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## WORKING TOGETHER TO ADDRESS OBSTACLES TO CLIMATE FINANCE IN CONFLICT AND FRAGILE SETTINGS

### Outcome paper and next steps

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This outcome paper summarizes the discussion and the outcome of the expert roundtable on ‘Working together to address obstacles to climate finance in conflict and fragile settings.’ Held virtually on Thursday October 21<sup>st</sup> 2021, the roundtable was organized by the International Committee of the Red Cross and the World Bank, and co-convened by the African Development Bank, Asian Development Bank, International Centre for Climate Change and Development, Islamic Development Bank, International Council of Voluntary Agencies, ODI, Red Cross and Red Crescent Climate Centre, and United Nations High Commissioner for Refugees.

The roundtable is the beginning of a policy process among institutions and States looking to COP26 and beyond, to identify the challenges and barriers to delivering climate finance to conflict and fragile settings, understand the reasons for and consequences of these shortfalls, and create practical solutions to unlock climate finance for populations that are particularly vulnerable to climate risks and live in contexts of fragility, conflict or protracted crises.

This report synthesizes the roundtable participants’ thoughts and ideas into umbrella threads. The report is structured into three sections: i) challenges and barriers to delivery of climate finance to fragile and conflict settings, ii) potential solutions and areas for further exploration and evidence generation, and iii) a near-term common agenda to advance the policy process.

## Challenges and barriers to the delivery of climate finance to fragile and conflict settings

### Access, instruments and volume of climate finance

**Participants agreed that current climate funding reaching fragile and conflict settings is limited and inadequate, as well as biased towards mitigation finance.** Several participants pointed out that current finance flows to fragile and in-conflict countries that are building resilience to shocks and to the cumulative impacts of conflict and climate change are predominantly humanitarian. Yet, it was noted that even with increased climate-smart programming the humanitarian sector alone cannot achieve the scale of action required and that collective exploration on how to bridge the funding gap is required.

**Among the reasons for the gap, many experts pointed out the challenges for weak institutions to access funding from multilateral climate funds.** Current funds' requirements create transaction costs that are too high for institutions in these contexts, deterring them from applying for funding. One participant stressed that capacity problems also affect big multilateral organisations. Two barriers were noted. First, a lack of capacity and experience, both in national governments and accredited entities to design projects for these contexts. Second, due diligence, monitoring and compliance requirements can be complicated to fulfil.

**A few participants highlighted that logistical constraints and insecurity challenge the implementation of projects funded by multilateral climate funds.** They highlighted the absence of a specific conflict and fragility mandate in the funds, which limits their ability to prioritize these contexts – in theory, a large number of these countries should be prioritized given their inclusion in priority categories, the Least Developed Countries, the Small Island Developing States and African countries. Some funds are seeking to be more inclusive in their approval and programming of readiness funds as a means of ensuring climate action reaches conflict and fragile settings.

Beside a handful of UN agencies, there are also limited implementing partners that meet existing organizational requirements for accessing climate finance operating or willing to operate in these contexts, to design and deliver projects. This problem is exacerbated by the fact that some fragile or conflict affected countries are also subject to international sanctions. These factors limit the funds' options to engage in different sectors and geographic areas to provide in-country support. Even in places with capable implementing entities, there may be low capacity at the local level to implement activities, leading to project proposals that only cover parts of a country where there is implementation capacity on the ground.

The lack of climate action reaching populations living in areas outside of government control in conflict settings was identified as a significant gap. Climate action is largely channelled through State authorities, and this means that some vulnerable populations are excluded by default.

Implementation costs were also mentioned as a challenge that needs to be addressed. The costs of goods and services, and project costs are usually higher in these settings given the lack of readily accessible expertise and the risks associated with the context. The rigidity of funds' costing policies may be too limiting for fragile and conflict settings.

## Coordination, collaboration and alignment

**Participants noted the many siloes that are preventing a more integrated approach to increasing climate finance and delivering adaptation projects in fragile and conflict settings.** Siloes within governments between different ministries and departments were noted as a challenge. One expert mentioned how those working on economic growth would often not communicate with those working on climate change and the environment. Moreover, the key focus for many actors is peace and stability, which makes it harder for climate issues to be prioritised.

Similar siloes were noted between international partners and within donor agencies themselves. Despite increased recognition of interconnections, institutional divisions between the conflict and fragility, and climate-oriented arms of various organizations remain. Silos can result from a difference in temporal perspectives, of the types of partners, different levels of access and understanding, and a perception that fragile and conflict settings are the ‘exclusive’ concern of conflict/fragility or humanitarian action-focused departments.

## Risk

**Risk aversity was noted as a key challenge to deliver adaptation programmes in these contexts.** Due to security reasons, donor staff are often not allowed to visit these locations. Fiduciary requirements for climate finance tend to be risk averse. Conflict risk indicators are rarely included in programming to mitigate risk. Moreover, one participant remarked that donors often struggle to mobilize and deploy their best staff to conflict settings, given personal and institutional risk assessments, leading to a dearth of capacity and expertise in these settings – and yet these are the places where expertise and strategic thinking are most needed.

**Risk was also mentioned in relation to funding modalities.** One participant observed how it is easier to balance the risk profile of projects or portfolio when they are funded by grants, whereas it becomes trickier with loans. Overall current risk profiles do not translate to enough support for fragile and conflict settings.

## Data and evidence

**Many participants agreed that more data and evidence need to be generated to facilitate engagement.** Minimum climate and socioeconomic data required for project proposals is often missing. There is also a need for more granular understanding of why adaptation finance and projects are not happening in certain places. It is not always a matter of prioritizing mitigation over adaptation projects. In some places, adaptation funds are underspent because projects are not as bankable. More evidence is required to get into the ‘nitty gritty’ of why things are not happening. This problem is linked to risk aversity and access to conflict settings.

## Potential solutions and areas for further exploration and evidence generation

Tailored mechanisms, enabling guidelines, and simplified/harmonised procedures.

**There was recognition among several participants that the current rules regulating access to climate finance rarely work for conflict affected and fragile contexts and that such contexts require tailored or dedicated mechanisms to overcome the barriers.** The experience

of humanitarian actors or locally led development organizations could inform the tailoring of instruments to ensure that they are adapted to conflict settings. These actors have learned to build conflict risks into their programming and to maintain access, even in situations of high risk. Good practices from funds that have sought to be more inclusive and seek to create fit-for-purpose approaches for conflict and fragile settings could also be considered.

Several participants mentioned the creation of funding allocations or specialized windows within bilateral donor agencies or multilateral mechanisms dedicated to conflict and fragile settings. Options include creating conflict and fragility-oriented windows in multilateral climate funds similar to the MDBs, or humanitarian bridges to allow humanitarian knowledge to inform and enable climate action in conflict and fragile settings by experienced climate actors; specific funding allocation and simplified and streamlined project approval processes for conflict or post-conflict settings; flexible instruments with expedited disbursement mechanisms similar to MDBs' post-disaster reconstruction instruments; ensuring multilateral climate fund board representation of fragile and conflict-affected countries' interests; and the provision of core funding as opposed to project-earmarked funding.

Project implementation timeframes was also mentioned as requiring special consideration, as the issue being addressed goes beyond the standard 3-5 years project lifecycle. At the same time, initiatives also need to be prepared to respond to short-term crises. It is important to have a system that can plan long-term but also have resources to address short-term crises.

Reconsidering the definition and meaning of adaptation in fragile and conflict-affected situations

**A few experts noted how adaptation is defined in these contexts should be reconsidered.**

In contexts where there are successive shocks and where natural resources are under threat and governance is weak, the classical approach to adaptation 'where ten centimeters of sea level rise is expected, leads to adding ten centimeters to a seawall to be back within the old level of safety' is inadequate. The reality in these contexts is the gradual erosion of the resilience of an already vulnerable population that could slide down further because of successive climate-related shocks and other multidimensional threats. This is an aspect pertinent to discussions already under way in the loss and damages framework. It might also be relevant to ask how should (adaptation) success be measured in these contexts?

Coordination, capacity and conflict expertise

**Participants agreed that better coordination between different actors is crucial. This includes forming partnership with actors that one would not traditionally have worked with.** Conflict-facing humanitarians have experience and knowledge about working in fragile and conflict settings, and can help climate institutions develop their capacity to operate in such environments. A key element pertains to increasing the capacity of all relevant actors to ensure that the design and implementation of their programmes is both conflict- and climate-sensitive.

**On capacity, one participant noted the importance of investing in local expertise, especially among those that have had to address these challenges for a long time.** This is an important point that is often missing from the conversation, leading to top-down approaches, and poor ownership of solutions.

**It was pointed out that peacebuilding actors are also important stakeholders, given their experience in conflict-affected settings.** Peacebuilding funds have increasingly tied some of their investments to natural resource management and climate adaptation, which provide experience to learn from.

Resolving these challenges will require political leadership, which in turn requires ministers or very senior civil servants to engage in and support these stances.

#### Decentralisation of funding

A point agreed by many was the need to decentralize climate finance so that it can reach the level where it is needed.

#### International policy processes

A few participants indicated the need to build awareness of this issue at COP26, recognizing it may be a steppingstone as it is a long-term problem that requires long-term solutions, and that the COP provides guidance to Financial Mechanisms within the UNFCCC. An expert pointed out that the choice of language is important to appeal to the climate audience, and that this issue should be presented as an issue of climate vulnerability that has different impacts across different sectors. How these conversations are framed in different arenas is extremely important, and the limits of the COP agenda and format for expanding this discussion was also noted.

#### Data

One participant from indicated that they have been investing in Climate Information Services to have the required data to feed into decision-making processes, to cover both broader and more localized perspectives. In addition, another participant noted that humanitarian and post-recovery partners can support with the data challenge as they have worked on the ground in these areas for a long time, so they might possess data that can be useful. Humanitarian actors can also support regional climate programmes given their regional and national presence.

#### **A common agenda**

To conclude, the wider group put forward a few elements for a common agenda to continue working on this issue in the foreseeable future:

- Continue the conversation and collaboration, as the roundtable was the beginning of a policy process;
- Learn from positive examples of inclusiveness and programming;
- Keep building the evidence base on this challenge collectively;
- Explore and tailor more avenues for solutions;
- Start practical work in hotspot areas;
- Bring onboard more partners, especially from the Global South;
- Aim for actionable recommendations with maximum ownership ahead of COP27.