The Elephant in the Climate Room: Financing Sustainable Security and Supporting Future-Fit Systems

Every year, leaders of the International Monetary Fund (IMF) and World Bank – as well as key stakeholders from civil society, the private sector and regional financial bodies – gather to assess the landscape of international development finance. This year, they will do so against the backdrop of a complex geopolitical landscape, where one of the most consequential election years in human history, continued conflict in Ukraine and Gaza, and increasingly frequent extreme weather events have divided multilateral bodies and strained the funding landscape.

While this year's agenda will cover everything from water security to streamlining taxation, one key challenge will dominate discussions: the staggering costs of the green transition and how these relatively inflexible financial institutions can evolve to support global climate adaptation, mitigation and resilience building – particularly in fragile, conflict-affected and violent situations (FCV). As seen at 28th UN climate conference (COP28) and the 2024 World Bank Fragility Forum, most stakeholders recognize that existing efforts are falling short and are eager to move from admiring the problem to identifying tangible steps and best practices needed to address this challenge.

The gap in climate finance has implications beyond sustainable development and humanitarian need. Further, investments in climate adaptation and resilience are essential for addressing the security implications of climate change, helping reduce risks and vulnerabilities, and helping build more stable and secure societies. For example, investing in climate-resilient agriculture supports food security, but can also alleviate the irregular migration, political instability, and potential for recruitment by non-state actors that can occur in the wake of a climate shock.

With these interrelated risks in mind, this year's "Spring Meetings" of the IMF and World Bank should serve as an inflection point for international financial institutions (IFIs), multilateral development banks (MDBs) and other multilateral stakeholders alike: failing to replace outdated processes, improve access to finance for climate-vulnerable nations, and prove that investing in fragile contexts can work will leave those most at risk trapped in interrelated crises and threaten global stability.

The status quo: Key debates and challenges ahead

A few key debates dominate discussions around climate finance, capacity-building, and the green transition. While progress has recently been made toward resolving key policy gaps, such as demands for a 'loss and damage' fund and the signing of a Climate Relief, Recovery, and Peace Declaration at COP28, other areas remain frozen by bureaucratic disagreements and geopolitical maneuvering. These challenges – like the nexus of climate, security, and development itself – are interrelated and complex, but critical to address as the impact and costs of climate change compound. These challenges include three key dynamics to confront:

1) *How to convince reluctant actors – including the private sector and governments – to scale up their commitments to adaptation.* Analysis demonstrates that current levels of funding are nowhere near enough to support the estimated 387 billion US dollars per year needed to adapt societies and economies to the already-present effects of climate change. Estimates from the United Nations Environment Programme suggest that "adaptation finance needs of developing countries are 10-18 times as big as international public finance flows – over 50 per cent higher than the previous range estimate." In real terms, total climate finance needs are estimated to climb to 9 trillion US dollars annually by 2030 and then to 10+ trillion US

dollars per year thereafter. There are significant shortfalls in key sectors as well. For example, despite generating over a third of global emissions, food systems receive only three per cent of climate finance. Given that climate finance allocations currently struggle to hit 2 trillion US dollars annually, the international community faces a massive financing gap, particularly as it looks to stand up and capitalize the new loss and damage fund.

Public sector actors like IFIs, MDBs and national governments won't be able to fill this shortfall alone – strained national budgets and domestic political divides, as seen in the US climate finance debate, will limit leaders' ability to tap additional funds. This means that private sector actors must step in to fill the climate finance gap. However, given that investments in the most climate-affected countries are also investments in some of the most conflict-affected and risky countries, private sector contributions remain limited. Therefore, the most complex challenge ahead is de-risking these investments and showcasing successful interventions so private sector stakeholders feel comfortable joining in.

2) *How to get existing climate finance into the hands of local governments and community leaders*. Studies have demonstrated that climate finance rarely targets frontline communities, with less than 17 per cent of current adaptation finance reaching local levels. Furthermore, estimates show that between 2017-2021, only 66 per cent of successfully allocated funds were successfully distributed, a stark contrast to the 98 per cent of development funding that successfully reached recipients during the same period. This discrepancy between the efficacy of climate and development finance have been largely attributed to two key factors.

First, the structure of the international financial architecture is cumbersome and inflexible, with proposal applications often reaching hundreds of pages. Even for actors with the capacity to take on these projects, the sometimes years-long lag time between application and approval is unpalatable from a bureaucratic, political and humanitarian standpoint. As attendees at the 2024 World Bank Fragility Forum noted, this unpredictability makes it nearly impossible to include climate finance streams into government planning processes and makes these applications an unideal use of limited government resources.

Second, the nexus between climate and conflict often serves as a barrier to investment, with financial institutions like the World Bank deeming projects in fragile and conflict-affected areas as beyond their acceptable levels of risk. As noted above, this overlap often pushes away private sector investment as well, who worry that their investments will be lost to political turmoil, outbreaks of violence, and malign actors.

Finally, a clear challenge is the lack of recipient government capacity to implement and manage these efforts, particularly at the local and regional level. Most development finance flows to national governments, but national actors have limited capacity to address needs on the ground. However, organizations that do, such as subnational governments or local civil society, sometimes lack the capacity to identify, apply for, manage, and report on large sums. Furthermore, even when funding is allocated, it generally goes toward post-disaster response or infrastructure, not efforts that address underlying causes of vulnerability. During COP21, countries recognized these gaps and agreed to support the Paris Committee in Capacity Building, a Paris Agreement-adjacent effort focused on improving coordination and identifying best practices. However, funding commitments will likely need to shift to be more long-term and flexible, be coupled with adaptive management processes, engage across sectors, and prioritize strengthening local institutions along the way. This ensures that beneficiaries are involved from day one of the planning process, and that lessons learned can be carried forward to improve future projects.

3) *How to break down silos between and within key actors*. The divisions within and between different actors working on the challenge remains a major bureaucratic hurdle to effective climate action by limiting the co-benefits of climate finance projects and the implementation of nexus approaches. First of all, there is a stubborn disconnect among the development, defense, and diplomatic communities on sustainable security, preventing governments from leveraging potential co-benefits. Despite some progress to better integrate security actors into long-standing development efforts, defense institutions remain particularly siloed, preventing their programming from amplifying the impact of existing climate finance efforts. For example, although international capacity-building programs could be leveraged to build resiliency and train partner nation militaries to better respond to climate change, "3D" actors often see sustainable security efforts as outside the defense sectors' mandate.

Second, serious incentives remain for policy silos within multilateral institutions and government agencies themselves, making it challenging to develop holistic responses to the climate crisis. For example, key stakeholders like the United Nations and World Bank often face challenges integrating their work across food, climate, and conflict prevention, and even more challenges aligning their work with external actors like civil society, national governments, and the private sector. Instead, actors operate in silos, managing separate programs with complementary missions. This prevents agencies from leveraging co-benefits, particularly given the limited financial resources available to address today's competing crises. Even more concerningly, these institutions increasingly find themselves competing for limited funds and attention. For example, while the International Organization for Migration (IOM), the UN High Commissioner for Refugees (UNHCR), and the World Food Programme (WFP) have complementary mission sets, the current bureaucratic architecture sets them on a collision course, incentivizing infighting and redundancy. Breaking down these silos both within and between agencies will be challenging, but is ultimately key to expanding the reach of current climate finance and development programming.

Towards tangible policy solutions

Ultimately, the challenge the international community faces is that crises are more frequent and cross-cutting than ever before, while the financial environment is also increasingly constrained. Leaders will have to manage conflicts, support global food security, adapt and respond to extreme weather events, decouple growth from emissions, and navigate new technologies – all with a limited budget at home and abroad. Recognizing this complicated operating environment, development practitioners, civil society, the private sector and policymakers alike have all leveraged recent multilateral forums to elevate their perspectives on the issue and potential solutions for the path forward. These solutions can be grouped into four key categories:

1) *Reforming the international financial architecture to relieve the burden on FCV states*. First and foremost, nearly every key stakeholder in the green transition has identified the current financial structure as a barrier to effective climate finance, calling on banks to increase the quality of climate finance, take more risks, and modify their approach to be more "fit for purpose". While efforts have been made to update the MDBs, improve coordination between

the many financial institutions, restructure debt and generate new funds, more aggressive action is needed. As it stands, the current global financial architecture is unable to capture the nexus dynamics of climate change. Along those lines, some have called for a complete overhaul of Bretton Woods institutions and significant changes "in the composition and technique of economic activity, as well as in fiscal and financial policy" to include shifting capital flows toward low carbon and climate resilient growth trajectories, increases in development finance and significant debt relief. The Global Stocktake supports these conclusions, noting that fundamental improvements will need to be made to existing institutions like MDBs and the Common Framework, as well as the potential creation of new financial institutions.

In the meantime, some incremental steps suggested by the Natural Resources Defense Council (NRDC) include enabling concessional investments in a broader range of vulnerable countries, improving the quality of financing in line with the Paris Agreement, implementing the recommendations of the Group of 20 (G20) Capital Adequacy Frameworks review, supporting a concessional finance carve out for adaptation, re-channeling Special Drawing Rights (SDRs), and restructuring debt. Debt will be a particularly critical challenge, given that the most climate vulnerable (and conflict-vulnerable) countries need to make more than 435 billion US dollars in debt payments by 2028, and that half of all low-income countries are either in or at risk of debt distress. Vulnerability to climate change often exacerbates indebtedness as already-fragile countries are forced to borrow more to rebuild after extreme weather events or afford adaptation. Unfortunately, international climate finance largely consists of market-rate loans, a challenge that the Common Framework has tried to, but largely failed to resolve. Given that ongoing efforts to provide debt relief or climate swaps such as the debt-for-nature swap in Ecuador are limited, more must be done to alleviate the debt burden so at-risk countries have the capacity to adapt.

2) *Mobilizing the private sector, developing strategies for managing risk, and adjusting the bias away from mitigation finance.* Given limited public funds, the private sector must be a part of future climate finance projects, but current calculations and articulations of risk make it nearly impossible to generate private finance in fragile or conflict-affected settings. This is a challenge for IFIs as well, with a recent G20 panel finding MDBs to be overly cautious in preserving their AAA ratings, leading to widespread calls for IFIs to grow their balance sheets and take more risks. While movements from MDBs themselves have been slow, there have been some critical first steps toward incentivizing private sector investment. In February 2024, the World Bank announced a massive overhaul to streamline and standardize its guarantee process, a concessionary system that provides "AAA risk mitigation with respect to obligations due from government, political sub-divisions, or government-owned entities to private investors". This insurance, particularly against political risk, is a critical first step in facilitating public-private partnerships, and could be replicated at the regional or national levels if successful. There have also been strides toward risk-informed investments in the humanitarian space, offering models that could be carried over to the climate sector. Innovative sources of private finance such as Blockchain Climate Risk Crop Insurance also offer insights on how to get funds into the hands of those on the frontlines of climate change.

One core component of this must be better contextualized programs and articulations of risk. Fragile contexts – such as Burundi, Lebanon, or Papua New Guinea – are different from those in active conflict such as Iraq, Myanmar, or Yemen. Furthermore, different parts of countries (or projects) may present different levels of risk based on the local dynamics or issue set. It is therefore imperative to be more precise in terms of where a project lies on this continuum, and more targeted in terms of program focus. Simultaneously, more emphasis must be placed on adaptation finance and the impact of future-focused investments such as climate-resilient agriculture in these contexts, instead of the traditional, mitigation-focused investments. All of these changes must be a core component of the ongoing IFI reform agenda, in tandem with efforts related to developing clearer project pipelines and leveraging a wider range of instruments to make finance accessible to recipients.

3) *Identifying successful interventions, particularly in FCV settings*. While there is a growing body of research demonstrating climate-conflict linkages and the gaps in current finance, more can be done to identify successful or high-impact interventions. This is particularly relevant for risk-averse investors, who often struggle to understand best practices for operating in these contexts. As argued by experts at Mercy Corps, managing investors' high perceptions of risk, demonstrating ways to mitigate existing challenges, strengthening partnerships with local actors and building in operational flexibility are critical in these settings. Key examples of success include the COVAX and the Covid-19 Vaccine Delivery Partnership, whose simplified budget process sped up the administrative process for target countries and provided a menu of funding options, and the UN's Peacebuilding Fund, which increasingly incorporates climate considerations, writes in flexibility to its plans to ensure adjustments are rapidly approved, and pre-plans for in-country risk. However, building a broader suite of case studies like this across sectors and across the continuum of fragility will support faster decision making and instrument selection from MDBs, encourage more action at the national level, and has the potential to incentivize private sector partners as well.

4) *Improving existing programs and leveraging areas of agreement*. New institutions and agencies are occasionally part of the proposed solution set from experts and policymakers, but this risks stretching budgets even further and creating additional and unnecessary layers of redundancy. Instead, in today's limited budgetary environment, improving and increasing resources for existing programming, and leveraging clear co-benefits, is a generally more efficient path forward. This option is most in line with the "three Cs" of COP28 – investing in capital, cooperation and collaboration. One example of this is the recent announcement from four multilateral climate funds – the Adaptation Fund, Climate Investment Funds, Global Environment Facility and Green Climate Fund – that they would combine their individual efforts through joint programming and country-led investments to enhance access to climate finance. Another key area of opportunity can be found in the food security space. As an issue with widespread domestic and multilateral support, existing food security efforts like the WFP and Feed the Future are core examples of existing programs with strong local connections that expanded – particularly in terms of their connections to non-traditional actors and links to early warning systems. These programs already have clear co-benefits, supporting rural communities, fostering gender equity and equality, preventing instability, and building resilience to climate shocks whilst delivering emergency aid and building a future-fit agri-food system. Their track record of successful interventions – particularly in FCV settings – could be a pathway for drawing in private sector actors and ensuring that climate finance reaches partners at the local level.

Next steps

Climate finance can be a force multiplier for building resilience and sustainable security in FCV settings. Ambitious yet unmet rhetoric from the Global North is just the starting point. Middle-income countries – particularly the high-emissions BRICS members – must match their ambitious rhetoric with tangible investments, taking more of a leadership role in development discussions and more rapidly transitioning away from nonrenewable energy sources. Finally, a comprehensive and just green transition relies on finance to developing countries, many of whom are both debt-burdened, at risk of conflict, and on the front lines of climate change. Upcoming multilateral forums like the Spring Meetings, the UN General Assembly (UNGA), Summit of the Future, G20 and COP29 cannot be more of the same discussions of the challenges that lay ahead. Developing common understandings of the challenge is a good first step, but now is the time to begin the critical reforms that lay ahead. Without changes to the status quo outlined above, finance and development efforts will continue to fall short, leaving communities behind and significantly inflating the costs of climate change in the future.

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In addition to the event on the sidelines of the IMF and World Bank Spring Meetings in Washington, DC, Nexus[25] will host a Conference in Rome in 2024. For additional information please visit https://www.nexus25.org or contact the Nexus[25] team at info@nexus25.org.

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Front cover: Image of pile of coins with plant on top for business, saving, growth, economic concept.

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