

DEVELOPMENT FINANCE FOR CLIMATE AND ENVIRONMENT-RELATED FRAGILITY: COOLING THE HOTSPOTS

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Climate-related development finance to fragile contexts has increased from both members of the Development Assistance Committee and multilateral providers. However, fragile contexts – and extremely fragile contexts in particular – remain under-served by climate-related development finance relative to other developing countries. In fragile contexts it can be hard to prioritise action on climate and environmental fragility, and difficult to access the financing necessary to do so. Providers can help address the underlying policy, financial and structural challenges, in order to better tailor climate-related development finance to the needs of fragile contexts.

Foreword

Climate change and environmental fragility are increasingly recognised as risk multipliers in fragile contexts. Yet it has proven especially difficult to prioritise climate and environmental programming in fragile contexts, where the countries themselves and providers of development finance face many other competing and urgent priorities.

The Development Assistance Committee (DAC) International Network on Conflict and Fragility (INCAF) responded to this challenge by agreeing the [Common Position on climate change, biodiversity and environmental fragility](#) in 2022. The Common Position sets out good practice principles for effective approaches to climate change, biodiversity and environmental fragility in fragile and conflict-affected contexts.

This Perspective supports deliberations at COP28 and the implementation of the Common Position by providing updated data on climate and environment-related development finance¹ to contexts on the OECD Fragility Framework.

The majority of this paper refers to climate-related development finance based on the OECD 2023 data "[Climate-related development finance at the activity level: Recipient perspective](#)". Where indicated, certain graphs illustrate broader environment-related development finance from DAC members based on OECD [Creditor Reporting System Database \(https://stats.oecd.org/\)](#).

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¹ The majority of this paper refers to climate-related development finance based on OECD (2023^[9]), *Climate-related development finance at the activity level: Recipient perspective*, <https://www.oecd.org/development/financing-sustainable-development/development-finance-topics/climate-change.htm>. Where indicated, certain graphs illustrate broader environment-related development finance from DAC members based on OECD (2023^[11]), *Creditor Reporting System*, <https://stats.oecd.org/>.

Key messages

- **Climate-related development finance to fragile contexts has increased significantly, especially loans.** Development Assistance Committee (DAC) members increased it by 65% since 2014/15, mostly to the 45 *fragile contexts* other than the *extremely fragile*. Multilateral providers have tripled theirs since 2014/15, mostly in the form of loans.
- While this has enabled the rapid expansion of climate-related development financing, especially for mitigation, it also comes at a cost: borrowing on non-concessional terms can prove **challenging for fragile contexts**, which often face economic fragility and have limited fiscal space to service debt and respond to shocks.
- **Most climate-related development finance has gone to developing countries *outside the fragility framework*.** In 2020/21, DAC members allocated around 40% of their climate-related development finance to *fragile contexts*, and multilaterals allocated 35% to these contexts. However, they allocated respectively only 5% and 4% to *extremely fragile contexts*.
- For fragile contexts, the main multilateral providers of climate-related development finance are traditional multilateral development banks rather than vertical funds.
- **The more fragile a country, the less climate-related development finance it receives.** For 2020/2021, the climate-related development finance per person that DAC members provided annually on average to developing countries *outside the fragility framework* (USD 7.5) only slightly exceeded that provided to *fragile contexts other than extremely fragile* (USD 7) but is far higher than that provided to the 15 *extremely fragile contexts* (USD 4.3).
- Less than 1% of DAC members' ODA to *extremely fragile contexts* has climate adaptation as a principal objective, despite clear and urgent adaptation needs.
- Climate change and environmental degradation bring impacts across multiple dimensions of fragility, which fragile contexts have reduced capacities to manage. **To better tailor their financing to the needs of fragile contexts, providers should:**
 - adapt funding mechanisms to increase accessibility and debt sustainability
 - invest in financial preparedness and governance to manage shocks
 - consider how populations relate to their natural environment and earn a living over the long term
 - better link financing with policy dialogue and capacity development
 - and integrate climate considerations across the humanitarian-development-peace nexus.

Climate change, environmental resilience, and fragility are closely linked

The OECD's fragility framework provides a basis for understanding fragility across six dimensions, and the resulting analysis is presented biannually in the *States of Fragility* report (OECD, 2022^[1]).² In the *States of Fragility 2022* report, the environmental dimension was one of the largest contributors to overall fragility, with the top three most environmentally fragile countries – South Sudan, Haiti, and Somalia – all considered to be extremely fragile (Annex A)³. Among the 176 countries and territories assessed, 31 are facing severe environmental fragility. Of these 31 contexts, 77% (24) are considered fragile, and over half (16) are affected by conflict. This group faces particularly high risks related to a lack of adaptive capacity, exposure to hazards and environment-related displacement. They also perform especially poorly on the fragility framework indicators related to air quality, biodiversity and habitat, as well as women's participation in environmental decision making. Fragile contexts often have reduced ability to regulate interactions with the natural environment inclusively, to mitigate and respond to the additional impacts of climate change, biodiversity loss and environmental degradation.

The impacts of climate change on fragile contexts will continue to be largely negative, with food security a particular concern – 48 out of the 53 most food insecure countries and territories are among the 60 fragile contexts (Food Security Information Network, 2022^[2]; OECD, 2022^[1]). But not all fragile contexts will be equally affected by climate change: the links between fragility and the environment are complex, and not entirely negative. For example, there is evidence that rather than leading to desertification in the Sahel, climate change is increasing the concentration of rainfall in time, with uncertain implications for overall environmental health (Fensholt et al., 2017^[3]). Furthermore, the environment provides important coping capacities and opportunities for many fragile contexts, especially in terms of livelihoods and environmental services in areas that are often heavily dependent on agriculture, extractive sectors, and sometimes environmental tourism.

The impacts of climate change and environmental degradation can affect multiple dimensions of fragility, contributing for example to the spread of diseases, food insecurity, water scarcity, economic volatility and negative financial shocks (Box 1). Fragile and conflict-affected contexts also harbour many of the world's biodiversity hotspots – the Earth's most biological rich, yet threatened, terrestrial regions, which are critical to regulate the world's climate and provide other ecosystem services at national, regional and global level. Increasingly, environmental fragility and climate change are seen as risk multipliers, including for conflict risk, compounding with other fragilities. While the evidence of climate change as a direct cause of conflict is debated (see, for example (Adams et al., 2018^[4])) there is nevertheless evidence that in already fragile contexts, climate change can exacerbate conflict intensity. Links between climate change, environmental sustainability, conflict and fragility are increasingly seen as affecting efforts to support conflict prevention, conflict resolution and sustaining peace (Zimmerman, 2020^[5]; Stockholm International Peace Research Institute, 2022^[6]). In turn, conflict not only directly damages the natural environment, but makes it much harder to regenerate ecosystems and manage natural resources. Fragile contexts affected by conflict are more likely to also be affected by environmental crime or violent competition for scarce resources, with

² The OECD fragility framework analysed 176 countries and territories across six dimensions of fragility (political, security, environmental, human, economic and societal). The resulting analysis identified 15 extremely fragile contexts and 45 other fragile contexts. The complete list of fragile contexts is available in Annex A, while the full indicator set and background analysis is available on the [States of Fragility Platform](#). The Other developing countries category consists of all developing countries on the [DAC list of ODA recipients](#) that are not considered extremely fragile or other fragile.

³ Four of the top ten contexts with the largest increases in environmental fragility between 2019 and 2021 are not on the fragility framework, suggesting there are warning signs that might affect their placement on the framework in future years. For some of these contexts, their absence from the framework may be due to data limitations. Two of these contexts – Cuba and Fiji – are small island developing states (SIDS).

environmental crime now one of the largest sources of financing for non-state armed groups and militias (Caparini, 2022^[7]).

Box 1. Estimating the impacts of climate shocks in fragile contexts

A recent International Monetary Fund (IMF) staff note on *Climate Challenges in Fragile and Conflict-Affected States (FCS)* underscored the systemic impacts of climate change and analysed these interlinkages in FCS vs non-FCS. The impacts of climate change can be seen across the dimensions of fragility:

- *Human dimension:* Food production in FCS was found to be two times more sensitive to droughts than in non-FCS, increasing the share of undernourished people. The impact on food systems led to higher food price inflation, estimated to push more than 50 million additional people into hunger by 2060. By contrast, heavy rainfall, floods and storms did not show the same impacts.
- *Economic dimension:* The negative impact of extreme weather events is estimated to be larger and persist longer in FCS, with cumulative GDP losses over 3 years of about 4% in FCS relative to 1% in non-FCS. Extreme weather was found to reduce exports and widen the current account deficit. Investment recovers twice as slowly and unlike in non-FCS, consumption fails to rebound even after 3 years. By 2060, real per capita GDP was estimated to be 5 percentage points lower under a high emissions scenario than under a low emissions scenario.
- *Security dimension:* Where conflict already exists, climate shocks can exacerbate conflict intensity. Under a high emissions scenario, by 2060, estimated conflict deaths for the median FCS increased by 8.5%, and up to 14% in those FCS facing extreme increases in temperature.

Note This research uses the IMF's operational classification of Fragile and Conflict-Affected States (FCS) and non-FCS.

Source: Jaramillo et al (2023^[8]), *Climate Challenges in Fragile and Conflict-Affected States*, <https://www.imf.org/en/Publications/staff-climate-notes/Issues/2023/08/24/Climate-Challenges-in-Fragile-and-Conflict-Affected-States-537797#:~:text=Staff%20Climate%20Notes,-Climate%20Challenges%20in&text=FCS%20suffer%20more%20severe%20and,worsen%20underly>.

Climate-related development finance trends in fragile contexts

Most climate-related development finance has not gone to fragile contexts

The international community has steadily increased the amount of development finance that targets climate-related objectives over the last decade, but most of this financing, both from Development Assistance Committee (DAC) members and multilaterals, has gone to developing countries outside of the 60 fragile contexts (Figure 1 and Figure 2). In measuring climate-related development finance, this paper draws a distinction between *extremely fragile contexts*, *other fragile contexts*, and *other developing countries* (not considered fragile or extremely fragile). These groupings draw on the findings of the *States of Fragility 2022* and the OECD fragility framework.

In 2020/21, DAC members allocated 40% of their climate-related official development assistance (ODA) and multilaterals 35% of their total climate-related development finance (ODA and Other Official Flows – OOF) to fragile contexts, including just 5% (DAC members) and 4% (multilaterals) to extremely fragile

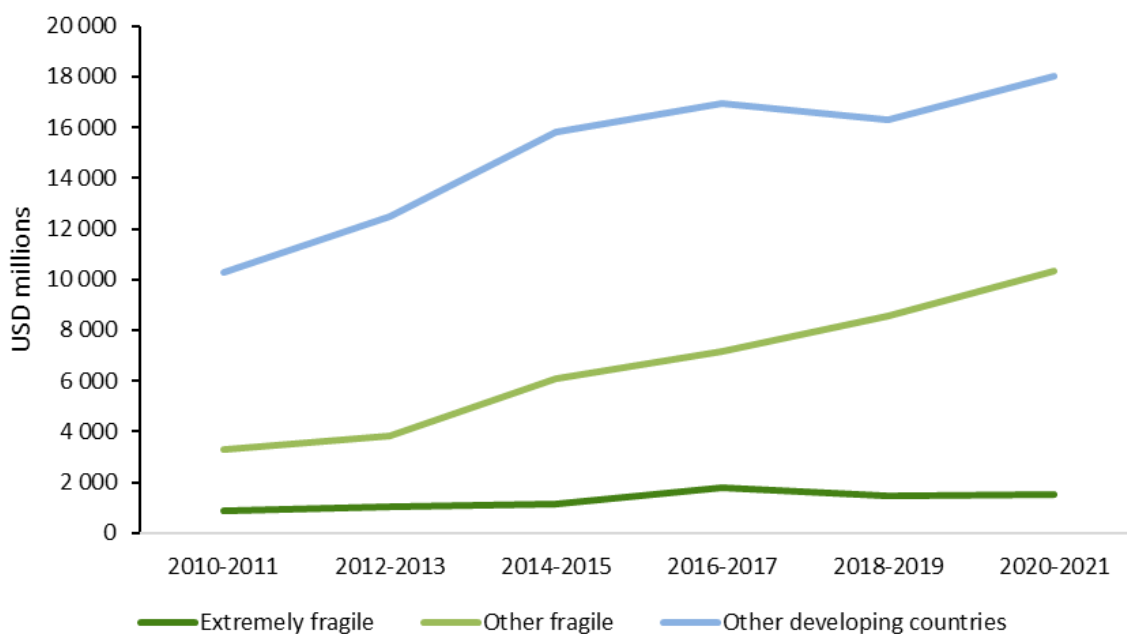
contexts.⁴ For both DAC and multilateral providers, the majority of climate-related development finance to fragile contexts from 2019-2021 has gone to countries in Africa, followed by Asia.

Among DAC members, the bulk of climate-related development finance to fragile contexts has been concessional ODA, with only very limited amounts of non-concessional OOF to fragile contexts reported since 2018⁵. Nevertheless, the majority of DAC members' climate-related ODA has gone to other developing countries with volumes for extremely fragile contexts, in particular, remaining low (Figure 1).

DAC members' climate-related ODA commitments to fragile contexts increased by 65% since 2014/15. The largest increase in volume went to other fragile contexts with commitments increasing by 70% from USD 6.1 billion (2014/15) to USD 10.3 billion (2020/21). This is followed in volume by the increase in DAC climate-related commitments to other developing countries from USD 15.8 billion (2014/15) to USD 18 billion (2020/21). Lastly, commitments to extremely fragile contexts increased by over a third over this period reaching USD 1.5 billion in 2020/21.

Figure 1. Climate-related official development assistance (ODA) commitments by the members of the Development Assistance Committee (DAC)

2021 USD millions, commitments



Note: The graph uses two-year average commitments of country allocable ODA to account for volatility in commitment data. Other developing countries refers to countries on the DAC list of recipients, but not on the OECD fragility framework.

Source: OECD (2023^[9]), *Climate-related development finance at the activity level: Recipient perspective*, <https://www.oecd.org/development/financing-sustainable-development/development-finance-topics/climate-change.htm>.

⁴ When looking at DAC members' combined ODA and OOF climate-related commitments, 39% were allocated towards fragile contexts.

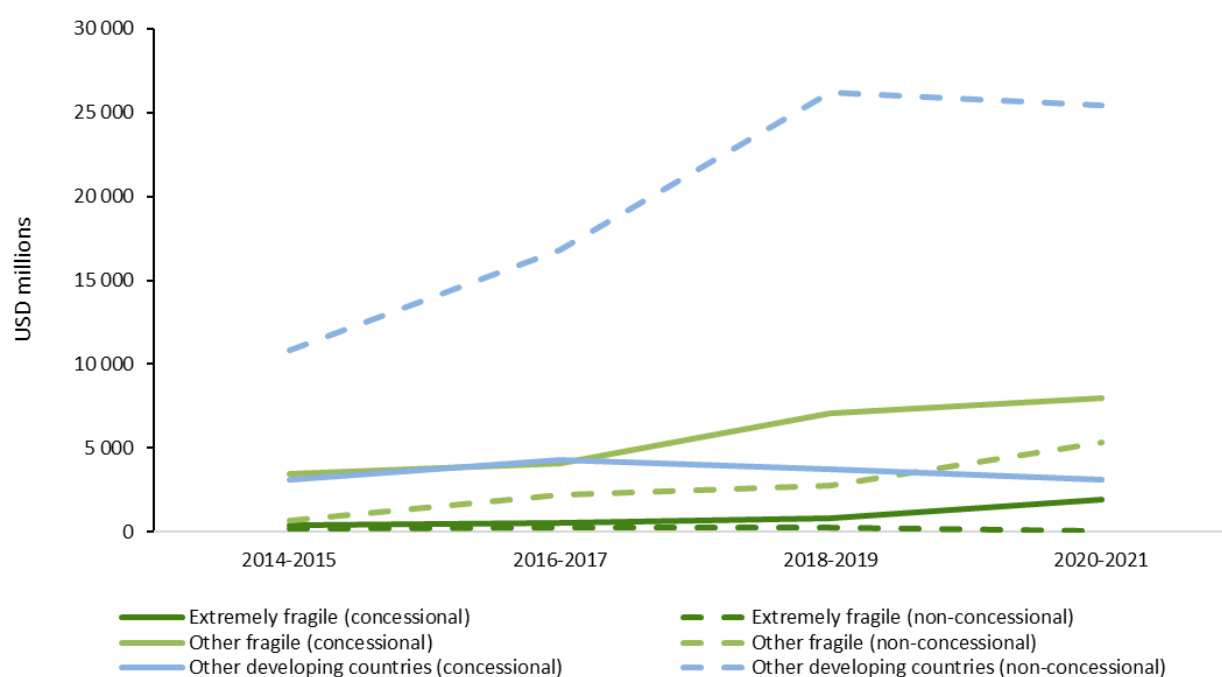
⁵ Note that DAC ODA used in this Perspective is country allocable ODA. The data makes use of compulsory reporting of DAC ODA commitments against the Rio markers, which measure ODA principally or secondarily addressing climate change mitigation, adaptation, biodiversity, and/or desertification. DAC reporting of OOF against the Rio markers is voluntary, so may be underreported. Non-DAC bilateral donors report only a very small proportion of their ODA as climate-related development finance, and reporting is voluntary.

Multilateral entities, including multilateral development banks, have also scaled up their climate-related development commitments, with a heavy focus on other developing countries (Figure 2). Multilaterals make significant use of non-concessional resources, typically for climate mitigation, which is often not appropriate in fragile contexts, especially those with lower incomes and higher risk of debt distress (OECD, 2022^[1]; Thompson, 2020^[10]). Climate-related development finance has largely become non-concessional for other developing countries, while it remains grant funded for extremely fragile contexts. Other fragile contexts fall in between the two, increasingly beginning to converge in their financing profile with other developing countries.

Multilaterals' climate-related commitments towards other developing countries more than doubled from USD 13.9 billion in 2014/15 to USD 28.5 billion in 2020/21. This increase is due to non-concessional finance, as concessional finance towards other developing countries remained relatively stable over this period. Multilaterals' climate-related commitments towards fragile contexts more than tripled over the period from USD 4.7 billion in 2014/15 to USD 15.2 billion in 2020/21, primarily due to non-concessional finance to other fragile contexts followed by concessional finance to other fragile contexts and concessional finance to extremely fragile contexts. Non-concessional commitments towards extremely fragile contexts decreased by 85% over the period.

Figure 2. Multilaterals' climate-related development finance

2021 USD millions, commitments

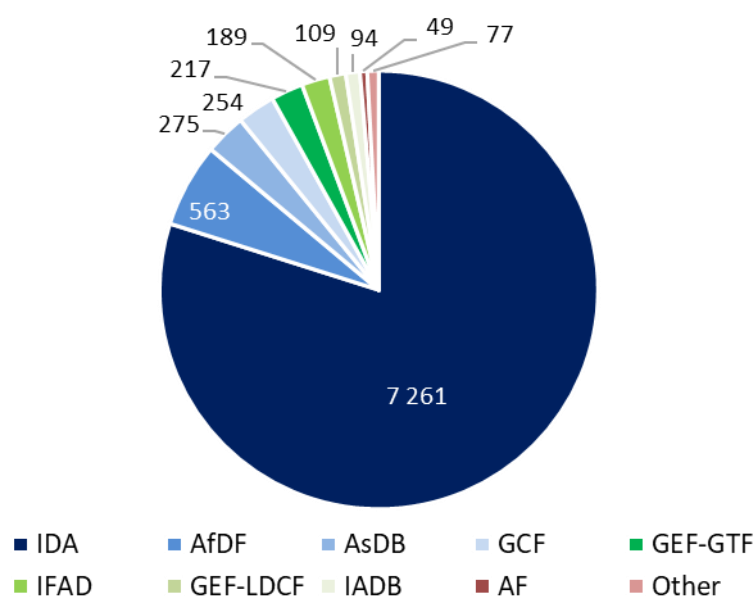


Note: The graph refers to two-year average commitments of country allocable “concessional and developmental” and “non-concessional or not primarily developmental” financing by multilateral development banks and other multilateral entities, including specialist vertical funds. Other developing countries refers to countries on the DAC list of recipients but not on the OECD fragility framework. These are categories used in the climate-related development finance dataset, recipient perspective. Meta data is available at the following link (<https://www.oecd.org/development/financing-sustainable-development/development-finance-topics/climate-change.htm>). The European Investment Bank is not included in this graph from 2014-2016 as the concessionality of its flows are unspecified during this time period. Source: OECD (2023^[9]), *Climate-related development finance at the activity level: Recipient perspective*, <https://www.oecd.org/development/financing-sustainable-development/development-finance-topics/climate-change.htm.it>

Despite the development of substantial specialist funds to finance the climate transition – so-called vertical funds – the main sources of multilateral climate-related finance are traditional development banks with pre-existing experience operating in fragile contexts. The World Bank’s International Development Association (IDA) provides over three quarters of concessional climate-related development finance. Alongside the African Development Fund (AfDF), IDA provides more climate-related development finance than each of the top three vertical funds – the Green Climate Fund, Global Environment Facility, and the Adaptation Fund (Figure 3).

Figure 3. Top multilateral providers of climate-related official development assistance in fragile contexts

2021 USD millions, annual average 2019-2021, commitments



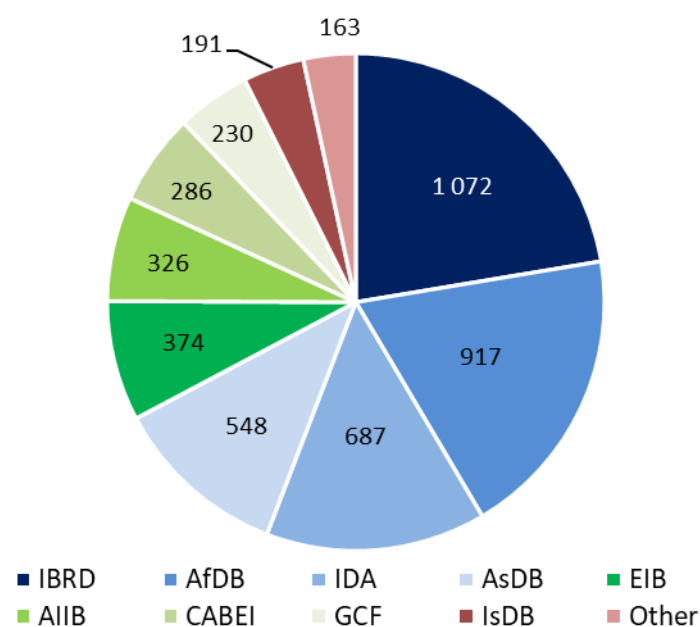
Note: IDA: International Development Association. AfDF: African Development Fund. AfDB: Asian Development Bank. GCF: Green Climate Fund. GEF-GTF: Global Environment Facility – General Trust Fund. IFAD: International Fund for Agricultural Development. GEF-LDCF: Global Environment Facility – Least Developed Countries Trust Fund. IADB: Inter-American Development Bank. AF: Adaptation Fund. This is based on the recipient perspective, for fragile contexts on the States of Fragility 2022 framework.

Source: OECD (2023^[9]), *Climate-related development finance at the activity level: Recipient perspective*, <https://www.oecd.org/development/financing-sustainable-development/development-finance-topics/climate-change.htm>

For non-concessional financing, the World Bank Group’s International Bank for Reconstruction and Development (IBRD) provides 22% of climate-related financing to fragile contexts, followed by the African Development Bank (AfDB) (19%), IDA (14%) and Asian Development Bank (AsDB) (11%). The only vertical fund to make the top ten is the Green Climate Fund, which provides 5% of multilateral non-concessional financing to fragile contexts.

Figure 4. Top multilateral providers of non-concessional climate-related other official flows in fragile contexts

2021 USD millions, annual average 2019-2021, commitments



Note: IBRD: International Bank for Reconstruction and Development. AfDB: African Development Bank. IDA: International Development Association. AsDB: Asian Development Bank. EIB: European Investment Bank. AIIB: Asian Infrastructure Investment Bank. CABEL: Central American Bank for Economic Integration. GCF: Green Climate Fund. IsDB: Islamic Development Bank.

Source: OECD (2023^[9]), *Climate-related development finance at the activity level: Recipient perspective*, <https://www.oecd.org/development/financing-sustainable-development/development-finance-topics/climate-change.htm>

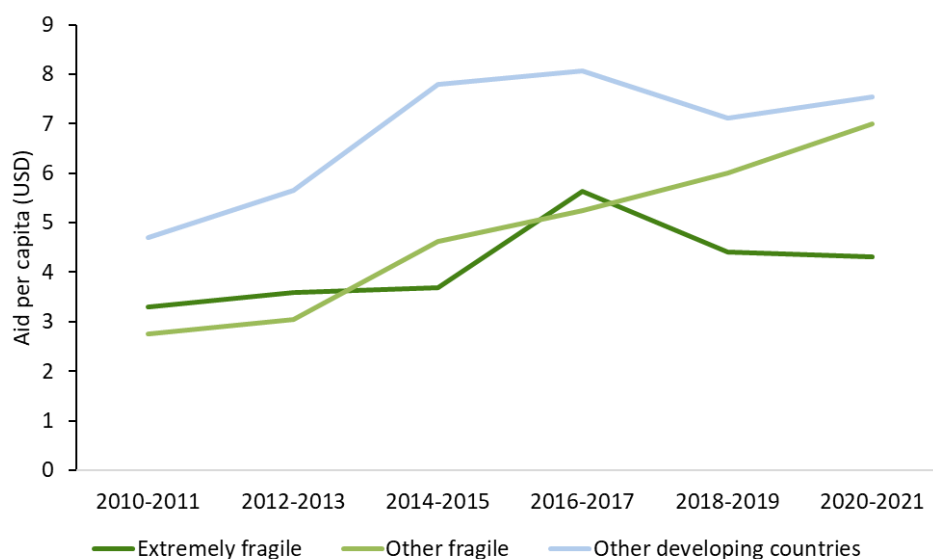
Extremely fragile contexts receive lower per capita climate-related development finance, across a more diverse number of sectors

Needs and costs vary significantly across different contexts. Climate and environmental ODA should always take a context-specific approach, especially given the country-specific fragilities discussed above and the need to manage potential conflict and fragility risks that increased resources can bring. Nevertheless, normalising climate-related development finance data by population allows a more standardised comparison of the support countries actually receive, taking account of differences in the number and size of countries per grouping.

For 2020/2021, the annual average of per person climate-related development finance that DAC members provided to developing countries outside of the 60 most fragile contexts (USD 7.5) only slightly exceeded that provided to other fragile contexts (USD 7), but is far higher than that provided to extremely fragile contexts (USD 4.3) Figure 5. The same dynamic is seen with multilateral providers, providing roughly USD 13 per person to other developing countries, USD 9 to other fragile contexts, and USD 5.4 to extremely fragile contexts in 2020/21 Figure 6.

Figure 5. DAC members' climate-related development finance per capita

2021 USD millions, two-year average, commitments

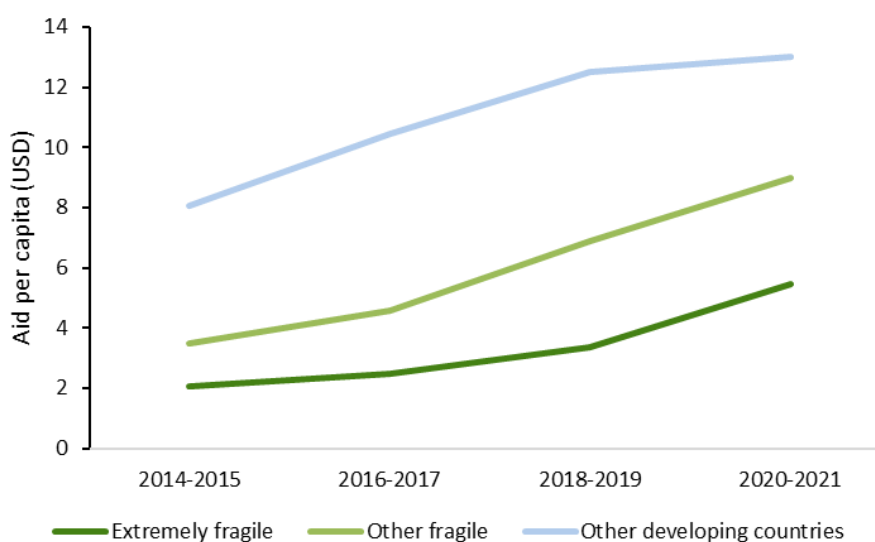


Note: These data exclude financial and population data for Brazil, China and India to avoid skewing the results due to these countries' comparatively large population sizes, relatively high-income levels and limited dependence on ODA. Only funds allocated to recipient countries are included here, not regionally allocated funds. This graph includes both ODA and OOF.

Source: OECD (2023^[9]), *Climate-related development finance at the activity level: Recipient perspective*, <https://www.oecd.org/development/financing-sustainable-development/development-finance-topics/climate-change.htm>.

Figure 6. Multilateral climate-related development finance per capita

2021 USD millions, two-year average, commitments



Note: These data exclude financial and population data for Brazil, China and India to avoid skewing the results due to their comparatively very large population sizes, relatively high-income levels and limited dependence on ODA. This graph includes both concessional and non-concessional finance, as well as finance from the EIB that is not classified according to concessionality.

Source: OECD (2023^[9]), *Climate-related development finance at the activity level: Recipient perspective*, <https://www.oecd.org/development/financing-sustainable-development/development-finance-topics/climate-change.htm>.

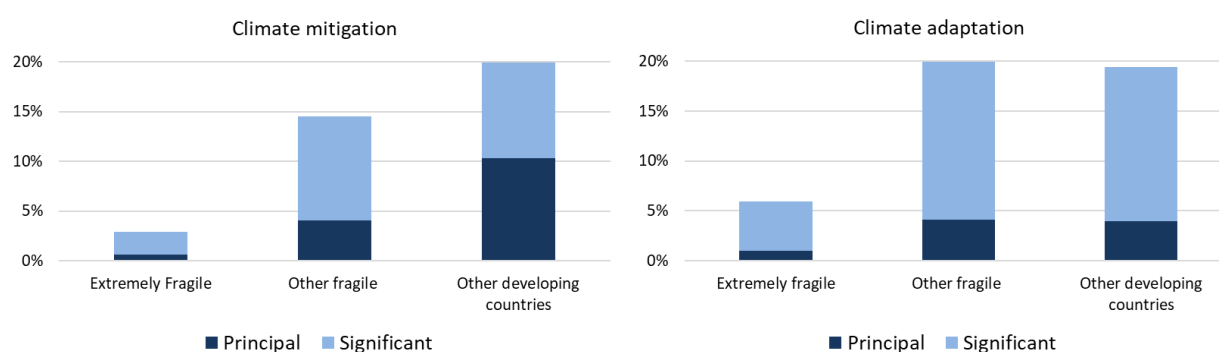
This lower per capita volume of climate-related development finance stands in contrast to the high levels of overall ODA that many fragile contexts receive – especially extremely fragile contexts (OECD, 2022^[11]). It reflects a relatively low prioritisation of climate and other environmental objectives among other urgent, competing priorities, though this prioritisation has shifted for other fragile contexts, where funding appears to be converging with that of other developing countries.

Most fragile contexts have only a small proportion of ODA with climate mitigation or adaptation objectives – and an even smaller proportion targeting biodiversity and desertification. Across three out of four objectives reported by DAC members⁶, the proportion is lower in fragile contexts than in other developing countries.

A much larger proportion of DAC ODA goes towards climate change mitigation (principally or significantly) in other developing countries (20%) compared to other fragile contexts (14%). This difference is due to a roughly 60% lower proportion of projects with climate mitigation as their principal objective (Figure 7). With respect to climate adaptation, however, the proportion of DAC ODA is roughly the same for other fragile contexts (20%) and other developing countries (19%). This could be seen as reflecting the greater need in fragile contexts for mainstreaming adaptation measures relative to mitigation measures, given that many of these contexts will experience significant impacts of climate change, but are themselves very low greenhouse gas emitters. Extremely fragile contexts meanwhile receive a much lower proportion of their ODA targeting either climate mitigation (3%) or adaptation (6%), with less than 1% of their ODA having climate adaptation as a principal objective, despite clear and urgent adaptation needs.

Figure 7. DAC members' ODA to climate objectives

Proportion of DAC country allocable ODA between 2019-2021, commitments



Note: These data use the Rio markers within the OECD's Creditor Reporting System (CRS). Reporting against the Rio markers is not available for multilateral providers, in particular the desertification and biodiversity objectives. Note that funds may be tagged with more than one objective across climate mitigation, adaptation, biodiversity and desertification, so these data cannot be summed.

Source: OECD (2023^[11]), *Creditor Reporting System*, <https://stats.oecd.org/Index.aspx?DataSetCode=crs1>.

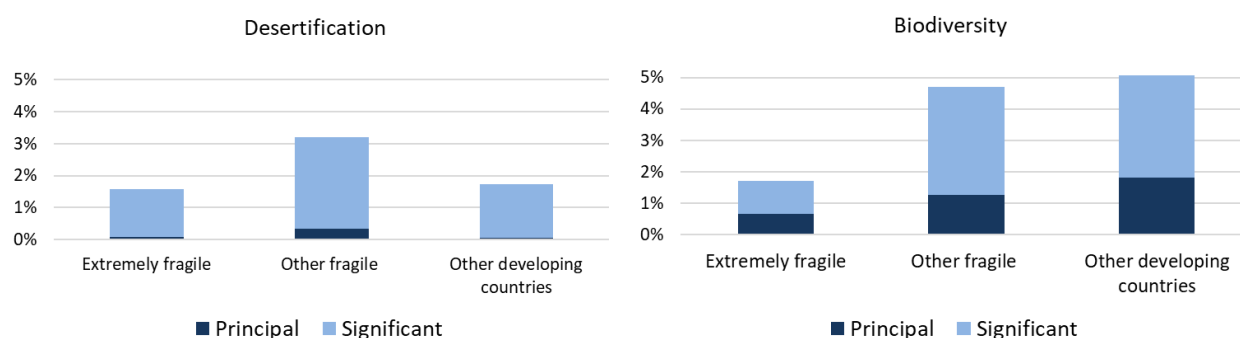
Biodiversity and desertification are distinct, yet they are climate-linked issues that affect how populations relate to their natural environment. There can be notable overlap in support to biodiversity and climate objectives (OECD, 2023^[12]; 2023^[13]). Biodiversity and desertification are significantly less targeted globally, in part reflecting their location-specific nature and a lower prioritisation politically and operationally, compared to the urgent action needed on climate change. However, in fragile contexts there are important

⁶ The *Rio markers* recognise the horizontal nature of climate and environmental issues and can be used to estimate what proportion of a country's bilateral ODA targets climate mitigation, adaptation, biodiversity and desertification across sectors. Multilateral providers do not report against the Rio markers, and bilateral reporting of non-concessional finance – other official flows (OOF) – is voluntary and limited.

linkages between biodiversity loss and fragility: fragility increases the risk of biodiversity loss, notably through overexploitation of natural resources, pollution and armed conflicts. In turn, biodiversity loss can worsen fragility, especially in contexts that rely on nature-related sectors and/or with insufficient physical, institutional, and political capacities to cope with environmental challenges. Despite needs (OECD, 2023^[14]), biodiversity is less targeted than climate adaptation and mitigation, with roughly 5% of DAC ODA targeted to biodiversity in other fragile contexts and other developing countries, and only 2% in extremely fragile contexts. Desertification attracts 2-3% across the country groupings (Figure 8).

Figure 8. DAC members' ODA to desertification and biodiversity objectives

Proportion of DAC country allocable ODA between 2019-2021, commitments



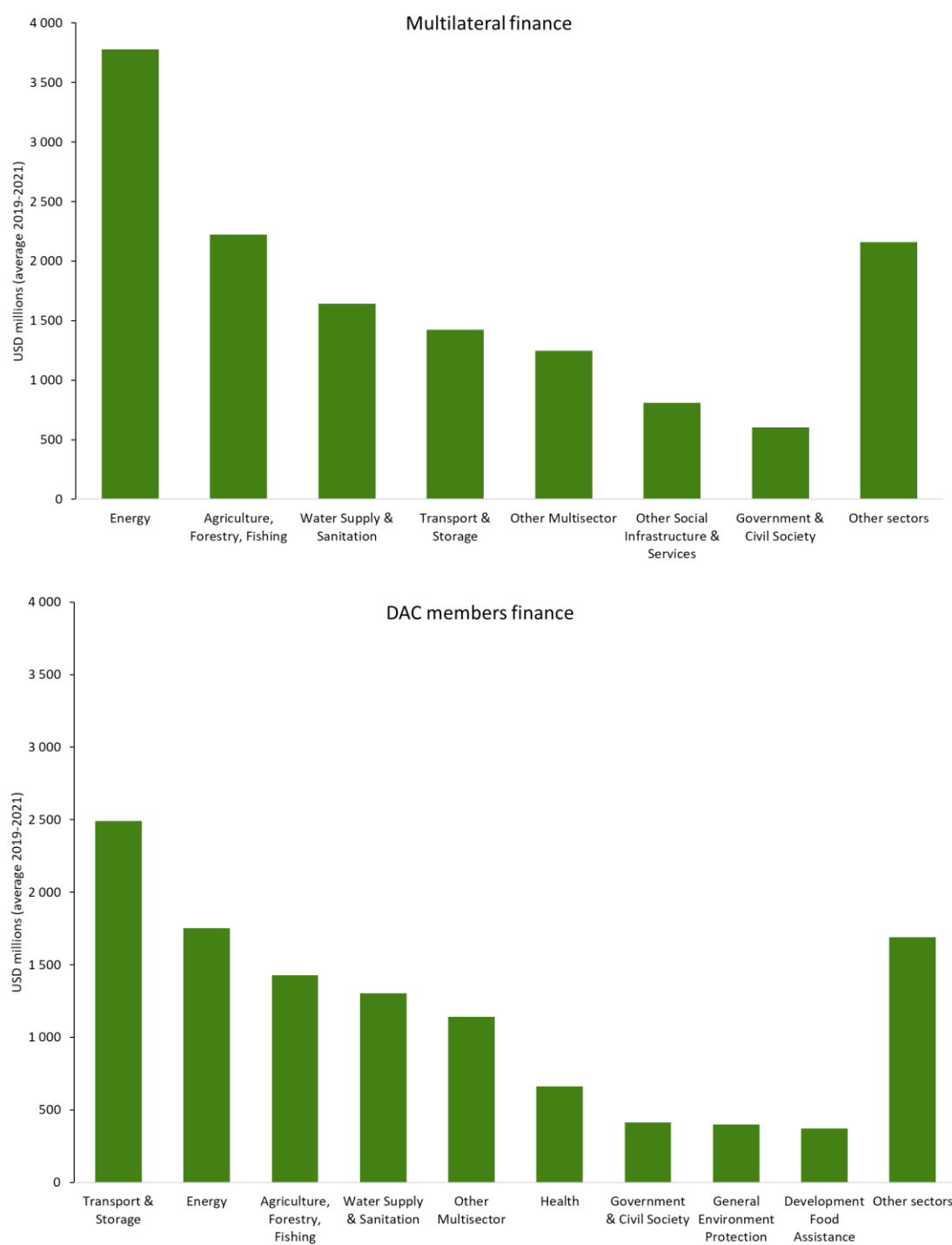
Note: These data use the OECD's Creditor Reporting System (CRS). Reporting against the Rio markers is not available for multilateral providers, in particular the desertification and biodiversity objectives. Note that funds may be tagged with more than one objective across climate mitigation, adaptation, biodiversity and desertification, so these data cannot be summed.

Source: OECD (2023^[11]), *Creditor Reporting System*, <https://stats.oecd.org/Index.aspx?DataSetCode=crs1/>.

Addressing the impacts of climate change and environmental degradation in fragile contexts requires providers to adopt multidimensional approaches that take into account the interlinkages between the environmental and other dimensions of fragility. Across the 60 fragile contexts, climate-related development finance targets a similar set of sectors as in other developing countries, with an emphasis on energy, transportation, agriculture, water and sanitation (Figure 9).

Figure 9. Main sectors of climate-related development finance across all fragile contexts

2021 USD millions, annual average 2019-2021, commitments



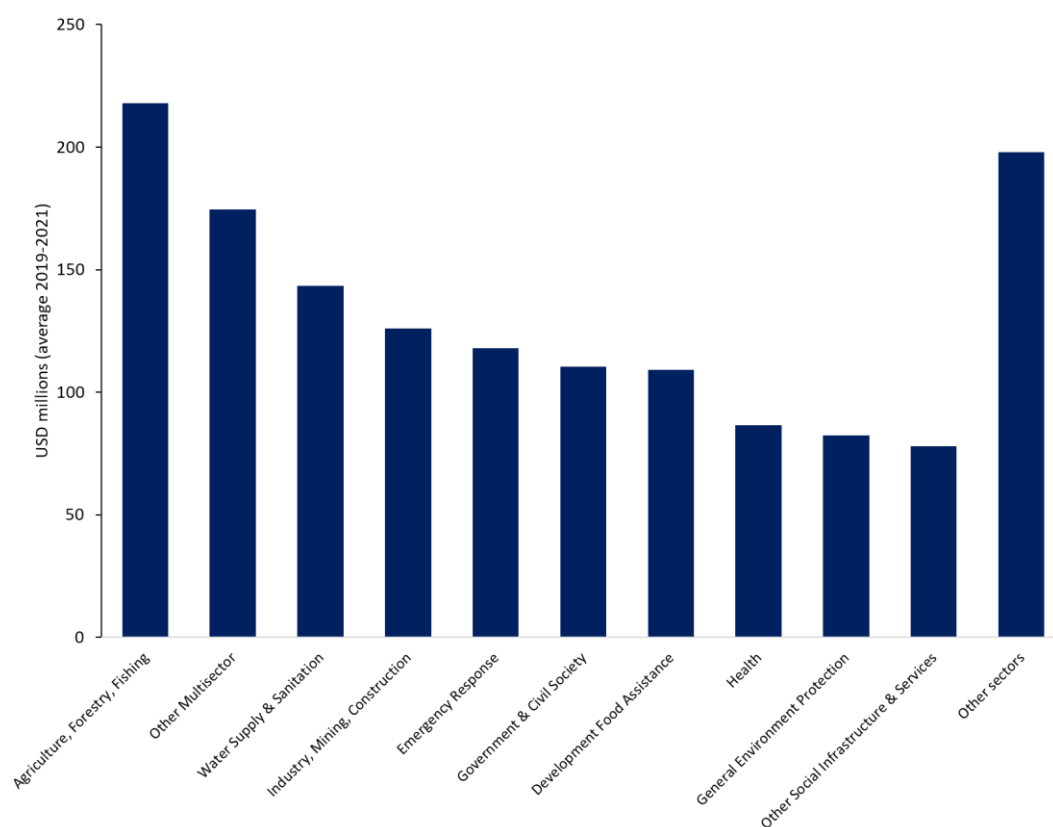
Note: This graph includes data for both concessional and non-concessional finance, across extremely fragile and other fragile contexts.

Source: OECD (2023^[9]), *Climate-related development finance at the activity level: Recipient perspective*, <https://www.oecd.org/development/financing-sustainable-development/development-finance-topics/climate-change.htm>

The exception to this focus on traditional climate-related sectors is DAC members' development financing to extremely fragile contexts (Figure 10), where Industry, Mining, Construction and Emergency Response made up the 4th and 5th largest sectors of climate-related development financing. For DAC members, extremely fragile contexts showed greater diversity in sectoral coverage, including economic infrastructure, social infrastructure and services, humanitarian and development food assistance, and multi-sectoral approaches. But the volumes of climate-related development financing across these sectors remains very low. In both extremely fragile and other fragile contexts, DAC members and multilateral providers alike provided climate-related funding under one or more of the humanitarian purpose codes. While fragile contexts can receive significant humanitarian aid, the climate-related portion of this aid is generally small in comparison to other sectoral approaches.

Figure 10. Main sectors of DAC climate-related development finance to extremely fragile contexts

2021 USD millions, annual average 2019-2021, commitments



Source: OECD (2023^[9]), *Climate-related development finance at the activity level: Recipient perspective*, <https://www.oecd.org/development/financing-sustainable-development/development-finance-topics/climate-change.htm>.

Reliance on loans for climate-related development finance limits accessibility for fragile contexts, and can pose risks for debt sustainability

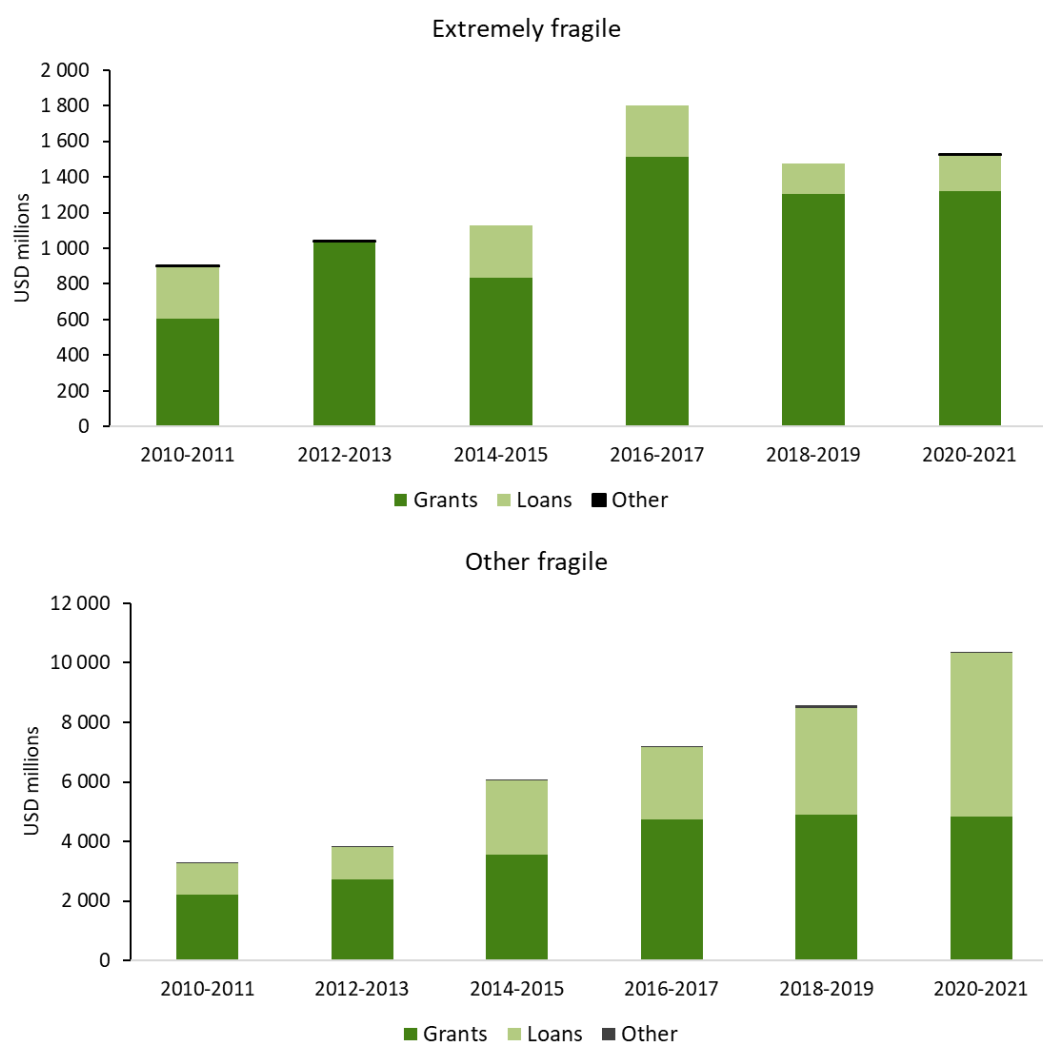
Extremely fragile contexts receive mostly grant funding. However, the volume of climate-related loans is increasing among DAC members, especially for other fragile contexts (Figure 11). The prevalence of lending is even more pronounced for multilateral institutions, including MDBs. Since 2014/15, multilaterals have more than tripled their total climate-related development financing to extremely fragile contexts and

almost tripled their climate-related development financing to other fragile contexts, with climate-related grants to extremely fragile contexts more than doubling between 2018/19 and 2020/21 alone (Figure 12).

Loans, especially non-concessional loans, make up the vast majority of multilaterals' climate-related development finance. While loans to other fragile contexts increased by more than 40% between 2018/19 and 2020/21, grants to other fragile contexts remained nearly unchanged over the same timeframe. While concessionality is usually linked to income category, this trend is especially noteworthy given the debt distress risks among fragile contexts, including those in the middle-income country bracket. Fragile contexts tend to be more exposed to shocks, and have more volatile growth and thinner fiscal buffers than other developing countries, affecting the sustainability of their debt (Keller and Nogueira-Budny, 2022^[15]; OECD, 2022^[11]).

Figure 11. DAC members' financial instruments

2021 USD millions, two-year average, commitments

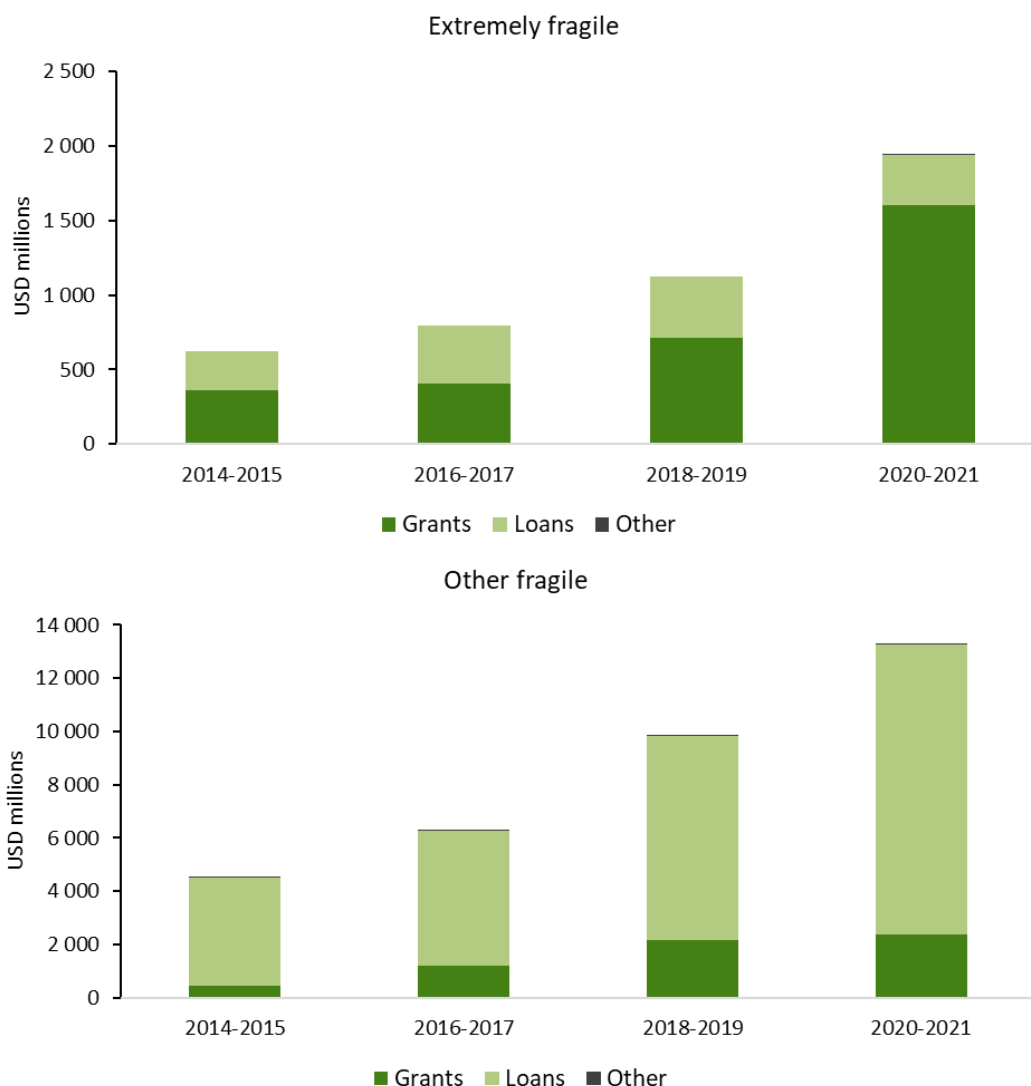


Note: The category 'Other' includes financing where the instrument type has not been reported. Grants include standard grants, loans include different types of debt instruments while other includes mezzanine finance, interest subsidies, capital subscription on deposit basis, equity and shares in collective investment vehicles and debt relief.

Source: OECD (2023^[9]), *Climate-related development finance at the activity level: Recipient perspective*, <https://www.oecd.org/development/financing-sustainable-development/development-finance-topics/climate-change.htm>

Figure 12. Multilateral providers' financial instruments

2021 USD millions, two-year average, commitments



Note: The category 'Other' includes financing where the instrument type has not been reported. Grants include standard grants, loans include different types of debt instruments while other includes mezzanine finance, interest subsidies, capital subscription on deposit basis, equity and shares in collective investment vehicles and debt relief.

Source: OECD (2023^[9]), *Climate-related development finance at the activity level: Recipient perspective*, <https://www.oecd.org/development/financing-sustainable-development/development-finance-topics/climate-change.htm>

Policy implications for development practitioners

It is important not just to increase, but to tailor climate and environment-related development financing in fragile contexts – in terms of programming, instruments, preparedness for shocks and losses, and links to policy. Some of the key implications for development practitioners are outlined here, and expanded further in the 2022 DAC/International Network on Conflict and Fragility (INCAF) [Common Position on climate change, biodiversity and environmental fragility](#).

Adjust funding and financing mechanisms so they are accessible by fragile contexts, especially those that are debt-constrained and/or low income

There are additional barriers to tailoring, accessing, and mainstreaming development financing for climate and environmental objectives in fragile contexts, especially extremely fragile contexts – some of which will be most affected by climate change and environmental degradation. Bilateral donors and MDBs experienced in working in fragile contexts provided the majority of climate-related development financing. In contrast, many of the dedicated climate funds appear more risk averse (Wong and Cao, 2022^[16]). The political, legislative and administrative requirements to access these funds can be heavy and cannot always be met in fragile contexts. Donors can work to promote local access to global policy frameworks, norms and expertise, and to ensure better access to climate-related development finance that is sensitive to conflict risk and absorptive capacity constraints. For instance, this can be achieved through accessible types of funds with lighter administrative processes that suit over-stretched administrations, and that match the needs of fragile contexts for often smaller-scale projects, adaptive programming and flexible requirements (Mercy Corps, 2023^[17]).

Climate-related development finance has increased, but the bulk has gone to other developing countries, and to a lesser extent, other fragile contexts, especially in the form of loans. While lending allows development co-operation providers to increase the volume of finance to some countries, it brings challenges. Countries that cannot take on additional debt are heavily limited in the grant financing they can access. Some countries that are able to access loans may exacerbate their debt sustainability challenges by doing so – for example, the increasing number of middle-income fragile contexts (OECD, 2022^[11]).

The financing tools need to be tailored with a level of concessionality that supports debt sustainability among fragile contexts already facing fiscal difficulties. Upstream investments in climate resilience are likely to offer greater benefits than responding to losses and climate impacts downstream. However, such investments are not necessarily income-generating in a way that could contribute directly to loan repayments in times of financial stress. Care must be taken to ensure fiscal sustainability, especially since research suggests that fiscal buffers are one of the most effective coping capacities for climate shocks in fragile contexts (Jaramillo et al., 2023^[8]). This is especially the case as fragile contexts are at risk of falling into a vicious cycle through which climate change impacts reduce countries' ability to service debt and increase their borrowing costs (World Resources Institute, 2023^[18]). This can affect, in turn, fragile contexts' development investments all the while decreasing their ability to respond to climate change.

Debt-for-climate or debt-for nature swaps involve debt restructuring or forgiveness in exchange for specific climate or environmental policy actions. Such swaps could help fiscally constrained governments, especially when access to grants or debt relief is extremely limited – of the 59 developing countries most vulnerable to climate change, 34 are also at risk of fiscal crises (Georgieva, Chamon and Thakoor, 2022^[19]; Chamon et al., 2022^[20]). For example, some fragile contexts benefited previously from debt-for-nature swaps under the *Tropical Forest and Coral Reef Conservation Act* (USAID, n.d.^[21]), though use of such instruments in fragile contexts has been limited. In the face of concurrent climate and debt crises, a new wave of debt swap negotiations is underway (UNDP, n.d.^[22]) though governance capacities, transparency and commitment to climate goals remain important requirements. Other debt instruments such as blue and

green bonds may be appropriate for some fragile contexts to raise funding for projects with environmental and climate benefits.

Link financing, policy dialogue, and developing capacities

While there is a financing gap for climate and environmental action in fragile contexts, money alone will not be sufficient. Too great an emphasis on additional finance can in fact be damaging – especially if it is managed in a siloed, projectized manner; if it is seen as a financial windfall gain not linked to development and peace efforts; if it is accompanied by overly high expectations; or if it is not implemented in a conflict-sensitive way. For this reason, combining donor policy dialogue, financing and capacity development can have a greater impact by providing a stronger basis for fragile contexts to respond to climate change and environmental risks.

Much of the necessary action on climate and environmental fragility needs to be led by governments through national or urban development plans, regulation, and investment choices (Casado Asensio, Blaquier and Sedemund, 2022^[23]). But this can be extremely difficult to achieve for governments with limited capacities, already facing severe security or economic crises.

In addition to supporting the capacities of fragile contexts themselves, donors can engage with them on climate-related policy dialogue at national, regional and international levels, and work to integrate a cross-sectoral climate lens to their own activities. Such an integrated approach could also help address the multidimensional linkages between climate and environmental degradation and fragility, increasing the effectiveness of climate-related development financing to fragile contexts by addressing related risks and coping capacities across the dimensions of fragility, and increasing fragile contexts' capacity to manage the complex risks they face. Bringing a conflict-sensitive lens, and supporting the development and use of local data, will be important components, for instance by supporting the establishment of climate early warning systems.

At the global level, while many fragile contexts are members of positive global initiatives such as the *Coalition of Finance Ministers for Climate Actions*, it is not yet clear that the priorities of fragile contexts are fully integrated into global policy dialogue, which requires additional capacity from already stretched administrations.

Invest in financial preparedness and governance for shocks and disaster risk reduction

Financial preparedness and the development of fiscal buffers is particularly important in fragile contexts where the unforeseen impact of climate and other environmental shocks needs rapid responses to address food insecurity, weaknesses in social safety nets, and government fiscal risks. Jaramillo et al (2023^[8]) analysed climate shocks in fragile contexts and found that the macro-level policy responses most effective at ensuring a faster recovery were expanding fiscal buffers and reducing public debt, maintaining sufficient foreign reserves, and the ability to mobilize domestic resources. The Resilience and Sustainability Facility provides an important additional support for the long-term reforms necessary to better manage climate and pandemic risks (IMF, 2023^[24]). These are measures that prove challenging in fragile contexts, requiring tailored and realistic approaches. Yet when managed well and in a conflict-sensitive way, they can help countries manage multiple risks at the same time – for example, there is also evidence that fiscal buffers can help reduce conflict risk (Thompson, 2020^[10]).

In preparation for climate impacts and shocks, a conflict-sensitive governance lens, for example, could imply supporting the use of sufficiently rich climate and environmental data in vulnerability assessments. This includes biophysical risks as well as intersectional dimensions such as age, gender, marginalised groups, and an understanding of conflict risks in affected areas. When shocks do occur, the international community can look for opportunities within the crisis to promote climate and environmental resilience, alongside climate-aware conflict prevention, disaster risk reduction, crisis management and response,

peacebuilding and reconstruction. Pre-financing mechanisms such as insurance instruments, catastrophe deferred draw-down loans (CAT-DDOs) or pooled disaster risk instruments can provide additional, rapid response financing (World Food Programme, n.d.^[25]) especially in conjunction with core fiscal measures, as they usually only cover a specified portion of risk.

Consider the economics and political economy of how populations relate to their natural environment and earn a living over the long term

The OECD's 2022 fragility framework review highlighted that environmental fragility is crosscutting, and ecological and resource-related risks are deeply interlinked with environmental integrity as well as with human lives and coping capacities (OECD, 2022^[11]). Development partners therefore need to consider both the impact of environmental conditions on humans, as well as human activities which benefit from the environment. For example, biodiversity and environmental resources can be important coping capacities and sources of revenue for households and governments (OECD, 2023^[14]).

Historically, development partners have tended to focus climate finance, in general, on efforts to mitigate emissions among high emitters – an appropriate goal given the immediacy of the climate change threat. By contrast, fragile contexts are responsible for only 4% of cumulative global emissions (OECD, 2022^[11]). While most fragile contexts are broadly on track to achieve SDG 12 (responsible consumption) and SDG 13 (climate action), this likely reflects their currently low levels of economic growth and consumption, rather than a low-emission future development trajectory (OECD, 2022^[11]).

Fragile contexts have growing populations, and growing consumption needs – by 2030 they are expected to be home to at least 26% of the world's population (OECD, 2022^[11]). While in the short term the mitigation of climate risks by fragile contexts may not be considered a global priority in combating climate change, over the medium term supporting the development of climate-friendly and inclusive growth pathways will be critical both to sustaining the green transition, and to increasing resilience and reducing fragility. This must also be undertaken in a conflict-sensitive way with an appreciation of local political economies. In many fragile contexts, oil or other resources (for example, the critical earth minerals needed for the green transition) are seen as future sources of windfall gain and a way to extract rents and sustain transactional political systems (Miller, 2023^[26]).

Integrate climate change and environmental considerations across humanitarian, development and peace action

Climate change and environmental degradation have clear impacts on humanitarian, development, and peace outcomes (Sluijs and Masoliver, 2022^[27]). Yet as with other objectives in fragile contexts, action on climate and environmental objectives has suffered from a lack of cohesion and integration between policy frameworks, fragility strategies, operational priorities, and funding. New frameworks are needed to account for nature in economics and decision-making, including in development (Dasgupta, 2021^[28]).

For most fragile contexts, and for those also facing conflict, addressing these realities will require working across the Humanitarian-Development-Peace (HDP) Nexus. To some degree DAC members are integrating climate objectives across sectors in extremely fragile contexts – but the volumes of financing integrating climate concerns are small. Whether by integrating climate and the environment into existing processes or adding an additional pillar to the HDP nexus, integrating climate and environmental resilience into the HDP nexus would provide a global policy framework for environmental considerations into areas where donors are trying to expand their activities: development, conflict prevention, peace building, disaster risk reduction and support for transitions. It would also support integration into those high-volume

activities that often take priority in fragile contexts such as humanitarian aid, crisis management, and reconstruction.⁷

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⁷ For example, see Joireman and Haddad (2023^[29]), *The Humanitarian–Development–Peace Nexus in practice: building climate and conflict sensitivity into humanitarian projects* for analysis on the integration of climate considerations into the provision of humanitarian aid. For examples of initiatives linking environmental and peace objectives, see Cyprien Fabre and Léopold Ghins (2023^[30]), *Where ODA meets peace, climate and environmental goals: a snapshot*.

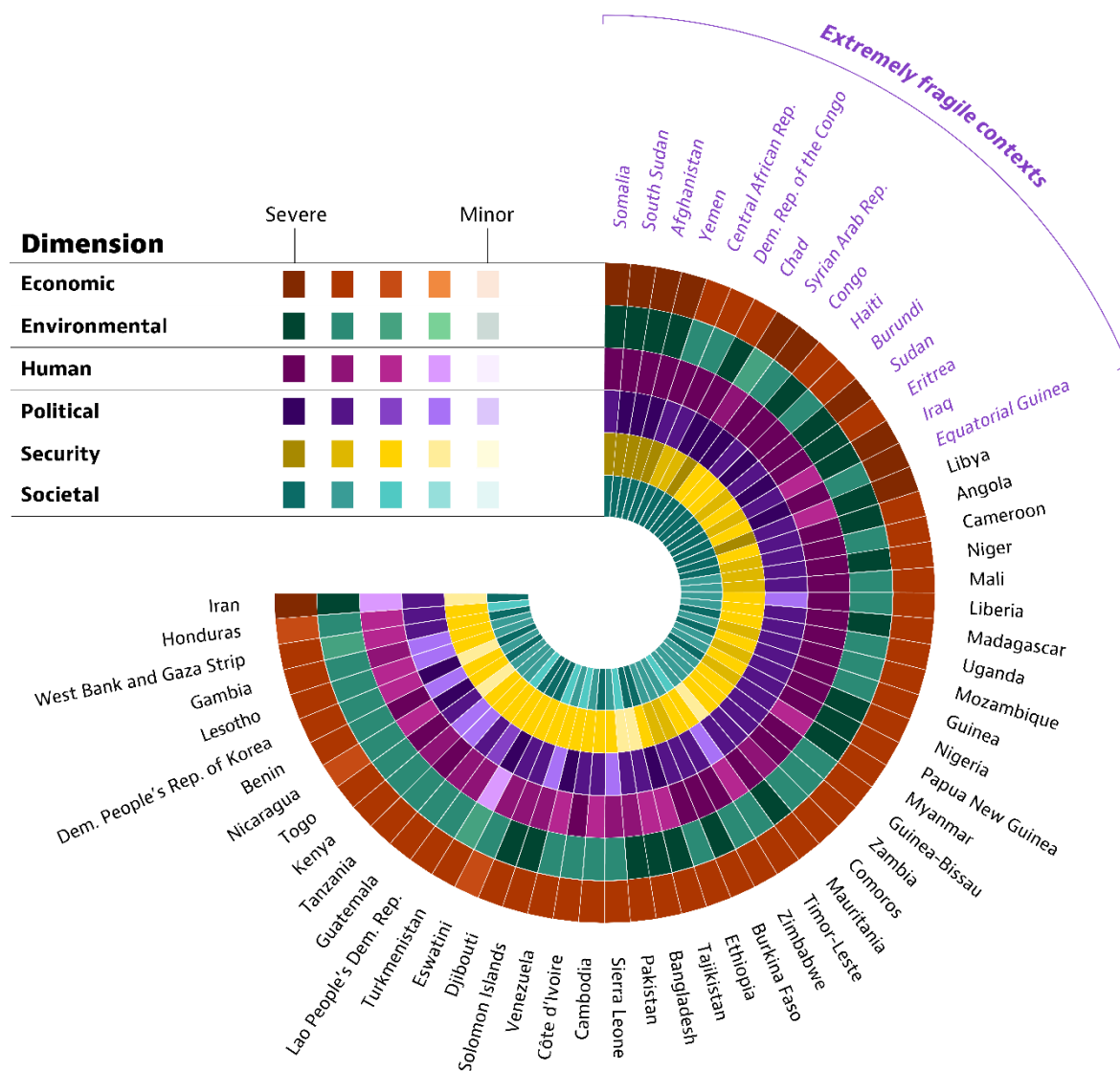
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Annex A. Extremely and other fragile contexts on the OECD fragility framework (2022)

Figure A.1. Extremely and other fragile contexts on the OECD fragility framework (2022)



Source: OECD (2022^[1]), *States of Fragility 2022*, <https://doi.org/10.1787/c7fedf5e-en>.