

Iraq, 2016. Iraqi Red Crescent provides assistance to displaced people at Dibagah camp. In Iraq, climate change threatens access to food and water of people already affected by conflict. Despite this, Iraq and other countries with high and very high climate vulnerability receive limited climate adaptation funding.

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7 SMART FINANCING



**Getting the
money where it's
needed most**

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Definitions

Climate change adaptation financing: funding and financing to reduce vulnerability and exposure and boost resilience to the actual or expected impacts of climate change ([UN, 1992](#)). Instruments include bilateral and multilateral grants and loans, such as those channelled through multilateral climate funds, the largest of which are the Green Climate Fund, the Adaptation Fund and the Least Developed Countries Fund.

DRR financing: funding directed to activities which promote “the goal and global targets of the Sendai Framework to achieve substantial reduction of disaster risk and losses in lives, livelihoods and health and in the economic, physical, social, cultural and environmental assets of persons, businesses, communities and countries” ([OECD, 2017](#)).

Disaster risk financing: financing arranged before a potential shock, which pays out in certain pre-agreed circumstances to fund a pre-agreed plan (adapted from [World Bank, 2018](#)). Instruments include those to retain risks (such as contingency funds), share risks (such as regional pools) or transfer risks (such as insurance), ideally in a ‘layered’ strategy.

Humanitarian financing: funding and financing intended to save lives, alleviate suffering and maintain dignity in the event of a crisis – including disasters and conflicts (adapted from [GHD, 2003](#)). Focused on emergency response but can also include funding to act early to get resources in place and prepare for humanitarian responses. Instruments include bilateral, multilateral and pooled funds (including the UN Central Emergency Response Fund and the IFRC’s Disasters Emergency Relief Fund).

Other development assistance: in this context meaning other ODA which has a primary function of supporting recovery from and/or resilience to the disaster impacts of climate change. Instruments include bilateral, multilateral and pooled funds to provide grants, concessional loans or technical/in-kind support.



Haiti, 2016. An emergency response unit team assesses damage, water and food sources and water access points for future interventions after Hurricane Matthew. Haiti has the 5th highest climate-vulnerability score globally, yet receives just over 2 Swiss francs per person in climate change adaptation funding.

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INTRODUCTION

Investing upfront in climate change adaptation and disaster risk reduction (DRR) clearly makes moral sense because it saves lives and suffering, but it also makes financial sense because it saves money. The Global Commission on Adaptation suggests benefit–cost ratios of adaptation investments ranging from 2:1 to 10:1 depending on the context ([GCA, 2019](#)), yielding a ‘triple dividend’ of avoided losses, increased innovation and societal and environmental benefits ([Tanner et al, 2018](#)).

These upfront investments are first and foremost made in-country, where the costs of disasters are primarily borne – by the domestic authorities, communities, households and enterprises facing the risks and impacts of climate change. Putting a single figure on this web of formal and informal contributions – including ministry spending, private sector investments, individual remittances and much more – is not yet possible.¹ However, analysis of climate change spending in the official national budgets of four of the world’s poorest countries² alone identified an annual total of 1.1 billion US dollars (1 billion Swiss francs) ([Bird et al, 2016](#)), illustrating the scale of domestic expenditure.

In many countries where disaster risks associated with climate change are highest, the financial capacity to address them is insufficient. International support is clearly needed. And this international climate financing is not just a matter of discretionary support: there are collective commitments agreed by all countries in the UN Framework Convention on Climate Change (UNFCCC) based on “common but differentiated responsibility and respective capabilities”. In other words, money should be transferred from countries who have the most wealth and most responsibility for climate change to those who have least of both ([Pauw and Klein, 2015](#); [Resch et al, 2017](#); [UN, 1992](#)). This chapter examines these global public contributions – those counted as official development assistance (ODA) – with a focus on climate change adaptation and DRR.

Climate finance has tended to prioritize global measures to mitigate greenhouse gases – which are essential – but has also often overlooked more localized measures to adapt to the impacts of climate change. It is well known that there are serious shortfalls in net global financing for climate adaptation and DRR. Estimates of annual international public funding directed to climate change adaptation suggest an upper figure of 28 billion US dollars (27 billion Swiss francs)³ ([Buchner et al, 2019](#)), though annual requirements of just 50 developing countries (based on the adaptation needs outlined in nationally determined contributions) total at least 50 billion US dollars (approximately 50 billion Swiss francs).⁴ The economic fallout of the COVID-19

1 The need for tracking and analysis of national expenditure on climate adaptation is widely recognized as a prerequisite to improving accountability – addressing and promoting this is a central purpose of the Adaptation Financing Accountability Initiative – see [PIDS, 2017](#).

2 This study analysed ‘on-budget’ expenditure relevant to climate change from available government budget figures for four countries: Ethiopia, Ghana, Tanzania and Uganda.

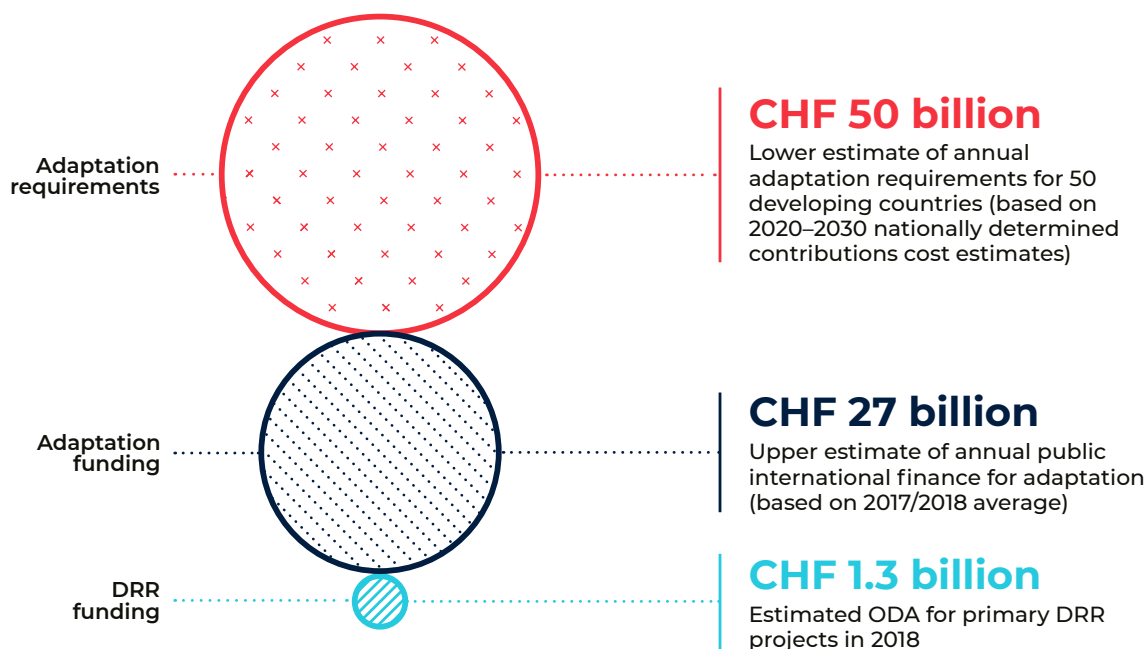
3 These figures are based on an average over the 2017/2018 period, calculated by the Climate Policy Initiative ([Buchner et al, 2019](#)) based on the available reported funding, recognizing that there are significant gaps in tracking. This figure is understood to be approximate and is contested: Oxfam International ([Carty and Le Compte, 2018](#)) propose a much lower figure – just 5 to 7 billion US dollars (approximately 4.5 to 6.3 billion Swiss francs) from bilateral donors – based on its analysis that official reporting of climate financing is substantially inflated because it tends to include loans at face value (rather than at grant equivalent value) and to overestimate the adaptation relevance of multipurpose contributions.

4 Nationally determined contributions are governments’ national post-2020 climate action plans as required under the Paris Agreement on climate change. The 2018 *Adaptation Gap Report* (UNEP, 2018), suggests that the cost estimates may be lower than real requirements for a number of reasons, including a focus on technical costs and an ‘adaptation deficit’ arising from not factoring in climate change variability and extreme scenarios.

pandemic will undoubtedly make it more challenging to fill this gap ([Development Initiatives, 2020a; 2020b](#)).⁵ Yet the global shock of the COVID-19 pandemic also creates a collective opportunity to invest in ‘building back better’ and refocus financial solutions towards green, inclusive and resilient recovery ([Meige et al, 2020](#)).

This chapter puts the spotlight not on how much funding there is but where and how it is spent. It looks first at **directing** money to the countries and communities most at risk of climate change crises. It then looks at **designing** ‘smart’ holistic funding strategies so that all available and potential international funds best support the people facing the worst effects of climate change.

Figure 7.1: Key figures in climate change adaptation and DRR financing



Sources: Estimates of climate change adaptation requirements and funding are as cited and calculated by the Climate Policy Initiative ([Buchner et al, 2019](#)). ODA for DRR is as calculated by Development Initiatives from OECD Development Assistance Committee (DAC) data.

Notes: Figures are derived from different sources which have different methodologies and are therefore not directly comparable. All figures are for the latest year of available data and analysis. Climate change adaptation funding estimates include all tracked global public funding for this purpose not only that directed to developing countries, and includes funding with a ‘significant’ as well as a ‘principal’ climate change adaptation objective. DRR estimates are for funds with a ‘principal’ DRR objective only. These figures amount to approximately 50 billion, 28 billion and 1.3 billion US dollars respectively. CHF: Swiss francs.

5 As of July 2020, analysis of available data by Development Initiatives suggested that, depending on the scenario, ODA could fall in both 2020 and 2021, and that it could decline from the 2019 levels of 153 billion US dollars (150 billion Swiss francs) to 128 billion US dollars (125 billion Swiss francs) by 2021.

7.1 DIRECTING FINANCING TO VULNERABLE PLACES AND PEOPLE

7.1.1 Prioritizing the most vulnerable places

1. The current situation: where does the funding go?

International support for adaptation and risk reduction should be targeted to the countries which are most vulnerable to the effects of climate change and disasters. This commitment is written into the UN Framework Convention on Climate Change and into the objectives of global climate funds including the Green Climate Fund (GCF) and the Adaptation Fund.⁶ The Sendai Framework for Disaster Risk Reduction also notes the importance of international support paying particular attention to countries with higher vulnerability and risk levels ([UN, 2015b](#)).

So, how well are these intentions and commitments being met – are the countries most vulnerable to climate and disaster risks actually being prioritized? This is easier asked than answered, firstly because there is no consensus about which countries are the most vulnerable, and secondly because of gaps and complications in reporting where the money goes.

Climate- and disaster-vulnerable countries are broadly understood to have a combination of high exposure to climate- and disaster-related risks and low capacity to manage them, but there is no agreement on how to measure this, and therefore how to prioritize. For DRR, the Sendai Framework lists a wide range of categories that “might warrant particular attention” ([UN, 2015b](#)).⁷ For climate finance, the Paris Agreement on climate change points to least developed countries and small island developing states ([UN, 2015a, article 9](#)), but this broad and non-exhaustive list leaves much room for interpretation in funding allocation. For example, the GCF, explicitly sets aside half its resources for least developed countries and small island developing states, but the Adaptation Fund does not.

At the same time, the way that financing is reported and recorded makes it difficult to get reliable figures for how much is being spent on what and where it goes. There are ‘markers’ to flag financing for climate change adaptation and DRR in international aid reporting, but gaps and idiosyncrasies mean that while some financial resources go uncounted, others may be over-counted⁸ (see [Beecher, 2016](#); [Carty and Le Compte, 2018](#); [Peters et al, 2016](#)).

⁶ For example, the GCF states that it aims for geographic balance, with special attention to particularly vulnerable countries including least developed countries and small island developing states with half of its adaptation resources reserved for these. The Adaptation Fund states that it aims to pay special attention to most vulnerable countries.

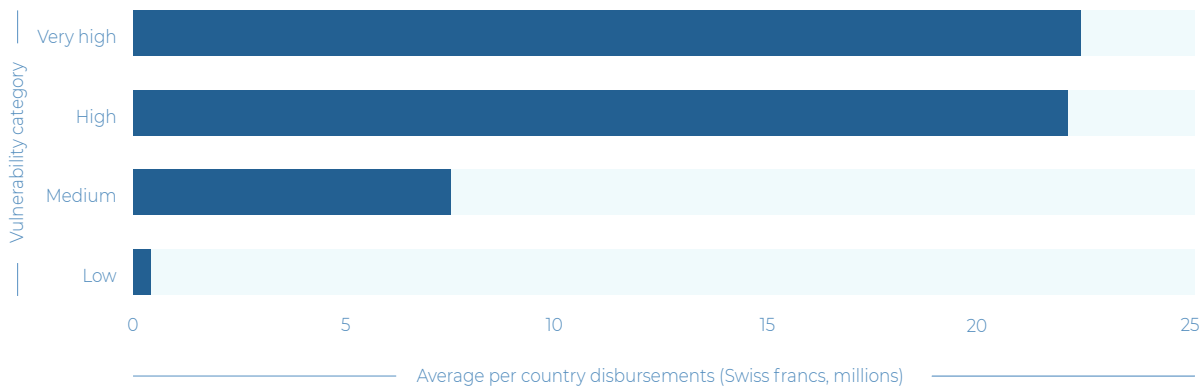
⁷ The Sendai Framework for Disaster Risk Reduction states “disaster-prone developing countries, in particular the least developed countries, small island developing states, landlocked developing countries and African countries, as well as middle-income countries facing specific challenges, warrant particular attention in view of their higher vulnerability and risk levels, which often greatly exceed their capacity to respond to and recover from disasters... Similar attention and appropriate assistance should also be extended to other disaster-prone countries with specific characteristics, such as archipelagic countries, as well as countries with extensive coastlines” (UN, 2015a).

⁸ Oxfam International ([Carty and Le Compte, 2019](#)) suggests that official reporting of climate financing is substantially inflated because it tends to include loans at face value (rather than at grant equivalent value) and to overestimate the adaptation relevance of multipurpose contributions.

Yet, however it is defined and counted, funding for climate change adaptation and DRR does not appear to consistently prioritize the most vulnerable countries with the very highest levels of climate- and weather-related risk and lowest capacity to manage those risks.⁹ Multiple previous analyses of climate change adaptation flows agree on this point (Saunders, 2019) and our analysis of aid spending also supports it. Diverse approaches to targeting may mean a broad spread of support, but also that some countries are left behind.

Analysis of ODA spent on climate change adaptation reveals a mixed picture. At first glance it is positive: looking at all ODA with a principal climate change adaptation objective does suggest a vulnerability-based distribution. On average, countries with high and very high vulnerability receive more total funding than those with medium and low vulnerability (see Figure 7.2).

Figure 7.2: Average per country ODA for climate change adaptation against levels of vulnerability to climate change and levels of climate and weather-related disaster risk, by category, 2018



Sources: OECD DAC; ND-GAIN; INFORM Index

Notes: Vulnerability score calculated from combined scores from ND-GAIN (climate change vulnerability) and INFORM (disaster risk). INFORM score includes only weather-related hazards, combined with vulnerability and coping capacity scores. Funding figures represent disbursements for 2018. Average per country calculated based on total for each vulnerability group divided by the number of countries. See Methodology for more details.

⁹ The World Disasters Report uses an assessment of the most vulnerable countries based on a combination of long-term climate vulnerability (based on ND-GAIN) and shorter-term climate- and weather-related disaster risk (based on INFORM).

However, there are limits to what these averages can tell us about where climate change adaptation financing is targeted. While higher volumes of funding do often go to countries facing the highest levels of vulnerability to disaster risk and climate change, this is not consistently the case. Many highly vulnerable countries are left behind, receiving relatively little.¹⁰

Once the size of the population is taken into account, the funding disparities are even starker, and more highly vulnerable countries appear to be left behind (see CCA funding in 2018, p. 312). None of the 20 most vulnerable countries were among the 20 highest per person recipients. Somalia, the most vulnerable, for example, ranks only 71st for per person funding disbursements.

None of the countries with the five highest per capita funding, had high or very high vulnerability - and notably, none of them were classed as fragile contexts. Of the 43 very high-risk or high-risk countries receiving less than 1 Swiss franc per person, 34 were classed as fragile contexts ([OECD, 2018b](#)).



Somalia, 2019. None of the 20 most vulnerable countries were among the 20 highest per person recipients of climate adaptation financing. Somalia, the most vulnerable, for example, ranks only 71st for per person funding disbursements.

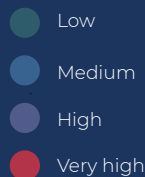
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10 The two most widely recognized composite indices for showing disaster and climate change risk are the ND-GAIN index, which scores countries' vulnerability to climate change based on projections of exposure against sensitivity and coping capacity – and so gives a longer-range picture, and the INFORM Index, which scores countries' crisis risk based on recent patterns of hazards against capacities – and so gives a more immediate picture. Combining these scores in this analysis gives an indication of which countries are facing both high imminent disaster risk and severe longer-term impacts of climate change. No measures of vulnerability are perfect, and therefore should only be seen as an indicative guide, and balanced with contextual information.

CCA FUNDING IN 2018

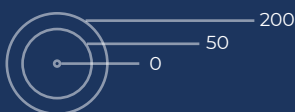
ODA for climate change adaptation against levels of climate-vulnerability

Vulnerability category



High and very high vulnerability countries receiving less than CHF 0.1 in CCA funding per capita

CCA disbursements per capita (Swiss francs)



Venezuela
CHF 0.08

Gambia
CHF 0

Haiti
CHF 2.14

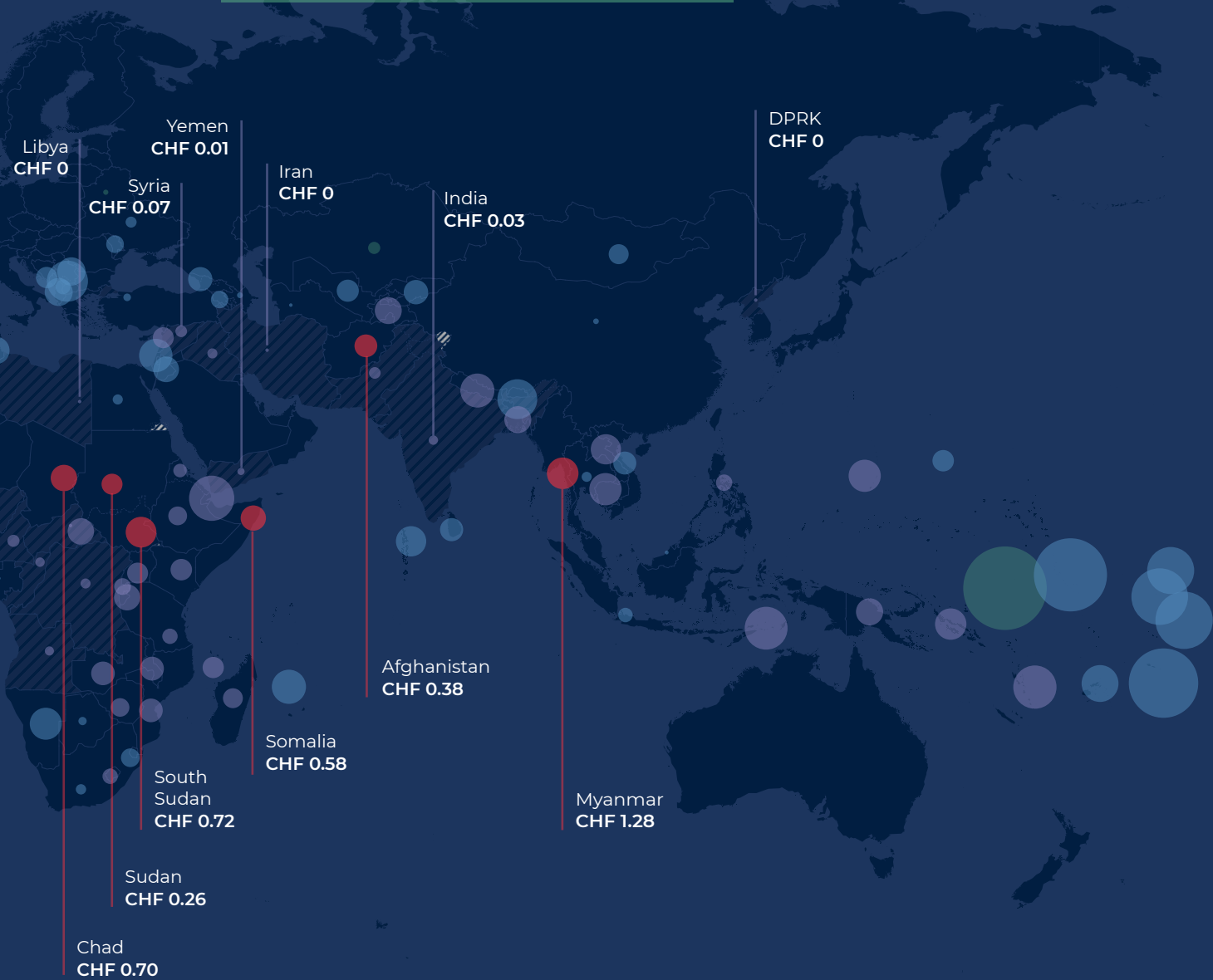
Niger
CHF 1.23

Sources: OECD DAC; ND-GAIN; INFORM Index; UN Population Division

Notes: Climate-vulnerability score calculated from combined scores from ND-GAIN (climate change vulnerability) and INFORM (disaster risk) and only includes ODA recipient countries. INFORM score includes only weather-related hazards, combined with vulnerability and coping capacity scores. Funding figures represent per capita disbursements for 2018.

This is a snapshot only, and highlights countries where there is a discrepancy between need and level of funding. Bubble sizes are log-scaled. CHF: Swiss francs.

Average country CCA funding per capita (Swiss francs)



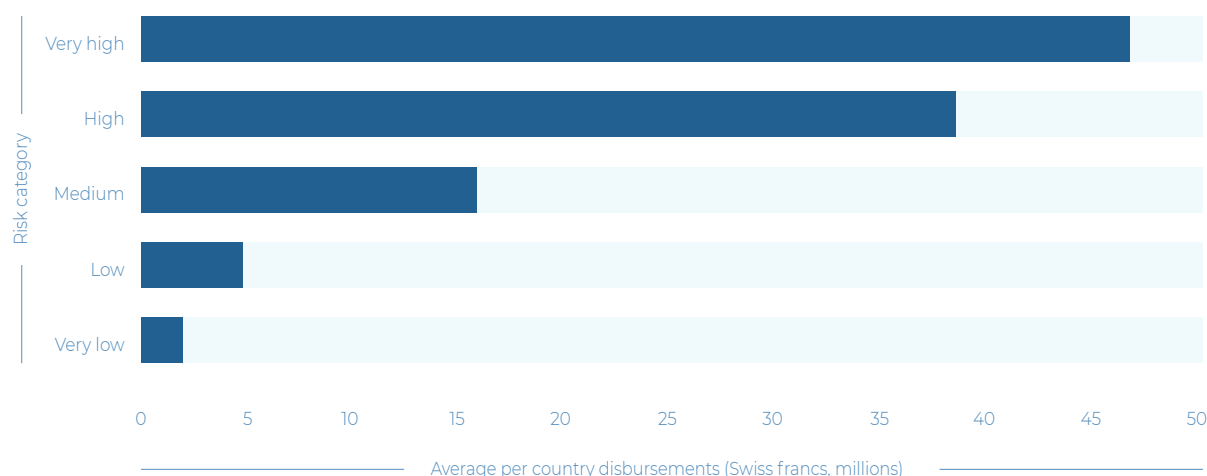


South Sudan, 2018. Women from South Sudan prepare the soil for planting seeds. Less than half of the population is able to produce, collect or purchase sufficient food to meet their basic needs. Although South Sudan is classified as one of the most high-risk countries, the country receives comparatively little funding for DRR.

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New analysis of international aid for DRR using new keyword searches and markers ([Development Initiatives, 2020a](#), see Methodology) reveals a similar pattern of inconsistent targeting to that of climate change adaptation funding. Again, the totals and averages suggest a positive relationship between levels of disaster risk and distribution of DRR funding – on average, more funding goes to countries at higher risk (see Figure 7.3).

Figure 7.3: Average per country ODA for DRR by level of disaster risk, 2018



Sources: Development Initiatives derived from OECD DAC; INFORM Index; UN Population Division

Notes: ODA DRR disbursement figures were calculated by applying a combination of markers and keywords – see Methodology for full details. INFORM risk scores represent a combination of exposure to weather-related hazards (and excluding geophysical hazards) as well as vulnerability and coping capacity scores. Risk quintile thresholds are derived from INFORM.

But as with climate change adaptation, once we examine the country distribution behind these averages, we see that while there is some correlation of higher spending for higher-risk countries, this is not true for all. None of the very highest-risk countries were among the highest funding recipients and several high-risk countries including Eritrea and Djibouti received less than many much lower-risk countries.

Again, once population size is factored in (see DRR funding in 2018, p. 316), targeting appears to be much more amiss, with many vulnerable countries left behind. None of the countries classed as very high risk received more than 10 Swiss francs per person. The most high-risk countries, Somalia, Afghanistan, Myanmar and South Sudan, all received less than 3 Swiss francs per person – compared with the 186 Swiss francs per person disbursed to Tonga which has lower short-term disaster risk according to INFORM. Again, fragility appears to be a factor: of the 18 very high or high-risk countries¹¹ receiving less than 1 Swiss franc per person, 14 were classed as fragile contexts.¹² None of the 15 highest per person recipients were at very high risk of disasters, and none were fragile.

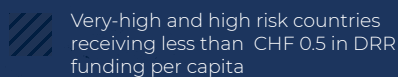
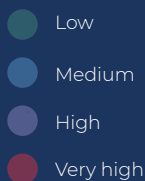
11 Those with an INFORM score of over 50.

12 According to OECD *States of Fragility 2018* – see Methodology.

DRR FUNDING IN 2018

ODA for disaster risk reduction funding against levels of disaster risk

Risk category



DRR disbursements per capita (Swiss francs)

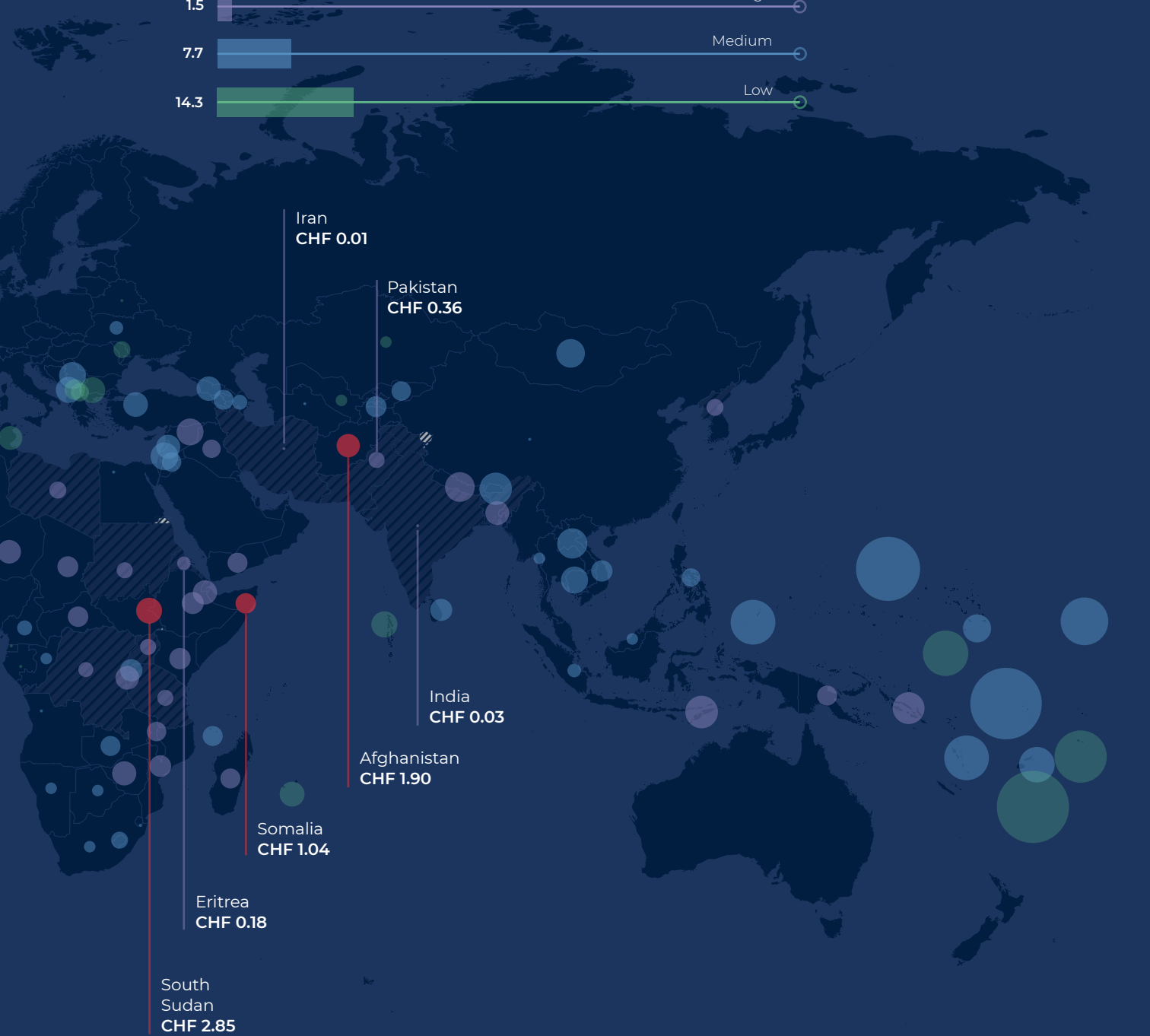
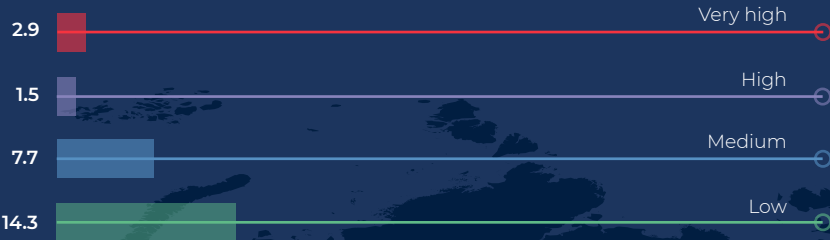


Sources: Development Initiatives derived from OECD DAC; INFORM Index; UN Population Division

Notes: ODA DRR disbursement figures were calculated by applying a combination of markers and keywords – see Methodology for full details. INFORM risk scores represent a combination of exposure to weather-related hazards (and excluding geophysical hazards) as well as vulnerability and coping capacity scores, and only includes ODA recipient countries. Risk quintile thresholds are derived from INFORM. Countries highlighted provide comparative examples of DRR disbursements per person.

Bubble sizes are log-scaled. CHF: Swiss francs.

Average country DRR funding per capita (Swiss francs)



“

Capacity strengthening is a two-way street. Truly locally owned, participatory financing models can expand donors' understanding of the local realities of climate change and of what works in different contexts.

”



2. The barriers: what hinders better targeting of the most vulnerable countries?

Funding fails to prioritize the most vulnerable countries for many reasons. Donor preferences are a familiar factor: historical, political and trade ties have long influenced where bilateral aid goes, even when it claims to be based on need ([Bermeo, 2017](#); [IFRC, 2018a](#)). And political incentives and disincentives extend not only to *where* funding goes, but also *when* and *for what*: hard-wired biases can favour acting after a crisis, rather than investing in reducing risk ([Clarke and Dercon, 2016](#); [IFRC, 2018a](#)): short-term thinking or the ‘tragedy of the horizon’¹³ results in both under-allocation and misallocation ([Carney cited in GCA, 2019](#)).

Concerns about aid effectiveness also steer spending. Donors must weigh up allocating funds to the places which are most vulnerable, against allocating to where programming opportunities are greatest: a trade-off between investing finite funds in the places where a difference most needs to be made, or in the places where they see they can make the most difference. Donor imperatives to reduce transaction costs and show results and returns therefore often favour large-scale, ‘shovel-ready’ investments in low-risk contexts ([ICAI, 2014](#); [Soanes et al, 2017](#)).

This means that those countries which are less finance ready miss out. In many of the most vulnerable countries, national institutions’ lack of ‘readiness’ to use international climate funds – even those dedicated for improving readiness – feeds into a loop of exclusion and underinvestment. Of the 30 countries deemed ‘least ready’,¹⁴ 29 were fragile contexts. The poorest and most weakly governed countries find themselves unable to navigate funding opportunities, reach the stringent criteria to qualify for funds, meet high fiduciary standards, or carry the administrative burden of donors’ and funds’ many heavy and unaligned requirements¹⁵ ([ICRC, 2020](#); [Nasir et al, 2017](#)). While some multilateral climate funds, including the Adaptation Fund, have contributed to readiness packages in fragile states including Burundi and Chad, these are not enough to overcome the barriers ([Peters and Budimir, 2016](#)) and few invest with sufficient money and attention span.

Absorption capacity also constrains funding. Adaptation approaches tend to be incremental: in other words, they presuppose countries have the basic systems and infrastructures to adapt – for example, drainage systems – and institutions that can be supported to manage these. But many highly vulnerable countries lack these pre-conditions: they require climate-informed development to build infrastructures and institutions in the first place, rather than adaptation-specific funding to upgrade them for a changing climate. But, as many of the most vulnerable countries are fragile and affected by conflict, they also miss out on such long-term development investment, instead receiving short-term cycles of humanitarian funding.

3. The way forward: how to better direct financing to the most vulnerable countries

An obvious first step to improving targeting is more visibility about where funds are being directed and on what basis. If governments, donors and funds are to live up to their intentions to prioritize the most vulnerable countries, their metrics and allocation criteria for achieving this must be clear and accountable. That means

13 A phrase coined by Mark Carney, Governor of the Bank of England, to sum up the tragic irony that by the time climate change is a defining factor for financial stability, it could already be too late.

14 According the ND-GAIN readiness index. Data downloaded May 2020.

15 Nasir et al observe that as of 2017 only four least developed countries had managed to accredit national entities with the GCF – meaning that out of the 59 accredited implementation agencies for the Fund, only five were in least developed countries – and only two of these (in Senegal and Ethiopia) had had projects approved ([Nasir et al, 2017](#)).

openly sharing frameworks for defining vulnerability and investing in compiling the best possible methods for understanding which countries are at highest short- and longer-term risk of the effects of climate change. This does not mean a zero-sum-game where funding is diverted from lower vulnerability countries that are none-the-less still facing severe climate risks. Nor does this mean all donors should target the same countries, but there should be a rational, evidence-based means for ensuring that none of the most vulnerable places fall through the gaps.

This must go hand in hand with better tracking of funds, so that the gaps can be well identified and filled. The OECD's recent introduction of a marker to improve DRR tracking in its aid reporting system is a step in the right direction, but this needs to be consistently used by donors to yield better data.¹⁶ The Rio markers for identifying climate change adaptation spending are a decade older than the DRR marker, but there is still a need for much greater clarity and rigour in reporting to show the value of contributions ([Buchner et al, 2019](#); [Carty and Le Compte, 2018](#)).¹⁷ And of course, evidence of the *quantities* of funding must be accompanied by evidence of *quality*. Funding must be disbursed in a timely, predictable manner that best reaches people at risk,¹⁸ evidenced in tracking of the speed of disbursements, as well as the duration of funding agreements.

Donors must assume that conflict and fragility are not an 'externality' in DRR and adaptation ([Peters, 2019a](#)), but an integral part of vulnerability, as work in countries including Mali, Central African Republic, Iraq and Yemen clearly shows ([ICRC, 2020](#)). Knowing this, donors must find ways to adapt their blanket eligibility and compliance requirements according to the context, and to support state and non-state institutions and organizations to meet these. Readiness should be seen as reciprocal – as well as requiring and supporting recipients to be more ready to receive their funds, donors must find ways to become more ready and agile to fund in these difficult settings, including investing in support systems. Examples of what is possible range from Afghanistan, where the GCF has invested in readiness and bilateral donors have invested in developing a Climate Finance Framework (see Box 7.2) to Lebanon, where bilateral donors have supported the Disaster Risk Management Unit in the Prime Minister's Office ([Peters, 2019a](#)).

7.1.2 Reaching the most vulnerable people

1. The situation: where does funding reach?

Better targeting international support to the *countries* most vulnerable to climate change is of course no guarantee that it will reach the *people* at most risk of its effects. Country funding figures tell us little about whether and how those funds benefit places and social groups with very different risk profiles – for example,

16 Being able to better track which resources are going where is not only important for accountability and decision-making, it can also help to steer donor choices. As the OECD explained in its recent creation of a DRR marker in aid reporting, pulling DRR out as an objective to be tracked across all allocations – rather than just a subcategory of emergency aid – can provide “an incentive for donors to mainstream DRR into development assistance, and to promote the idea that DRR is a development priority, not just a humanitarian one” ([OECD, 2017](#)).

17 This includes greater clarity of and adherence to common reporting standards including on showing the concessionality of loans and reporting them at grant-equivalent values, and of agreeing the value of a programme's climate component. Presently these appear to be subjectively and divergently applied by donors.

18 The UN Framework Convention on Climate Change sets out ten criteria for adaptation finance albeit with broad, non-official definitions ([Pauw et al, 2016](#)). It should be: adequate, predictable, sustainable, scaled up, new and additional, provided with improved access, balanced allocation between adaptation and mitigation, prioritized to the most vulnerable developing countries, mobilized by developed countries, and transparent. Many of these qualities resonate with commitments on humanitarian aid, set out in the principles of good humanitarian donorship and in the Grand Bargain on Humanitarian Financing – including that it should be transparent, flexible, multi-year and localized.

women in the flood-prone southern regions of Afghanistan or marginalized ethnic groups in the conflict-affected regions of the Philippines. While national-level public goods and infrastructures are important, adaptation and risk reduction ultimately have to work at local level ([Mfitumukiza et al, 2020](#)).

While the national-level financing picture is unreliable, the local-level picture is almost entirely unknown. One preliminary analysis of a set of climate and development funds estimates that 10% of this climate finance is directed in the first instance at the local level.¹⁹ This figure comes with caveats, only covers a fraction of bilateral funding and does not indicate how locally owned the contributions are ([Soanes et al, 2017](#)). But it is a clear indication of the paucity of adaptation funding that is available and accessible to local organizations, a problem mirrored in the struggles to localize humanitarian assistance (see for example, [IFRC, 2019](#)).

2. The barriers: what gets in the way of reaching the most vulnerable people?

Marginalization amplifies vulnerability. The Paris Agreement and the Sustainable Development Goals recognize that national adaptation and risk reduction priorities might leave behind or fail to reflect the priorities of certain groups. Populations who are most economically, socially and politically excluded often live in places most exposed to hazards. Meanwhile structural marginalization deprives these populations both of the means for resilience and the direct or indirect benefits of centrally led national action. Without careful design and scrutiny, climate finance and DRR support aligned to national plans can risk reinforcing rather than counteracting this exclusion.

There is international agreement that locally led, inclusive and participatory approaches are essential as part of an equitable, whole-of society approach – this is explicit in the Paris Agreement and the Sendai Framework (see Chapter 6). Yet climate adaptation financing tends to favour bulk spending through central governments over tailoring and targeting locally, and directly financing local organizations. There are limited incentives for supporting a diverse portfolio of small-scale programmes or growing new partnerships with local organizations and institutions ([Soanes et al, 2017](#)). There is pressure to minimize transaction costs, impact tends to be measured in programmes delivered rather than lives protected, and success is often indicated by the scale of investments ([ICAI, 2014](#)).

These high barriers for local organizations and few incentives for donors to address them, mean little direct funding. For example, of 48 project grants for flood resilience and management awarded by the GCF, only 2 went to national NGOs ([ZFRA, 2020](#)) – amounting to just 4% of the funding.

Local needs may also go unaddressed because they are unseen. In the absence of systems to collect and analyse locally disaggregated data, or partnerships to channel the experience and expertise of local communities, the risk reduction and adaptation needs of many of the people most at risk can go missing in the national policies and plans that international donors align with. Not only does this create serious gaps, it can also mean false economies as high-cost national investments miss the mark for large segments of the population and so become ineffective and unsustainable.

¹⁹ This 2017 estimate by researchers at the International Institute for Environment and Development is based on a word search of the Climate Funds Update database covering 12 climate funds and 4 relevant development funds including the major multilateral as well as some bilateral funds. It is part of a larger project which aims to improve the tracking and distribution of climate funding to the local level.

3. The way forward: how to better reach the most vulnerable communities

Many of the solutions for better targeting the most vulnerable countries can be extended to targeting the most vulnerable communities. In their planning and local risk governance, national and local authorities must set out clear policies and processes to identify and prioritize the people at highest risk (see Chapter 6). Donors and international climate funds must explicitly require and support approaches to fair targeting that consider equity, not just economic return. Resource tracking must then follow – tracing direct and indirect funding flows to the local level provides a basis for monitoring progress, evaluating impact and identifying gaps. In Nepal, for example, civil society groups worked with ministries to complete a gender-focused climate change poverty impact assessment in the agriculture sector. The findings of this people-centred analysis led to improved gender tracking in climate budget planning ([Government of Nepal, 2018](#)).

Financing also needs to be designed in a way that enables local institutions, organizations and enterprises to access funds. The Global Commission on Adaptation has a dedicated 'Locally Led Action Track' which is working with 28 partner organizations to convene dialogues between regional grassroots leaders and donors. This is part of its work to ensure that local actors are better recognized, included and financially supported for their work to find effective climate adaptation solutions.²⁰ There are initiatives to build on, including mechanisms in the GCF and Adaptation Fund to 'enhance direct access' by simplifying procedures for smaller grants. Funds must also be sustained to support the technical and management capacities of local organizations ([Terpstra et al, 2015](#); [Wilkinson et al, 2014](#)), and to build national focal points' political and practical support for subsidiarity ([Soanes et al, 2017](#)).

Capacity strengthening is, of course, a two-way street. Truly locally owned, participatory financing models can expand donors' understanding of the local realities of climate change and of what works in different contexts. Devolved financing models, which are actively inclusive and grounded in grassroots expertise and knowledge (see Chapter 6) can foster action which is more cost effective, sustainable and impactful ([Soanes et al, 2017](#)), and improve the evidence base for future action.

There are many good examples of locally driven DRR and climate change adaptation financing to learn from and replicate. For example, the Kenya Red Cross has been supporting county-level governments to devolve climate finance and planning to local level, and to develop frameworks for disaster risk management which allow forecast-based action funds to be created.²¹ In the Philippines, an alliance of civil society organizations (CSOs) – including the Philippine Red Cross, academia and the private sector – has connected with community groups under a new climate change adaptation framework. This brings diverse stakeholders together with local government authorities to ensure that plans and funding proposals are co-owned, informed by realities on the ground, and connected to the development of local climate change action plans. In 2019, this framework resulted in the Philippines' first locally led process for developing an adaptation proposal for the GCF. The project supports multi-hazard impact-based forecasting and early warning systems, linking to local actors to enable them to act on climate information ahead of upcoming disasters.

20 For further information on the GCA's Locally Led Action Track, see: [World Resources Institute, no date](#).

21 For further information on a World Bank programme which supports county-level financing and planning in Kenya, see [World Bank, 2019](#).

BOX 7.1: COMMUNITY-LED PRIORITIES IN DEVOLVED CLIMATE FINANCING

In Kenya, Mali, Senegal and Tanzania, a devolved climate finance mechanism has been piloted by consortia of government and NGOs to fund resilience-building investments at the local level. It directly involves communities in identifying, planning and overseeing investments – bridging a ‘bottom-up’ approach to designing and prioritizing financing to existing ‘top-down’ decentralized planning and budgeting processes. Projects funded under the pilots have included improving water and livestock facilities, boosting weather stations and providing solar energy.

Using customized structures of commissions and committees, the approach builds on local knowledge of how climate change affects different parts of society, actively including people who are often marginalized in decision-making. At the same time, it strengthens countries’ decentralization infrastructure and institutions, building foundations for governments to routinely ensure that planning is climate resilient and context relevant.

Flexibility and adaptive management are core principles, building in support and space to adapt to changing risks, opportunities and evidence. In Kenya in 2020, devolved climate finance processes enabled planning committees to link to COVID-19 preparedness and response consultations. In Mali, in response to the 2017 floods, the process helped communities prioritize livelihoods and food security resilience investments.

Based on [DCF Alliance, 2019](#); [Soanes et al, 2017](#); and interviews with staff at the International Institute for Environment and Development.



7.2 DESIGNING SMART FINANCING FOR CLIMATE CHANGE AND DISASTER RISKS

7.2.1 Using joined-up frameworks

1. The situation: how does the current financing landscape join up?

Smart climate crisis financing is not just a case of deliberately directing funds to the right places, it also involves designing the right funding strategies for each context. This means creating a coherent approach which uses different types and sources of funding to their different strengths to address the different risks and impacts of climate change. Specific funding streams for DRR and climate change adaptation are therefore an important part of a wider whole of development and humanitarian assistance for resilience and response, as Figure 7.4 shows.²²

The many different categories of global public financing involved in averting and addressing climate-related disasters tend to be discussed and operated as if they were clearly delineated. But they actually have broad definitions and blurry boundaries, making it difficult for even the well-initiated to navigate and understand them as a whole. For example, DRR crosses several categories of funding including climate change adaptation, a category which, itself, does not have an official international definition ([Watson and Schalatek, 2020](#)).

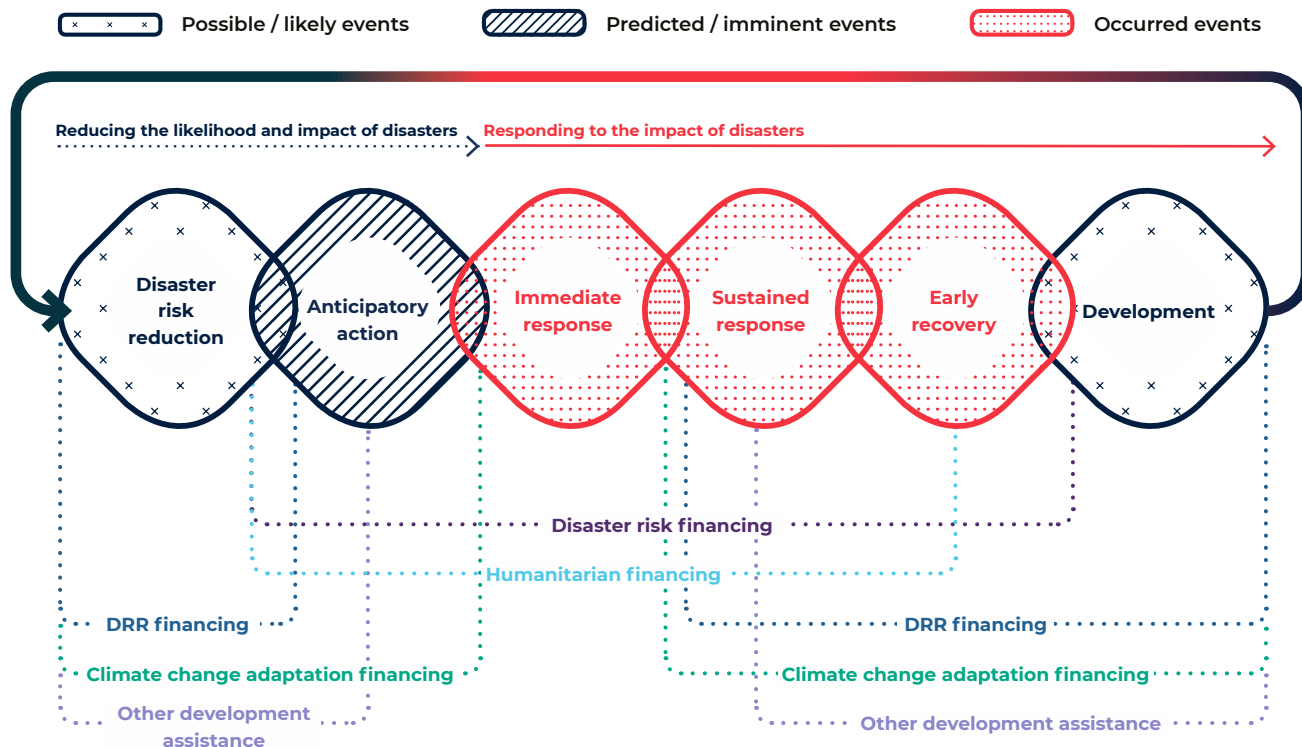
2. The barriers: what gets in the way of a joined-up approach?

While the overlaps in Figure 7.4 might suggest convergence, the reality is incoherence. As previous chapters show, the international aid architecture and domestic structures are characterized by siloed frameworks, institutions and technical communities of practice. Although the soft boundaries between categories of aid should enable flexibility and collaboration, all too often financing operates in fragmented silos ([OECD/World Bank, 2016](#); [Peters et al, 2016](#)). Fragmented financing does not just reflect this incoherence, it perpetuates it – entrenching institutional and delivery divisions.

As well as creating blinkered financing approaches at odds with the complex realities of climate change and disaster risk ([OECD, 2020a](#)), this fragmentation can also leave real financing gaps with real-life implications. For example, in 2017 the GCF declined to approve funding to project proposals to support the adaptive capacity of communities in Senegal and Ethiopia, on the grounds that these were deemed to be more ‘development’ than ‘climate change adaptation’ ([Nasir et al, 2017](#); [Phakathi, 2017](#)). This prompted CSOs to raise concerns of ‘artificial’ distinctions, of preference to invest in quantifiable technological projects, and of a disregard of the links between climate change vulnerability and other development deficits ([SCRIBD, 2017](#)).

22 Indeed, the Sendai Framework for Disaster Risk Reduction explicitly recognizes the importance of coherence with wider sustainable development policies, plans, practices and mechanisms ([UN, 2015b](#)).

Figure 7.4: The financing landscape



Note: This simplified figure does not represent the scale nor precise scope of each category of funding but is intended as a broad representation of the relevant domains of each to the risks and effects of climate change-related disasters.

More recently, CSOs have continued to raise concerns that the ‘schism’ between climate finance and other development assistance can mean that it fails to benefit from important development know-how²³ (Adaptation Fund et al, 2020).

At the same time, the connections between climate and development finance must be meaningful, not just nominal rebranding. This is a long-standing concern: for example, around the 2009 UN Climate Change Conference in Copenhagen, many developing countries raised fears that mainstreaming climate adaptation meant eroding the commitment to additional financing, over and above the agreed 0.7% GNI target for ODA (Klein, 2010).

23 The Adaptation Fund, Climate Wise Women, the Global Resilience Partnership and the World Resources Institute organized regional virtual dialogue between grassroots organizations, development partners and donor representatives, which reflected on successes and lessons learned in furthering locally led climate adaptation action in Africa.

3. The way forward: how to create a coherent approach

Discussions around coherence may be old, but there are new opportunities to bridge aid financing silos. Over the past decade, ‘resilience’ and ‘nexus’ frameworks have sought to find common ground in shared objectives, addressing people’s acute needs as well as the longer-term risks and vulnerabilities people face. Although these are works in progress ([Poole and Culbert, 2019](#)), they can create entry points for action and joined-up financing approaches. For example, in Chad where the effects of climate change are deepening food insecurity, the joint international agency/government drought and food insecurity plan brings together humanitarian, risk reduction and adaptation approaches, instead of trying to impose a separate DRR process ill-suited to the context ([Peters, 2016](#)).

Donors do not need to choose between preserving the principles and purposes of each category of aid and pursuing a joined-up approach. They can ring-fence budgets to invest in standalone adaptation, risk reduction and principled humanitarian response at the same time as supporting complementarity and collaboration within and between the agencies and institutions they fund. Predictable and sustained funding is fundamental to this, so that agencies can direct their energy towards thinking strategically about common issues, rather than chasing short-term grants for discrete single-approach projects ([Mawhorter, 2020](#)).

At a global level, system change is still needed for a concerted approach to financing the risks and impacts of climate change – to improve connections between multilateral institutions and within the departments of bilateral donors. Some signs of this are emerging in UN reforms and the efforts of some donors to put the triple nexus of humanitarian, development and peace approaches into practice ([Dalrymple and Swithern, 2019](#)). While global institutions may be slow to reform, multi-stakeholder planning processes in high-risk countries can forge practical connections – combining a holistic view of international support and national resources and generating clear demand for coherent financing (see Box 7.2).

BOX 7.2: A JOINED-UP APPROACH TO AFGHANISTAN'S CLIMATE CHANGE FINANCING FRAMEWORK

Afghanistan received international support to develop a Climate Change Financing Framework, based on a model trialled in several South Asian settings, known as a Financing Framework for Resilient Growth. This five-step approach supports governments to look across all their budgets and carefully analyse estimated costs of climate change damage, the climate change relevance of current expenditure, projected future financing, potential financing gaps and realistic opportunities and plans to fill these.

In Afghanistan, this process resulted in 2017 in the creation of the Climate Finance Unit which works with all relevant line ministries, enhancing understanding of climate-related finance, mainstreaming climate change in national plans and policies, and identifying priority projects for investment.

The Afghan experience suggests two lessons for other countries. Firstly, this approach generates a holistic mapping of climate and disaster risks, financing flows and gaps as the basis for a strategic plan of action. As it becomes more established, it could also incorporate new and emerging models for early warning and multi-hazard risk metrics. Secondly, it is an example of what can be done in fragile contexts. It shows that institutional support is possible, and how working with national stakeholders generates a depth and coherence of analysis that builds on the inter-connections between enhancing adaptation and reducing resource-related conflicts.

Based on [Resch et al \(2017\)](#) and an interview with Action on Climate Today.



Afghanistan, 2019. Sar Asyaab village, Chimtaal district, Balkh province. After years of drought, flash floods caused deaths and damage across many provinces.

© Afghan Red Crescent Society / Meer Abdullah Rasikh

7.2.2 Creating smart financing plans

1. The concept: how does layered financing work?

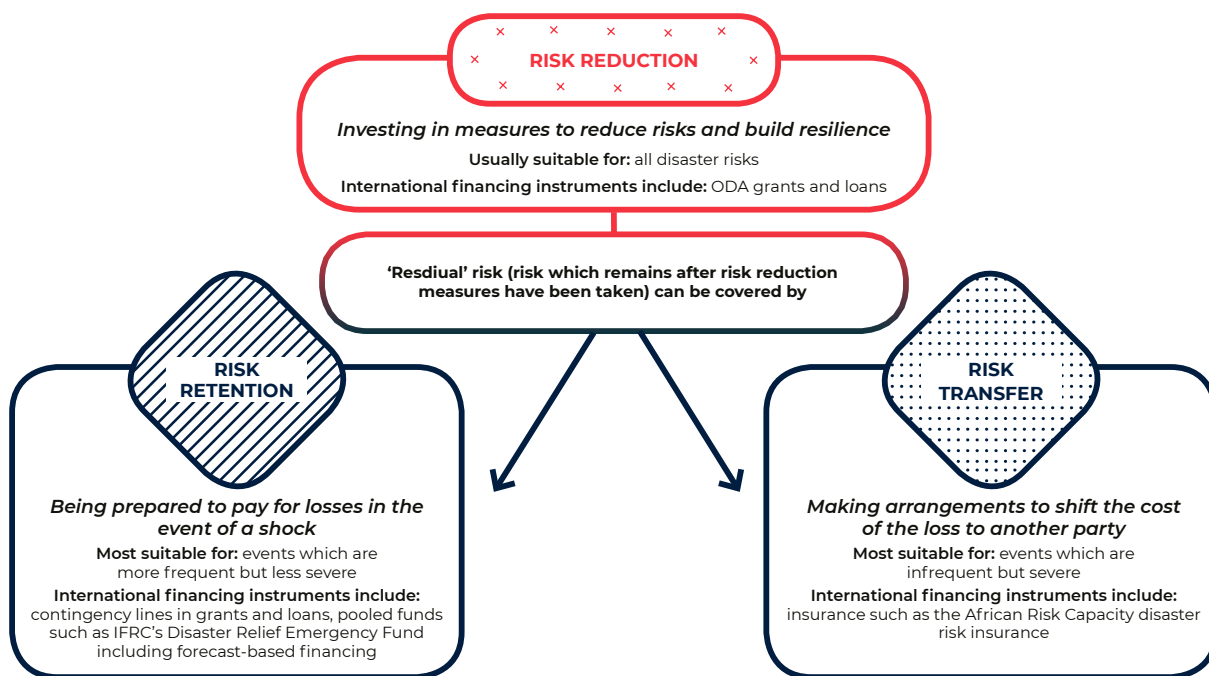
As well as de-siloing aid approaches, there needs to be a joined-up approach to using financing tools: joined-up, smart financing for addressing the risks of climate-related disasters requires combining the right financial instruments in the right way. This can draw on the idea of ‘layering’ which is used in disaster risk financing.

Layered financing works on the principle that in the first instance, risk should be reduced as much as possible. A certain level of risk is however bound to remain: some of it can be absorbed, or ‘retained’, but, for extreme events, provision can be made to transfer the risk, for example through insurance mechanisms ([World Bank, 2018](#)). The aim is comprehensive coverage, using a toolkit of complementary financing mechanisms so that the right funds are readily available in the right places, at the right time, for the different stages, severity and frequency of disasters (see Figure 7.5). Agreeing all of this upfront means that roles, rules and resources are pre-positioned and predictable – rather than appealing to the discretion of donors after a disaster hits ([Clarke and Dercon, 2016](#); [Poole et al, 2020](#)).

Each of the financing instruments can draw on a mix of types and sources of financing – development, climate, humanitarian and domestic and international, public and private. A smart layered financing plan avoids ‘holes’, for example where a country invests minimal savings into contingency funds for recurrent localized droughts but is paying high premiums to insure against rarer large-scale flooding ([Harris and Jaime, 2019](#)).

Layering is a central principle of disaster risk financing and primarily focused on short-term extreme shocks rather than the incremental effects of climate change, but the broad idea is being applied to wider crisis financing ([Poole et al, 2020](#)) as a way of thinking about coherent financing plans. Some CSOs are also looking to develop a layered portfolio so they can be well-positioned to effectively manage crisis risk. The Start Network is exploring how anticipation and response funds can work together with its insurance mechanism, and other potential instruments, as part of a coherent financing facility. And the IFRC’s forecast-based financing also sits within a broader portfolio of instruments (see Box 6.3).

Figure 7.5: Layering financing for managing disaster risks



2. The barriers: what prevents strategic planning for financing?

It is critical to start with the right end of the telescope – with the ultimate purpose and impact, rather than the instrument ([Harris and Jaime, 2019](#); [Pauw and Klein, 2015](#); [Poole et al, 2020](#)). Too often, financing approaches are not comprehensive, focusing funds and attention on a single mechanism to the neglect and detriment of smart strategic approaches to managing risk. For example, Senegal and Malawi are typical of a large group of countries which paid substantial sums into insurance-type policies for major hazards, but lacked basic national DRR funds or contingency reserves ([Harris and Cardenes, 2020](#)). This has been a particular critique of the recent surge of interest in disaster insurance – that it is not appropriate for all risks in all contexts, it can be expensive and not cost effective; and it can divert and disincentivize scarce national and international funds from being used for risk reduction ([Hillier, 2018](#); [Scherer, 2020](#)).

The highly technical and top-down manner in which many instruments are designed can also prohibit uptake, and result in an uneven financing approach. Like any highly structured market-based financial product, disaster insurance and bonds demand a deep level of financial literacy and transparency to understand whether they are a wise and effective investment ([Meenan et al, 2019](#)). Failing to build this literacy and provide this transparency can result in inappropriate choices. And instruments designed top-down by financial managers, actuaries and economists far from the realities of high-risk communities may fail to factor in local knowledge of what is needed and what works. To be effective, and to be part of a smart strategy, high-level mathematical modelling of risk has to be sense-checked against the real-life risks and vulnerabilities people face.

The way forward: how to create holistic, effective financing plans

Momentum is gathering around 'humanitarian disaster-risk financing' approaches which have great potential to share and 'socialize' the idea of layered financing among different providers and interest groups and extend the idea to a wider range of climate change-related risks. Initiatives from the Start Network and the International Red Cross and Red Crescent Movement (see Box 7.3) are developing the principles, pre-conditions and elements for improved humanitarian disaster-risk financing strategies at global, regional and country levels. By bringing diverse technical groups together, these initiatives not only enable complementarity, they also facilitate important mutual understanding. For example by cooperating on risk transfer mechanisms, humanitarian agencies and national or local responders become more informed about risk financing and so more able to strategically use insurance-based models; meanwhile insurance providers become more attuned to the real-life implications of their mathematical risk models ([Harris and Jaime, 2019](#)).

Inclusive, multi-stakeholder processes are crucial for effective financing strategies – participatory design of financing approaches increases their sustainability and relevance to the real risks and impacts people face. They are also an opportunity to sense-check and supplement high-level assumptions and metrics against local knowledge and granular data ([Harris and Cardenes, 2020](#)). While civil society voices are often absent in disaster-risk financing design, there is much opportunity to address this as the field evolves ([Montier et al, 2019](#)). This is also important to close the accountability and evidence gap around many risk financing instruments ([Hillier, 2017](#)) and accelerate improvements based on what really works for at-risk communities.



BOX 7.3: INTERNATIONAL RED CROSS AND RED CRESCENT NETWORK'S ANTICIPATORY FINANCING WITHIN A FINANCING TOOLKIT

The International Red Cross and Red Crescent Network has a wide portfolio of financing approaches to support action across the disaster timeline. Across the Network, there is an ambition to 'double up' investments in climate action, including for climate-smart DRR, early action and preparedness.

In 2018, the scope of the IFRC's Disasters Emergency Relief Fund was officially expanded to reach beyond providing resources for disaster and emergency response, to encompass forecast-based early action. With support from the German Federal Foreign Office and the German Red Cross, a new forecast-based action fund was embedded in the Fund, designed to release money based on specific triggers for pre-agreed early action plans. In 2018–2019, this received nearly 3.75 million Swiss francs and committed/allocated 1.9 million Swiss francs, in six countries. This included its first-ever allocation which was triggered by meteorological forecasts of an extreme 'dzud' winter in Mongolia and enabled the Mongolian Red Cross Society to take anticipatory action to protect vulnerable herder families. The forecast-based action fund complements quick release preparedness funds held by several national societies which can support early action including the Philippines Red Cross (see Chapter 4 for more details).

At the same time, the Network is exploring how it might make use of risk transfer instruments, such as insurance. For example, in 2020, the IFRC worked with the World Bank to explore the feasibility of using the Southeast Asia Disaster Risk Insurance Facility (SEADRIF) to provide predictable support for forecast-based action and earlier response by the Philippines Red Cross and the Myanmar Red Cross Society.

In addition to specific funds and instruments, a predictable flow of flexible financing is key for the Network, both to provide the risk retention contingency to respond to changing needs and to invest in the necessary technical and structural capacities for disaster risk management. As part of the Risk-informed Early Action Partnership, the IFRC is mapping the coverage of its early action financing and capacity worldwide so that funds can best be directed to fill gaps.

Based on information provided by IFRC and German Red Cross staff (IFRC, 2020a; 2020b)



7.3 CONCLUSIONS AND RECOMMENDATIONS

Writing about the financial reaction to the COVID-19 pandemic, the Head of the International Monetary Fund observed that “a global crisis like no other needs a global response like no other” ([Georgieva, 2020](#)). It demands unprecedented action, she noted, because it is more complex, more uncertain and more global than other crises. We can say the same about the current and impending humanitarian impacts of climate change. And while the repercussions of the pandemic may make it harder to find funds, they also provide a wake-up call on the importance of smart financing to reduce disaster risks and adapt to climate change. They show how a new scale and repertoire of investments can be deployed to intentionally target the most vulnerable places and people; and provide an opportunity to build back with green, inclusive and climate- and disaster-resilient economies ([Meige et al, 2020](#)).

International assistance is just one piece of the climate crisis response jigsaw, but for the populations most vulnerable to climate change, it can be a critical one. It is widely agreed that it is neither morally or financially defensible for aid to come largely in an ad-hoc, post-hoc manner after a disaster has hit – financing must be arranged upfront to adapt to the effects of climate change, reduce the risk of disasters and anticipate their impacts. There is a clear responsibility for developed countries to meet their commitments to provide this financing, and also for all those involved in spending it to ensure it is best directed and designed to make the most difference for the people who need it most.

We need a concerted effort to target the most vulnerable places

Commit to making accountable allocations

- Bilateral donors and multilateral funds must develop clear frameworks to identify where the most vulnerable places are, and be accountable to clear commitments to allocate funds accordingly. This should be backed up by targeted funding windows to prioritize ‘forgotten’, in particular fragile, contexts.

Apply rigour and consistency in tracking financing

- Bilateral and multilateral donors need to improve the visibility of financing so that gaps can be identified and addressed. This involves much more rigour and consistency in applying the Rio and DRR markers, particularly in indicating the DRR and climate change adaptation value of mainstreamed programmes, and in finding ways to track volumes and impacts of funding to the local level.

Tailor regulatory requirements to the context

- Donors and multilateral fund managers should build on good practice to enhance access to funds, particularly in fragile contexts. This means a two-fold approach to readiness: increasing specific investments in readiness as part of long-term support to institution strengthening at national and subnational levels, at the same time as tailoring realistic regulatory requirements to the context.

Ensure inclusive access to funds for affected populations

- To make sure funds are relevant to, and accessible at, local level, direct access initiatives must be extended to a wider range of local organizations and support for inclusive devolved financing must be scaled up. Donors and the international, national and local agencies who receive their support need to commit to actively involving affected populations and harnessing their expertise throughout the funding cycle – from fund design, to proposal, allocation, implementation and evaluation stages.

We need an outcome-driven approach to designing funds

Share the common purpose of funding for outcomes for people

- The ultimate purpose of addressing the risks and effects of climate change must connect financing silos (see Chapter 6). This requires donors to create and exploit flexibility in their funding structures to **fund according to outcomes for people rather than category of aid input**. It also calls for a **systematic integration of climate risk into development financing**: climate-smart development investments into resilient services and infrastructures in the places where the foundations for incremental approaches to adaptation and risk reduction are missing.
- As governments and international financial institutions formulate COVID-19 economic stimulus packages, invest in ‘building back better’ by focusing on financial solutions towards green, inclusive and resilient recovery that benefit the people who need it most.

Ensure contributions together form a coherent plan

- Donors, financial intermediaries, domestic authorities and implementing agencies together with civil society must ensure their contributions form part of a comprehensive, risk-informed financing plan that addresses the different layers of risk. These need to come together under multi-stakeholder national and subnational plans, so that choices of financing instruments are well-informed and led by need and impact and leave no one behind.

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