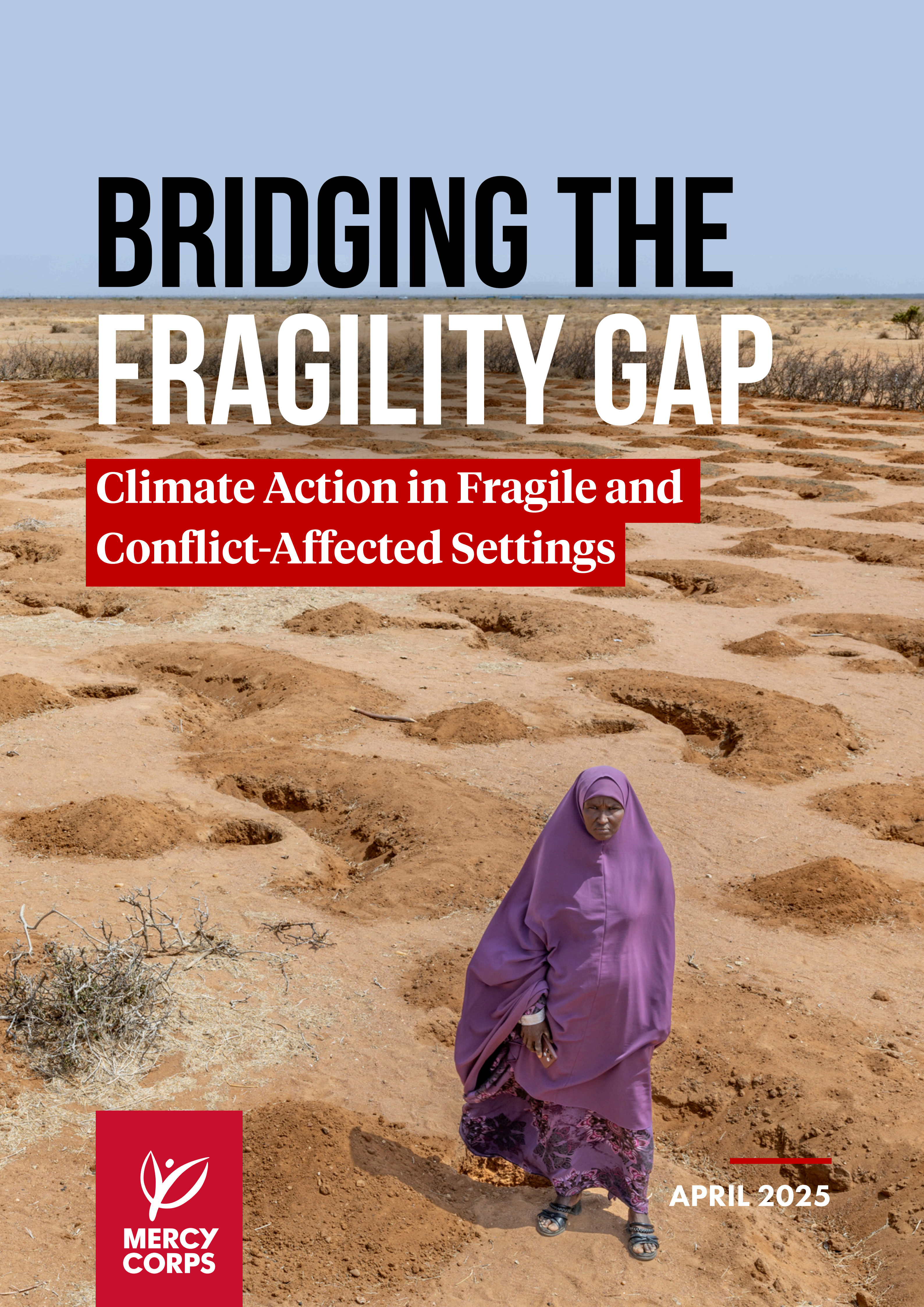
BRIDGING THE FRAGILITY GAP

Climate Action in Fragile and Conflict-Affected Settings



MERCY CORPS

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Introduction

Countries characterized as fragile and conflict-affected situations (FCS) are extremely vulnerable to climate change. These nations are geographically exposed to climate hazards that are only worsening due to the international community's inability to mobilize the levels of action and finance needed to tackle the drivers of the climate crisis. Moreover, weak institutions, compromised governance, and both historic or ongoing conflict further erode their capacity to adapt and cope with its impacts. These countries are also less likely to receive international climate finance, which is a lifeline for communities looking to reduce their greenhouse gas emissions and respond to current and future climate risks. Under these conditions, climate shocks such as floods, droughts and extreme weather can become unsurmountable challenges that destroy lives, undermine hard fought development gains and impede long term resilience.

The Overton Window – i.e. the broad range of mainstream policy and discourse - on this issue has shifted in recent years. Now, bilateral donors, implementers, and international financial institutions acknowledge the conflict/fragility blind spot in climate finance - that the more fragile a country is, the less climate finance it receives - and are actively trying to address it. The Climate, Relief, Recovery and Peace Declaration[1] was the first time that the links between climate, conflict, and instability were recognized in the international climate talks. At COP29, the Principles for Effective Climate Action, Relief, Recovery, and Peace were launched, and provide a practical vision of how to deliver climate finance to fragile contexts and translate the Declaration into concrete action. While these high-level commitments are an important first step, their promise will only be realized when donors and implementing organizations shift their ways of working and funding to address this blind spot[2].

The evidence base is also growing on the relationship between the two – that is, how climate change drives conflict, leading to fragility that limits the ability of countries and communities to adapt to climate change. Fragility, however, is a spectrum, and the specific challenges to effective adaptation in these contexts and solutions that can interrupt this cycle are highly context specific. As the evidence base continues to grow, we know enough to shift the focus from whether we can take action to what those actions should look like across FCS contexts, while prioritizing research and evaluation efforts to ensure we learn for earlier pilots.

This paper addresses two key challenges: how to increase climate adaptation investments in FCS and how to spend that funding on interventions that work. Drawing on the perspectives of bilateral donors, international financial institutions, think tanks and the Mercy Corps program teams in Colombia, Iraq, Kenya, Somalia and Uganda, we identify recommendations to better align finance and programming to support underserved communities on the frontlines of the climate crisis. We hope that the evidence and recommendations outlined can move the dial towards donors having the appetite to significantly scale up the quality and quantity of finance to FCS.

1 United Nations. (2023). COP28 Declaration on Climate, Relief, Recovery and Peace. Climate Security Mechanism.
2 International Committee of the Red Cross and ODI. (2024). Strengthening resilience and climate adaptation in conflict and fragile settings: towards effective action.

A Review of the Literature

Global leaders, experts and implementers now increasingly recognize the link between climate change and instability. Many fragile contexts are geographically exposed to climate shocks and have limited capacity to cope and adapt[3,4]. Climate shocks and variability can also exacerbate existing tensions. For example, competition over dwindling resources such as water and arable land can trigger or escalate violence[5,6]. Climate change also amplifies existing gender and other inequalities and poses unique threats to women's and other marginalized groups' livelihoods, health, and safety. Despite these dynamics, effective climate action can offer avenues for conflict prevention and sustainable development in FCS[7]. For instance, climate adaptation interventions can provide opportunities to build trust and social cohesion across vertical[8], and horizontal[9] lines[10].

Broadly, the existing literature identifies several elements that limit effective adaptation in FCS. First, the challenge of driving sufficient grant-based finance to those contexts. Second, overcoming broader challenges to adaptation in fragile contexts - access, security, unequal distribution of resources and poorly functioning government institutions, which all contribute to a complex operating environment that actors in this space must navigate[11]. Finally, investments in adaptation must be built on a broader understanding of the impacts of conflict and security risks on climate action, as well as the potential risk of maladaptation exacerbating drivers of conflict. Good adaptation must be conflict sensitive[12,13,14].

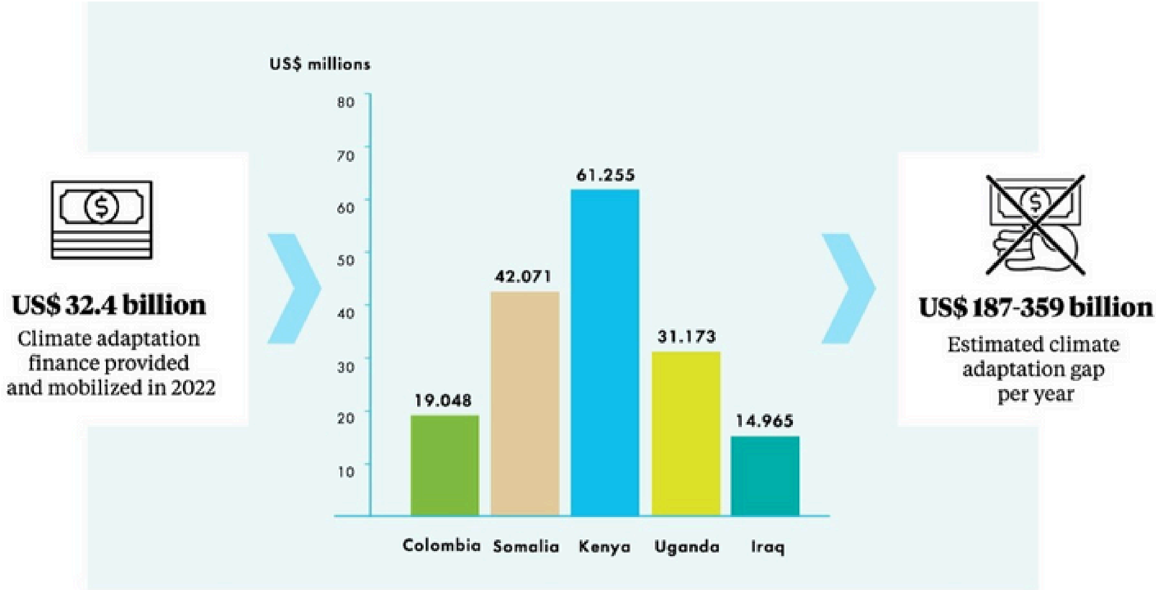
❯ The Fragility-Climate Adaptation Finance Gap

Despite the growing body of evidence on the need (and effectiveness) of adaptation in FCS, access to adaptation finance remains a significant challenge in fragile contexts. In 2022, total climate finance provided and mobilized by developed countries was $115.9 billion[15] and adaptation finance reached $32.4 billion[16]. However, Mercy Corps analysis reveals that in 2022, only $269 million was allocated to the ten most fragile states, representing less than 1% of total adaptation funding and illustrating a glaring funding disparity.

In the same year, $63.6 billion in climate finance was loans (or 69% of total flows). In contrast, grants-based finance reached $25.6 billion (28% of total flows)[17]. The type of climate finance instruments used to support adaptation or mitigation action is important, as climate finance is increasingly driving indebtedness for developing countries. This challenge will only grow with UNEP's Adaptation Gap Report suggesting that estimated adaptation needs will reach $215-387 billion by 2030[18].

3 Mercy Corps. (2023). Adapting in Adversity.
4 International Committee of the Red Cross and ODI. (2024). Strengthening resilience and climate adaptation in conflict and fragile settings: towards effective action.
5 Evans, Alex. (2011). Resource scarcity, climate change and the risk of violent conflict. World Bank Group.
6 Strouboulis, A. et al. (2023). Rethinking Humanitarian Assistance: Climate and Crisis in the Horn of Africa. Center for Strategic and International Studies (CSIS).
7 United Nations. (2023). COP28 Declaration on Climate, Relief, Recovery and Peace. Climate Security Mechanism.
8 Mercy Corps. (2024). COALESCE: Mercy Corps' Social Cohesion Handbook.
9 Mercy Corps. (2024). COALESCE: Mercy Corps' Social Cohesion Handbook.
10 Saferworld. (2024). Conflict-sensitive climate action in practice.
11 Abrahams, D. & Ober, K. (2024). 'Conflict mitigation as a means of climate change adaptation: Lessons for policy and development practice'. Environment and Security, Vol.2, Issue.2, pp.277-290.
12 Adelphi. (2021). Upscaling peace-positive climate action and climate-informed peacebuilding. Lessons learned and ways forward.
13 UNDP. (2021). Climate Finance for Sustaining Peace.
14 Opitz-Stapleton, S., Gulati, M., Laville, C., Vazquez, M., and Tanner, T. (2023) Building forward better: A pathway to climate-resilient development in fragile and conflict-affected situations. ODI Framing note. ODI.
15 OECD. (2024). Climate Finance Provided and Mobilised by Developed Countries in 2013-2022, Climate Finance and the USD 100 Billion Goal, OECD Publishing.
16 Ibid.
17 OECD. (2024). Climate Finance Provided and Mobilised by Developed Countries in 2013-2022, Climate Finance and the USD 100 Billion Goal, OECD Publishing.
18 UNEP. Adaptation Gap Report 2024.

Figure 1: How the climate adaptation finance gaps play out in our case study countries



The gap in financing to fragile contexts is often attributed to perceived risks associated with investing in unstable regions, coupled with a lack of robust governance frameworks necessary to effectively manage funds. Research has identified fragility as a significant barrier to accessing climate adaptation finance, often exacerbated by poor institutional capacity, lack of data, and inadequate local governance structures[19]. Fragile states frequently lack the mechanisms needed to plan, implement, and monitor adaptation initiatives, resulting in a vicious cycle where the lack of funding for climate adaptation perpetuates fragility and vice versa[20,21]. The eligibility and reporting requirements for climate funds like the Green Climate Fund create excessive transaction costs for national or local governments, deterring them from applying for such funding. Specifically, there is a lack of capacity and experience in developing proposals and conducting due diligence, monitoring and compliance requirements, which can be complicated and time consuming[22].

In Breaking the Cycle, Mercy Corps mapped out the challenges to accessing and utilizing climate adaptation finance in FCS onto a lifecycle framework – from the strategies driving donor or implementing partner risk appetite through to monitoring and evaluation processes that were not fit for purpose[23]. This framework spotlights different moments in the programming life cycle where FCS are deprioritized for adaptation support, sometimes in favor of more stable environments. Low risk appetite and the preference of climate finance providers and implementers to operate in more stable settings is often cited as one of these moments. In addition, financial management processes that don't meet rigid accreditation standards, inflexible funding protocols, and M&E processes that limit the ability of climate funders to monitor risks in fragile settings can also pose challenges.

19 Ibid.
20 Naudé W, Santos-Paulino AU, McGillivray M eds. (2011). Fragile States: Causes, Costs, and Responses. Oxford: Oxford University Press, 2011.
21 Quevedo, A. & Cao, Y. (2022). Climate adaptation investments in conflict-affected states. SPARC Knowledge.
22 Quevedo, A. & Cao, Y. (2022). Climate Adaptation Investments in Conflict-Affected States. Supporting Pastoralism and Agriculture in Recurrent and Protracted Crises.
23 Mercy Corps. (2023). Breaking the Cycle: Practical solutions to unlock climate finance for fragile states.

Local Level Governance and Social Cohesion

Inclusive governance frameworks that engage local communities can enhance resilience – by ensuring that adaptation strategies respond to community needs[24]. When linked with the formal governance system, the process of proactive engagement can increase a community's influence on government decision-making and enhance the legitimacy of government in the eyes of its constituents. Community mobilization for dispute resolution, the promotion of the rule of law, land rights and access, and building institutional capacity therefore all serve as vehicles for locally led adaptation that engages affected communities[25]. On the other hand, Hegazi & Seyuba describe climate adaptation as a "social process" and argue that by promoting information sharing and a common set of values, and helping to build, maintain and restore trust and social cohesion with communities, it can also improve governance, reduce conflict and build peace at the local level[26]. In the Oromia region of Ethiopia, for example, farmers were more likely to implement climate adaptation strategies when they trusted and had good relationships with the farmers' training center[27]. Participation and inclusivity are therefore important factors in delivering effective, sustainable interventions that address the needs and vulnerabilities of different segments of society. In fact, in a recent report the Red Cross argues that processes to devolve decision-making power and resources to local actors can improve the effectiveness of climate adaptation[28].

Gaps in the Literature

Despite the growing body of literature on adaptation strategies aimed at reducing vulnerability and increasing resilience in FCS, several gaps remain. Whilst many of these challenges are not singular to FCS contexts, their unique vulnerability makes those challenges more difficult to overcome. Although the literature recognizes the need for a conflict-sensitive approach to climate adaptation and some organizations are sharing examples of what is possible in these contexts, the application of these principles, such as the 'Do No Harm' approach[29], largely focus on theoretical or high-level discussions of conflict sensitivity without providing specific examples of successful application in climate projects[30].

Another significant gap is the lack of evidence on how to scale up effective climate adaptation actions, particularly in contexts where state institutions may be weak, absent or in places experiencing ongoing or episodic conflict[31]. While many pilot projects and small-scale interventions have been implemented, these efforts are often localized and not systematically scaled to address the broader challenges faced by vulnerable populations in fragile contexts. Identifying entry points for engagement and pathways to scale up, replicate or adapt successful adaptation interventions to other contexts is key, particularly how to work effectively where state institutions may be weak and in different conflict settings.

24 Mercy Corps. COALESCE: Mercy Corps' Social Cohesion Handbook.
25 Ibid.
26 Hegazi, Farah & Seyuba, Katongo. (2022). The Social Side of Climate Change Adaptation: Reducing Conflict Risk. Stockholm International Peace Research Institute.
27 Ibid.
28 Red Cross (2024). The climate and humanitarian localisation agendas: entry points to enhance climate adaptation and resilience financing in action.
29 Anderson, M. B. (2000). Do no harm: How aid can support peace—Or war. Lynne Rienner Publishers.
30 Pelling, M. (2011). Adaptation to climate change: From resilience to transformation. Routledge.
31 Benson, C., et al. (2014). Assessing climate change adaptation strategies in low-income countries. Global Environmental Change, 27, 136-145.

Methodology

To complement the literature review above, we engaged Mercy Corps colleagues from the Colombia, Iraq, Kenya, Somalia, and Uganda country offices, along with bilateral donors, international financial institutions, think tanks, and other implementing partners for a series of semi-structured key informant interviews. Through these interviews, we collected qualitative data regarding the unique adaptation challenges, innovative solutions and best practice for working with climate vulnerable communities to deliver effective adaptation in the five Mercy Corps focus countries, and broadly, across the international policy, programming and funding landscape. As our interviews progressed, we used subsequent discussions to test our proposed recommendations to socialize and create-buy in for the findings of this paper. Interview discussions were coded into key themes to enable a robust analysis of the data. The final recommendations were developed through consultation with Mercy Corps stakeholders and our own subject matter expertise.

Barriers to Climate Adaptation in Fragile Contexts

During the key informant interviews, we uncovered barriers to both increasing climate adaptation finance for FCS and delivering effective interventions. We hope these barriers will strengthen the evidence base on the conditions needed to deliver adaptation programming and the extent to which these conditions are not being met in fragile contexts.

› Silos in Climate, Development and Humanitarian Funding

Siloed funding structures have long posed challenges to addressing issues at the intersection of climate, conflict, and fragility, particularly in FCS. In the past, distinct categories of funding – climate finance, development aid, and humanitarian assistance – were designed for addressing issues in isolation. However, as the impacts of a rapidly changing climate are escalating and impacting both humanitarian and development needs, the segmented international finance architecture is increasingly problematic. These overlapping challenges require an integrated response - a climate-focused project cannot succeed without considering conflict dynamics, just as conflict resolution must factor in the impacts of climate change. Similarly, humanitarian funding should not be completely isolated from other sectors, but act as runway to move from immediate crisis response to development and climate resilience.

For example, countries like Mauritania, despite their relative stability, are caught in a dilemma. They struggle to access both humanitarian and climate funding because they fall between the cracks in a funding system that does not accommodate the complex realities within the country. Siloed funding creates a gap in support for regions that are dealing with governance challenges, social division, poverty and climate change. The challenge is not just one of finance but of policy coherence, as policies related to peacebuilding and climate change are often disconnected at both national and subnational levels.

Moreover, these silos are also impractical for program implementation. In FCS, it is increasingly the same people who are affected by climate who are at risk of conflict. Yet programs are constrained by specific budget lines, internal prioritization and institutional restrictions, blocking integrated responses.

❯ Tensions Between Emergency Response and Long-Term Resilience

These silos also drive a tension between emergency response and long-term resilience, as these are often funded from entirely separate budgets and institutions. This is further complicated by the fact that the budgets of many traditional donors are shrinking or stagnating whilst needs continue to grow. Donors are pressured into prioritizing immediate crises, at the expense of planning for future climate shocks and building systemic resilience. Meanwhile climate shocks and stressors are becoming more frequent, resilience investments are not keeping up and humanitarian needs therefore spiral further sapping resources (ODA and from communities themselves). The silos also limit opportunities to integrate resilience building into humanitarian response. This tension isn't restricted to donors, but also the national and regional governments in fragile places. They are facing the dual challenge of needing to make investments to build more climate-resilient communities, whilst responding to immediate emergencies and to security concerns. As one of our colleagues noted: "When peace and governance is fragile, (addressing) climate issues become secondary."

When programs adapting to climate change in fragile contexts are supported by donors, much of the programming was described as relatively short term and responding to current weather variations rather than the next thirty years of climate change. This results in adapting to current level threats and can, in turn, result in maladaptation or policy decisions that exacerbate existing vulnerabilities. Respondents strongly believed that we need to find a way to maintain momentum for climate action, specifically investments in longer-term resilience that address the coming challenges, rather than solely those of today.

❯ Limited Private Sector Engagement

The struggle to attract private sector investment in FCS is well-documented. Respondents identified the need to strengthen private sector engagement in the most fragile contexts, particularly in rural areas. They explained that the private sector is often reluctant to make investments in places experiencing conflict or instability for two reasons: the perception of a lack of demand for and willingness to pay for services; and seeking to ensure that their investments are not only safe, but profitable.

However, although the private sector may be less developed and existing markets often face disruptions, there is a private sector presence even in the most fragile contexts. Local private sector actors continue to operate, although profit margins can be slim. For example, among pastoralist and herder communities in Kenya, livestock trade generates a lot of economic activity but faces numerous challenges such as climate shocks or conflict that undermines business models. As a result, not only are these value chains seen as unattractive investments for national or international private sector actors, but local actors are reluctant or unable to make long term, strategic investments into business practices that might help communities be more secure against shocks and stressors.

All sources of finance, including private sector finance, need to increase to address the scale of the climate crisis. However, private sector finance has not delivered as expected. The OECD finds that between 2016-2021, most private climate finance went to middle-income countries with relatively low risk profiles[32] and only 9% of private climate finance went to adaptation. This is less about the operating environment and more the lack of future returns. It is much harder to achieve returns on investments by developing agriculture techniques for conservation and restoring ecosystems. In Africa[33], we must keep these limitations in mind when evaluating the role of the private sector finance in fragile contexts, be realistic about the structural barriers to private sector interest and understand that this sector will not be a magic bullet for many of the challenges communities are facing. Further, where local private sector actors are present, they are often not being consulted and supported.

Limited investment in local governance as an enabler of climate adaptation

Climate change is aggravating the scarcity of water, food and land and will further exacerbate political tensions, resource-based conflict, and disrupt agricultural production. Climate impacts can therefore both upset the balance between governing authorities and the population by making it harder to provide services and undermine stability and horizontal social cohesion by disrupting livelihoods and exacerbating competition over resources. Good governance plays a critical role not only in addressing those tensions, but more broadly in creating an enabling environment for different interventions that support climate adaptation.

We have seen that funding priorities of donors are in large part driven by the belief that a central government is the foundation for good governance. Whether a government is seen as a feasible partner often informs climate finance funding decisions, creating a financial architecture that only recognizes a western-centric model of governance as conducive to effective climate adaptation. Yet, in fragile contexts, national and local governments often lack the capacity to make decisions effectively and, in these contexts, local or indigenous decision-making bodies or mechanisms frequently step in. In Uganda, for example, respondents described traditional leaders as playing a large governance role in the absence of national institutions. Processes that devolve decision-making power and resources to local actors from the outset can not only improve the effectiveness and efficiency of climate adaptation but can make interventions more sustainable as the impacted communities are invested in those processes.

Furthermore, in communities that have experienced historical hostilities, empowering local actors and communities to address shared challenges, such as climate change, can serve as a unifying force, offering a platform to bring disparate groups together and strengthen social cohesion. For example, in a drought-prone area of Kenya that has been adversely impacted by climate change and violence, one program brought together community leaders from

32 OECD. (2023). Scaling Up the Mobilization of Private Finance for Climate Action in Developing Countries: Challenges and Opportunities for International Providers. OECD iLibrary.
33 Global Center on Adaptation. (2023). Accelerating Adaptation Finance – Africa and Global Perspectives. Climate Policy Initiative.

across five constituencies to develop sub-national climate adaptation plans, whilst establishing connections between communities with a history of conflict. Broadening our understanding of what good governance is and can be, opens new opportunities for locally led climate action that increases the agency of individuals and communities to address the challenges facing them.

Donor Preferences are Driving Investments, not Detailed Analysis, Civil Society Expertise or Community Needs

Interview respondents noted that in fragile contexts donors are increasingly unwilling to fund further programmatic assessments and analyses and are instead focused on funding climate action. This puts implementing partners in an impossible position: donors are not willing to take on programmatic risks but also, resources are rarely available to fund the assessments that allow partners to better understand the operating environment and dynamics that will impact implementation. An often-overlooked benefit of assessments is their ability to build bridges across siloed program teams. Conflict teams often have little understanding of climate issues, and climate experts often don't appreciate the complexity of conflict dynamics. Supporting contextual assessments can help build a collective vision across technical sectors and even across institutions on the importance of addressing climate-conflict dynamics.

Respondents highlighted that donors often seek to reach scale by implementing "one size fits all" program solutions and are less willing or able to fund additional programmatic components that could deliver wider systems change. To some extent this is not surprising, as declining aid budgets mean that funders must use their limited resources in very targeted ways and show the clear value for money in these investments. In practice though, this can result in programs that do not fully address the root causes of problems. For example, one respondent shared an anecdote in which an economic livelihoods program in Kenya was unable to build in natural resource management - which has a complex yet critical role in supporting conflict mitigation, prevention and climate adaptation[34] - because it did not fit into the market systems and livestock framing donors had established for the program.

Following the publication of the Principles for Locally Led Adaptation, bilateral and multilateral donors have committed to funding more local level climate action. However, these commitments have not always translated into action. Interview respondents report that communities understand their own needs yet have fallen into a space where they are waiting for donors to tell them what their priorities should be. Furthermore, there is often very little space to train or empower local government officials who often have limited capacity to respond to the complex challenges climate change presents. Such local government or civil society engagement would lead to greater and more sustainable impact.

Cross Border Challenges

Respondents from the Horn of Africa noted that in this regional context, because systems are interwoven, conflict and climate impacts don't stop at national borders. In the Horn of Africa in particular, there is a history of complex and shifting conflict over natural resources,

34 Mercy Corps. (2023). Adapting in Adversity: Challenges and Opportunities for Climate Action in Fragile Contexts

mainly pasture and water, and ethnic conflicts. However, despite these dynamics, programming approaches are often limited to one country, which limits the ability of programs to holistically address these cross-border issues (both within countries at the local level, and between countries). Under these circumstances, addressing the wider ecosystem of challenges and dependencies is difficult. This issue is also mirrored in the policy responses to these cross-border issues, as policies that apply in one country might not apply in the neighboring country. Finding programmatic solutions that address these cross-border issues is key, whether it is supporting rangeland management, combatting animal disease, or addressing the underlying drivers of migration.

❯ Limited Evidence of Fragility from Different Geographies

Our conceptions of climate and fragility tend to be rooted in the dynamics we see at play in sub-Saharan Africa, where most research is founded. Yet, interview respondents noted that elsewhere, in Asia-Pacific for example, framing around the impacts of climate change on peace and security does not resonate in the same way. Interviewees highlight that cultural security and connection to the environment emerge quite strongly when unpacking climate and conflict dynamics in the region and can provide avenues for actions that might not be effective elsewhere. Insecurity and conflict may also play out differently. Mercy Corps' Colombia team highlighted how the ongoing violence from armed groups and criminal organizations not only creates a sense of fear and insecurity that hinders program engagement and participation, but it also contributes to a sense of mistrust in local institutions. These examples underscore the need for increased data to come from other parts of the globe to inform our perspectives of fragility to grow the evidence base on what solutions are viable in these contexts.

SAN JOAQUIN, COLOMBIA.
MERCY CORPS' ALGO NUEVO PROGRAM: JAIME*, 57, HARVESTS COFFEE ON HIS FARM. AFTER GROWING COCA FOR 19 YEARS, JAIME AND HIS FAMILY WERE FORCED TO FLEE THEIR HOME DUE TO VIOLENCE IN THE AREA. AFTER HIDING FROM ARMED FORCES FOR THREE YEARS, JAIME RETURNED TO REBUILD HIS FARM BY GROWING COFFEE INSTEAD SUPPORTED BY MERCY CORPS.

Recommendations

The time spent speaking to and learning from this constellation of actors working on climate action in fragile contexts has left us with two main takeaways. First, there is no "silver bullet" solution that will get more effective funding in these contexts. However, there are new and creative ways to think about this issue that, coupled with persistent and long-term efforts, could lead to solutions that get more funding to the right people at the right time and help strengthen the ability of impacted communities to respond and adapt to climate impacts. Second, implementers who are working at the intersection of these challenges every day noted that we must keep pushing for funding to fragile contexts that is sufficient, flexible and long term (10-to-20-year funding cycles, not 1-5 years).

In light of these takeaways, we propose the following recommendations:

Using climate finance more creatively

Donors should explore more creative ways to disburse climate finance in FCS, exploring non-traditional recipients delivering small-scale, but effective adaptation interventions, at the community level and in some instances, in areas beyond the control of national governments. The KIIs revealed several reasons why donors are not deploying climate finance in more creative ways. First, as support for foreign assistance declines in donor capitals and budgets tighten, there is more pressure from donors to show the value of their investments. This leads donors to work in more stable contexts where there is higher certainty of a return on investment and project success[35]. Moreover, in the pursuit of large multi-million-dollar climate projects, there is a preference to approve projects that promote tried and true interventions over innovative or local approaches. Respondents argue that there needs to be a political narrative among donors that allows for testing new approaches and promotes a higher tolerance for failure.

<u>So, what would it look like to think about climate finance more creatively?</u> In the context of ongoing seasonal drought, large infrastructure projects such as building a dam are not feasible in FCS, particularly where there is ongoing conflict, as the risk is seen as too high. Instead, we should think about finance that can be handled by small and medium enterprises to harness water in other ways, such as rainwater harvesting, and regreening efforts. Climate finance should fund interventions that support local level markets, agriculture, and positive coping strategies and build toward more stable and resilient communities. This entails expanding the notion of who and what can receive climate finance as the current finance architecture limits the ability of the most vulnerable to lead in adapting to climate change. For institutional donors, this will require a radical rethink of funding strategies and how they invest, prioritizing modalities that allow communities to learn how to adapt by doing without a high-risk burden.

There has been some progress channeling public climate finance to climate vulnerable communities in more stable contexts. For example, in certain parts of Kenya climate funds like the GCF are exploring new funding modalities that help funds reach sub-national partners and communities. This includes trialing a window of funding that offers small grants to non-accredited entities. While this pilot has yet to complete a full funding cycle

35 Cao, Y., Alcayna, T., Quevedo, A. & Jarvie, J. (2021). <u>Exploring the Conflict Blind Spots in Climate Adaptation Finance: Synthesis Report'</u>. SPARC.

and some rigid compliance standards remain, this is the direction that we should be moving in.

Another possible solution is for climate funds to establish a pre-stage of financing for FCS national governments. For example, the GCF has allocated Readiness Funding that is available to all developing country parties to the UNFCCC. This funding supports ‘country-driven initiatives to strengthen institutional capacities, governance mechanisms and programming frameworks’[36]. Yet, respondents explained that few FCS contexts have used the readiness funding available, arguing that the most vulnerable countries are at a stage prior to this. A pre-stage of financing for FCS national governments could build up their capacity to access and absorb the full suite of international climate finance available to them. While neither of these initiatives are appropriate for areas not under state control or experiencing a governance vacuum, a stewardship role for international organizations could be explored to absorb some of the reporting burdens and identify local partners with whom they could deploy smaller pots of funding to a more diverse pool of recipients at the community level.

It is also useful to consider what lessons we can learn from philanthropic funding to identify more creative ways to deliver grant-based, public finance, such as trust based investments. Trust-based investing foregrounds the knowledge and lived experience of grantees and moves away from traditional, often paternalistic aid. It is predicated on the idea that grantees will create meaningful impact in unique ways and limits reporting requirements and bureaucratic burdens on recipients. A clear tangible benefit of this style of investing is that it is funders who do the research into who is a potential catalyst for change, rather than an open call for proposals that encourages a large number of people to spend time preparing proposals, who will ultimately be unsuccessful and disqualifies potential partners who do not have the capacity.

We talk about the importance of local leadership in climate action, yet often that leadership is hampered by inflexible program expectations. If we are serious about locally led action and believe that solutions must be substantially context driven, then those individuals or organizations should have the autonomy to make decisions about their own communities[37]. Civil society networks have proven that this can work well. For example, Fundo Casa Socioambiental in Brazil supported over 434 projects with small grants in 2023 to address climate and environmental challenges in their own communities. While trust-based grantmaking is not compatible with the current model of outcome driven work and reporting constraints of public money, donors should explore shifting away from outcome-based evaluations of success to a systems change approach and work to diversify their pool of recipients in support of more local actors.

Expanding local private sector engagement

The private sector has a potentially important role to play in building resilience. For example, climate change induced migration from rural to urban settings is creating entirely new urban geographies, in which the private sector can work with the public to reduce stressors and offer solutions – housing, energy access, food security, livelihoods – and fill the funding gaps that governments do not have the resources to provide.

36 Green Climate Fund. (2023). Readiness Strategy 2024-2027. GCF Documentation.
37 Fundo Casa Socioambiental. (2023). Annual Report 2023.

There are some examples of how private sector interest has been piqued, despite the operating risks associated with ongoing conflict. In one instance, respondents described effective partnerships between the private sector and UN Peacekeeping missions to encourage investment in Somalia. In order to provide renewable energy access in settings experiencing instability and conflict, the UN played a role in protecting key hardware and infrastructure over several years. This reassured energy providers that their investments would be safe, effectively managing much of the associated risk. While it is important to ensure that climate action is not securitized, this example does offer a practical solution to tackling risk aversion amongst the private sector.

While large international private sector actors can be a useful partner, particularly in the context of supporting infrastructure needs, it will bring its own opportunities and challenges. However, we should not expect increased international private sector engagement to completely fill the finance gap, particularly for adaptation finance. Instead, many respondents argued for more support and investment in local level private sector partnerships. Affected communities understand the complex dynamics of FCS better than anyone and that the solutions don't necessarily lie in national or international 'Private Sector', but at the community level. For example, Mercy Corps' energy access work is built on harnessing private sector partnerships that work for the most marginalized, partnering with the private sector in last mile or displacement settings to improve the adaptive capacity of the communities in question.

SHEDER REFUGEE CAMP, ETHIOPIA. MERCY CORPS' ENTER ENERGY PROGRAM: SOLAR TECHNICIANS INSPECTING THE SOLAR PLANT, AN ETHIOPIAN PRIVATE LIMITED COMPANY FOUNDED BY MERCY CORPS PROVIDES SUSTAINABLE ENERGY TO REFUGEE AND HOST COMMUNITIES, AS WELL AS HUMANITARIAN AGENCIES IN ETHIOPIA.

In Ethiopia, where strong national frameworks enable private sector engagement, we have demonstrated that underserved populations will pay significantly more for quality energy services than was believed, which has opened opportunities for private companies to build out commercial offerings, with the right support. In Uganda, through our close partnership with the central and local government, we have engaged with local chambers of commerce to identify business opportunities that would benefit from private sector and bridge the gap between demand and supply of quality, affordable energy services and equipment at the household, small business and institutional level. In both instances, it was critical to work with partners to undergo a contextual assessment of existing policy frameworks to ensure compliance.

Even in the most fragile environments, local private sector actors continue to operate, but local actors are reluctant or unable to make long term, strategic investments into business practices that might help communities be more secure against shocks and stressors. Donors should identify opportunities to support and strengthen existing markets and local private sector stakeholders, using climate finance to reduce barriers and to de-risk longer-term, strategic, and transformative changes that will support market systems to become more sustainable and resilient. These investments should be climate-sensitive, support environmentally sustainable business practices, and be led by what local actors identify as useful and achievable with the right support.

Shifting the focus for funding from a purely sectoral approach to 'moments of intervention'

During our key informant interviews, we identified 3 critical 'moments of intervention' in fragile contexts, where climate finance could be used strategically to address the fragility or conflict-affectedness of an area. The first moment is prevention or anticipatory action. Essentially, how do we use climate finance to bring fragile contexts "back from the brink" and stop these areas from slipping into conflict? For example, different parts of Somalia are affected by conflict and security in different ways and vulnerable to extreme weather shocks. Moments of opportunity to prevent conflict can be fleeting, particularly with neighboring conflict and extreme weather events. Donors should strengthen access to multi-faceted early warning information ahead of crises, while also supporting the development of a network of actors and standard operating procedures that outline actions to be taken when a shock is imminent. Responders should also actively work to support local conflict management mechanisms in the moment before the escalation of conflict in order to mitigate it. Together these types of actions can reduce the impact of a shock, preventing grievances and competition that can lead to heightened conflict risks, while also managing any conflict risks that do arise.

BAIDOA, SOMALIA.
A DISPLACED MOTHER AND HER CHILDREN WALK TOWARDS THEIR FLIMSY SHELTER AT AN IDP CAMP NEAR BAIDOA. SOMALIA REMAINS ONE OF THE MOST COMPLEX AND PROTRACTED HUMANITARIAN CRISES IN THE WORLD. CLIMATE SHOCKS ARE COMPOUNDED BY ARMED CONFLICT, ONGOING MILITARISM AND VIOLENCE.

The second moment is during a period of protracted crises where humanitarian organizations are seeking an exit from the country they are operating in, but the country is not yet ready or able to access 'development' assistance. Protracted conflicts may be long, but violence may be episodic and vary in intensity[38], where much of the violence occurs in one area or is intermittent attacks from militant groups. In this instance, climate finance should work alongside humanitarian assistance, leverage the networks, tools and modalities of humanitarians to respond to shocks and stresses in an agile manner so communities do not slip into a cycle of repetitive need. A blend of emergency cash distributions to respond to humanitarian need and longer-term interventions such as rehabilitating water systems, supporting more sustainable and data-informed agricultural practices, and building upon traditional approaches to mediation and conflict prevention and management are required.

The third and final 'moment' is during recovery from conflict – where there could be an opportunity for a green or climate-smart and risk informed recovery that takes current and future climate risks into account. In Iraq, a transition to a sustainable and green economy is challenging amidst a context of ethno-religious tensions, political instability, and a legacy of environmental degradation from years of military conflict.

Figure 2: Illustrative interventions for different moments of intervention

PREVENTION OR ANTICIPATORY ACTION	PROTRACTED CRISES	RECOVERY
Establish and strengthen early warning systems. Establish anticipatory action models. Support local conflict management mechanisms including negotiation and mediation to prevent conflict from escalating into violence. Build social cohesion among communities, creating a positive environment for collaboration over shared resources.	Emergency response, such as cash distributions. Livelihood diversification to improve agricultural output and sustainability. Support local conflict management mechanisms including negotiation and mediation. Build social cohesion among communities, creating a positive environment for collaboration over shared resources, particularly in periods of low intensity conflict.	Energy access for improved adaptive capacity. Infrastructure projects to alleviate water stress. Livelihood diversification to improve agricultural output and sustainability.

It's important to note however that these moments can happen at the same time in the same country, so it's not a sequential model where each moment flows neatly into the next. Looking to these three moments as windows of opportunity is valuable because it highlights moments where actors can inject climate and development support at times when they traditionally would not. Furthermore, this framing can help actors that operate in this wider system understand how the nature of their interventions are connected to others. Overhauling the current funding system and shifting away from a sectoral approach relies on different actors to come together in a more cohesive way than they have done in the past and achieving this could take time that the urgency of the climate crisis can little afford. Another consideration is the potential risk to the trust built with communities through the reliability and stability of services.

38 International Committee of the Red Cross and ODI (2024) Strengthening resilience and climate adaptation in conflict and fragile settings: towards effective action.

While an adaptive approach to programming that responds to different moments of intervention could yield more context specific and less siloed responses suitable for the fluid landscape in fragile contexts, this should be built on an existing base of programming, from which additional interventions are layered.

Bilateral donors, particularly those that provide both humanitarian and development assistance, are best placed to align climate finance across these three moments since they have agencies and teams that are working across these issues and funding partners to deliver programming. In addition, by investing in local institutions, donors could strengthen their capacity to respond quickly and dynamically in 'prevention' contexts, where there is often a limited window of opportunity. In both protracted and recovery, local actors may be able to respond more holistically and responsively to their specific moments. This approach could also respond to different moments of intervention at the sub-regional level, for example fortifying communities in the vicinity of hot conflict to prevent conflict spreading or intensifying.

Pursuing diplomatic and policy solutions

One tension that emerged during our interviews is that in fragile contexts, donors and implementing partners are using development assistance to address what are inherently diplomatic issues. Now, the climate crisis and its worsening impacts introduce a new set of challenges in an already complex risk environment. In such contexts diplomacy is a powerful tool.

The role of diplomacy came out most strongly in the case of Colombia[39]. Colombia is a powerful example of how diplomacy can pave the way for development and climate adaptation. The peace agreement established critical legal, policy, and institutional frameworks for both peace and climate adaptation. These frameworks address gaps that implementing partners alone cannot fill, ensuring the delivery of essential services. Furthermore, key informant interviews reveal an essential lesson: resilience is inseparable from long-term market growth and stability, which in the case of Colombia, were achieved through the landmark peace agreement.

The overarching solution is to integrate diplomacy across humanitarian, development and peace approaches, so actors can meaningfully address the root causes of fragility. In fragile contexts we need to prioritize investing in both a negotiated settlement between parties and development, more specifically climate and conflict approaches. As conflict is rising around the world and becoming more protracted, internationalized, and affected by climate change, there must be an increased role for diplomacy that doesn't betray traditional humanitarian values and allows the system to adapt to the new reality. As good governance at the community and sub-national level creates an enabling environment for climate adaptation, we must simultaneously seek the enabling environment brought about by diplomatic solutions to ongoing hostilities and fragmentation.

This is not only true for intra-state conflict. Diplomatic and policy solutions could be better used in development spaces to address cross-border challenges. The transboundary nature of conflict, climate impacts, and often economies, will require the willingness of donors to

39 Land and Rural Development in Colombia. See Appendix C, i.

work across borders, both in terms of programming and working with regional actors to address the root causes of fragility which do not stop at natural borders. Multi-country funding and investment, engagement with regional policy processes and governance structures, and interventions that are layered across sub-national, national and regional communities are vital to address these challenges[40]. For example, in Somalia Mercy Corps' cross-border livestock program focuses on 'threat' corridors in the arid and semi-arid lands between Somalia and neighboring counties. Pastoralists are provided with training on sustainable natural resource management and are responsible for creating, and importantly, implementing a natural resource action plan[41]. Elsewhere, organizations are leveraging energy solutions for improving adaptive capacity across borders. Energy Peace Partners take a regional approach to investment in energy solutions for displaced populations, considering the needs of the broader region around refugee camps to increase support from host governments and navigate existing policy frameworks.

However, some organizations working on cross border agreements formalize the use of natural resources at the regional level, some of the most established examples of which are related to the sharing of water. Water stress is increasing worldwide, with competition and related tensions likely to escalate as climate is compounding pressures on water governance. In the Middle East, for example, EcoPeace have had successes working with Israeli, Jordanian and Syrian national governments to preserve the River Jordan and facilitate a government-to-government approach to water management[42]. Negotiated agreements such as this one can pave the way for more collaborative climate action, using diplomacy to bring about climate and development gains. Further still, policy documents such as the Nationally Determined Contributions (NDCs) and National Adaptation Plans (NAPs) could and should reflect the risks conflict and instability pose to climate action and outline what the national government can do to mitigate these risks.

WAYAMA JAPTA, KENYA.
MERCY CORPS' ICARR (INCENTIVIZING COLLECTIVE ACTION FOR RANGELAND REGENERATION) PROGRAM: RESTORATION OF A DEGRADED RANGELAND DUE TO OVERGRAZING AND COLLECTION OF FIREWOOD. SOIL CRESCENTS RETAIN WATER & DEEP HOLES ARE DUG FOR ENDEMIC TREES THAT PROVIDE FODDER AND MEDICINE FOR ANIMALS.

40 International Committee of the Red Cross and ODI. (2024). Strengthening resilience and climate adaptation in conflict and fragile settings: towards effective action.
41 Working Beyond National Entities in Somalia. See Appendix C, iv.
42 Sommer, U. & Fassbender, F. (2024). Environmental Peacebuilding: Moving beyond resolving Violence-Ridden conflicts to sustaining peace. World Development, vol.179.

Conclusion

This paper contributes to the evidence-base of delivering climate adaptation in FCS, highlighting examples of both the numerous obstacles faced by donors, implementing organizations, and climate-vulnerable communities alike and, importantly, the solutions underway at the country level. We cannot propose a 'one size fits all' solution but can encourage a shift in framing and decision-making around funding, demonstrate the added value and recommend the uptake a of tools and approaches we've found to be effective.

Despite an apparent shift from bilateral donors, implementers and international financial institutions acknowledging the conflict blind spot in climate finance – we have demonstrated that this has not been met with increased levels of funding. We need a sea change in how we fund this work and our ambition to take on risk. The recommendations in this paper indicate avenues to explore to get more effective funding in these contexts, holding up creative examples that navigate complex operating environments including: trialing new ways of deploying climate finance that rethink risk and challenge the notion of who and what can receive climate finance; engaging with local private sector actors to reduce their barriers to engagement; and using policy and diplomatic processes as a tool to enable effective climate action.

Mercy Corps will continue to call for greater access to adaptation finance for those most vulnerable to the climate crisis as the lack of funding perpetuates fragility and fragility reduces appetite for funding in a vicious cycle. To do this, we need to move beyond traditional responses and explore new avenues for action. By using the evidence showcased in this paper, we will continue to demonstrate that this work is possible, can be highly effective, and most importantly, is desperately needed as we face the impacts of the changing climate.

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