CAEP
IGAD Centre of Excellence For Climate Adaptation and Environmental Protection

FINANCING CLIMATE RESILIENCE

BALANCING ACCESS AND IMPACT IN THE IGAD REGION

POLICY BRIEF

NOVEMBER 2024

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The IGAD **Centre of Excellence for Climate Change Adaptation and Environmental Protection (IGAD CAEP)** in Mogadishu, Somalia, was established on 23 December 2021. CAEP is an IGAD-specialized institution mandated to coordinate Climate Change Adaptation, Loss and damage, and Environmental Protection efforts in the eight IGAD countries comprising Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda.

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FOREWORD

Maxwell Gomera

maxwell gomera

Regional Director,
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Growing up in a rural African village, we all had that one tree in the centre of the community—solid and dependable, offering shade and shelter, braving the elements year after year. In our small community, we didn't just rely on that tree; we built our lives around it. But one year, the rains didn't come, and the tree struggled. In those moments, we realized resilience isn't just about surviving a season; it's about sustaining the life around it through changing times.

In many ways, that tree reminds me of the resilience efforts across the IGAD region today. Climate change and economic uncertainties have become recurring storms, pushing communities to their limits. But just as that tree in our village could only thrive with the community's collective care, resilience across the IGAD region requires a strong network of support and investment from governments, development partners, and the private sector.

This policy brief provides a thoughtful examination of resilience financing for the IGAD region, laying bare the reality of our financial gaps and the pressing need for a more integrated approach to funding. The cycles of crisis-response-recovery have proven unsustainable. Now is the time to redefine resilience financing—not as a series of isolated efforts, but as an interconnected system that unites humanitarian, climate, and development finance.

What gives me hope are the powerful stories of transformation already unfolding: Ethiopia's Climate Resilient Green Economy Facility, Kenya's Financing Locally Led Climate Action, and Somalia's quiet but steady strides in resilience investment. These initiatives demonstrate the potential of a resilience model where public and private sectors work hand in hand, where international aid complements local ingenuity, and where each dollar invested today prevents future crises.

We know that every dollar invested in resilience can save three in future humanitarian costs—a clear case for early action. Imagine if we scaled that impact, mobilising resources in a way that not only meets today's needs but anticipates tomorrow's challenges.

This paper is more than a report. It's a call to action for those of us committed to Africa's resilient future. Let us work together to bridge the financing gap, create opportunities for sustainable growth, and make resilience not just a goal, but a legacy. This is our moment to turn vision into impact, making the IGAD region a beacon of hope and strength for generations to come.

Ambassador Gamal Hassan

Director,
IGAD Centre of Excellence for Climate Adaptation and Environmental Protection (IGAD CAEP)

The IGAD region remains one of the most vulnerable countries to the impact of climate change and has the least capacity to adapt. This is despite being responsible for less than 1% of global GHG emissions. All IGAD Member States have developed climate change policies to adapt to the changing climatic conditions, including NDCs and NAPs. However, there has been a significant challenge with implementing priority adaptation and mitigation actions due to funding gaps. Some Member States are further faced with strained public funds, inflation, political instability, and debt crises exacerbating existing challenges.

To tackle the climate crisis, there is a need to supplement resilience financing gaps from public, private and philanthropic sources. However, IGAD Member States must put their house in order with enhanced fiduciary responsibility, transparency and accountability to take advantage of the limited funding opportunities.

As an entry point, tracking and reporting on resilience financing in the IGAD region is critical to the development agenda of the member states, and the availability of comprehensive data on all finance flow helps inform policy decisions and planning for a climate-resilient and sustainable future.

Drawing on the context of resilience finance in the IGAD region, this report showcases the gaps, challenges and opportunities for enhancing funding to support communities and countries to deal with the impacts of climate-related shocks, especially droughts and floods, which are very prevalent in the region. It charts a way forward that will support the realisation of the IGAD Climate Adaptation Strategy (2023-2030) particularly on adaptation financing.

The report recognises the unique challenges faced by Fragile and Conflict-affected States (FCS) in the IGAD region, such as attracting investors and entrepreneurs to invest in their countries due to political instability and insecurity. Indeed, COP28's Relief, Recovery and Peace Declaration was an assuring start that spotlighted the plight of climate-vulnerable and unstable countries. As we head to COP29 in Baku, Azerbaijan, the UNFCCC's New Collective Quantified Goal (NCQG) on Climate Finance provides a unique opportunity to mobilise climate finance for the most vulnerable in Africa, especially from FCSs.

This policy brief will no doubt enhance resilience finance public discourse and serve as a reference for governments, NGOs, development partners, and communities, among others, implementing climate resilience finance actions, strategies, projects, and programmes in the IGAD region.

ACKNOWLEDGMENTS

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The paper was led by Moortaza Jiwanji (UNDP ASFH) with inputs from Ankun Liu, Ana-Maria Beldiga, Mtwalo Msoni, Christopher Marc Lilyblad, David Mueller, Abdimajid Nunow (IGAD-CAEP), Tim Strawson, Linet Odera, Daisy Mukarakate, Jeanne Finestone and Tomas Sales. The work draws on data and analysis performed by technical experts from Development Initiatives, including Charles Ntale, Boniface Owino, Dean Breed, Eastone Owino, Sheila Oguda and Martha Bekele. The team is grateful for strategic inputs from Max Gamera, Zeynu Ummer, Ambassador Gamal Hassan and Tom Beloe.

Findings were informed by key informant interviews with government representatives from the IGAD CAEP, Ministries of Finance and Ministries for the Environment as well as UNDP Country Offices in Kenya, Ethiopia and Somalia as well as development partners[1] active in the region including UK FCDO, GIZ, WFP, UNICEF, UNCHR, and the UN Somalia Joint Fund.

1. UNDP held consultations for a resilience programme in Turkana County and Somalia in 2023, which have also fed into this policy brief given the complementarities of scope of this research.

EXECUTIVE SUMMARY

INTRODUCTION

The humanitarian costs of climate related crises in the IGAD region have risen significantly over the last few decades. The prolonged drought of 2023 left 23.4 million people food insecure in the region with an estimate of 2.7 million people displaced[2]. There are, however, insufficient financial resources to adequately respond to such events which are occurring more frequently and with greater intensity. Moreover, underlying drivers of the vulnerability of communities in the Intergovernmental Authority on Development (IGAD) region to these crises continue to increase, despite the 'significant' levels of investment to date. The increasing financial burden brought about by climate-related crises in the region cannot be sustained with increasing 'donor fatigue' and resulting competition for funding.

The purpose of this paper therefore is to examine the way in which resilience has been financed in the IGAD region, and to propose a shift in the way in which it is structured to maximise access and impact. Resilience finance considers all forms of domestic and international funding, including humanitarian, climate, and development finance. The paper draws on data from Kenya, Ethiopia and Somalia as a sample for broader consideration across the IGAD region. The paper charts a way forward that will support member states in implementing the IGAD Climate Adaptation Strategy (2023-2030).

2. https://reliefweb.int/report/ethiopia/drought-horn-africa-situation-update-july-2023

THE FAILURES OF FINANCING

Development and humanitarian financing have largely failed to address the causes of persistent vulnerability. The constant cycle of crisis-response-recovery means that resources have been diverted away from early action and the building of longer-term resilience. Humanitarian responses tend to focus on immediate crisis hotspots, resulting in these areas receiving humanitarian aid. However, even if re-packaged as humanitarian 'plus', humanitarian and recovery efforts are simply not enough to enable longer term resilience.

> **KEY MESSAGE 1.**
>
> The cyclical pattern of climate-related crises in the region is placing increasing pressure on humanitarian financing, while also diverting resources away from opportunities to build resilience for the longer term.

Africa faces significant challenges in accessing climate finance[3]. Between 2011 and 2021, Africa received US$71.1 billion in international climate finance for adaptation, $74.8 billion for mitigation, and $24.6 billion for activities addressing both areas (OECD, 2021). Despite adaptation being a more urgent priority, funding for mitigation remains higher. The main reasons for these challenges in Africa include weak institutional capacity and accountability systems, incoherent policy frameworks, and limited data and quality of pipeline development.

ODA investments for resilience building have tended to be smaller than allocations for humanitarian work standing at approximately $2bn over the last decade. There are, however, some positive trends emerging with development projects over the last ten years showing a higher proportion of funding allocations to resilience (such as urban resilience and greening) growing from 2.8 percent in 2012 to 5.1 percent in 2021.

> **KEY MESSAGE 2.**
>
> Access to climate financing falls short of the required investments for adaptation and mitigation in the region, whilst ODA investments on resilience building tend to be lower than allocations for humanitarian action.

Financing for resilience largely comes from external sources in the form of grants and loans. ODA grants accounted for just under three quarters (74.0 percent on average) of disbursements to between 2013 and 2022[4]. ODA loans accounted for 20.5 percent, on average, of total external funding for resilience with bilateral donors being the main source of funding for resilience.

Contributions from domestic public finance and private capital, on the other hand, are significantly lower. Unlike the larger economies of Kenya and Ethiopia, Somalia has very constrained domestic fiscal space and is over-dependent on external concessional finance. Domestic public expenditure in resilience still

3. UNDP (2024). Climate Finance in Africa: An overview of climate finance flows, challenges, and opportunities.
4. See the OECD DAC and CRS code list for the definition of standard grant and standard loans. The list is available at: https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/dacandcrscodelists.htm

accounts for a small portion of total public spending in Kenya and Ethiopia. There has been limited application of private capital and other instruments for resilience, given a bias towards mitigation rather than more resilience-relevant adaptation.

KEY MESSAGE 3.

Financing for resilience building comes largely in the form of grants and loans and less so from domestic public revenues and private capital.

There are several systemic challenges in operationalising financing related to resilience, which include: limitations in accessing vertical funds due in large part to fragile conditions, as well as weak governance and accountability systems that limit transparency on how aid is spent. Additionally, investments are often made in a siloed way, limiting opportunities for complementarity between various financing instruments.

The region is also characterised by political instability and insecurity, which are major concerns for investors interested in investing in the region. Many member states including Somalia, South Sudan and Sudan are considered Fragile and Conflict –affected States (FCS) with climate vulnerability, conflicts, over-reliance on rainfed agricultural production and limited adaptive capacities. Generally, fragile countries tend to receive the least climate finance in comparison to other non-fragile countries confirming that climate finance is risk averse and tend to avoid conflict or fragile zones.

KEY MESSAGE 4.

Deeper systemic issues prevent countries from better access and management of resilience related financing.

THE FUTURE OF FINANCING:
AN INTEGRATED AGENDA

Financing for resilience is an integrated agenda across humanitarian, climate and development objectives. This will require the bringing together of different sources and instruments of financing, through pooled financing mechanisms, linking humanitarian, climate and development initiatives. There is a strong economic case for mitigating the impacts of crisis well before they eventuate and directly linking these efforts to response initiatives. Analysis of funding in Ethiopia, Kenya and Somalia proposes that for every $1 invested in building people's resilience, up to $3 could have been saved in reduced humanitarian aid over the last 15 years prior to 2018.

Financing Nationally Determined Contributions (NDCs) for climate related targets are a key entry-point for this integrated approach to financing. Linking the financing of NDCs to financing of national development plans through integrated national financing frameworks (INFFs) offers a path toward achieving country-led climate resilience and growth. By aligning NDC commitments with SDG targets, countries can enhance their climate strategies while advancing broader development objectives.

KEY MESSAGE 5.

Financing resilience will require a country-led integration of objectives across humanitarian, climate and development financing, as well as across multiple instruments and sources within integrated national financing frameworks.

While several innovative financing instruments such as green bonds and blended finance have been used to finance resilience related programmes, most of the instruments are still at the pilot stage. However, there are a range of possibilities to deploy instruments designed to specifically finance different drivers of resilience and these are categorised by instruments aimed at strengthening resilience of people, of our planet (natural resources) and of private sector. Integration of domestic and international resources through pooled financing mechanisms are crucial to strengthen resilience initiatives. Programs like Ethiopia's Climate Resilient Green Economy (CRGE) Facility and Kenya's Financing Locally Led Climate Action (FLLoCA) programme have mobilized diverse funding sources to support coordinated, community-focused climate adaptation efforts.

KEY MESSAGE 6.

A range of financing instruments can be deployed to leverage key drivers of resilience targeting people, natural resources management and the private sector.

Whilst the main aim of resilience financing is to address the underlying vulnerability in the region, there remain the inevitable consequences of current and future events such as droughts across the region. As such, a range of instruments are proposed that will help deal more effectively with the inevitable impacts of crisis, which need to be considered and explicitly linked to a broader portfolio on resilience financing.

KEY MESSAGE 7.

Financing mechanisms to better predict, respond and recover from future crises is an essential part of the resilience financing portfolio.

PROGRAMMING CONSIDERATIONS:
IN THE IGAD REGION

This research highlights several opportunities to enhance the enabling environment for better access and management of financing for resilience. This will include a better understanding of finance flows and mechanisms available in the region, financing strategies at regional and country level as well as knowledge management mechanisms for countries to learn from best practices.

KEY MESSAGE 8.

Increases in the volume and effectiveness of climate and resilience financing will require significant reform of financing systems and instruments.

The private sector has a pivotal role to play in strengthening resilience across the IGAD region by acting as an engine of resilient development solutions, green growth, crisis recovery, and employment generation. Realizing this potential involves improvements in resilience-aligned investments in local markets. These improvements will require a significant stimulus in the market to help bridge resilience investments with financing, as well as a more conducive enabling environment that can better secure private capital to meet resilience objectives.

KEY MESSAGE 9.

The private sector has a pivotal role to play in crisis-affected areas by acting as an engine of resilient development solutions, green growth, crisis recovery, and employment generation. This will require stimulus of the market, as well as a more conducive enabling environment to help bridge resilience investments with financing.

Financing for resilience needs to move beyond 'business as usual'. Knowledge platforms allow for the sharing of new ways of working on financing and will be a key element of this change. This will require the creation of spaces, platforms, and opportunities for peer-to-peer learning, reflection, and exchange of lessons and good practices. This can then also help countries formulate common advocacy positions on climate finance, considering IGAD's mandate to support countries in the region access the UNFCC Loss & Damage fund.

KEY MESSAGE 10.

Learning and exchange of experiences, including across the borders, will be critical for enhancing access and impact of financing and will also build a strong platform for joint advocacy and access to financing.

INTRODUCTION

The humanitarian costs of climate related crises in the Intergovernmental Authority on Development (IGAD) region have risen significantly over the last few decades, yet there is an absence of commensurate financial resources to adequately respond to this continuing trend. Moreover, underlying drivers of the vulnerability of communities in the IGAD region to these crises continues to increase, despite the 'significant' levels of investment in the region to date. The **increasing financial burden** of climate-related crises in the region cannot be sustained.

Whilst the economic argument for investment in resilience has long been made, emerging evidence suggests not only that official development assistance (ODA) for resilience-building remains seriously inadequate, but that the subregion's governments face many resource constraints to enable investments to be made on resilience. This paper draws on data from three countries, Kenya, Ethiopia and Somalia, as a sample for consideration across the IGAD region. It focuses on the need for increasing investment in resilience in the face of climate, social and other shocks.

There is an emerging view that financing needs to go beyond managing the impacts of crises and focus on the drivers of resilience. The purpose of this paper, therefore, is to examine the way in which resilience has been financed in the IGAD region, and to propose a strategic shift not only in the volume of financing but the way in which it is structured. When considering financing for resilience, all types of financing are considered, including humanitarian, climate-related and development finance. It draws on emerging evidence to influence future policy debates and programming. The following key questions are explored further:

1. **How have the financial resources been invested in resilience over the last two decades between humanitarian and development objectives?**

2. **What are the main financing sources, instruments and mechanisms being deployed and how effective have they been?**

3. **What 'shifts' need to be made for more effective and integrated financing of resilience building?**

This paper draws on available literature, an analysis of quantitative data on financing mainly for the period 2013 to 2022 obtained from OECD DAC Creditor Reporting System (CRS) database, and consultations with key informants to build a picture of the humanitarian and development financing situation in Kenya, Ethiopia, and Somalia. However, this type of information is limited across the region in terms of availability and comparability of data which was largely self-reported by donors. The findings and recommendations are largely aimed at governments and development partners who invest significantly in this area.

THE FAILURES OF FINANCING

KEY MESSAGES

1.

The cyclical pattern of climate-related crises in the region is placing increasing pressure on humanitarian financing, also diverting resources away from opportunities to build resilience.

2.

Access to climate financing is short of required investments for adaptation and mitigation in the region, whilst ODA investments on resilience building tend to be less than allocations for humanitarian action.

3.

Financing for resilience building comes largely in the form of grants and loans and less so from domestic public revenues and private capital.

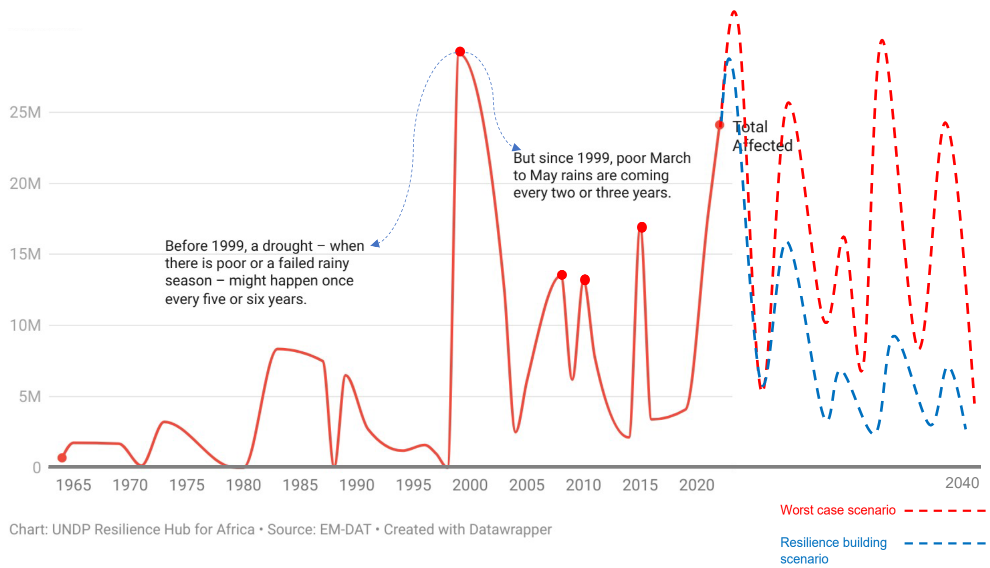
4.

Deeper systemic issues prevent countries from better access and management of resilience related financing.

INADEQUACY OF LEVELS OF FINANCING

Vicious cycle of impacts and future scenarios

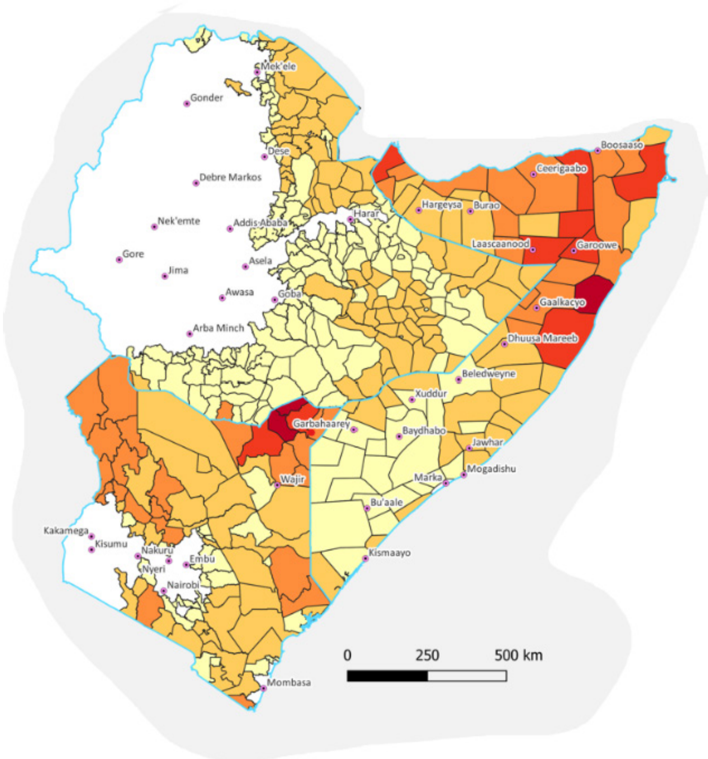
Figure 1: Cycle of crisis-response-recovery-crisis



Source: EM-DAT; Graph created by UNDP Resilience Hub for Africa

'Development and humanitarian interventions have largely failed to address the causes of persistent vulnerability...many fragile contexts have seen either an over-reliance on cyclical, traditional, expensive and short-term humanitarian action or development interventions that are 'risk-blind' to potential shocks and stresses[5].' The constant cycle of crisis-response-recovery-crisis (Figure 1) means that resources have been diverted away from early action[6] and building longer-term resilience. Humanitarian responses tend to focus on immediate crisis hot spots resulting in these areas receiving humanitarian aid as the main form of engagement with external actors, as opposed to targeting pre-existing areas of vulnerability (Figure 2). Humanitarian and recovery efforts, even if re-packaged as humanitarian 'plus', are simply not enough to enable longer term resilience .

Figure 2: Mapping social vulnerability in Kenya, Ethiopia and Somalia



Source: Map* created by the UNDP AI Lab, 2023 (*darker shades of color indicate a higher degree of vulnerability)*

Africa faces significant challenges[7] in accessing climate finance. Between 2011 and 2021, Africa received $71.1 billion in international public and philanthropic climate finance for adaptation, $74.8 billion for mitigation, and $24.6 billion for activities addressing both areas (OECD, 2021). Despite adaptation being a more urgent priority for Africa, funding for mitigation remains higher.

5. Strategic Framework to Support Resilient Development in Africa, Regional UN Development Group (R-UNDG) Eastern and Southern Africa (ESA) & Western and Central Africa (WCA).
6. Alexandra Crosskey and Catherine Fitgibbon. 2013. Disaster risk management in the drylands in the Horn of Africa https://www.technicalconsortium.org/wp-content/uploads/2014/05/Brief4_Disaster-risk-reduction-management.pdf
7. UNDP (2024). Climate Finance in Africa: An overview of climate finance flows, challenges, and opportunities.

* The designations employed and the presentation of material on this map do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations or UNDP concerning the legal status of any country, territory, city or area or its authorities, or concerning the delimitation of its frontiers or boundaries.

At the same time, Africa's NDCs require an estimated $2.8 trillion from 2020 to 2030, or $277 billion annually, yet only $30 billion was received from bilateral and multilateral sources in 2021-2022—just 11 percent of the needed amount. With African governments aiming to cover 10 percent of these needs, a significant gap of $2.5 trillion, or 80 percent, remains unmet for climate targets. According to the IGAD Climate Adaptation Strategy 2023-2030, the adaptation financing needs alone in the Member States NDCs require about $195,807 billion in total investment, which is likely to increase after NDC revisions in 2025[8].

The main reasons for these challenges to climate finance in Africa include weak institutional capacity, incoherent policy frameworks, and limited data for project development. Weak institutions struggle to meet international climate fund standards, lacking the technical expertise to develop viable projects. Policy frameworks, while progressing, often lack coherence between climate and development plans, as well as adequate climate investment strategies. Data limitations hinder project development, as localized climate vulnerability assessments are scarce, creating challenges in justifying and prioritizing climate investments.

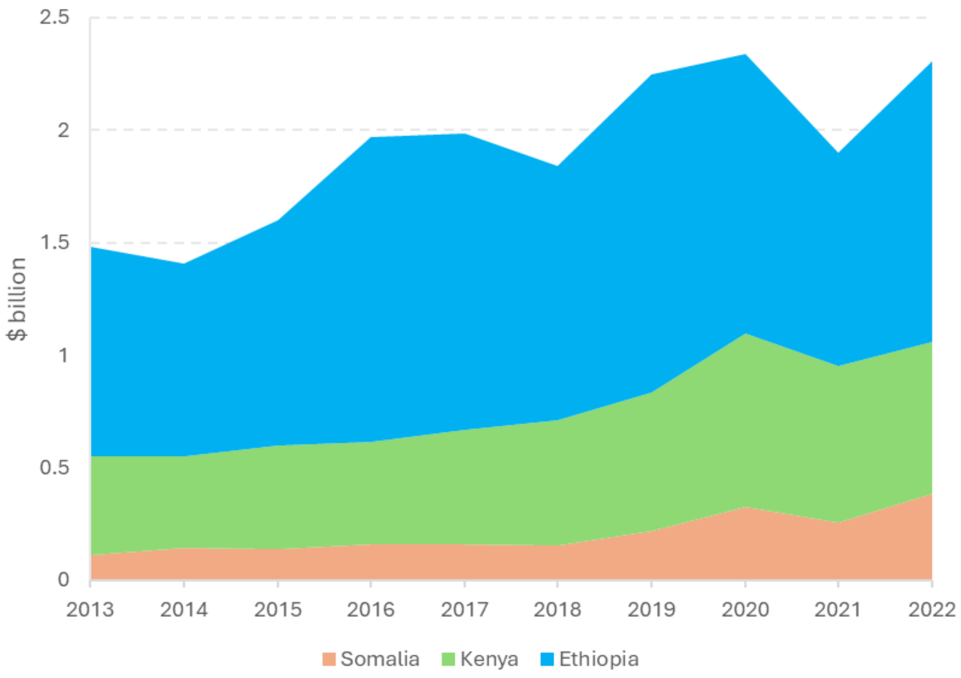
Externally, the complexity of international climate finance systems exacerbates these issues, with the high cost of capital and restrictive terms set by Multilateral Development Banks (MDBs) further constraining access. Additionally, fragmented climate finance tracking, lack of green taxonomies, limited transparency, and high perceived risk deter private sector engagement.

ODA investments in resilience building have tended to be smaller than allocations for humanitarian work in the 3 studied IGAD countries, standing at approximately $19 billion over the last decade, $6 billion less than the humanitarian aid.[9] Similarly, total aid that is earmarked for climate change adaptation in the IGAD region remains inadequate.[10] For instance, Somalia's climate finance needs, as stated in its latest nationally determined contribution, stand at $5.5 billion a year over the period 2021 to 2030. However, current climate finance flows stand at just over $300 million a year, equivalent to only 6 percent of need.[11] Current climate finance flows to Kenya are equivalent to just half of the resources required annually to achieve its nationally determined contribution's targets. Moreover, about 79 percent of the funding is allocated to mitigation, while Kenya has an adaptation-focused nationally determined contribution.

Total external aid funding for resilience-building efforts to the three countries experienced significant fluctuations between 2013 and 2022, largely due to the funding volatility seen in Ethiopia (Figure 3). The two resilience funding peaks around 2016 and 2020 were partly due to a major drought event and the COVID-19 pandemic, respectively. Uncertain disbursement of external aid funding and over-reliance on such funding is a major challenge for sustainable investment in resilience-building efforts in IGAD countries, as it complicates planning and hinders the ability to ensure continuity in the implementation of resilience programmes.

8. https://igadcaep.org/wp-content/uploads/2020/07/igad-climate.pdf
9. https://fts.unocha.org
10. International Crisis Group, 2022. Investing in climate adaptation and resilience as a bulwark against conflict. Available at: https://icg-prod.s3.amazonaws.com/s3fs-public/2022-10/wl-climate-autumn-2022.pdf
11. Quevedo, A., et al. 2023. Financing climate adaptation in fragile states. Available at: https://www.sparc-knowledge.org/publications-resources/financing-climate-adaptation-fragile-states-case-somalia

Figure 3: External aid funding for resilience to Ethiopia, Kenya and Somalia during 2013-2022



Source: based on data from OECD DAC CRS database. Note: Disbursements are in constant 2021 USD.

DIVERGENCE AND FRAGMENTATION OF FINANCING

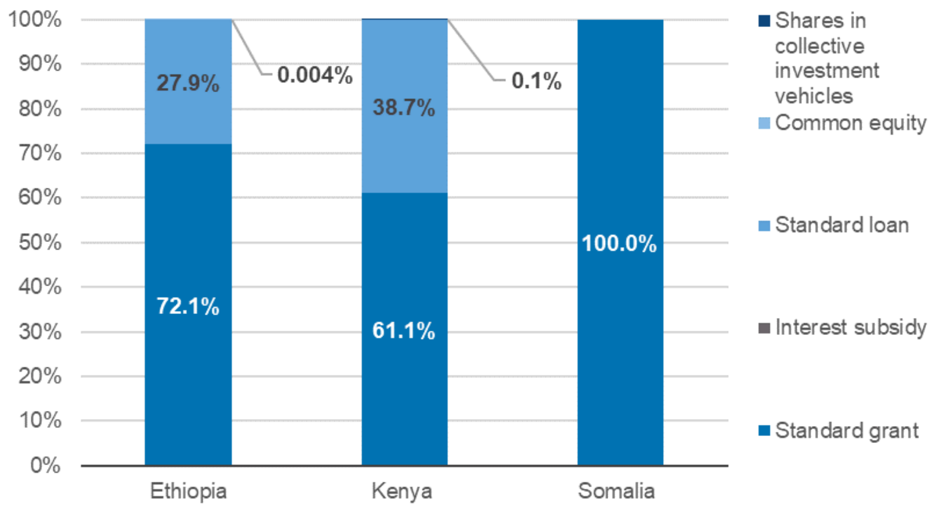
There has been a high reliance on ODA for resilience programmes largely financed by external concession resources in the form of grants and loans. ODA grants accounted for nearly three quarters (74.0% percent on average) of the $19 billion aid disbursements for resilience to the 3 IGAD countries between 2013 and 2022[12] (Figure 4). ODA loans accounted for 20.5 percent, on average, of total external funding for resilience over the review period. Bilateral donors are the main source of funding for resilience in the IGAD region. Just over half (52.3 percent) of disbursements aimed at building resilience in Ethiopia between 2013 and 2022 came from bilateral donors. In Kenya, bilateral donors accounted for 58 percent of funding for resilience. Disbursements from bilateral donors was much higher in Somalia, where it accounted for over three-quarters (77.4 percent) of external funding for resilience. Other instruments, particularly interest subsidies, common equities and shares in collective investment vehicles had a negligible role in the delivery of external funding for resilience.

12. See the OECD DAC and CRS code list for the definition of standard grant and standard loans. The list is available at: https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/dacandcrscodelists.htm

Contributions from domestic public finance, on the other hand, are significantly lower. There is varied and limited finance from domestic public revenues across countries. Unlike the bigger economies of Kenya and Ethiopia, Somalia has very constrained domestic fiscal space and is over dependent on external concessional finance. Domestic public expenditure in resilience still accounts for a small portion of total public spending in Kenya and Ethiopia. For example, between the fiscal years 2015–2016 and 2019–2020 the Ethiopian Government planned to spend on average $130.2 million on disaster risk management from domestic public resources – equivalent to only 2.2 percent of the federal budget. Similarly Only 3% of total government expenditure (in 2023) is on agriculture and natural resource management, a key sector for resilience building.[13]

There has been limited application of private capital and other instruments for resilience, given a bias towards mitigation rather than more resilience-relevant adaptation. Economic and political stability are main challenges for mobilizing private capital which is constraining the application of market-oriented instruments such as sustainable bonds, insurance, and blended finance targeting diversified investors. This will require more stable, conducive, and enabling political, policy and regulatory and financial environments.

Figure 4: Financing instruments in external aid funding for resilience, 2013–2022



Source: based on data from OECD DAC CRS database.

13. UN Office for Disaster Risk Reduction, 2022. Policy brief, Ethiopia: Risk-sensitive budget review, public investment planning for disaster risk reduction and climate change adaptation. Available at: https://www.undrr.org/media/77151/download?startDownload=true

FINANCING FOR WHAT?

Resilience investments in the focus countries were examined by tracking external aid funding disbursed to sectors that were deemed to be resilience sensitive. Out of the $19 billion aid disbursements for building resilience in the 3 IGAD countries (Ethiopia, Kenya and Somalia) between 2013 and 2022, 60 percent went to Ethiopia, while Kenya and Somalia received 29.4 percent and 10.6 percent, respectively (see also Figure 3).

Overall, 72 percent of total disbursements to these countries went to sectors that are relevant for strengthening resilience including agriculture, social infrastructure and services, development food assistance, and water supply and sanitation. For instance, the agriculture sector received the highest shares of resilience aid funding in Ethiopia (35.7 percent) and Kenya (46.9 percent), to finance programmes aimed at strengthening food security through improved food production and climate-smart agriculture. The top 2 receiving sectors of resilience aid in Somalia are social infrastructure (21 percent) and agriculture (19 percent). The interventions funded in these two sectors in Somalia are similar to those in Kenya and Ethiopia, where the social infrastructure interventions include social protection and livelihood programmes for building the resilience of vulnerable groups.

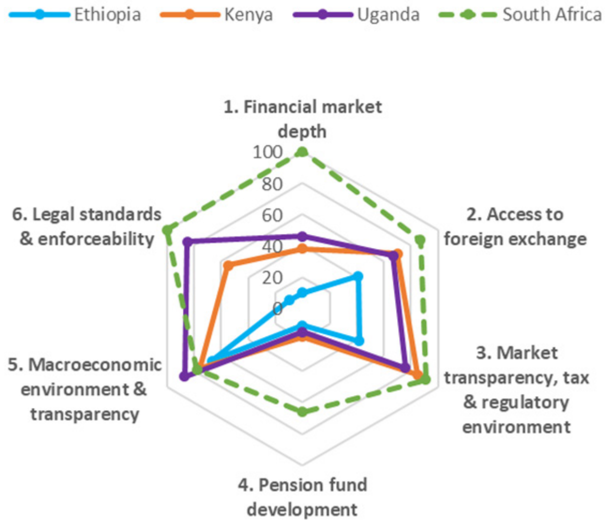
SYSTEMIC ISSUES OF FINANCING

Whilst governments and development agencies recognise the importance of prioritising longer-term investment, there are a number of systemic challenges in operationalising this. This is attributed to several factors, including limitations in accessing vertical and other funds due in large part to fragile and conflict conditions, and weak governance, as well as accountability systems that limit transparency on how aid is spent.[14] Furthermore, investments are often made in a siloed way, limiting opportunities for complementarity between various financing instruments.[15] This is further exacerbated by stringent requirements of donor financing for high fiduciary standards, which do not reconcile well with the most vulnerable countries, which are often short of resources and institutional capacities.[16] There is also a fragmented policy landscape which has led to ad-hoc funding and implementation of climate adaptation and resilience interventions by different development partners.

IGAD countries still have a long way to go in developing accessible, open and transparent domestic financial markets, which are critical to attracting diversified local and international investors or funders, particularly long-term, patient capital, in financing resilience investments in the region. The local financial market development in IGAD countries has been largely lagging behind other benchmark countries in Africa, such as South Africa which has a deep, liquid and advanced financial market. Across the six essential pillars for financial market performance under the latest Africa Financial Markets Index

14. International Crisis Group, 2022, op. cit.
15. UN Multi-Partner Trust Fund Office, 2017. Mapping the financing for regional drivers of fragility in the Horn of Africa. Available at: https://au.int/sites/default/files/pages/32824-file-170615_final_report_on_hoa_mapping_for_circulation.pdf
16. Doshi and Garschagen (2020) Understanding Adaptation Finance Allocation: which factors enable or constrain vulnerable countries to access funding? https://www.mdpi.com/2071-1050/12/10/4308

Figure 5: Financial Markets Index in select IGAD countries against South Africa



Source: Based on country data from Absa Africa Financial Markets Index 2024. https://cib.absa.africa/home/insights-and-events/absa-africa-financial-markets-index-2024/

(Figure 5), IGAD countries such as Ethiopia, Kenya and Uganda gained significantly lower scores across most performance dimensions, especially in financial market depth, pension fund development, access to foreign exchange, legal standards and enforceability, and market transparency and regulation. These systemic gaps hamper the wide application of market-oriented innovative financing instruments, such as sustainable bonds, insurance, and blended finance, by governments, finance institutions, and the private sector for resilience investment in the region.

Debt distress is a key deterrent to financing for resilience. For instance, Kenya's debt service-to-revenue and grants ratio is expected to increase from 52.0 percent in 2022 to 62.7 percent in 2024, meaning that much of the national revenue will go to debt repayment rather than financing key interventions including resilience programmes.[17] Following the announcement of debt relief of $4.5 billion, Somalia's public debt has reduced from 64 percent of GDP in 2018 to 6 percent of GDP in 2023. However, regaining access to international markets will depend on the extent to which Somalia strengthens its capacity to mobilise resources to repay future loans.[18] Ethiopia's debt distress is still high with a debt to GDP ratio at 40%. At the same time, **low credit ratings** forced African countries to take on high-interest loans, leading to an unsustainable debt burden, which many nations struggle to repay.[19] Therefore, several countries are negotiating for more concessional instruments and grants, such as through the New Collective Quantified Goal (NCQG) on climate finance, to help countries access financing that is more conducive to their context.

Limited investment in strengthening the private sector to deliver resilience-building goods and

17. National Treasury and Economic Planning, Republic of Kenya, 2023. Medium term debt management strategy 2023. Available at: https://www.treasury.go.ke/wp-content/uploads/2023/06/Medium-Term-Debt-Management-Strategy-2023.pdf
18. IMF, 2023. IMF and World Bank announce US$ 4.5 billion in debt relief for Somalia. Available at: https://www.imf.org/en/News Articles/2023/12/13/pr23438-imf-and-world-bank-announce-us-4-5-billion-in-debt-relief-for-somalia
19. Reuters. (2024, August 1). How Africa's 'ticket' to prosperity fueled a debt bomb. Retrieved from https://www.reuters.com/investigations/how-africas-ticket-prosperity-fueled-debt-bomb-2024-08-01/

services. A UNDP study "Africa Beyond Aid: Investment Opportunities in Fragile Settings of Africa"[20], concludes that in the Horn of Africa, there is a need for investment frameworks that allow foreign, national and local companies to play a more significant role in addressing the root causes of droughts, conflicts and crises while building the needed resilience for local economies. One of the main obstacles, however, for private companies is limited access to finance. The countries are characterized by a poor financial inclusion due to high interest rates, high collateral requirements, and MSME's lack of financial literacy. Microfinance institutions have improved access to credit for smaller actors, but they remain marginal, and informal businesses struggle to get credit.

Political instability and insecurity are major concerns for investors and entrepreneurs interested in investing in the region. Many member states, including Somalia, South Sudan and Sudan, are considered Fragile and Conflict –affected States (FCS) with climate vulnerability and underlying contexts, especially active conflicts, over-reliance on rainfed agricultural production, and limited adaptive capacities exacerbating the pressures on communities and governments. Generally, fragile countries tend to receive the least climate finance in comparison to other non-fragile countries confirming that climate finance is risk averse and tends to avoid conflict or fragile zones. Ethiopia has received more climate funding despite the existence of conflicts in Amhara, Tigray, Oromia and other parts since 2020. Risk averse donors tend to avoid providing resources to the most vulnerable in conflict affected countries.[21]

Although there is no denying climate change indeed exacerbates conflict in Sudan[22], it had received limited climate finance or general development financing due to inclusion in the State Sponsors of Terrorist List (SSTL) and was under heavy sanctions by the United States up until 2020. Also, Sudan does not have nationally accredited organisations to the GEF or GCF, hence making the country dependent on UN agencies and multilateral banks who are selective and very cautious of the question of risk transfer, especially after the eruption of conflict in April 2023 between the Sudanese Armed Forces (SAF) and the paramilitary Rapid Support Forces (RSF).

Fragile states in the region also experience the least private sector finance flows given the impacts of sanctions, existence of active conflict, and limited data among others. To tackle this, innovative financing options, such as blended finance to reduce risk, need to be considered. For instance, the UNFCCC's New Collective Quantified Goal (NCQG) on climate finance provides an opportunity to mobilize climate finance for the most vulnerable, especially from FCSs.

"I believe there is a need for enhanced climate finance in the IGAD region and Africa at large, as outlined in this report; this must be delivered through concessional instruments and grants and not loans to break out of the vicious circle of debt and climate vulnerability, the New Collective Quantified Goal (NCQG) on climate finance provides a unique opportunity to deliver climate finance for Africa to adapt climate change and achieve prosperity."

Ali Daud Mohamed

Special Climate Envoy for the Republic of Kenya, Chair Africa Group of Negotiators (AGN)

20. GIST Research Ltd (2023) Africa Beyond Aid (Final Draft)
21. Raleigh, C., Linke, A., Barrett, S. and Kazemi, E., 2024. Climate finance and conflict: adaptation amid instability. The Lancet Planetary Health, 8(1), pp.e51-e60.
22. Sax, N., Hassan, G. M., Abdi, A. N., Madurga-Lopez, I., Carneiro, B., Liebig, T., & Pacillo, G. (2023). How does climate exacerbate root causes of conflict in Sudan.

THE FUTURE OF FINANCING

AN INTEGRATED AGENDA

KEY MESSAGES

5.

Financing resilience will require a country-led integration of objectives across humanitarian, climate and development financing, as well as across multiple instruments and sources within integrated national financing frameworks.

6.

Financing needs to target the drivers of resilience including investments for people, planet (natural resources) and the private sector.

7.

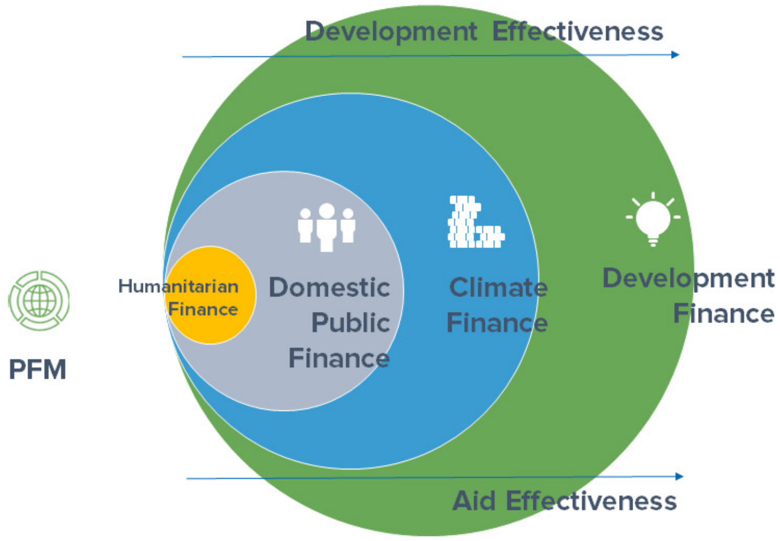
Financing for resilience needs to include mechanisms to better predict, respond to and recover from future crises.

INTEGRATED OBJECTIVES: CRISIS, CLIMATE & DEVELOPMENT

Financing for resilience needs to be an integrated agenda across humanitarian, climate and development financing within a country-led approach. This will require the integration of resilience across different sources and instruments of financing linking humanitarian, climate and development initiatives from both domestic and international sources, as well as public and private (Figure 6). Governments and development partners are shifting to programming approaches that link emergency relief with long-term development programming. This is articulated through Integrated National Financing Frameworks (INFFs)[23] that set out priorities for financing resilient sustainable development trajectories in line with national development plans, NDCs and disaster risk management plans. This not only lends itself to greater potential for impact but also presents an opportunity to leverage larger pools of funding and enhancing greater aid and development effectiveness.

23. https://inff.org/

Figure 6: Integration of resilience across different sources and instruments of financing



Source: Author's compilation

INTEGRATING RESILIENCE INTO HUMANITARIAN FINANCE

There is a strong economic case for mitigating the impacts of disasters through better anticipatory action, preparedness and responses. Analysis of funding in Ethiopia, Kenya and Somalia[24] proposes that for every $1 invested in building people's resilience, up to $3 could have been saved in reduced humanitarian aid over the last 15 years prior to 2018. During the 2011 drought crisis, despite early warnings provided, life-saving assistance arrived too late, leading to the loss of an estimated 250,000 lives in Somalia. In contrast, governments and development partners reduced impacts of severe drought conditions between 2015 and 2017 by employing a swift and well-funded response, the effectiveness of the response being attributed to efforts that had been made to invest in resilience programmes before the drought.[25]

Programming approaches that integrate humanitarian, development and peace (HDP) activities have several resilience benefits. Financing for programmes which simultaneously respond to emergency needs and longer-term livelihood requirements – such as social protection and natural resource management

24. Courtenay Cabot Venton, 2018. Economics of resilience to drought in Ethiopia, Kenya and Somalia. USAID Centre for Resilience.
25. Kairu, G., n.d. Drought and people's livelihood in the Horn of Africa. Available at: https://www.preventionweb.net/files/78468_cs10.geraldkairucasestudythehornofa.pdf

– have gained increased attention and interest.[26] An example of this approach includes WFP's 2022–2023 drought response in the IGAD region, which includes lifesaving and life-changing interventions. The life-saving interventions include humanitarian programmes such as relief food and nutrition assistance, while the life-changing interventions include projects that strengthen communities' resilience, such as livelihood support to households to enhance resilience and promote sustainable recovery from shocks.[27]

A CLIMATE-DEVELOPMENT NEXUS: NDCS AND SDGS

The connection between Nationally Determined Contributions (NDCs) and Sustainable Development Goals (SDGs) offers a clear path toward achieving both climate resilience and sustainable growth. Countries like Denmark and Costa Rica exemplify this approach, using insights from NDCs and SDGs to shape effective policies. To effectively link climate action and development, financing strategies are needed that support both goals simultaneously.

The third generation of Nationally Determined Contributions (NDCs) can play a key role in shaping development policies that integrate public and private finance aimed at tackling climate change. These next-generation NDCs will tap into diverse sources of development finance, focusing on sectors with high potential for returns, such as renewable energy, agriculture, and waste management. However, existing governmental structures and institutions – including laws, formal rules and regulation, and informal norms – make this integration difficult in practice. Instead of tediously synthesizing divergent targets and indicators to fit both NDCs and development goals to arrive at a contrived harmonization, the new generation of NDCs should be designed to allow for a more unified approach at the outset.

26. Beegle, K., Honorati, M. and Monsalve, E., 2018. Reaching the poor and vulnerable in Africa through social safety nets. Realizing the full potential of social safety nets in Africa, 1, 49–86; Del Ninno, C., Coll-Black, S. and Fallavier, P., 2016. 'Social protection: Building resilience among the poor and protecting the most vulnerable', In Confronting Drought in Africa's Drylands: Opportunities for Enhancing Resilience, 165–184.
27. UN World Food Programme, 2023. Regional drought response plan for the Horn of Africa: 2023. Available at: https://www.wfp.org/publications/regional-drought-response-plan-horn-africa-2023#:~:text=To%20address%20the%20devastating%20drought,resilience%20to%20extreme%20climate%20variability.

INTEGRATION INTO DEVELOPMENT FINANCE

There is a growing development imperative to link financing of resilience to the development agenda in the region. This allows for better targeting of the underlying causes of vulnerability and fragility which largely stem from weaknesses in economic, social and environmental aspects of development. As such, integrating risk-informed approaches into development programming and funding is being strongly linked to achieving Agenda 2030. The IGAD IDDRSI also emphasises the need for investing in development reduce the need for humanitarian interventions. Thus, development partners and governments in the IGAD region consider investments in resilience a key strategy for breaking the cycle of poverty, food insecurity and inequalities that perpetuate vulnerability in the region.

For instance, the Building Opportunities for Resilience in the Horn of Africa project (BORESHA), implemented in Somalia, Kenya and Ethiopia, facilitated integration of resilience into community development and subnational government plans. The programme contributed to an increase in household incomes from $35.2 to $87.0 per month and enhanced access to basic services such as animal health and fodder. It also enhanced the growth of local businesses and employment opportunities.[28]

Another example in Ethiopia, Kenya and Somalia demonstrates how social protection programmes (Productive Safety Net Program [PSNP] in Ethiopia,[29] Hunger Safety Net Programme [HSNP] in Kenya[30] and Baxnaano in Somalia[31]) were adapted to be shock responsive. These social protection programmes scale up coverage beyond their regular beneficiaries to reach more households during shocks. This is particularly relevant given that pre-existing social vulnerability conditions is a major driver of vulnerability to drought as already depicted in the Figure 2 above which shows how high levels of social vulnerability (red zones) are closely linked to high impact of drought situations.

28. Danish Refugee Council, CARE International and World Vision International, 2023. Building Opportunities for Resilience in the Horn of Africa (BORESHA) III final evaluation report. Available at: https://careevaluations.org/wp-content/uploads/Final-Report-Final-Evaluation-of-BORESHA-III.pdf
29. IGAD, 2019, op. cit.
30. Oxford Policy Management, 2017. Evaluation of the Kenya Hunger Safety Net Programme Phase 2: Emergency payments deep dive study. Available at: https://www.opml.co.uk/files/Publications/a0013-evaluation-kenya-hunger-safety-net-programme/emergency-payments-report.pdf
31. WBG, 2022. From protracted humanitarian relief to state-led social safety net system: Somalia Baxnaano Program. Available at: https://documents1.worldbank.org/curated/en/426111642078045285/pdf/From-Protracted-Humanitarian-Relief-to-State-led-Social-Safety-Net-System-Somalia-Baxnaano-Program.pdf

INTEGRATING FINANCING SOURCES AND INSTRUMENTS

Pooled financing mechanisms offer an efficient and effective way of delivery given the multi-sectoral and dimensional nature of resilience initiatives. National governments and development partners in Kenya, Ethiopia and Somalia have established funding mechanisms to facilitate access to domestic and international resources for financing various resilience programmes. These include pooled funds, national/subnational disaster risk management and climate change adaptation funds, and national budgetary allocations.

For instance, Ethiopia's Climate Resilient Green Economy (CRGE) Facility aims to build resilience by mobilising finance from various sources.[32] These include conditional and unconditional grants and up-front financing, guarantees, loans and results-based payments. CRGE also provides a unified platform for engagement between the government and development partners, civil society organisations and other stakeholders to ensure a participatory approach to decision-making. Similarly, the Financing Locally Led Climate Action (FLLoCA) programme in Kenya delivers climate adaptation funding to vulnerable communities from multiple sources including the World Bank, the Danish International Development Agency, the Swedish International Development Cooperation Agency (SIDA), KfW and the government of Kenya .[33]

32. Adaptation Fund, n.d. Ethiopia's investment in climate compatible development. Available at: https://www.adaptation-fund.org/ethiopias-investment-in-climate-compatible-development/
33. National Treasury and Planning, 2020. Financing locally-led climate action programme. Available at: https://www.treasury.go.ke/wp-content/uploads/2021/03/ToR-for-the-Development-of-the-ASSA-Manual-Cleared-by-WB-June-2020.pdf

FINANCING FOR PEOPLE, PLANET AND PRIVATE SECTOR

While several financing instruments, such as green bonds and blended finance, have been used to finance resilience-related programmes, most of the instruments are still at the pilot stage with uptake remaining low. However, there are a range of possibilities to deploy instruments designed to specifically finance different drivers of resilience. These are categorised by instruments aimed at strengthening the resilience of people, of our planet (natural resources) and of the private sector (Figure 7), leveraging practices from both IGAD countries and peer countries from other sub-regions of Africa.

Figure 7: Financing instruments for people, planet and private sector

Source: Author's compilation

To strengthen resilience for people, financing instruments such as SDG budget tagging, sustainability bonds, credit guarantees, PPPs, and crowdfunding can play a crucial role. For example, credit guarantees for smallholder farmers in Tanzania have also been used to ease lending for smallholder farmers looking to invest in adaptation and resilience technologies. In 2020, Kenya's first corporate green bond – worth $27.6 million – was issued by a private company (Acron Group) at the Nairobi Securities Exchange to facilitate construction of environmentally friendly housing for university students.

Building resilience in businesses also requires diverse financial tools to foster innovation and adaptability, especially in sectors vulnerable to climate and economic challenges. Green loans, thematic bonds (public and private), green asset-backed securities (ABS), and venture capital can provide targeted financial solutions to drive sustainable practices. For instance, in 2019, the

French Development Agency and the European Union provided €75 million to two banks in Mauritius to offer green loans on favorable terms. In Cabo Verde, the association of municipalities raised $1 million through a social bond, enabling a local microcredit agency to fund sustainable entrepreneurship in coastal communities. Additionally, a consortium of private companies issued a $17 million sustainability bond, combining green and social uses of proceeds within the bond framework. In Kenya, a firm used the ABS approach to secure a $130 million deal for solar investments by securitizing payments from over one million customers. African agrifoodtech startups raised $1 billion in private equity between 2017 and 2022, with one-fifth from Kenya.

To preserve resilient environmental systems, African countries are exploring instruments for the payment of ecosystem services (PES), debt-for-nature swaps, thematic bonds, carbon credits and sustainable finance taxonomies. These are important instruments that can be used to leverage resources for natural resource-based resilience building initiatives. Payment for Ecosystem Services (PES) in Ethiopia, Kenya, Uganda and Tanzania is helping to improve landscape management, increase the efficiency of conservation approaches, and benefit poor rural communities. Seychelles was the first country in Africa to undertake a debt-for-nature swap, exchanging $21.6 million in debt for creating 2 major marine reserves, helping the country achieve its goal of 30 percent marine protection, an important aspect of resilience building. Benin issued a €500 million SDG bond to fund social and environmental SDG projects, while Rwanda developed a green taxonomy to attract international capital for climate projects. Accessing carbon markets is another vehicle for attracting and contributing resources for resilience. Kenya, Ethiopia and Uganda have firm agreements with donor partners to facilitate carbon trading. Others, including Djibouti, Eritrea, Somalia9, South Sudan, and Sudan are focusing on renewable energy projects and carbon sequestration to enhance their involvement in the carbon market.

Environmental taxation is another instrument that can facilitate a structural transition to environment and climate-resilient economies. It can help reduce the environmentally harmful behaviour of businesses and people, while generating revenue for different levels of government, in the form of receipts from taxes, duties and fees on energy, transport, pollution and resources. Environmental tax revenues accounted for about 1.7-1.8 percent of GDP in countries like Kenya and Uganda, compared to 2.9 percent of GDP in South Africa, implying future revenue potential for environmental resilience. Rationalized tax incentives can also help boost climate-resilient private investments. For instance, private capital investments in renewable energy supply in Rwanda can enjoy a preferential corporate income tax rate of 15 percent.

FINANCING CRISIS MANAGEMENT

Whilst the main aim of resilience financing is to address the underlying vulnerability in the region, there remain the inevitable consequences of current and future disaster events such as droughts, floods, locusts, landslides, desertification and epidemics. As such, a range of instruments are proposed that will help deal more effectively with the inevitable impacts of crisis, which need to be considered and explicitly linked to a broader portfolio on resilience financing.

Disaster risk financing offers useful options to enhance the resilience of governments and affected businesses and people. Typical instruments include budgetary funds, contingent credits and sovereign risk transfers (Figure 8), most of which are ex-ante instruments. Governments can utilize a portfolio of disaster risk financing instruments to help re-build resilience. For instance, in Kenya, a $200 million Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (Cat-DDO) provides contingent financing to help manage the impacts of extreme events. Kenya's Drought Contingency Fund (DCF) project, funded by the EU, included an Early Waring Early Action mechanism that triggered the release of funds to 16 counties that faced a drought threat.[34] Investments in early warning and response led to a reduction in dependency on humanitarian assistance in Kenya from $459.4 million in 2014 to $379.8 million in 2016.[35]

Figure 8: Typical sovereign disaster risk financing instruments

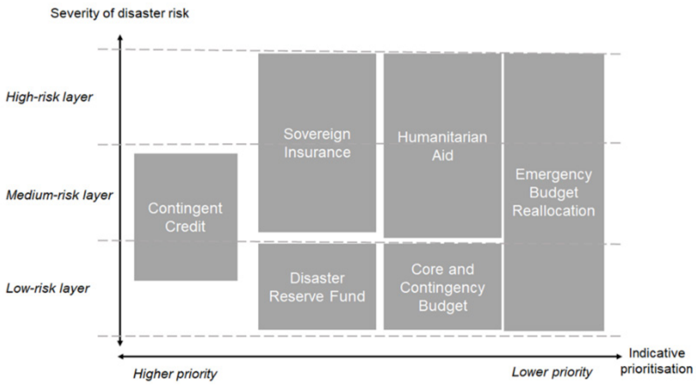
Disaster type	Instrument type	
Low frequency and high severity	Market-based instruments	**Sovereign risk transfer:** Insurance to protect funding mechanisms against extreme events, such as African Risk Capacity (ARC)'s parametric insurance solutions for climate and health risks.
High frequency and low severity	Contingent credit	**Contingent credit:** Financial instruments with financial institution commitments to release loans based on a trigger.
	Budgetary instruments	**Reserves/contingency budget/reallocation:** budget funds with soft allocations, e.g. Disaster Relief Emergency Fund.

Source: Author's compilation

34. IGAD, 2020, op. cit.
35. FAO and IGAD, 2019, op. cit.

The Government of Ethiopia has devised a comprehensive sovereign disaster risk financing strategy for implementation during 2023-2030. This strategy constructs a spectrum of viable financing instruments (Figure 9), including a disaster reserve fund, contingency budget, emergency budget reallocation, contingent credit, humanitarian aid and sovereign insurance.

Figure 9: Finance instruments in Ethiopia's layered disaster risk financing strategy



Source: Author's compilation

Other examples include the UNDP Community and Recovery and Resilience Facility (CRRF) which bridges post disaster recovery to longer term resilience building from the current El Nino Southern Oscillation (ENSO) episodes and future events in Eastern and Southern African regions. The Mozambique Recovery Facility (MRF) was developed in the aftermath of Cyclones Idai and Kenneth, aiming for the rapid restoration for community development. It is a five-year pooled funding mechanism ($72.2 million) which provides a coordinated approach to short-to-long term recovery actions that address root causes of vulnerability and build resilience to future disasters.

PROGRAMMATIC CONSIDERATIONS

IGAD REGION

KEY MESSAGES

8.

Increases in the volume and effectiveness of climate and resilience financing will require significant reform of financing systems and instruments.

10.

Learning and exchange of experiences, including across the borders, will be critical for enhancing access and impact of financing and will also build a strong platform for joint advocacy and access to financing.

9.

The private sector has a pivotal role to play in crisis-affected areas by acting as an engine of resilient development solutions, green growth, crisis recovery, and employment generation. This will require stimulus of the market, as well as a more conducive enabling environment to help bridge resilience investments with financing.

ENABLING THE ENVIRONMENT FOR IMPACTFUL FINANCING

Since the early 2010s, resilience has increasingly become a distinct policy objective across the region. In 2013, IGAD's member states and development partners launched the IGAD Drought Disaster Resilience and Sustainability Initiative (IDDRSI) to end drought emergencies in the region.[36] More recently the IGAD Adaptation Strategy (2023-2030) provides a framework for priority action areas for adaptation financing, particularly targeting the UNFCCC damage and loss fund. The following steps can be undertaken to develop an appropriate financing strategy for resilience. This can be undertaken across the region and/or in specific country contexts:

1. **Identification of region-/country-specific areas of resilience investment** that can drive resilience. These can be drawn on current and future scenario risk maps to derive maximum impact.

2. **Diagnostic of financing landscape** for the key resilience areas, including mapping public, private, domestic and international finance flows as well as financing systems. This can draw on the existing Development Finance Assessments (DFA) but applied specifically to resilience aspects. DFAs have already been undertaken in Ethiopia and Kenya, for example.

36. IGAD, 2019. The IGAD drought disaster resilience and sustainability initiative: Available at: https://icpald.org/wp-content/uploads/2019/10/IDDRSI-STRATEGY.pdf

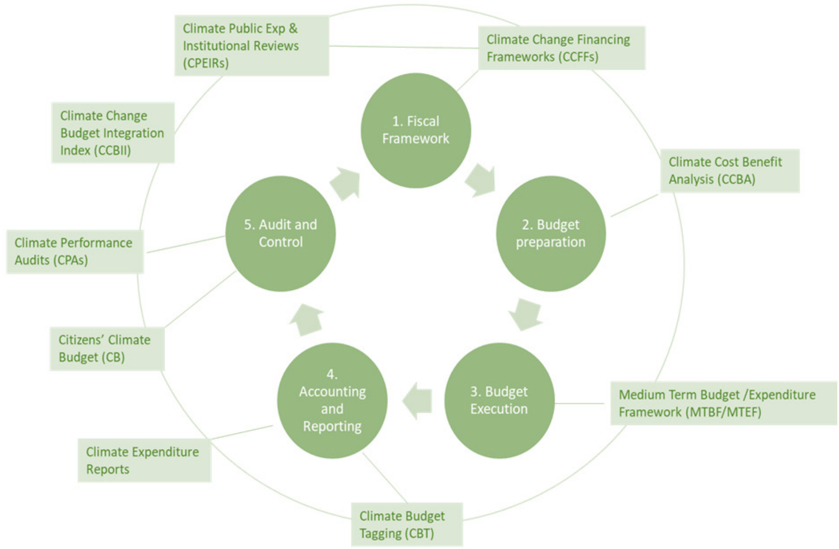
3. **Financing strategies for resilience** that set out key priorities and approaches to better access and manage financing for resilience. This will target sources of humanitarian, climate and development finance such as the loss and damage fund. There are two approaches in which countries can develop these:

   - First, include resilience aspects into financing strategies for development. The Integrated National Financing Strategies (INFFs) offer a structured way for countries to effectively mobilize and manage finances for resilience within the broader development context. For instance, Ethiopia, Djibouti, Rwanda, Botswana, Zanzibar of Tanzania, and Gambia have integrated the objectives of NDCs into the development of their integrated financing strategies. Kenya is also about to develop its national development financing strategy and resilience / climate change is already a key priority area being integrated into this process. These INFF financing strategies provide a sovereign articulation of financing priorities across all sources of finance and are a foundation on which programming, development cooperation partnerships and the deployment of innovative financing instruments can build.

   - Second, leverage off existing climate-related financing strategies to implement climate-related strategies and plans. Djibouti has articulated a clear vision to integrate its NDCs within its national development plan financing strategy. This strategic integration signifies Djibouti's ambitions toward a low-carbon, climate-resilient future, making it a pioneer in the Horn of Africa region for its forward-thinking climate and development finance strategy. Also, Kenya published a draft Green Fiscal Incentives Policy Framework that plans green fiscal reforms to shift Kenya's economy into a low-carbon, climate-resilient development pathway and spur private sector green investment. The green fiscal framework includes tax policies, concessional loans, guarantees and interest rate subsidies, sovereign green bonds, and expenditure programs across key sectors such as disaster risk management, water and blue economy, agriculture, forestry, manufacturing, waste management, and electricity, among others.

4. **Governance reform measures** to ensure that planning, budgeting and accountability systems reflect resilience adequately. Figure 10 below illustrates entry-points for integrating climate change considerations across the Public Financial Management (PFM) cycle, which can be adapted to multiple crisis. This includes practical tools such as risk screening, and risk informed monitoring and evaluation, establishment of government financing mechanisms, and expenditure tracking solutions, as well as enhanced fiduciary responsibility, transparency and accountability. Disaster and Climate Public Expenditure and Institutional Reviews (DCPEIRs) are being applied in Mali and Burkina Faso to diagnose public financing systems for resilience.

Figure 10: Entry-points for integrating climate change considerations across the Public Financial Management cycle



Source: UNDP, adapted by the author.

LEVERAGING THE ROLE OF PRIVATE SECTOR

The private sector has a pivotal role to play in strengthening resilience across the IGAD region by acting as an engine of resilient development solutions, green growth, crisis recovery, and employment generation. Realizing this potential involves improvements in resilience-aligned investments in local markets. These improvements will require a significant stimulus in the market to help bridge resilience investments with financing, as well as a more conducive enabling environment that can better secure private capital to meet resilience objectives.

STIMULATING resilience investments in the private sector will involve additional market intelligence, pipeline formulation and financing frameworks that can provide a rate of return as well as meet resilience objectives. First, this will involve the systematic identification of investments across relevant sectors and businesses that can contribute to resilience. Initiatives are already underway across the continent and in the region that can help provide this stimulus. SDG Investor Map provide areas of investment opportunity that are not only commercially viable but also have the potential to exert a positive impact on people and planet.[37] For example, across IGAD countries, SDG Investor Maps have been completed in Djibouti, Kenya and Uganda and are also being piloted across borderland communities in Kenya and Uganda through the Africa Borderlands SDG Investor Map Guidelines. Similarly, the Africa Green Business and Financing initiative provide roadmaps for the private sector which include

37. See SDG Investor Platformfor more information https://sdgprivatefinance.undp.org/leveraging-capital/sdg-investor-platform

practical, action-orientated plans for financing resilience related initiatives. For instance, the Malawi Private Sector Action Roadmap identifies opportunities for green business and financing to accelerate green economic activity.

Second, it is important to define an investment framework for resilience. As such, climate resilience classification frameworks can help businesses and investors in identifying resilience investment areas across agri-food systems, urban development, health, infrastructure, industry and commerce, nature conservation, and biodiversity for instance. Recent guidance in this regard developed by UNDRR and the Climate Bonds Initiative[38] is a useful starting point for IGAD countries.

ENABLING inflows of private capital for resilience activities by the private sector will require four complementary pillars of interventions in the region:

1. **Domestic financial markets** will need to offer more diversified financial products and platforms with a focus on resilience. These include sustainable bonds, green loans, green asset-backed securitization, guarantees, insurance, crowdfunding, green fintech, and venture capital. Effective operation of such financial markets will expand the private sector's access to much-needed early-stage and long-term financing.

2. **Fiscal incentives** can create the right incentives to spur more resilient investment and resilience. Such fiscal incentives may include environmental taxation, tax incentives, green subsidies, and green public procurement. Examples can be seen in Kenya's Green Fiscal Incentives Policy Framework and Rwanda's preferential tax rate for private investment in renewable energy supply.

3. **Public-private collaboration,** such as public-private-partnerships (PPP) and blended finance, can help de-risk private sector investment in resilience sectors. These can be offered in various forms of grants, minority equity, guarantee, and concessional lending to unlock the private sector's resilience investment.

EXAMPLE:

Resilience Impact Fund for the Horn of Africa (RIFHA)

Impact investing is another example on how innovative financing mechanisms can align domestic small and medium enterprises (SMEs) with the resilience-building agenda. UNDP is partnering with a Fund Manager through the Resilience Impact Fund for the Horn of Africa (RIFHA) on how to unlock commercial lending and develop a focused, purpose-driven SDG-informed investment framework and Impact Fund to empower local companies to actively contribute to addressing the structural drivers of droughts, conflicts, and crises. This will inform investment decisions of the $250m fund to align with the Governments and Development Partners strategies on resilience.

38. https://www.undrr.org/publication/designing-climate-resilience-classification-framework-facilitate-investment-climate

4. **SDG Impact Standards** can help integrate resilience and sustainability into investment and business models. This can help couple financial returns with positive social, economic, and environmental impacts. In this regard, UNDP has developed a series of SDG Impact Standards which are already being applied to a forthcoming initiative on resilience in the region. UNDP and a fund manager are applying these standards to a $250 million Resilience Impact Fund for the Horn of Africa (RIFHA) that will unlock commercial lending to MSMEs for addressing resilience issues caused by droughts, conflicts, and crises (see Box above).

KNOWLEDGE PLATFORMS AND LEARNING

Financing for resilience needs to move beyond 'business as usual' and knowledge platforms for sharing widespread experience, formal data and analysis will be a key element of this change. This will require the creation of spaces, platforms, and opportunity for peer-to-peer learning, reflection, and exchange of lessons and good practice. This can then also help countries formulate common advocacy positions on climate finance, considering IGAD's mandate to support countries in the region access the UNFCC Loss & Damage fund. Financing for climate resilience can for instance be included in the IGAD portal[39] which is a one-stop location for collecting and curating climate adaptation knowledge across the IGAD region.

Initiatives will include south-south exchanges on finance related activities; research and data analysis on financing flows related to resilience (across humanitarian, climate and development financing); learning platforms for member states and partners to come together for knowledge sharing; provision of guidance notes and training on particular aspects of financing relating to resilience, such as transparency and accountability systems, budget tagging, and risk-screening of investments.

39. IGAD portal https://igadcaep.org/knowledge-portal/

United Nations Development Programme
Africa Sustainable Finance Hub
UN House, 351 Francis Baard Street
Pretoria, South Africa

sdgfinance.undp.org