



Photo Credit: Niger, 2014 – SSheridan/Mercy Corps

# **OVERCOMING THE FRAGILITY BARRIER**

## **Policy Solutions for Unlocking Climate Finance in Fragile States**

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# Summary

Many fragile and conflict-affected situations (FCS)<sup>1</sup> are highly vulnerable to climate change. In fact, 19 of the top 25 most climate vulnerable countries are FCS.<sup>2</sup> FCS often have low adaptive capacity and lack the resources to prepare for and respond to climate impacts. As a result, they struggle to rebuild between repeated climate shocks and invest in adaptation measures.<sup>3</sup> Previous research on global climate finance flows has demonstrated that the more fragile a country is, the less it receives from bilateral donors and multilateral climate funds. Our research indicates that in 2021, only \$223 million was received in climate adaptation finance across the 10 most fragile states, which is less than 1% of total adaptation finance flows.

In light of these challenges, Mercy Corps published the *Breaking the Cycle* report, highlighting innovative solutions to overcome the climate finance gap in FCS. The report provides insights into the difficulties faced in accessing and utilizing climate adaptation finance in fragile contexts. To further explore the issue, Mercy Corps organized two roundtable discussions involving stakeholders from Europe and the United States to delve into the factors that drive these challenges and brainstorm solutions to address them. These discussions aimed to generate new insights and ideas for effectively delivering climate finance in fragile contexts.

The *Overcoming the Fragility Barrier* report presents a comprehensive overview of the strategies that were explored during the roundtable discussions. This report provides recommendations to bilateral donors, multilateral climate funds, and implementing partners on closing the climate finance gap in FCS. In today's era of limited fiscal space, it is crucial to prioritize and direct climate finance to those most vulnerable to climate change, especially those in FCS.

## **BREAKING THE CYCLE RECOMMENDATIONS**

### ***Risk Aversion:***

*The appetite to invest in FCS can be increased when risks are well conceptualized and tracked.*

### ***Operational flexibility:***

*Operational flexibility must be provided for in guidelines and protocols to help projects remain relevant to the highly dynamic nature of conflict and fragility.*

### ***Partnerships with local actors:***

*Partnerships with local actors must be strengthened in guidelines and protocols.*

### ***Innovation:***

*Introduce more innovative pockets of adaptation financing, including catalytic funding tailored to fragile and conflict contexts.*

### ***Country and Community Centered:***

*The needs of countries and communities should be at the center of processes.*

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1. We understand that in some policy or technical circles fragile and conflict affected states (FCAS) is often used instead of fragile and conflict affected situations (FCS). We have chosen to use the World Bank's designation of FCS in this report and their [FY24 list of countries](#) which distinguishes between countries impacted by violent conflict and institutional and social fragility in a unranked list. In addition to the World Bank's FCS list, the [Fragile States Index and OECD State of Fragility](#) each release an annualized ranking that assesses countries based on their risks to different factors such as social, political and economic dimensions. While there is certainly overlap between the countries on the World Bank, Fragile States and OECD list, their placements across the various lists may be different based on the dimensions being assessed.
  2. To ascertain climate vulnerability, we use the [University of Notre Dame's ND-GAIN Country Index](#) which calculates a country's susceptibility to the negative effects of climate change based on exposure, sensitivity, and adaptive capacity measurements. Of the 25 most vulnerable countries, 19 are also on the World Bank's FCS list.
  3. Alcayna, T. and Cao, Y. (2022). *Breaking the cycle: Practical solutions to unlock climate finance for fragile states*. Washington, D.C.: Mercy Corps. <https://www.mercycorps.org/research-resources/breaking-the-cycle>

# Introduction

According to the World Bank, FCS have high levels of institutional and social fragility and/or are experiencing violent conflict. Despite contributing very little to historical and ongoing greenhouse gas emissions, these nations bear the brunt of climate change due to their geographic exposure to climate hazards. Additionally, the inherent fragility of these contexts actively undermines their adaptive capacity and ability to respond effectively to climate impacts. This troubling reality underscores a fundamental issue of climate injustice.

During the roundtable discussions, a notable discrepancy emerged in the understanding of what countries are considered fragile and conflict-affected. This can serve as a barrier to establishing consensus when convening policy dialogues among climate, peacebuilding, and humanitarian actors. Figure 1 (below) illustrates the example of Somalia, a fragile and conflict-affected situation where climate vulnerability and conflict risks are mutually reinforcing and contribute to increased state fragility. Somalia is ranked first on the Fragile States Index and the ND-GAIN Vulnerability Index,<sup>4</sup> due to its weakened governance structure, ongoing violence perpetuated by groups in conflict and vulnerability to climate risks.

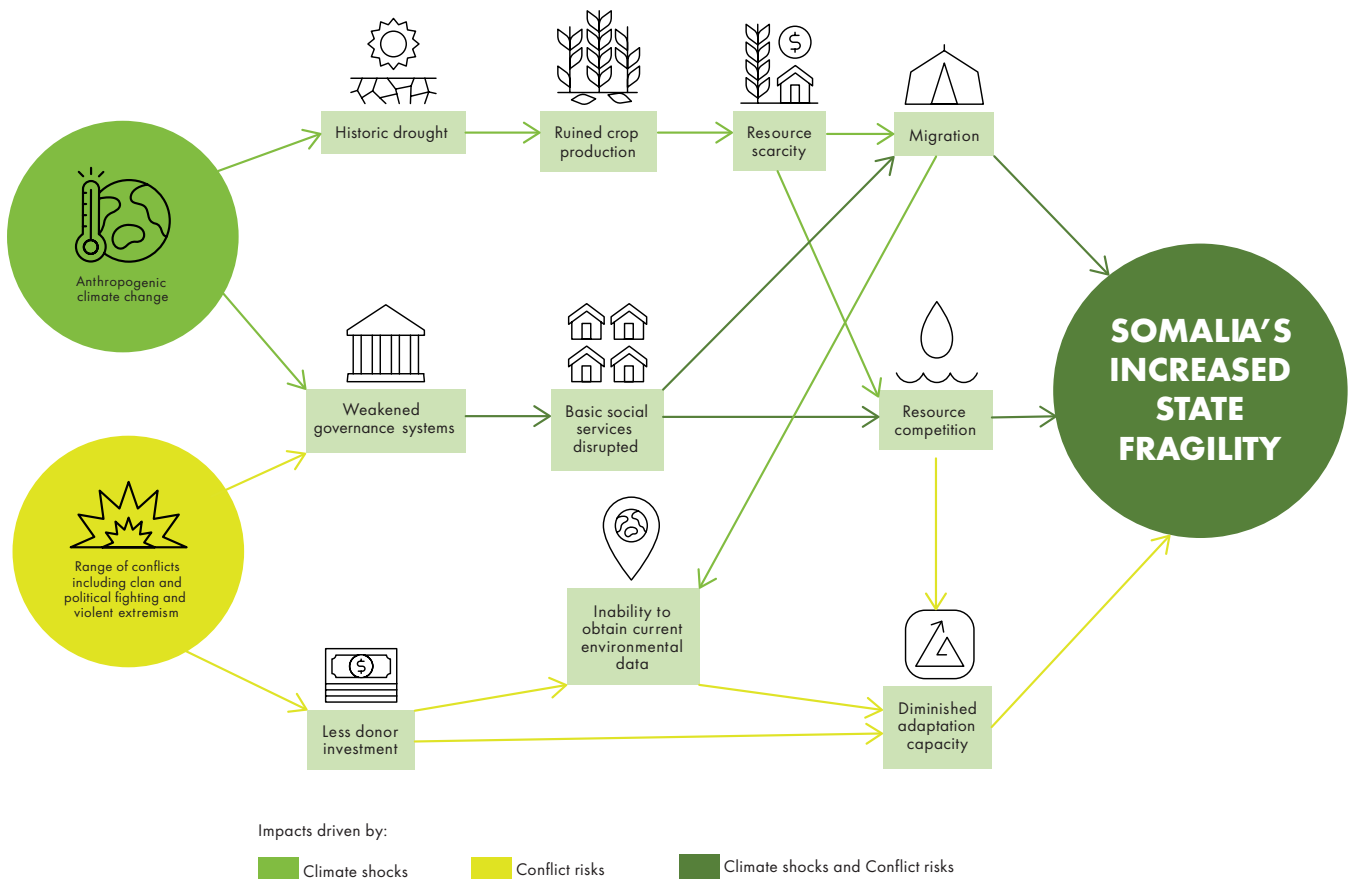


Figure 1. The relationship between climate change and conflict in Somalia.

4. The [ND-GAIN Vulnerability Index](#) measures a country's exposure, sensitivity and ability to adapt to the negative impact of climate change.

According to the Paris Agreement, Least Developed Countries (LDCs) and Small Island Developing States (SIDS) should be prioritized for international climate finance due to their heightened vulnerability to the effects of climate change. However, for LDCs and SIDS that are also fragile, barriers such as violent conflict and fragility impede their access to climate financing. Consequently, these regions receive significantly less financing than more stable settings. In Figure 2 (below), we noted the fragile and conflicted affected LDCs and SIDS.<sup>5</sup>

Obstacles to securing climate financing for projects in FCS include weak government institutions and financial management processes that do not meet rigid accreditation standards.<sup>6</sup> As a result, these obstacles translate to funding gaps for vulnerable communities. For example, our own analysis reveals that within the ten most fragile states, only \$223 million was received in climate adaptation financing for 2021.<sup>7</sup> In contrast, \$28.3 billion was mobilized for climate adaptation financing in the same year.<sup>8</sup>



Figure 2. Fragile and conflicted affected LDCs and SIDS.

Mercy Corps recently organized two policy roundtables in the Hague, the Netherlands, and Washington, D.C., U.S., to foster an exchange of experiences and explore potential solutions for directing climate financing towards FCS. Noting the increasingly constrained fiscal space that bilateral donors face when allocating funds for climate action, or multilateral climate funds experience when disbursing resources, how these actors spend limited resources is critical. This includes ensuring that financing reaches those most vulnerable to climate change, particularly those in fragile and conflict-affected situations.

The Hague roundtable, organized in partnership with the Hague Roundtable on Climate and Security and the Red Cross Red Crescent Climate Centre, provided the platform for a policy discussion around climate financing. This gathering brought together representatives from government embassies, development organizations, NGOs, and research institutions, fostering a diverse and multidisciplinary exchange of insights and perspectives. During the breakout group discussions, participants were prompted to consider the radical changes required to direct climate finance toward fragile states. Building on the fruitful discussions in The Hague, an event was subsequently organized in Washington, D.C., in collaboration with InterAction and the Alliance for Peacebuilding. This event sought to test the big ideas that emerged from the Hague roundtable with a U.S. audience. It brought together members of the NGO community and U.S. government development and diplomatic agencies in a constructive dialogue to evaluate the feasibility and potential impact of these proposed solutions.

5. Out of the 37 countries on the [World Bank FCS list](#), 25 are LDCs or SIDS, accounting for 67% of the total number of countries.

6. Alcayna, T. and Cao, Y. (2022). *Breaking the cycle: Practical solutions to unlock climate finance for fragile states*. Washington, D.C.: Mercy Corps. <https://www.mercycorps.org/research-resources/breaking-the-cycle>

7. To determine the top 10 fragile states, we use [The Fund for Peace's Fragile States Index](#), which uses twelve cohesion, economic, political, and social indicators to rank 178 countries based on state fragility. To calculate the adaptation finance for fragile states in 2021, we analyzed 2021 OECD DAC adaptation funding tagged as "principal." This represents programs with a focus on or outcomes supporting adaptation.

8. ODI. 2023. *Fair Share of Climate Finance: The Adaptation Edition*. <https://odi.org/en/publications/a-fair-share-of-climate-finance-the-adaptation-edition/>

# Roundtable Learnings

During the roundtable discussions, several themes emerged. These included recognizing the crucial role of peacebuilding in achieving climate action in fragile contexts. There was also a call for better coordination among humanitarian, development, peace, and climate actors in conflict-affected regions. Additionally, participants discussed the challenges that donors and international financial institutions face in terms of rethinking or adjusting their risk appetite to invest in FCS.

## Peacebuilding Must Be Better Reflected in Discussions on Climate Adaptation and Finance

The two roundtables had distinct perspectives regarding the role of peacebuilding. During the discussion in The Hague, there were mentions of linking climate action and finance in FCS to peace negotiations or peace processes. It is important to note that while peace processes can aim to negotiate an end to active conflicts, they are just one aspect of the comprehensive range of peacebuilding activities that aim to address root causes before, during, and after violent conflicts.<sup>9</sup> At the D.C. roundtable, the role and importance of peacebuilding were more nuanced, partly due to the organizations that participated in the discussions. With the presence of actors such as the Alliance for Peacebuilding, technical experts in Peace and Conflict from Mercy Corps, USAID, and the State Department, the significance of conflict sensitivity as a fundamental starting point for all climate action in FCS surfaced quite strongly.

When designing adaptation investments and programming, conflict sensitivity entails integrating conflict assessments alongside climate vulnerability assessments, so adaptation projects do not exacerbate conflict risks. During the roundtable discussions, promising examples were shared, such as incorporating peace and governance approaches such as social cohesion programming, participatory planning, and conflict resolution training into climate adaptation programming, to help reduce climate-related conflicts while simultaneously building resilience to climate shocks.

While peacebuilding is often excluded from climate adaptation and finance discussions, this roundtable demonstrated how critical it is for peacebuilding actors to be part of these discussions, to increase the effectiveness of climate interventions in fragile contexts.

## The Severity of the Climate Crisis is Reinvigorating Nexus Conversations

During the Hague roundtable, participants noted that one solution for increasing climate finance in FCS is working across the humanitarian-development-peace-climate change sectors (otherwise known as the nexus) to assist in broader coordination and connecting the dots between each of the silos. This sentiment was echoed during the D.C. roundtable, where participants discussed how the climate crisis and the presence of acute shocks can enable agencies that are not talking, to compare notes—and potentially collaborate—more regularly.

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9. United Nations. 2019. "Terminology." United Nations Peacekeeping. <https://peacekeeping.un.org/en/terminology>

While international and national discussions to promote collaboration across the nexus have been ongoing for years, the scale of the climate crisis and worsening trends in violent conflict<sup>10</sup> create opportunities to renew cooperation between these communities. A representative from USAID explained that in regions like the Sahel and Horn of Africa, vulnerable communities such as pastoralists, farmers, and those who depend on river systems are experiencing the negative effects of both climate change and conflict. To address these risks and build resilience, these communities are calling for programs that tackle both challenges.

At the D.C. roundtable, attendees delved into the challenges that exist when working across the nexus. First, each government agency has its own funding sources, accounts, authorities, and planning and programming processes they are responsive to, which can constrain work across bureaus and among partners seeking to implement multi-sectoral programs. Furthermore, few incentives and clear processes for collaboration are in place, compounding those real barriers toward joint analysis and programming efforts.

Another barrier to working across the nexus is the lack of a common language shared among this community of actors. Humanitarian, development, and climate actors respond to different and sometimes overlapping risks, and their approaches vary to achieve their objectives. For example, during the discussions, the overlap between climate security and climate action in FCS was highlighted. While these policy areas share similarities, they are distinct and can be difficult to navigate when convening different actors together. Although these actors may use similar language to define these risks, each has a different understanding of what these challenges mean within the constituencies they represent. While it is outside the scope of this paper to define unsettled and contested language, it's clear from the roundtable discussions that these differences in language serve as an impediment to cooperation across the nexus and one that must be addressed. Furthermore, any attempts at creating a shared language that can be used across communities should be flexible and adaptable.

In working towards collaboration across the nexus, it is crucial to consider who leads and participates in these conversations at the country level and in donor capitals. During the roundtable in D.C., participants noted that working across the nexus can be challenging in country contexts where humanitarian actors are called to do more but development actors are absent. During the Hague discussion, participants recommended having one person at the country level lead the nexus conversations to bring together different disciplines. However, as discussed during the D.C. roundtable, not all organizations are well-positioned to lead nexus conversations. Instead, groups that are already working across sectors may be better positioned to lead this integration.

## **Rethinking Risk Remains the Trickiest Element of Increasing Finance in FCS**

Participants at both the Hague and D.C. roundtables underscored the fact that prioritizing communities in FCS for climate finance is impossible without a shift in risk appetite of donors for investing in these contexts and implementing partners to operate in them. However, these conversations highlighted the complex challenges and inherent difficulties that rethinking risk appetite presents.

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10. UCDP. 2019. "UCDP - Uppsala Conflict Data Program." Ucdp.uu.se. <https://ucdp.uu.se/>



During discussions in the Hague, participants noted the dueling priorities in FCS, wherein countries not only need multi-million dollar infrastructure projects but also smaller context-specific projects that are out of the scope of most climate funds. As an example, the Green Climate Fund (GCF) recently updated its small-scale projects mechanism, known as the Simplified Approval Process (SAP), to include projects with a budget of up to \$25 million.<sup>11</sup> While it is commendable that the GCF has taken steps to revise the SAP, the ceiling of \$25 million may provide less incentive for the Fund to award smaller grants. The issue lies in the fact that the approval process and requirements for SAP projects are likely designed with this \$25 million limit in mind, making them unduly complex for small-scale projects.

FCS pose a unique challenge for providers of bilateral, multilateral and private sector finance. The central tension between risk appetite and investing in these contexts lies in the operating environment. Conflict dynamics in FCS can evolve rapidly, and security can deteriorate quickly, creating uncertainty and heightened risk. In contrast, climate finance providers tend to favor safer operating environments where a higher certainty of return on investment and project success exists.<sup>12</sup> This low-risk appetite manifests itself in a number of ways, including rigid accreditation standards, long and cumbersome project approval processes, and complicated monitoring and evaluation frameworks that are often too slow, bureaucratic, and complex for all but the largest and best-resourced entities to navigate.

The D.C. roundtable illuminated another element of rethinking risk, which is the fact that decisions made “upstream”, i.e. decisions that originate from international financial institutions (IFIs) or within development agencies and institutions, lead to challenges “downstream” that create barriers for donor investments in FCS. One participant highlighted that the World Bank’s risk factor classifications of markets in FCS can create cumbersome hurdles that make it difficult to justify private sector investments in fragile contexts. Another representative from USAID highlighted risk-averse policies as a barrier to shifting their risk appetite and working in fragile contexts. This finding is consistent with the latest research, which show that development agencies and institutions have become increasingly risk-averse.<sup>13</sup> Unfortunately, this decreased risk appetite, though often based on fiduciary, security, and operational risk management, has created a funding gap for FCS.

Examining these upstream and downstream challenges provides valuable insights into the barriers associated with investing in fragile contexts. Recognizing these challenges is important, though we must also acknowledge that IFIs and development agencies possess the ability to enact change in their operations and collaborate with the private sector to redirect investments toward these fragile contexts. This responsibility falls outside the scope of civil society.

The roundtable discussions yielded several promising solutions for increasing the risk appetite of climate finance providers. Attendees in the Hague recommended updating risk assessments to reflect the complex interplay between climate and conflict dynamics in fragile contexts. This approach ensures that climate funders have a better understanding of the real risks of operating in fragile contexts, as opposed to relying on the perceived risks these environments present. Another proposed solution involves investing in local banks, which can help control risks and allow for investments in contexts that are normally uninvestable, like refugee communities.

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11. Green Climate Fund. GCF in BRIEF: Simplified Approval Process.

<https://www.greenclimate.fund/sites/default/files/document/sap-brief-en.pdf>

12. Alcayna, T. and Cao, Y. 2022. Breaking the cycle: Practical solutions to unlock climate finance for fragile states. Washington, D.C.: Mercy Corps. <https://www.mercycorps.org/research-resources/breaking-the-cycle>

13. Stoddard A, Haver K, Czarwno M. NGOs and Risk How International Humanitarian Actors Manage Uncertainty.; 2016.

[https://www.humanitarianoutcomes.org/sites/default/files/publications/ngo-risk\\_report\\_web.pdf](https://www.humanitarianoutcomes.org/sites/default/files/publications/ngo-risk_report_web.pdf).

Finally, USAID’s solution to accepting more risk in its programs has been to transfer risk to its local implementing partners as outlined in their risk appetite policy.<sup>14</sup> Climate funders often approach localization similarly to programming in fragile contexts. They work through local partners who have access to less secure areas, possess knowledge about local circumstances, customize solutions to local needs, and remain present when insecurity increases. Donor agencies cannot repeat the same patterns in fragile contexts that we have observed in locally-led action. Local implementing partners cannot bear the risks of operating in such environments alone.

## Recommendations

The following policy recommendations can guide bilateral donors, multilateral climate funds, and implementing partners to translate the insights gained from the roundtable discussions into action for communities living in FCS.

- 1. Civil society actors and donors must intentionally bring the peacebuilding community into conversations on climate finance and fragility.** Responding to climate change and conflict as interconnected challenges will safeguard climate adaptation and peace outcomes against future risks. Peacebuilding is critical for addressing the root cause of conflict that can impact a country or community’s vulnerability to climate change, while conflict and poor social cohesion undermine effective climate action. The approaches and perspectives of the peacebuilding community must inform ongoing discussions on climate adaptation and finance in fragile contexts.
- 2. Donors and multi-mandate organizations must facilitate collaboration across the nexus in fragile contexts.** Vulnerable communities in fragile contexts are experiencing the impacts of both climate shocks and conflict risks, which impacts their ability to adapt to the climate crisis. It is therefore essential to develop program solutions that address both climate and conflict in FCS, which requires genuine collaboration and reduction (if not outright removal) of humanitarian-development–peace-climate silos. This should be driven by IFIs, bilateral donors and multi-mandate organizations that already work across the nexus. These actors should commit to breaking down internal and bureaucratic barriers to investment and garner support for multi-sectoral programs in FCS.
- 3. The United Arab Emirates (UAE) Presidency must use COP28 and the lead-up to COP29 as an opportunity to make progress on the risk appetite question in FCS.** During our policy discussions, we identified the impact of decisions made by IFIs on the ability of donors to invest in fragile contexts. We also discovered that risk aversion in one department of a donor agency could influence how other departments program development and climate finance. Although NGOs and other members of civil society have raised concerns about the lack of climate finance that flows to FCS, addressing the risk issue falls under the responsibility of IFIs and donor agencies.

The incoming UAE COP Presidency has announced that they will introduce a set of solutions aimed at increasing climate finance in fragile contexts during the Relief, Recovery, and Peace Day at COP28.<sup>15</sup> This package must include an acknowledgment of the interconnected nature of risk aversion in fragile contexts and specific actions that IFIs and donor agencies will take to increase their risk appetite. It is crucial that accepting more risk does not simply mean transferring it to local implementing partners to manage.

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14. USAID shifts more ownership, decision making authority, and implementation responsibilities across its programs to local actors, who are best placed to drive change in their own communities. <https://www.usaid.gov/sites/default/files/2022-12/596mad.pdf>

15. COP28 UAE. 2023. “COP28 UAE Letter to Parties.” <https://www.cop28.com/en/letter-to-parties>

IFIs and development agencies must analyze the actual risks of operating in FCS to come up with effective risk mitigation strategies. These strategies should be shared equally with implementing partners. To strengthen the capacities of local actors in the long term, it is essential to combine increased risk appetite with capability-sharing activities. NGOs can support these capability-sharing efforts by leveraging their country-level networks to create a pipeline of adaptation projects that are both ready to be developed and, importantly, that have room for funding and partnerships from the public and private sectors.

**4. International Financial Institutions must play a bigger role in financing climate adaptation projects in FCS.** Adaptation needs are in the billions and cannot be financed exclusively by the public sector. Although climate funds, development banks, and finance institutions face challenges in terms of risk appetite, there are measures that can be taken to increase how much finance they can mobilize in fragile contexts.

**4a. Set a metric for the number of grants-based adaptation projects that are funded annually.** A rapid assessment of seven bilateral development finance institutions<sup>16</sup> reveals that although most of these institutions have pledged to disclose the amount of funding that is mobilized for adaptation and resilience, none of them have committed to funding a specific number of adaptation programs annually. Currently, these institutions prioritize larger investment projects due to financial targets. However, a fixed number of adaptation projects per year in FCS could redirect their focus towards such areas, instead of focusing on investing in high-value projects in safer environments.

**4b. Explore and pilot structures that aggregate several adaptation projects into a larger pooled fund to finance multiple adaptation projects with more flexible requirements.** This would enable institutions to finance small-scale, context-specific projects that communities in FCS require to adapt to the climate crisis, while simplifying bureaucratic processes that often hinder access to climate finance.

## Conclusion

Our *Breaking the Cycle* report has shown that climate adaptation is possible in fragile contexts. As the conversation around climate action in fragile contexts evolves from a focus on highlighting funding gaps to identifying solutions that could work or are already working and scalable, a new set of policy solutions are needed to overcome the fragility and climate finance barrier. By implementing the recommendations outlined in this report, stakeholders can contribute to a significant increase in investment for fragile and conflict affected situations, enabling these communities to adapt to both current and future climate risks.

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16. We analyzed the adaptation and resilience commitments at the following bilateral development finance institutions: CDC Group (U.K.), DEG: Deutsche Investitions- und Entwicklungsgesellschaft (Germany), FinDev (Canada), FMO: Netherlands Development Finance Company (the Netherlands), PROPARCO (France), Swiss Investment Fund for Emerging Markets (Switzerland), DFC: Development Finance Corporation (U.S.).

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