



# Financing our shared future

## Navigating the humanitarian, development and climate finance agendas

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### Key messages

- The SDGs, Paris Agreement and World Humanitarian Summit have set out overlapping agendas; these commonalities must be maximised to make best use of public, private, domestic and international finance. However, there are legitimate differences that should define the respective niches of the different agendas and the sources, nature and priorities of their funding.
- Financing mechanisms that can deliver on more than one agenda will support the best use of limited finance. Themes, framings and tools that have already gained traction across the three agendas include cities, infrastructure, risk and resilience, insurance and social protection.
- Getting to scale demands the engagement of new development finance institutions and local state and non-state actors. While the private sector has a role to play, private finance should compliment, not replace, public finance.
- Domestic targets and timelines for integrating these agendas in sustainable development strategies will be essential. A reinforcement of efforts to strengthen tax systems and public financial management is needed, but effectiveness is defined by more than just money and must be underpinned by strong domestic policies.

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## 1. Introduction

The ambitious agendas for the global development, climate change and humanitarian challenges were set out in 2015 and 2016. These agendas are overlapping: The Sustainable Development Goals (SDGs) include ambitions and targets on climate change, peace and security; the Paris Agreement on climate change emphasises the links between climate and development, while acknowledging that climate change will likely lead to greater humanitarian need; and the World Humanitarian Summit (WHS) recognises that the humanitarian response cannot be isolated from broader development and climate actions. Successful implementation of these three agendas requires a greater understanding of how they intersect and interact, as early analysis indicates tensions, as well as complementarities (Nakhooda et al., 2016).

Financing is a critical point of intersection between SDGs, the Paris Agreement and WHS. These three agendas seek transformation of the global economic and developmental paradigm. They also aim to direct all relevant flows of finance – public, private and hybrid – towards activities that are consistent with efforts to achieve low carbon and climate resilient, sustained economic growth and development. Finance is also a point of tension between the agendas. As seen in the outcome of the third Financing for Development Conference also agreed in 2015, there is much work to be done and key questions about where money will come from and how we will ensure it is well spent are still to be addressed. The diminishing appetite for overseas spending in some countries, along with shifts in political power both within and across countries, means that working to answer these will be a critical part of meeting our ambitions and targets.

The legitimate differences between the agendas have an impact on how they are financed. The impartiality and independence of humanitarian finance can starkly contrast with the principles of country and local ownership that need to be engendered in all development and climate finance, with this is especially being the case in areas of protection. The allocation of humanitarian finance is (largely) driven by existing need. It does not completely overlap with the poverty-based allocation priorities of development finance, which in itself does not overlap with those of climate finance (combining needs-based principles for climate change adaptation with allocations based on the marginal impact on greenhouse gas emissions for mitigation). There is also divergence in the perceived responsibility of developed countries to make international transfers of finance to developing countries; it is only via the climate change agenda that responsibility can be clearly established through the polluter pays principle, based on respective capabilities. The nature and sources of finance for each agenda reflects these differences. For example, UN agencies play a much more pivotal role in channelling humanitarian finance than it in itself does in the development and climate finance agendas. Also,

climate and development finance instruments are, in general, broader and much less concessional than financial instruments within the humanitarian finance architecture. This is sometimes forgotten in the attempt to break down the divide between development, humanitarian and climate finance, but it must be kept in mind if these sectors are to retain their niches and meet their driving objectives.

Nonetheless, similarities in the financing means of implementation between the agendas remain. It is imperative to recognise these overlaps if we are to capitalise on opportunities to make finance go further. The agendas have all increasingly included a risk management and resilience focus, for example. These have knock-on implications for the objectives and financing of social protection and insurance schemes. There is also overlap in actors, be they finance providers, implementers or recipients of finance, along with a desire to support the localisation of finance and direct access for those most in need across the agendas.

This paper brings together key aspects of financing the future we want, serving as an entry point into discussions on how the agendas are financed. We build on the ‘Our Shared Future’ working paper that frames each agenda and this paper should be read in conjunction with two further reports into how data and governance issues traverse the SDGs, WHS and the United Nations Framework Convention on Climate Change (UNFCCC) Paris Agreement. Section 2 elaborates on what we already know about the financing targets and needs, including the Financing for Development Convention agreement and the Sendai Framework for Disaster Risk Reduction (SFDRR). Section 3 distils where there is some agreement between the agendas on financing issues and where possible tensions may emerge. Section 4 then discusses what needs to happen next if we are to deliver on the ambitious agendas. We then conclude with Section 5, indicating a way forward for the financing architectures of these agendas, if we are to deliver progress.

## 2. The current state of play

### Existing targets and commitments

The SDGs, agreed in September 2015, reflect fundamental development challenges. These range from the eradication of poverty and tackling of extreme inequalities, to finding more environmentally sustainable routes to growth and building peaceful societies (UN, 2015a). Going further than the Millennium Development Goals (MDGs), the SDGs attempt to address root causes rather than symptoms and are universal in their application (applying to all countries). While some had hoped the Addis Ababa Financing for Development Conference (FfD) in mid-2015 would lead to some indication of how the SDGs would be financed, this was never intended to be a pledging conference. The Addis outcome document, instead, provides a list of desirables

for finance, with specific attention paid to the need for domestic resource mobilisation, along with financing of social protection systems, a global infrastructure finance platform and an increase in the share of development assistance to the least developed countries (LDCs). It also notes a ‘redoubling’ of efforts to reduce illicit flows by 2030 (particularly tax evasion and corruption) and rationalisation of inefficient fossil-fuel subsidies (UN, 2015b). While the Addis Ababa Agenda for Action (AAAA) reiterates the goal of delivering 0.7% of GNI as development assistance from DAC members, only a small number of countries have stepped up to this commitment.

The UNFCCC Paris Agreement affirms the ambition to make all finance flows consistent with low carbon and climate resilient development pathways (UN 2015c). However, a key point of contention in negotiations has been the provision of climate finance to support developing countries that have contributed least to rising global temperatures. The Paris Agreement of December 2015 echoes the commitments first made in 2009 for developed countries to mobilise \$100 billion a year, from both public and private sources, by 2020. Paris has also established that a new collective goal for finance flowing to developing countries will be set by the COP before 2025 (UN, 2015c).

The major outcomes of the WHS have included some soft financial targets, even though an intention to identify finance sources was not an aim when the summit was held. The Grand Bargain, a compact commission meeting between the humanitarian sector’s largest contributing countries and the organisations they fund, included the pledge to channel 25% of funding to local and national responders by 2020 and a doubling of the finance pool of the Central Emergency Response Fund (CERF) to over \$1 billion by 2018 (UN, 2016). It also generated a commitment to save \$1 billion by increasing efficiency of management and overhead costs in five years. The Sendai Framework for Disaster Risk Reduction (SFDRR) 2015-2030 is also highly relevant to the humanitarian (and development and climate) agenda. Negotiated in 2015 as a successor to the Hyogo Framework for Action, the SFDRR has links to poverty and sustainable development, as well as tackling climate change, embedded in its text (UNISDR, 2015). Though its targets relate to reducing human and natural disaster risks and thus humanitarian finance needs, it too lacks financial commitments and tools.

A number of other commitments have been made by governments, non-governmental organisations and the private sector around the formal processes that serve each of the agendas. The many infrastructure initiatives of the SDGs and AAAA stand out, with examples including the Global Infrastructure Hub, World Bank Group’s Global Infrastructure Facility and the Africa50 Infrastructure Fund. The Multilateral Development Banks (MDBs) have also demonstrated commitments to the three agendas, including increasing pledges to programme climate finance in developing countries by 2020, amounting to more than

\$30 billion a year (Nakhooda, 2015; Nakhooda et al., 2015; DFAT, 2016). While language regarding the phasing out of high carbon investment did not survive the final Paris Agreement, the Fossil Fuel Divestment Campaign signed more institutions committed to high carbon divestment, as did Portfolio Decarbonisation. In connection to the WHS, pledges of \$500 million were made to the ‘Education cannot wait’ Fund, an initiative that aims to close the \$8.5 billion funding gap for 75 million children affected by crisis, and a Global Islamic Finance and Impact Investing Platform was launched to expand the humanitarian financing base.

### The finance needs of the agendas

It is estimated that the costs to meet the 17 SDGs and 169 targets amount to an additional \$1.4 trillion a year in low and middle-income countries (MICs). This breaks down to \$343-360 billion for low-income countries and \$900 to \$944 billion for lower-middle-income countries, including goal 13 on tackling global climate change (Schmidt-Traub, 2015). The estimated total adaptation costs of two degrees Celsius of climate change in developing countries range from \$4 billion to \$100 billion annually if global temperatures rise 2°C above pre-industrial temperatures (IPCC, 2014). The costs of mitigation in developing countries has been estimated at between \$140 and \$175 billion per year up to 2030, with financing needs of \$265 to \$565 billion to keep within a 2 degrees Celsius global rise (WDR, 2010). While projections have not yet been made for implementing the voluntary commitments made to the WHS, trends show rising humanitarian needs. Humanitarian spending rose to \$28 billion in 2015, up from \$18 billion in 2012. There is also a significant and widening gap observed between the funding needed and that met by humanitarian appeals. In 2015, donors met only 45% of funding requirements as set out in the UN’s humanitarian appeal, the widest gap on record (GHA, 2016).

Cost estimates can play a role in soft coordination and advocacy, providing a ballpark estimate of the scale of the challenge. In key sectors of significant overlap between the agendas, such cost estimates could point towards synergies and efficiency gains. The investment needs for infrastructure over the course of the SDGs has been estimated at \$6 trillion a year in cities, transport, energy, telecommunications, water and sanitation globally (NCE, 2014). An additional \$270 million annually, for example, could ensure this infrastructure investment is low-carbon. While a cost estimate of climate-resilient infrastructure does not yet exist, the opportunity for climate-resilient infrastructure to contribute to and protect development progress and reduce humanitarian need is high (Watson and Nakhooda, 2015).

There are, however, limits to the utility of costing the three agendas. The substantial range of estimates reflects numerous methodological challenges and there

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are political issues that arise when generating appropriate and comparable estimators (such as what to count, from whom). This includes the estimation of total versus incremental costs, including the additionality of spending above the status quo or the acceptance and costing of softer behavioural and regulatory measures (e.g. Parry et al., 2009; UNCTAD, 2014). The estimates are not always additive and interact, further complicating estimates. Addressing climate change through mitigation, for example, influences the need for adaptation and likely the future humanitarian financing needs of climate-related events.

At a country level, the availability of cost information is uneven. Development planning is often sector oriented (e.g. health and education) and while there have been a few country efforts to align domestic spending by SDGs, there are no formal processes where countries have to do this. As part of the effort to incorporate climate change into development trajectories, some countries have included some cost information within their climate change strategies. Yet these have largely been syntheses of existing and proposed efforts and plans, rather than deliberate projections of future needs and associated costs. Several countries did include estimates of the financing requirements for implementation as part of their Nationally Determined Contributions (NDCs) in 2015, though the basis for costing has not been clear or consistent (Hedger and Nakhoda, 2015).

### **The transparency of flows and spending**

The fulfilment of the three agendas clearly requires getting from billions to trillions. Yet meeting the relatively smaller targets – such as the \$100 billion, 0.7% GNI and the \$1 billion in efficiency savings – is crucial to generate confidence and trust in what are largely voluntary commitments to action and resourcing. To this end, the transparency of finance flows can encourage delivery.

The Paris Agreement commits developed country Parties to reporting on both the finance they have provided and that they intend to provide in the future. Assessments of the UNFCCC have put total public climate finance flows to developing countries at \$42 billion a year in 2014, an increase from \$36 billion a year in 2012 (UNFCCC, 2014; 2016). This represents progress towards the ‘\$100 billion a year by 2020’ commitment of the UNFCCC even if it omits sources such as private finance. To enable its adoption in 2009, the language in the Paris Agreement is loose in its definition of what counts as climate finance, stating that developed countries will provide financial resources to developing countries, ‘from a wide variety of sources, instruments and channels, noting the significant role of public funds, through a variety of actions, including supporting country-driven strategies, and taking into account the needs and priorities of developing country Parties.’ This has led to ongoing discussions around what counts (Bodner et al., 2015) and the legitimacy of these

estimates (Oxfam, 2016). Outside of the UNFCCC, the MDBs (the World Bank Group, the ADB, EBRD, IDB, AfDB and EIB) have developed common guidelines on what counts as climate finance. The efforts to better define and track this are an encouraging response to the growing pressure on MDBs to report on their climate change-relevant activities. In parallel, but with a differing method, members of the International Development Finance Club – which includes several developing country-based development finance institutions – monitor climate related spending.

The SDGs have a set of 230 global indicators to monitor goals and targets (IAEG-SDGs, 2016), but there is no formal financial tracking. This is partly due to the lack of a finance target, but also the emphasis on national ownership of sustainable development processes and national-level monitoring, reporting and verification mechanisms. Similarly, the High Level Political Forum (HLPF) is a global platform established to monitor and encourage SDG progress through voluntary national reviews, but has no finance tracking objective. (The High-level Dialogue on Financing for Development of the General Assembly will be held at the same time as the HLPF, every four years.) Some aspects of the SDG finance architecture can be assessed: OECD members have Official Development Assistance (ODA) contributions measured through the OECD DAC, while Aid Data has begun to monitor the finance flowing through SDG using this data and its purpose codes. Also emerging is the new international measure of total official support for sustainable development (TOSSD). This includes all officially supported resource flows to promote sustainable development at country, regional and global levels, where the majority of benefits are destined for developing countries, but also resources that support global challenges. Expected to be endorsed in 2017, TOSSD tracks all officially-supported resource flows, regardless of the financial instruments used or level of concessionality, that are targeted towards SDG attainment (OECD, 2016) It is also open to all providers of international public finance, unlike the OECD DAC ODA tracking, thereby allowing for the increasing volume of south-south flows to begin to be included in tracking efforts.

As WHS commitments remain ‘unofficial’ in intergovernmental politics (Nakhoda et al., 2016), the implementation and monitoring of its commitments, be they financial or otherwise, are challenging. While there are proposals for an annual stock-take based on governments’ and organisations’ self-reporting to a new Platform for Action, Commitments and Transformation (PACT), this does not constitute systematic financial tracking. Presently, humanitarian finance is monitored through two main systems: the OECD DAC, which tracks funds marked as ‘humanitarian’ as part of ODA, and the voluntary self-reporting system, UNOCHA Financial Tracking Service (FTS). However, these estimates do not include

government spending within borders (unless diverted through an appeal), remittances and loans (UNOCHA, 2016). This means there is an incomplete picture of even traditional, institutional humanitarian funding. The Global Humanitarian Assistance (GHA) Report also estimates international humanitarian spending, using the OECD DAC figures, contributions of non-DAC members to the UN Central Emergency Response Fund (CERF) and private funding through National Governmental Organisations (NGOs), multilateral agencies and the Red Cross and Red Crescent Societies (GHA 2016). Some humanitarian actors have also committed to adopting the International Aid Transparency Initiatives (IATI) Standard, which has been supporting the transparency of aid flows since 2008. However, as a voluntary requirement, this does not provide a holistic picture of financing. Efforts to understand spending on disaster risk reduction and SFDRR exist, but remain incomplete (Kellett et al., 2014; Watson et al., 2015). The proposed indicators for the seven targets of SFDRR, set to be adopted in 2017, are likely to capture total official international support for disaster risk reduction, but will fail to capture the full picture of disaster risk reduction spending.

There is no central guidance for domestic finance tracking systems facilitating the three agendas for developed and developing countries alike. While developing country Parties to the UNFCCC have been encouraged to provide data on finance flows to those countries, a number are increasingly reporting climate finance voluntarily. A number have completed Climate Public Expenditure and Institutional Reviews (CPEIRs) for example. An estimated \$192 million in climate finance came from domestic spending in 2014 (UNFCCC, 2016). Analysis of public expenditure can reveal key sector spending relevant for the SDG agenda, but cannot capture governmental off-budget spending, such as the activities of public enterprises, credit provided or guaranteed by government or subsidies channelled through the tax system (OECD, 2007). Lessons from the MDGs have suggested that significant lead times are necessary if government budgets and priorities are to be influenced, with most key sectors falling far behind any existing spending targets (Oxfam International and Development Finance International, 2015; Lucci et al., 2015). WHS's lack of a formal system means commitments arising from it will largely be self-monitored and reported. The extent to which progress is monitored and aggregable on a global scale remains to be seen.

The effort to understand private finance flows to the SDGs, Paris Agreement and WHS presents a persistent challenge. This is largely because the disclosure of information on private finance is limited. However, it is also a result of day-to-day business operations sometimes contributing to these agendas, but not being labelled as such. This could include conventional business continuity or emergency-preparedness plans, or where equipment and

infrastructure is upgraded and risk is transferred through insurance policies (Crawford and Seidel, 2013). Estimating private finance flows can contribute to reducing financing gaps for the three agendas, but it does not serve the same purpose that tracking of public finance can.

### 3. Areas of convergence and possible tensions

#### Overlapping sources of finance

Public finance is critical for supporting the delivery of local public goods, such as adaptation to climate change and development in low-income countries (LICs), as well as funding for research, innovation and capacity-building. In some situations, there can be no substitute for public, concessional finance. Humanitarian response operations are heavily reliant on high concessional finance flowing through the UN system, for example. In the context of increasing resistance to international spending, we are likely to see public finance that is either less-concessional or non-concessional. Less-concessional finance does have a role in these agendas. The WHS does make reference to expanding financial instruments to loans (in addition to grants) for middle-income countries (MICs). But a better understanding of what less concessional finance can achieve for aspects of each agenda is needed. For example, key sectors such as agriculture and infrastructure are better able to make use of less concessional flows than health. Due attention must also be paid to debt sustainability in borrowing countries and ensuring that LICs are prioritised in highly concessional flows.

Bilateral financial institutions and Multilateral Development Banks (MDBs) have critical roles to play in financing these agendas. This ranges from encouraging technology, innovation and financial inclusion, as well as the financing of micro, small and medium-sized enterprises (MSMEs), to provide guarantees against risks and playing countercyclical roles when shocks and stresses occur (AfDB et al., 2015). The development banks, in particular, have – and are developing – approaches that enable climate change risk to be accounted for. They also have NDC and SDG implementation factored into their country programming, future capital mobilisation and portfolio development financing strategies. Additionally, new development finance actors are showing a growing capacity and interest in investing in the development and global public goods agenda. This includes major developing country economies, such as China and the Gulf states, as well as national development banks with international operations (including the Brazilian National Development Bank (BNDES) and the Islamic Development Bank, among others). To deliver on these agendas, these actors – along with the Asian Infrastructure Investment Bank and New Development Bank – will need to develop and adopt policies, approaches and standards in key areas



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such as energy, sustainable infrastructure and agriculture. Within these institutions, it will be key to ensure mutual reinforcement of each agenda's goal. Investing in conventional energy infrastructure, for example, is not necessarily compatible with a two-degree target.

Private finance and businesses play important roles in many of the sectors that are at the heart of the climate, humanitarian and developmental challenge. The SDGs, Addis Ababa Action Agenda (AAAA), Paris Agreement and WHS all recognise this. The assets held globally (over \$100 trillion) could be critical in meeting the scale of the financing challenge, including from: banks and investment companies; insurance companies; private pensions; sovereign wealth funds, operators and developers; infrastructure and private equity funds; and endowments and foundations (Bhattacharya et al., 2015).

Increasing engagement of the private sector stems from a growing understanding of the impact of these agendas on the bottom line. However, the engagement of the private sector is equally about expertise, innovative solutions and expanding the assets and technologies available to deliver success (Nakhoda, 2013). There is also the potential to develop new markets and growth opportunities, such as insurance (Rockefeller Foundation, 2013) or seek returns on investments in enhancing the scale and effectiveness of resilience solutions in food, health and logistics (SEI, 2009; Agrawala et al., 2011; Averchenkova et al., 2015). The climate agenda, in particular, has also initiated discussions around climate change risk in the financial services industry (TCFD, 2016). The humanitarian sector and SDG agenda indicates a growing corporate, social responsibility angle to private sector engagement. However, more can be done to highlight the business and investment opportunities for the private sector. Across all agendas, there is a need to establish incentives and remove the barriers to private sector investment, while at the same time regulating behaviours that are detrimental to environment or social development. This is particularly true in LICs that have not seen Foreign Direct Investment (FDI) rise in line with improvements made in their investment environment.

Domestic policy and resource mobilisation plays a critical role across these three agendas. For many countries, this is the largest source of finance for national development strategies (AfDB et al., 2015), with greater domestic public climate finance than the amount provided through international sources in a number of cases.<sup>1</sup> Governments also have a primary responsibility to respond to crises and many invest significantly in preparedness and response. In 2014, domestic resources came to 61% of the total in the 20 top recipients of

international humanitarian assistance (GHA, 2016). Enhancement of revenues through progressive tax systems (including improved policy and collection) and subsidy reform can supplement the finance available to the agendas. More efficient public expenditure to further increase and maximise resources for them, such as MDBs offering policy lending and technical advice, institutional capacity-building, coordination and research (AfDB et al., 2015), may be also be supported through technical assistance and capacity-building. In addition to being a source of finance, the domestic policy framework sets the scene for the leveraging of finance, particularly private investments (OECD, 2008; Venugopal and Srivastava, 2012; VIVID, 2014). Government also has a responsibility to act to mitigate risks and, in turn, the development of relevant standards and regulations, such as limiting building on floodplains and strategically locating key infrastructure, should be encouraged. However, domestic policies remain set in a context of global guidance and rules. This necessitates global engagement and guidance on the issues of tax and trade cooperation, for example. (Tax revenues are the main finance source to deliver public services and social protection and global tax cooperation increases the resources that governments can direct to development.)

### Financing of shared themes and solutions

The outcomes of the SDGs, WHS and Paris Agreement require the combination of multiple sources and instruments of finance – each bringing different benefits and costs (e.g. blended finance can capitalise on the expertise of multiple actors, while different financial instruments and finance channels allow flexibility in timing, debt and other conditionalities that are fit for a particular context). Given the observed overlapping objectives in the agendas, as demonstrated in the 'Our Shared Future working paper, it is not surprising that there will be mutual themes and solutions.

Cities, for example, represent an emerging theme. These will account for 50% of global greenhouse gas emissions between 2012 and 2030 (Floater et al., 2014). Cities also experience increasing disaster risk (UNISDR 2015) and are disproportionately likely to be located in areas at risk of sea level rise (McGranahan, Balk and Anderson, 2007). Making the most efficient use of resources will require careful coordination and concerted efforts to identify overlaps and programme resources accordingly.

Infrastructure is another theme running through the agendas, particularly development and climate. Investment contributes to economic growth, development and poverty reduction. It determines the resilience of millions to shocks

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1. Studies of national expenditure on climate change have shown that domestic public finance for climate change actions can be much higher than international public finance. For example, national climate finance analyses carried out by ODI and partners has shown the following annual domestic spending being significantly higher than the international ODA contribution: Ethiopia (\$440 million), Tanzania (\$383 million) and Ghana (\$276 million) (Eshetu et al., 2014; Yanda et al., 2013; Asante et al., 2015). Similarly, domestic spending on disaster risk reduction can be larger than that from international sources (Watson et al., 2015).

and stresses, be they climate or otherwise, and influences the speed and effectiveness of a humanitarian response, should an emergency occur. Whether this infrastructure is low-carbon will make or break the two-degree target (Watson and Nakhooda, 2015). Yet there is an ‘infrastructure gap’. In Africa, the costs to meet this gap were estimated at \$93 billion in 2013 (Foster and Briceño-Garmendia, 2010). However, it is generally thought that it is the lack of project pipeline that constrains infrastructure development, as opposed to a lack of finance (Battacharya, 2015). To speak to all three agendas, future infrastructure investment requires collective, robust definitions and standards for resilient infrastructure and capacity and technical support directed to address constraints (such as developing bankable projects), particularly in low-income countries (Nassiry and Nakhooda, 2015).

The three agendas also became increasingly framed around risk and resilience during their development. The Secretary General’s post-2015 report has underscored this, referencing resilience in relation to disasters, climate change, reintegration after conflict, state fragility, peace building and financing itself (UN, 2014). The SFDRR is also strongly geared towards managing risks rather than disasters. Increasing investments in resilience (to a multitude of shocks) ensure that people have the resources and capacities to better reduce, prevent, anticipate, absorb and adapt (Bahadur et al., 2015). Building resilience by reducing background risk can also contribute to more forward-looking planning, long-term capital investment and entrepreneurship (Tanner and Rentschler, 2015), supporting sustainable development objectives.

The solutions and tools that can deliver on this resilience framing have implications for all three agendas. Insurance is a solution that transfers risk and can be implemented at multiple scales in a variety of sectors, including financial services, agriculture and health care (Rockefeller Foundation, 2013). It is being used to support adaptation to climate change (Watson and Nakhooda, 2015) and to provide post-crisis, timely finance. The Grand Bargain encourages humanitarian actors to work with the insurance industry to adapt its risk-financing strategies to humanitarian situations, for example. Most recently, the Government of Haiti received a payout of \$20 million, triggered by Hurricane Matthew, from the Caribbean Catastrophic Risk Insurance Facility (CCRIF). CCRIF represents a parametric insurance facility where insurance payments are triggered by substantial deviation from risk models rather than reporting of losses. The Africa Risk Capacity has a similar multi-country risk pool, with policies triggered by drought, that it intends to expand into health to respond to future disease outbreaks (ARC, 2015). With no obligation to repay, insurance can reduce financial pressures following hazard events and sometimes prevent a stalling of development progress. However, this must be carefully managed to ensure appropriate incentives for risk

management are maintained; insurance is by no means a solution in all situations.

Social protection is another solution that can deliver long-term resilience to household shocks and stresses. Such schemes can give the least resilient populations access to productive investments, education and health. This allows them to make savings and invest in activities that can benefit their livelihoods (Rockefeller Foundation, 2013). It can also enhance the capacity of families and communities to manage an array of risks and the extension of coverage or duration of social protection programmes – through extraordinary payments or transfers and modification of rules and requirements for participation, which can also help post-crisis recovery (Bastagli, 2014). Identified as one of the cross-cutting areas for provision of basic services in the AAAA (UN, 2015b), the costs of delivering a social compact of healthcare, education and social protection in LICs has been estimated at \$148 billion a year (Greenhill et al., 2015).

### Move towards localising access to finance

There is a drive in all three agendas to localise access to finance: ensuring that finance for climate, development and humanitarian needs reaches a) those most vulnerable and b) the institutions that are closest to the communities served and most knowledgeable about their needs. The SDGs make reference to the responsibilities of local governments in delivering the goals and, in particular, the increasing pressures they face through increasing urbanisation. The localisation of climate finance to cities has also become prominent over the last two years (CCFLA, 2016). Issues of ‘direct access’ to climate finance are also enshrined in the financial mechanisms of the Kyoto Protocol, now officially adopted in a post-2015 framework. Examples here would be the Adaptation Fund (Adaptation Fund, 2016) and Enhanced Direct Access, Green Climate Fund approaches (GCF, 2016). A key theme of the WHS is the central role played by local responders (the commitment in the Grand Bargain to channel 20% of funds to local NGOs by 2020, is reflective of this), but it differs from the SDG and Paris Agendas in its focus on NGOs and civil society, as opposed to also including state actors. The Charter for Change outlines the WHS commitment to localisation, but also sets the ambitious date of 2018 to achieve an increase in finance to local and national NGOs.

Localisation of finance is important for a more sustainable, empowered and informed progression of these agendas. This is not simple to achieve and there are issues that deserve further discussion, including the following question: Which SDG targets are more relevant at the local level and how does monitoring at this level align with its equivalent at the national level (see UNSDSN, 2016)? There have been struggles to achieve this in the humanitarian sector for some time, partly due to contradiction with the humanitarian principles of

impartiality and partly stemming from independence and the vetting of local partners. While not all sub-national actors lack sufficient capacities to manage responses, others do suffer in this respect, particularly when it comes to meeting the fiduciary capacities to manage funds. Best practice from efforts to build local capacities, such as those of development finance work to localise aid and climate finance ‘readiness’, will be useful in the push to accelerate appropriate capacity-building. This can also reduce the perception of this as a riskier way of financing than working with national and international entities (McKechnie and Davies, 2013). There is also a role for multilateral pooled funds to play, both in terms of simplifying local access to funds, but possibly also involving the offer of different instruments (with diverse risk profiles). It could also entail various ways to channel resources to NGOs, research institutions and community organisations based in developing countries, alongside their governments and local private actors. Meanwhile, MDBs could also play a role in supporting local institutions with project preparation facilities.

The desire for localisation of finance is connected to broader questions around the governance and coordination of these agendas. Finance institutions that are newly capable in the area of development, along with those that are increasingly engaged at the regional and national level, will shape development trajectories in developing countries. Coupled with the increasing engagement of non-state actors, this may mean that some bilateral and multilateral actors relinquish a share of the ‘aid-market’. This is not necessarily negative: there is a call for reform of the UN system for humanitarian response, for example (see our Governance paper in this series). It will be important for local actors to increasingly own these agendas and increase accountability at a national level for their success (or failure). International contributors and MDBs also need to establish meaningful pathways to get there at scale – including meeting the WHS 20% target.

### **Incomplete overlap in priorities and therefore finance allocation**

MICs are generating enough public revenues to meet the costs of a social compact for health, education and social protection (Greenhill et al., 2015). Despite this, there is a critique that they are not allocating enough to these basic services (Stuart et al., 2016). LICs have insufficient public revenues to meet these costs, however. Even if they could maximise their revenue capacity and allocate 50% of their public spending to health, education and social protection, they would still require an additional \$73 billion annually for the social compact. There was a declining volume of ODA to the LDCs,<sup>2</sup> including the LICs, from 51% of total ODA in 2010 to 39% (or \$38 billion) in 2014 (OECD

2015). There are calls to reduce ODA flows to MICs and increase it in LICs (particularly given that the current climate is unlikely to deliver aid sufficient to achieve both) (Kharas et al., 2014). There has even been demand for greater levels of international spending from MICs – many of which already contribute to pooled funding mechanisms, albeit with lower GNI targets than high-income countries (HICs) (Sachs and Schmit-Traub, 2013).

The Paris Agreement and its associated financial mechanisms also prioritise the needs of LDCs, as well as African and Small Island Developing States (SIDS). A proposed reduction in concessional support to MICs, however, would be much less palatable in the climate agenda; developing countries have objected to any suggestions that the financial burdens of climate change should be shifted to them, or that there should be an easing of commitments to the principle of common but differentiated responsibilities (Muller, 2014). Thus, despite an increasing ability to finance national climate change actions in MICs, there also remain historical responsibilities to support these countries. Furthermore, with many emerging countries now significant contributors to global emissions – in 2010, developing countries accounted for about 60% of global greenhouse gas emissions in absolute levels (UNEP, 2013) – there is a clear need to support mitigation to ensure their growth is low-carbon. A number of SIDS, some of which face existential crises as a result of climate change, are also MICs. The allocation of concessional finance to MICs is therefore a point of divergence between the climate finance and development finance agenda, where there is increasing political discomfort with continued spending of concessional resources in MICs.

Common to the three agendas, the leave no-one behind theme makes a compelling case for the most concessional resources to be focused on the needs of the poorest and most vulnerable to shocks and stresses. However, there are still significant numbers of poor people in major emerging economies (Shepherd et al., 2013). To this end and despite the differing politics surrounding country prioritisation, there is a need to seek synergies between finance flows. The emerging literature on the gains of a low-carbon development pathway, for example, is useful in this regard (Granoff et al., 2015). It makes sense to build efforts that drive non-grant and return seeking finance into MICs to counteract a potential decline in concessional international public finance (and more specifically ODA flows). The climate finance flowing to MICs is predominantly in the form of concessional loans, while the funds flowing to LICs are predominantly grant financing (Nakhouda et al., 2015). However, at the same time, debt sustainability must be an essential condition, as it is required for robust growth (Kharas et al., 2014). This is also a target of the

2. LDCs are countries facing structural impediments to sustainable development. While most LICs are also LDCs, there is not a direct overlap (with more LDCs than LICs).



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SDGs: number 17.4 outlines the aim to attain long-term debt sustainability.

Directing resources to fragile and conflict affected states (FCAS) is also necessary. These countries have made development progress. However, in 2015, FCAS contained 43% of the people living in income poverty (OECD, 2015) and this may increase by 2030. These are also often countries highly vulnerable to climate change. ODA remains a significant source of finance for FCAS, but is also split very unevenly (see Watson and Kellett, 2015). A more concerted effort to distinguish the role of ODA in countries of differing income levels and states of fragility may be pertinent. ODA targeted to crowd-in more concessional finance for LICs, but also leverage private sector and other non-concessional flows in MICs, is an example of this.

Differences in funding priorities between the agendas not only have knock-on effects for country allocation, but can also create tensions in financial flows. This may occur between the ambitious economic and infrastructure SDG targets (e.g. 7% average annual growth for LICs) and the Paris Agreement ambition to keep global warming well below 2 degrees Celsius. Such tensions even exist within the SDGs themselves; the phasing out of agricultural support subsidies while also seeking to ensure that all people have access to adequate, affordable, safe and nutritious food, for example, could prove challenging (Dasandi et al., 2015). There may also be trade-offs between agenda priorities; the shift to low-carbon, climate resilient growth is likely to result in some of these in the short-term. For instance, jobs may be lost in high-carbon sectors, as their role in economies must shrink. Dercon (2012) notes that drought resistant crop varieties that increase the resilience of agriculture may well raise security, but can also have lower mean returns for individual farmers. A more optimistic viewpoint may be that these are areas where more coordinated agendas could support one another. This could take place through public interventions, such as support for displaced workers, affected communities and low-income households.

## 4. What needs to happen next?

### Getting to scale

Getting to scale is as much about meeting existing commitments as it is about finding more money. In the case of the Paris Agreement, developed nations must meet their \$100 billion a year commitments if they are to seek more ambitious pledges of action from developing countries at the next NDC submission in 2020. If all DAC donors were to deliver on their promise to use 0.7% of their gross national income (GNI) as ODA and emerging economies scaled up their development assistance programmes, meeting the basic social compact (health, education and social protection) gap of \$84 billion in LICs would be possible (Greenhill et al., 2015).

The MDBs will play an important role in scaling up and programming larger scales of finance for these three agendas. For climate finance, in particular, it is estimated that MDB's contribution will almost double by 2020 (DFAT, 2016). Meeting these targets may necessitate an increase in MDB loan to equity ratios (increasing lending volumes with little threat to financial stability) and the expansion of guarantees by improving their pricing and by taking higher risk investments. It is, however, worth mentioning that many of these technical solutions face political or institutional barriers to implement (REF). MDBs can also contribute by scaling up support to domestic financial institutions through intermediation. They can also take actions such as facilitating access to finance these agendas for MSMEs and contributing to a much-needed, improved understanding of the role of non-concessional finance for climate, development and humanitarian response. These steps will be critical if they are to meet their spending targets.

Domestic public finance will remain a significant source of finance, but private sector business, finance and investment holds potential. Public finance actors need to continue examining how to leverage larger flows of private finance and generate returns where opportunities have not previously existed. The UN platform to scale up innovative solutions to contribute to the SDGs is one way in which those actors can continue dialogues – building on the efforts made by Ban Ki Moon to engage the private business and finance community around development and climate change issues. However, strategic alliances and convening will require expansion beyond agenda siloes if actors are to take opportunity of the synergies mentioned above. Nevertheless, seeking greater scale of finance and engagement of the private sector should by no means alleviate the need for finance from public sources (be they international or domestic). Supporting effective raising and spending of public finance remains critical.

Other new and innovative sources of finance for these agendas exist. The increasing contribution of non-DAC countries is not to be underestimated, although this will remain voluntary under the Paris Agreement. The AAAA includes cracking down on illicit finance flows, which mostly take the form of commercial tax evasion, criminal activity and public corruption. However, the idea of introducing an international tax body was an area of heated debate at the FfD Conference and it is not clear how much of an impact it would have in terms of revenues flowing into country treasuries (Forstater, 2015). In the climate agendas, discussions over the years have also considered market-based instruments for aviation and maritime fuels (AGF, 2010), with carbon taxes and emissions trading being introduced to varying degrees and global scope (Barder et al., 2015). There are also potential roles in financing these agendas for debt relief, although discussions have proved contentious (Bird et al., 2015; Mathieson, 2014) as well as from remittances,

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particularly in the humanitarian agenda (GHA, 2016). Private philanthropy also features in the post-2015 finance architecture: the AAAA notes the flexibility and capacity for risk and innovation of philanthropic contributions, but also a lack of transparency and national ownership in actions towards the SDGs. While some have called for philanthropists to work through existing mechanisms rather than generating their own (Sachs and Schmit-Traub, 2013), there is a strong case for increased innovative philanthropic support. In particular, such mechanisms could deepen engagement and capacitation of independent civil society in these agendas and increase government (and donor) accountability. This would apply across the agendas.

### Driving more effective spending

Given the overlaps, synergies and tensions between the three agendas, it is critical to strive for more effective use of finance. To some extent, the agendas have differing ideas on what can be characterised as effective spending. Development finance effectiveness engages the Paris principles and the Busan Partnership Agreement on the High Level Forum on Aid Effectiveness, as well as taking on messages from the most recent Global Partnership for Effective Development Cooperation meeting in Nairobi, December 2016. Development finance effectiveness therefore focuses on national ownership, inclusion, transparency and accountability.

Explorations of effective climate finance have aligned with development finance effectiveness, but also consider the pursuit of this goal to be about striving to find the best ways to use relatively small amounts of largely public finance in order to have the greatest possible impact (Nakhooda, 2013). Despite this, there is no common definition of the concept or framework specifically for climate finance. There is also no agreement on what constitutes effective humanitarian action and spending, despite attempts within the humanitarian sector to develop definitions, frameworks and principles for determining effectiveness, including use of the OECD-DAC effectiveness criteria (OECD, 2014). The humanitarian sector also suffers from inefficiency, with high overheads and management costs and overlapping mandates; systematic reform has been called for before demands for more money can be legitimately made (Collinson, 2016).

In these three agendas, much is captured through 'effective' finance that goes beyond a classic definition of the extent to which an activity achieves its objectives. There is no need to develop a new collective understanding of effectiveness per se, but there must be a willingness to work across agendas, with recognition of the financing architecture of each one, in order to make the best use of the finance available for the ambitious future they have laid out. The most pressing challenge will be to avoid duplication in the financing architectures across the three

agendas. Conversations about the development of tools and financing of solutions that cut across the agendas are not only likely to avoid fragmentation of efforts, but could also avoid the evolution of solutions that work for one agenda, but undermine another. They may also halt what can be seen as a proliferation of vertical funds and initiatives that are ultimately becoming inefficient, as well as less effective, due to numerous costly procedures to access, manage and allocate finance. They may even result in the consolidation of funds, though this will take place within agendas, rather than across them.

Any convergence of the financial architectures, however, does lead to difficult questions about tracking finance – a key requirement of more effective spending. Transparency of finance is a key accountability mechanism, allowing for informed debate and ensuring that lessons are learnt and applied to future spending. Thus, the data and transparency commitments that are centred specifically on financing flows and channels, made in the SDG, Paris and WHS agendas, must now evolve together. Early discussions by contributor and recipient countries, as well as the neutral bodies and initiatives that attempt to track finance flows, need to explore how finance will be accounted for when it supports multiple objectives. Along with this, new accounting rules may need to be developed for tools such as insurance (or in the light of increasing non-concessional finance), so as not to overstate financial flows. The tracking of the impact of flows must also be dramatically improved across all agendas.

While climate change mitigation can be measured in emissions reductions, accounting methods vary. Adaptation to climate change is much more challenging and analysis shows the climate funds are struggling to measure impact for funds disbursed (Nakhooda et al, 2014). The humanitarian sector often defines success as the number of people helped. The question of whether there has been a reduction in the number of people in need of humanitarian support, due to preparedness, often goes unanswered. Similarly, a joined-up effort to measure impact finance flowing through vertical funds and towards NDC and SDG's indicator achievement is likely to result in both efficiency and the pooling of resources for a much more effective data collection system.

Effective finance is also about unlocking greater flows. It certainly extends beyond international public finance delivery. Domestic financial systems are central to delivering on agreements and it is also critical that we work to increase budgeting processes and tax generation processes in order to meet the needs of these agendas; IFIs and bilateral support can play both technical and capacity support roles in this regard. We also need to find the most enabling environments for mobilising and leveraging private finance, where domestic policy plays a central role and there are similar needs across the agendas.

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## 5. Framing the way forward

A more developed understanding of the respective roles for each agenda will support progress towards financing our shared future. This would allow the legitimate differences between humanitarian, development and climate finance to be recognised and respected. For example, the WHS retains a key role in protecting refugees and displaced populations that are not sufficiently recognised within the other agendas. It also influences the sources of finance. Addressing the underlying drivers of humanitarian need – not just the symptoms – can be better undertaken by development or climate actors and funds. While the Paris Agreement is the only agenda to set out clear historical responsibilities for developed countries to provide resources in developing countries, the niche and roles of these agendas and their actors must be respected (and reinforced) as we seek to channel finance to the most vulnerable and to navigate the incomplete overlap in priorities.

Financing mechanisms that can deliver on more than one agenda will support the best use of limited funds. There are themes, framings and tools that have already gained traction across the three agendas, such as cities, infrastructure, risk and resilience, insurance and social protection. Identifying common investments in these areas (but not restricted to them) can maximise the impact of financial resources. This will require continued engagement of international finance institutions, as well as better engagement of new and existing national and regional development finance institutions with growing interest and capacity in these agendas. The objectives of these agendas must be factored into country programming, portfolio development financing strategies and future capital mobilisation. Innovative solutions and localisation of finance must also be sought to this end, with the governance issues associated with realising them addressed.

Effective and efficient spending across these agendas needs careful and concerted efforts to identify overlaps and programme resources accordingly. Global processes play a role in supporting this, but domestic coordination of the agendas is central. Countries should be encouraged to adopt domestic financing targets and timelines for the agendas, as proposed in the AAAA, although whether the SDGs will be seen as a docking station for other agendas will remain up to countries themselves. New partners and actors who need to follow up on the alignment of these agendas in national processes should be capacitated. This also includes non-state actors, both government and non-governmental, that are already increasingly active across agendas. More than money, good policy environments

and governance will underpin effective spending and in particular, could prevent the undermining of one agenda at the expense of another.

Actors must follow through on their existing commitments. This is particularly true for the provision of concessional finance in countries most vulnerable to shocks and stresses that span the humanitarian, development and climate agenda. The tracking of financial targets and commitments serves to build trust and faith in global processes but also identifies where efficiency gains can be made. A key request from the WHS was for there to be more efficient humanitarian finance. A reduction in the fragmentation or the consolidation of vertical funds and numerous initiatives that traverse the SDGs, WHS and Paris Agreement could contribute by reducing the management and transaction costs in these agendas.

It remains critical for us to get to scale. This includes the greater engagement of private finance and businesses that play important roles in many of the sectors at the heart of the climate, humanitarian and developmental challenge. However, private finance should be seen as a complement to public finance, not a replacement for it, and private actors should be capitalised upon for their expertise and solutions. Governments will retain central responsibilities to their citizens for delivering these agendas in many respects. A reinforcement of efforts to strengthen tax systems and public financial management in partnership with development banks can be supported by creating neutral fora where options can be considered and debated. Exploring how less-concessional resources will support the agendas and different financing mechanisms' roles in countries of differing income levels must also be better explored, particularly with the institutions shaping development trajectories in developing countries and emerging economies. The showcasing of public-private partnership delivery and targeting of international and national barriers to profit-seeking investment across these agendas will also support getting to scale and help us progress towards shifting the trillions. Building and maintaining strategic alliances and expertise with business and finance communities is critical to this end.

The momentum and engagement of the last two years should be built on and encouraged. The agenda's intertwined ambitions indicate that there must be a willingness to work across humanitarian, development and climate siloes. Recognising the roles and existing financing architectures of each agenda will help us make the best use of the finance available and shape more effective financing architectures, going forward.

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## Our Shared Future

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