CLIMATE FINANCE AND DISPLACEMENT

Beyond Projects and Payouts

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The Problem

COP31 in Antalya concluded without agreement on its proposed overarching political decision, although separate decisions advanced work on adaptation and loss-and-damage assistance. The outcome highlights two related challenges: mobilizing more predictable and accessible climate finance, and ensuring that financing translates into sustained public action. Climate-related displacement brings these challenges into focus, as the public responsibilities arising from population movement often extend beyond individual projects and payouts.

A relocation project may finance housing and infrastructure without securing the livelihoods and services that make a settlement viable. Disaster-risk finance can deliver rapid liquidity without ensuring that it reaches municipalities receiving displaced populations. Adaptation investment can reduce future exposure without resolving how people already displaced obtain healthcare, education, social protection and administrative services. These are not necessarily failures of the instruments involved. They are different public-finance problems that cannot be solved by any one instrument.

Existing approaches provide an important foundation. The Warsaw International Mechanism's Task Force on Displacement has mapped access to financial resources for averting, minimizing and addressing displacement. The Asian Development Bank (ADB) and Internal Displacement Monitoring Centre (IDMC) have advanced the integration of disaster displacement into country and sector operations. The Fund for Responding to Loss and Damage is developing access and disbursement arrangements. Its initial Barbados Implementation Modalities attracted 176 funding requests totaling $2.8 billion, against an allocation of $342 million, illustrating both the demand for international support and the growing importance of how financing is structured and delivered. The question is how these efforts connect with the fiscal and institutional architecture through which governments sustain protection and services.

This brief argues that climate-displacement finance must follow the public functions affected by population movement: where expenditure falls, how responsibility changes, which constraints prevent institutions from acting, and what financing arrangements can endure beyond an initial project or payout. Drawing on the fiscal framework developed in *Governing Displacement* Brief 5, it examines how displacement-related responsibilities can be incorporated more systematically into climate-risk assessment, public-finance management and country-level financing operations.

Displacement Changes the Fiscal Consequences of Climate Risk

Displacement alters not only the level of public expenditure associated with a climate-related hazard, but also its timing, location and longer-term economic consequences. This reflects a central challenge of the displacement continuum: people move across time and jurisdictions, while public institutions remain organized around relatively fixed mandates, budgets and administrative boundaries. Three dimensions are especially relevant.

The temporal dimension concerns expenditure that continues after exceptional financing ends. A relocation operation may pay for housing, roads and water systems, while schooling, healthcare, maintenance and local administration require recurrent expenditure for years. Public budgets are designed to contain continuing commitments, yet displacement can create obligations of uncertain duration. The problem is not simply identifying these costs, but establishing how temporary interventions connect to ordinary public mandates, budget appropriations and, where necessary, continuing international support.

The territorial dimension concerns expenditure moving between jurisdictions, often faster than fiscal transfers can adjust. Receiving municipalities may need additional staff, infrastructure and services without equivalent revenues or allocations. Areas of origin may lose population while retaining fixed infrastructure and administrative costs. Not all spending is additional; some is redistributed. A national government may therefore have access to financing while the local institution carrying the expenditure remains unable to respond.

The economic dimension concerns differences between solutions pathways. Return may require reconstruction and restoration of services; local integration may increase receiving-area expenditure while generating economic activity; planned relocation may require large up-front investment followed by continuing service costs. Repeated displacement may instead impose successive emergency costs without reducing future exposure. These alternatives have different implications for households, productivity, public revenue and fiscal risk.

Scenario-based analysis could help compare the fiscal implications of feasible alternatives, including costs of inaction, avoided losses and the distribution of expenditure over time. Such analysis cannot determine which solution is appropriate: safety, rights, community participation and people's preferences remain fundamental. Nor should potential economic benefits be confused with cash flows available to repay sovereign debt. Its value is to make the public responsibilities and financing consequences of different pathways visible before commitments are made.

Matching Climate Finance to the Constraint

Climate finance is not a single pool of money. International climate funds, including the Green Climate Fund, Adaptation Fund and Fund for Responding to Loss and Damage, operate through distinct mandates and access arrangements. Multilateral development banks provide investment lending, policy-based and results-based financing, grants and technical assistance. Governments use ordinary budgets, intergovernmental transfers and dedicated contingency funds. Disaster-risk financing adds reserves, contingent credit, insurance and other risk-transfer mechanisms; private and blended finance can support investments with suitable payment or revenue structures. Debt-related arrangements may affect fiscal space or the timing of payments.

These forms of finance serve different purposes. An adaptation grant may support risk reduction or preparatory work; sovereign investment lending may finance infrastructure; policy-based finance may support regulatory or fiscal reforms; results-based operations may strengthen institutional performance. Contingent credit and insurance provide liquidity under specified conditions, but cannot themselves fund indefinite service obligations. Private finance cannot be assumed to support services with no reliable revenue model. A labelled bond remains debt, and climate-finance eligibility does not establish fiscal sustainability.

Displacement Policy has proposed four complementary financing functions to connect financing instruments with the fiscal and institutional constraints they are intended to address. **Releasing fiscal space** means creating usable resources at the level where expenditure is needed, not simply increasing a sovereign allocation.

Preserving fiscal space means protecting services from shocks, changing caseloads and uncertain future needs, including shifts in where populations settle. **Enabling institutional adaptation** means changing mandates, eligibility rules, documentation, registries, benefit portability or fiscal-transfer arrangements that prevent public systems from serving displaced people. **Sustaining displacement governance** means establishing credible pathways for recurrent services and maintenance through budgets, transfers, multi-year finance and, when appropriate, continuing international cost-sharing.

A single displacement response may require all four. A planned-relocation program might combine infrastructure investment, revisions to municipal transfers, reforms to registration and social protection, and a multi-year service-financing plan. Together, these four functions provide a basis for matching financing arrangements to the fiscal and institutional requirements of displacement, including how resources are allocated, how public systems adapt, and how responsibilities are sustained over time.

Sustaining these functions also raises the question of who ultimately bears their costs. Integrating displaced populations into ordinary public systems can strengthen continuity of protection and services, but should not mean that climate-affected countries and receiving communities must absorb the full financial burden. Domestic responsibility for service delivery can coexist with continuing international financial support, provided that expenditure obligations and cost-sharing arrangements are explicitly addressed.

From Climate-Risk Modelling to Fiscal Decisions

Recent developments in climate-risk and fiscal analysis provide opportunities to assess the longer-term economic and public-finance implications of adaptation, including avoided losses, debt sustainability and sovereign financing conditions (Weidinger and Ranger, 2025). Applied to displacement, such approaches could help compare the fiscal consequences of return, local integration, planned relocation and recurrent displacement under different scenarios, including the costs of inaction.

A displacement-sensitive application would need to look beyond physical damage and aggregate economic losses to examine how population movement changes public expenditure and fiscal responsibilities. The challenge extends to anticipating the duration of displacement. Existing displacement-risk models are better equipped to estimate initial displacement than its duration, which also depends on socioeconomic conditions, institutional capacity and policy responses (Desai, 2026). Fiscal analysis must therefore consider capital and recurrent costs, changing demand for services, intergovernmental transfers, residual climate risks and potential revenue effects under different displacement scenarios. The appropriate level of analysis would depend on where the principal fiscal consequences arise, whether within national budgets, individual sectors or receiving municipalities.

Research on planned-relocation financing provides a complementary empirical foundation. The PDD–UNU *Funding Futures* study examined funding sources, mechanisms, recipients and allocations across 34 relocation cases, highlighting the complexity of financing arrangements and the importance of comprehensive budgeting and longer-term support (PDD and UNU-EHS, 2025). This work points toward a further analytical requirement: understanding how financing for relocation connects to the continuing expenditure obligations of public institutions, including those responsible for services and infrastructure after the initial intervention.

The challenge is also institutional. Research on climate-finance barriers in Asia identifies constraints involving project preparation, fragmented mandates, administrative capacity and policy coordination (Bößner et al., 2026). Related work on systemic climate risks highlights the persistence of sector-based planning and financing arrangements despite growing

recognition of interconnected risks (Mikaelsson et al., 2026). Displacement brings these challenges together, as population movement changes public-service demand and fiscal responsibilities across sectors and jurisdictions.

A displacement-sensitive fiscal diagnostic could connect these strands of analysis by assessing the expenditure and economic consequences of alternative displacement pathways, identifying where institutional responsibilities and financing constraints arise, and determining how investments, reforms and continuing financing arrangements could support sustainable outcomes.

From Financing Instruments to Country Responses

The preceding analysis suggests a broader agenda for connecting climate finance with the fiscal and institutional responsibilities arising from displacement. As climate-finance mechanisms evolve and development institutions strengthen their approaches to adaptation and loss and damage, greater attention is needed to how displacement-related expenditure and public functions are incorporated into country planning, financing decisions and implementation arrangements.

One priority is to integrate displacement more systematically into existing climate-risk, fiscal and public-investment assessments. This means looking beyond the immediate costs of displacement-related interventions to consider how population movement affects expenditure across sectors and jurisdictions, the fiscal consequences of alternative solutions pathways, and the institutional arrangements required to sustain protection and services. Such analysis could inform national adaptation planning, medium-term expenditure frameworks, public investment decisions and the design of development-finance operations. Its value would lie in making displacement-related responsibilities visible within the processes through which governments already allocate resources and manage fiscal risks.

A related priority is strengthening the connection between financing instruments and the institutional conditions for their effective use. Climate-finance access, investment preparation, policy reform and recurrent public expenditure are often considered through different institutional processes. Bringing these considerations together earlier could help governments and financing partners identify where grants, concessional resources, risk finance, policy-based operations or changes to domestic fiscal arrangements can make the greatest contribution. This would also provide a stronger basis for addressing continuing international cost-sharing alongside domestic responsibility for service delivery.

These efforts must contend with the political economy of sovereign financing. Humanitarian and protection needs do not automatically translate into government investment priorities, particularly where borrowing capacity is constrained and recurrent obligations are uncertain. Yet sovereign demand is not entirely fixed: the design of a financing program, its fiscal implications, institutional feasibility and terms of support can influence whether governments are able to undertake it. Translating displacement-related objectives into credible country responses therefore requires engagement between protection and sector specialists, public-finance authorities, development banks and those responsible for project and program preparation.

This suggests a role for **multidisciplinary deal-development capabilities** that bring displacement and protection expertise together with public-finance authorities, development banks, sector specialists, and legal and project-preparation expertise. Their contribution would be to develop the elements of a viable country program: a costed account of public responsibilities, feasible investment and institutional reform options, appropriate financing terms, and arrangements for distributing fiscal risks and recurrent

expenditure. Such capabilities could be assembled through existing country processes, technical assistance and development-finance partnerships, strengthening the connection between analysis and operational financing decisions.

There is also an opportunity to develop and apply displacement-sensitive fiscal and institutional diagnostics within this broader agenda. A country-level application, potentially involving planned relocation or local integration, could examine how existing analytical and financing approaches might better account for changing expenditure responsibilities, institutional constraints and continuing costs. PDD, interested governments and development-finance partners could provide a useful setting for exploring such an approach, including the potential contribution of targeted technical assistance or catalytic support.

The larger objective is to move displacement from a consideration addressed primarily through exceptional projects and funding arrangements toward a more systematic place in climate adaptation, public-finance management and development planning. This would help connect international climate finance with the public institutions and continuing responsibilities on which sustainable responses to displacement depend.

Conclusion

COP31 reinforced the importance of translating climate-finance arrangements into implementation. For displacement, the task extends beyond financing a project or arranging a payout. Population movement changes where public services are needed, how long expenditure continues and which institutions must respond. Existing instruments and emerging fiscal methodologies provide much of the necessary toolkit; what is less developed is a systematic process for connecting those tools to displacement-related public responsibilities.

The way forward is to integrate displacement more systematically into climate-risk assessment, fiscal planning and development-finance operations, while strengthening the institutional and financing arrangements needed to sustain public functions over time. This will require closer engagement between governments, development banks and displacement specialists to translate identified needs into feasible investments, reforms and financing commitments. Ultimately, financing climate displacement means sustaining the public functions and institutional responsibilities on which protection and durable solutions depend.

KEY MESSAGES

Climate-related displacement changes the fiscal consequences of climate risk. Population movement shifts public expenditure across time, jurisdictions and institutional responsibilities. Financing initial interventions does not necessarily address the continuing costs of public services, the distribution of expenditure between authorities or the fiscal implications of different solutions pathways.

Existing climate-finance instruments must be matched to the constraints they are intended to address. Grants, concessional lending, risk finance, policy-based operations and domestic budgets perform different functions. Sustainable responses require financing arrangements that release and preserve fiscal space, enable institutional adaptation and sustain public responsibilities, including appropriate international cost-sharing.

The missing link lies between climate-risk assessment, fiscal analysis and country financing decisions. Emerging methodologies offer opportunities to assess longer-term costs and alternative displacement pathways. Their contribution depends on connecting these assessments to institutional responsibilities, government priorities and feasible financing arrangements.

Priority Actions

For governments and public-finance authorities: Integrate displacement-related expenditure and institutional responsibilities into climate adaptation, fiscal planning and public-investment decisions. Assess how population movement affects capital and recurrent expenditure, service demand, intergovernmental transfers and fiscal risks across jurisdictions, including the implications of alternative solutions pathways.

For multilateral development banks and climate-finance institutions: Connect financing instruments more systematically with the public functions they are intended to support. Country diagnostics, investment operations and financing arrangements should consider how grants, concessional resources, risk finance, institutional reforms and domestic budget commitments can work together to address displacement-related constraints, including continuing expenditure and appropriate international cost-sharing.

For PDD, development partners and institutions supporting climate-finance preparation: Strengthen the translation of displacement-related analysis into credible country programs. Bring displacement, climate-risk, public-finance and sector expertise together earlier in program development, including through multidisciplinary deal-development capabilities. Support opportunities to apply displacement-sensitive fiscal and institutional assessments within existing country processes and identify practical improvements in financing design and implementation.

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