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International Adaptation Finance: Between Hope and Reality

Romain Weikmans

Centre for Studies on Sustainable Development, Institute for Environmental Management and Land-use Planning, Université Libre de Bruxelles / Free University of Brussels, Av. F.D. Roosevelt 50 CP130/03, 1050 Ixelles, Belgium, romain.weikmans@ulb.ac.be

Within the context of international negotiations on climate change, the question of adaptation continues to be addressed primarily from the angle of North-South financial transfers. High expectations have been expressed on the subject, including by observers from the academic world. For some researchers, nothing less than the "global (re)distribution of wealth" is at play in international efforts to fund adaptation (Carmin *et al.*, 2015). For others, this issue "has the potential to transform traditional aid modalities" (Tanner and Allouche, 2011). While the success of the adaptation agenda in terms of financial mobilisation – or of promises in that regard, at any rate – is absolutely remarkable, it must nevertheless be qualified against these different expectations.

An impressive financial mobilisation

The most recent figures reveal that financial transfers from developed countries and aimed at climate change adaptation in developing countries increased from less than 2 billion dollars in 2010 to around 12 billion dollars in 2014. Adaptation aid will reach over 20 billion dollars in 2020, according to analyses carried out by the OECD (2016) based on commitments firmly expressed by developed countries. In the absence of an accounting system established under the United Nations Framework Convention on Climate Change (UNFCCC), these figures – put forward by developed countries – are hotly contested and must be considered with circumspection (Roberts and Weikmans, 2017). They are no less remarkable for that. In fact, in international climate change negotiations, adaptation has long been seen in an extremely negative light, perceived as a passive attitude, or even one of surrender in the face of the challenges presented by the reduction of greenhouse gas emissions (van Gameren *et al.*, 2014).

The financial promises formulated during the 2009 Copenhagen Conference already increased the importance of adaptation in international climate negotiations. Developed countries committed to providing developing countries with 30 billion dollars between 2010 and 2012, distributing them in a "balanced" manner between adaptation and mitigation. Developed countries also promised to collectively mobilise 100 billion dollars a year by 2020 in order to support the climate efforts of developing countries. The Paris Conference held in December 2015 provided for the pursuit of this goal to mobilise an annual 100 billion dollars until 2025, in addition to setting a higher goal beyond this time frame. Nevertheless, despite being mentioned in the Paris Agreement (article 9.4) and during the Marrakech COP in late 2016, the "balanced" distribution of international funds between adaptation and mitigation has never been formally defined. There are now many observers who contest the balanced nature of the current distribution (19% for adaptation compared with 81% for mitigation) as well as the distribution of international climate funding forecast by 2020 (28% for adaptation compared with 72% for mitigation).

Debates relating to international financial transfers aimed at adaptation in developing countries do not only address the scale of funds actually transferred to these countries. Where should these funds come from? How should they be channel to developing countries? Should they be allocated to certain countries above others, as a priority? What should they be used for, in practice? Do these funds constitute a form of compensation due to the "victim" countries by the "polluter" countries? Is international adaptation funding different from development aid? These questions are the sources of tension that are particularly prominent in international negotiations around climate change.

Between hope and reality

International solidarity movements, environmental NGOs, representatives from developing countries: many actors have long been calling for international adaptation finance that would exist separately from development aid, and would be distributed "automatically" and "directly" (i.e. without conditions and without intermediaries) to the most vulnerable countries, representing a form of "compensation" relating to the historic responsibility of developed countries in the occurrence of climate change. These different characteristics, however, are very rarely found in the current reality of international adaptation funding.

What is commonly referred to as international[1] public adaptation finance is almost exclusively accounted for as public development aid and relies almost exclusively on voluntary contributions from developed countries[2]. Despite discussions and announcements on these matters, no "innovative" source of funding (such as an international tax on financial transactions, or on international air or maritime transport) has yet to see the light of day. The only exception to this is a share of proceeds from the clean development mechanism (CDM) project activities that finances the Adaptation Fund of the Kyoto Protocol. The share of proceeds amounts to 2 per cent of certified emission reductions issued for CDM project activities – representing 190 million dollars between 2009 and 2015. Following the collapse of "carbon credit" prices – from 20 dollars in 2008 to less than 3 dollars in 2012 –, the Adaptation Fund has, however, seen its revenue drop significantly. While some European countries committed at the end of 2016 to replenish the Adaptation Fund to the amount of just over 80 million dollars, this Fund's future and its exact role within the framework of the Paris Agreement are currently under intense negotiation.

International adaptation finance is channelled via a large number of institutions, primarily bilateral development cooperation agencies – accounting for 67% of funding reported by developed countries during the 2013-2014 period. Traditional multilateral aid actors also play an important role, as they have channelled around 30% of the funding aimed at adaptation during this same period. A low proportion (less than 3% between 2013 and 2014) of international adaptation funding also passes through four funds set up under the UNFCCC (the Least Developed Countries Fund, the Special Climate Change Fund, the Adaptation Fund and the Green Climate Fund). Despite receiving significant political attention and media coverage during international negotiations, these UNFCCC funds only have a fairly minor role in terms of disbursements[3].

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[1] The statistical monitoring of private international adaptation funding is virtually non-existent.

[2] It is of note that the Paris Agreement encourages other countries – beyond developed countries – to provide funding for both adaptation and mitigation in developing countries. Certain countries considered to be "developing" countries under the UNFCCC already provide such financing. However, the current knowledge of the financial resources transferred by them to other developing countries is extremely limited. These countries are not subject to the same reporting rules as countries considered to be "developed" under the Convention.

[3] The Green Climate Fund did not approve any projects in 2013-2014. It has since approved adaptation projects for a total of 430 million dollars (situation in March 2017).

The bottom-up approach to international climate funding

The current approach to the governance of climate funding does not much differ from that which dominates today at the international level for the mitigation of greenhouse gas emissions. In both cases, the efforts made by the planet's countries are determined by the *willingness* of States to act, rather than by their *responsibilities* in the occurrence of climate change or by their financial, institutional and technological *capabilities*. In the case of mitigation as for international climate funding, a series of policy objectives have been decided under the aegis of the UNFCCC (such as the 2-degree limit on global warming and the 100-billion-dollar mobilisation goal). In both cases, there is no formal sharing of the burden of efforts to be carried out in order to reach these goals. The obvious risk associated with this sort of approach is that the sum of efforts made by each State could not enable the goals set to be achieved collectively.

Just as each country determines the scope and form of its emission reduction policies, so too does each country have full discretion in terms of the financial resources it gives to support the mitigation and adaptation policies of developing countries. Recent decisions by American president, Donald Trump, to bring an end to many of the country's financial contributions to bilateral and multilateral institutions active in international climate funding (Thwaites, 2017) clearly illustrate the full discretion of each donor country on the subject. In addition, it is for each donor country to decide what a "balanced allocation between mitigation and adaptation" means. Each donor also defines the sources (public and private) and channels (bilateral and multilateral) of its climate funding, as well as the financial conditions (grants, concessional or non-concessional loans) it offers to beneficiary countries.

The approaches taken by developed countries on these matters have been extremely diverse, as we can see in their second biennial reports submitted to the UNFCCC Secretariat in January 2016. While some countries, like Australia or Denmark, provide climate funding exclusively in the form of grants, other countries mainly provide theirs in the form of loans, guarantees or export credits. Some donor countries send most of their aid through multilateral channels (such as Belgium, which channelled 66% of its climate funding via multilateral institutions in 2014). Other countries predominantly rely on bilateral channels (Japan, for example, supplied over 80% of its climate funding through these channels in 2014). Donor countries generally prefer to allocate their funding to mitigation rather than adaptation. This is very clearly the case for Japan (91% for mitigation in 2014), the United States (84%) and France (82%). In contrast, some developed countries direct most of their support towards adaptation. This is particularly the case for Ireland (94% for adaptation in 2014) and Sweden (72%). The allocation of funding according to sector and geographical area also varies significantly from one country to the next. While Australia, for example, focuses strongly on the island States of the Pacific, Japan provides most of its funding to South-East Asian countries.

A governance that is largely decentralised and loosely coordinated

This sort of *bottom-up* approach to international climate funding undoubtedly responds well to the assets of donors (geographical presence or sector experience, for example). This approach also lends itself adequately to the diversity of motivations to provide adaptation aid. It is important to recognise that the motivations of donor countries may stem from objectives other than that of assisting beneficiary countries in implementing adaptation policies. These financial transfers may in fact meet a variety of economic or political and strategic objectives.

Regardless, the *bottom-up* approach to the governance of climate finance has shaped an institutional landscape that is particularly complex and fragmented. There are currently over one hundred bilateral and multilateral climate funds for adaptation and mitigation[4]. Moreover, the allocation of funding between different developing countries is very loosely coordinated. This state of affairs poses risks in terms of the duplication of donor efforts or shortages in certain regions or for certain sectors.

In addition, a *bottom-up* approach to climate funding is probably associated with lower levels of financial transfers than a *top-down* approach, which would rely on an explicit distribution of mandatory financial efforts to be fulfilled by donor countries. This is a major problem for observers who consider international climate funding to be an instrument of international justice, or a form of compensation linked to the disproportionate responsibility of certain countries in the occurrence of climate change (Weikmans and Zaccai, 2017).

In the face of rising adaptation costs for the poorest countries on the planet, increased financial transfers to these countries, and improved coordination of each donor country's policies on international adaptation funding, undoubtedly represent two major challenges for future international negotiations.

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[4] The OECD maintains a list of these funds, which is accessible online at the following address: https://goo.gl/LzYdLv.