challenge of climate change adaptation in the Pacific and the relatively small scale of activities undertaken over the review period.

⁹ AusAID's Quality at Implementation Report incorporates a 6 scale quality rating assessment indicator where implementation progress, achievement of objectives, monitoring and evaluation, sustainability, gender equality and cross cutting issues, and risk management are assessed by a cross-disciplinary panel of development experts.

Table 2: Quality-at-implementation ratings of initiatives designed to build knowledge of regional climate systems and capacities for adaptive planning and adaptive responses in the Pacific

Criteria	No. activities rating 3: Less than adequate quality	No. activities rating 4: Adequate quality	No. activities rating 5: Good quality	No. activities rating 6: Very high quality
Implementation progress	1	2	2	0
Achieving objectives	0	2	2	1
Monitoring and evaluation	1	3	1	0
Sustainability	0	2	3	0

Experience from the initial climate change adaptation activities (as evidenced in the quality-at-implementation assessments) has informed the International Climate Change Adaptation Initiative that commenced in July 2008. This initiative recognises the need for coordinated climate change adaptation activities that target high priority areas and vulnerability at a scale that can make a practical difference. The earlier results also show that partnering local institutions, designing activities that take account of differences between partner countries and strengthening their capacity to engage in and sustain new initiatives are also crucial to success.

Objective:**To build knowledge and capacities in climate change adaptation in the Mekong subregion****New initiatives**

A new program of research was initiated in 2007–08 to better position Australia and Mekong region partners to respond to climate change.

The Mekong River Commission (MRC) and CSIRO, with funding of \$0.48 million in 2007–08, undertook research on climate change vulnerability in the Lower Mekong Basin. The outputs of the research will be used to inform water resource availability scenarios to be formulated under the MRC Basin Development Plan. This work is supported by a new project, the MRC Climate Change and Adaptation Initiative 2008–2012. By applying improved climate impact modelling and assessment in the lower Mekong Basin, this initiative aims to identify key vulnerabilities of communities to the impacts of climate change and to build appropriate responses. Australia provided \$1.1 million in support for this initiative in 2007–08.

These activities in the Mekong are part of a broader program of assistance through partnerships with the MRC, the Murray–Darling Basin Commission, the World Bank and the Asian Development Bank.

It is too early to assess outcomes of these activities. Interim assessments from the Mekong subregion program suggest that the activities are on track and are expected to achieve their aims. However, it is acknowledged that working with multiple governments through the MRC presents challenges.

Consistent with the objective, these initiatives have helped Australia take stock of the impacts of climate change within the Mekong subregion to enable the development of a suite of programs that will maximise development assistance for those communities affected by the worst impacts of climate change.

Multilateral climate change responses

Objective:

To enhance achievement of Australia's climate change objectives through support for relevant multilateral responses

Rating

The objective will be partly achieved in the timeframe.

Summary of results

The contributions Australia makes to multilateral climate change responses are expected to enhance the achievement of Australia's climate change objectives overall. Measuring results and determining the influence of Australia as an investor are ongoing challenges.

Key results included the following:

- > Australian participation in the GEF reform process has contributed to improvements in the Facility's administration so that it takes better account of the needs and administrative structures of Pacific island countries
- > Significant GEF results were achieved in some key areas: biodiversity, climate change, international waters, and ozone depletion.

Initiatives

In 2007-08 the focus of activities for achieving this objective has been on influencing improvements in the governance of the Global Environment Facility; supporting developing countries to participate in climate change negotiations and meet their obligations under the United Nations Framework Convention on Climate Change (UNFCCC); and contributing to the design of the new World Bank-administered Climate Investment Funds.

The aims of the international development assistance program over 2007-08 were to make meaningful contributions to multilateral responses to climate change and ensure that appropriate financing facilities were available to partner countries to assist them to develop and implement appropriate responses to climate change. AusAID's Sustainable Development Group has contributed expertise and led delegations in these multilateral processes. The international development assistance program contributed to the following multilateral financial mechanisms for addressing climate change.

- > **UNFCCC Trust Fund for Participation** (\$1.25 million 2007-08) enables poorer developing countries to participate in the UNFCCC negotiations.
- > **Global Environment Facility** funds the incremental costs in development projects to achieve global environmental benefits and sustainable development. Since its inception in

1991 Australia has contributed \$240 million to the GEF, including \$59.8 million through the fourth replenishment.

- > **UNFCCC Least Developed Countries Fund** (\$7.5 million in 2007–08) finances the additional costs incurred by the poorest countries in assessing and adapting to the impacts of climate change. Its funding also covers priority areas such as food security, access to water, control of vector-borne disease and disaster preparedness.
- > **Asian Development Bank's Water Financing Partnership Facility** (\$10 million in 2007–08) improves access to safe drinking water and sanitation and more effective management of 25 Asia-Pacific river basins.
- > **Climate Investment Funds** will support transformative investments to reduce emissions and mainstream activities for adaptation to climate change. The World Bank Board approved the funds on 1 July 2008. Australia was active in the design and establishment of the portfolio of funds, which are administered by the World Bank.
- > **UN Environment Programme** (\$800 000 in 2007–08) is active in the Asia-Pacific region particularly in implementing projects under the GEF.
- > **Montreal Protocol Multilateral Fund** (\$3.68 million in 2007–08) assists developing countries comply with the protocol's measures to phase out ozone-depleting substances.

In 2007-08 the GEF was a key mechanism for the Australian international development assistance program's contribution to addressing global environmental issues. The role of the GEF in relation to climate change is to assist in managing and financing developing country activities that contribute to the objectives of the UNFCCC. Additional funds operated by the GEF under the mandate of the UNFCCC include:

- > Least Developed Countries Fund
- > Special Climate Change Fund

The GEF is also providing secretariat services to the Board of the Adaptation Fund of the Kyoto Protocol on an interim basis.

GEF climate change projects support measures that mitigate greenhouse gas emissions and enhance the ability of developing countries to adapt to climate change impacts. Mitigation activities over the review period included renewable energy, energy efficiency and sustainable transport projects. Adaptation activities included interventions to increase the resilience of vulnerable countries, sectors and communities to the adverse impacts of climate change. Under the Least Developed Countries Fund support was provided to the poorest countries to formulate the development of National Adaptation Plans of Action and implement priority projects identified within those Plans. Recognising that the Pacific region was experiencing difficulty in accessing GEF resources, the GEF Secretariat established the Pacific Alliance for Sustainability Program (US\$100 million).

Progress towards objectives

Multilateral programs are particularly relevant to climate change because of their global scale and the need for all countries to engage in high levels of cooperation to find effective and equitable solutions.

Investment in multilateral programs provides opportunities for Australia to influence the architecture of global initiatives and contribute to larger scale outcomes, such as those sought through the World Bank-administered Climate Investment Funds. However, the outcomes in relation to Australia's own international development objectives to date are not necessarily monitored or explicit. A recent AusAID review of multilateral agencies found that:

Issues of development effectiveness and accountability of donor funds have increased in focus and importance as global aid budgets are on the rise. There is an emerging shared priority amongst donors and developing countries to see better coherence and further reform of the multilateral system.¹⁰

The review recommended that Australia refine its approaches to assessing the effectiveness of multilateral agencies and develop clearer objectives and statements of engagement for multilateral investments.

United Nations Framework Convention on Climate Change (UNFCCC)

One important outcome of deliberations by Parties to the UNFCCC in December 2007 was the adoption of the Bali Action Plan, which sets out a course of action for a new negotiating process to tackle climate change aimed for completion by December 2009. The Bali Action Plan calls for enhanced action on climate change mitigation, adaptation, technology development and transfer, and provision of financial resources and investment to enable full implementation of the Convention. The Department of Climate Change leads Australia's engagement in the UNFCCC negotiations. However, given AusAID's engagement with the GEF and the Climate Investment Funds, and the importance of future financing to address climate change in developing countries, the UNFCCC is also a growing priority for AusAID.

AusAID, with the Department of Climate Change, is implementing initiatives that aim to feed lessons into the UNFCCC deliberations, such as the International Forest Carbon Initiative.

Global Environment Facility

The GEF is a key financial mechanism for addressing global environmental issues. Australia is a major contributor to the GEF, ranked 13th among donors in the fourth replenishment.¹¹ AusAID represents Australia on the GEF Council on a rotational basis within the Australia, New Zealand and South Korea constituency, and leads the negotiations on funding replenishments. The GEF Council has a high degree of influence in how GEF funding is managed and implemented, potentially providing Australia with an influential voice in the Facility.

The most recent performance review of the GEF (2005) concluded that the facility has achieved significant results, particularly at the outcome level in the focal areas of biodiversity, climate change, international waters, and ozone depletion, and is well placed to deliver important results in the newer focal areas of land degradation and persistent organic pollutants. Stronger GEF performance is expected following recent administrative reforms.

Outcomes of the GEF overall, however, have been mixed, leading to recent moves to better focus and target activities for greater impact. Some participating countries, particularly in the Pacific, were identified as lacking resources to properly engage with programs such as the

¹⁰ AusAID, 2008.

¹¹ Global Environment Facility, *Summary of Negotiations on the fourth replenishment of the GEF Trust Fund*, Attachment 1, <http://www.gefweb.org/Replenishment/Reple_Documents/SummaryofNegotiations_Revised_October2006.pdf.pdf>.

GEF. As a result, AusAID supported and continues to support an adviser within the Pacific Regional Environment Programme to help Pacific countries access GEF resources and advice.

Climate Investment Funds

Australia participated in the design of the Climate Investment Funds (CIFs) recognising the potential for the CIFs to rapidly fill a financing gap in addressing climate change and feed lessons on scaling up action on climate change into the UNFCCC deliberations. The Climate Investment Funds have the potential to complement and strengthen Australia's regional activities on climate change adaptation and mitigation.

Because the Climate Investment Funds were formally approved as recently as July 2008, and will not commence operations until early 2009, it is not possible to assess progress in their implementation. However, governance arrangements for the funds provide a strong role for developing countries and non-government organisations in guiding the policy frameworks and implementation approaches of the funds.

Quality

In September 2007 Australia's support to the Least Developed Country Fund and the GEF both received ratings of adequate (4) and good quality (5) in all key criteria for quality at entry and quality at implementation respectively.

Australia participated in developing focal area strategies for the GEF, including monitoring and evaluation frameworks for each area. The quality of monitoring information for the GEF is good (the GEF Evaluation Office has resources and independence). However, lessons learned are not systematically addressed by implementing agencies. For example, the GEF has systems in place to manage risk but there are risks to the GEF Pacific Alliance for Sustainability such as a lack of clarity in coordination and governance arrangements which were not addressed in 2007-08.

Integrating climate change

Across the international development assistance program

Climate change will have an impact on every sector of the international development assistance program. Investment is being scaled up rapidly and there is an expansion of activity in sectors that are vulnerable to climate risks. It is important that mechanisms are developed to integrate climate change across the program. This means assessing impacts and ensuring that international development assistance activities not only reduce the development risks of climate change but also identify opportunities.

Integrating climate change across the international development assistance program will require a long-term commitment plus strong management support. In 2007–08 work in this area was limited by resource constraints, but will be a high priority in 2008–09. There are a number of challenges and considerations in integrating climate change. Although this is a relatively new area, there are lessons to be learned from past efforts to mainstream environmental management across the international development assistance program:

- > Specific risk management tools that apply across the international development assistance program will be needed
- > Assessment and identification of climate risks and vulnerabilities must take place early in country and sectoral programming and activity development
- > Specialist advisory services as well as staff training and capacity building will be needed
- > Special implications of climate change for gender, resource security and food security need to be analysed and integrated into programming and activity planning
- > The agency will need to allocate adequate resources to integrate climate change considerations across the international development assistance program.

In partner countries' decision making

A core focus of AusAID's environment thematic program is to integrate climate change considerations in the decision making of partner countries. If partner countries are to effectively adapt to the impacts of climate change, and implement mitigation actions agreed in international negotiations, it is important that decision makers in all sectors of an economy are equipped to take account of issues related to climate change.

Progress

Investment in activities related to climate change increased significantly in 2007–08. Overall, it is too early to expect to see major results in relation to the capacities of partner countries to respond to climate change. Integration is a long-term objective, particularly in the context of governments that are in the very early stages of efforts to address climate change. Some are

still struggling to engage in international initiatives, even when significant support is available. Developed countries themselves are still a long way from integrating climate change across sectoral policy.

Australia's approach to helping partner countries prepare for the threats and opportunities associated with climate change is to support:

- > foundation research and development to fill key knowledge gaps and inform climate policy and responses in partner countries
- > capacity building in climate change mitigation and adaptation through a growing portfolio of bilateral projects with partner countries
- > capacity building through contributions to major multilateral activities involving partner countries
- > the engagement of partner countries in regional and international climate change programs and negotiations.

The international development assistance program has a major role to play in positioning Australia to provide much needed assistance to poorer nations in the region. As part of its broader bilateral engagement in climate change, the international development assistance program will continue to provide support to build capacity to adapt to climate change and reduce barriers to effective mitigation. It will continue to support the development and testing of innovative ways for partner countries to reduce risks and take up opportunities related to climate change, Australia's ongoing engagement with developing country partners on REDD is case in point.

Challenges

There are significant barriers to integrating climate change in partner countries:

- > Capacities across all aspects of climate change mitigation and adaptation are weak in many partner countries
- > National-level climate policy is yet to be developed in some countries
- > Governance arrangements needed to support strong responses to climate change are weak, especially in key sectors such as energy and transport
- > Frameworks for assessing and regulating environmental impacts, which could be modified to take account of climate change implications of development proposals, tend to be weak or not well enforced
- > Drivers for mitigating greenhouse gas emissions in energy sectors are weak, especially in Asian countries where dependence on cheap coal is increasing dramatically
- > There are major knowledge gaps in climate science and modelling needed to inform the developers of sound sectoral policies and responses.

After taking stock of lessons learnt from early initiatives, the Australian international development assistance program has placed itself in a strategic position to address the many challenges presented by climate change enabling it to maximise the effectiveness of climate change investments in the near future.