Mercy Corps

# BREAKING THE CYCLE

## Practical solutions to unlock climate finance for fragile states

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Flood Resilience Alliance

MERCY CORPS

FIGURE 2. CHALLENGES TO ACCESSING AND UTILISING CLIMATE FINANCE IN FCS

### Strategic will

Perceived risk in FCS is too high for climate funders

Funders' risk aversion deprioritises vulnerable communities in less-secure areas from support

Climate finance is delivered through state authorities, weakening delivery in non-state controlled areas

Funders lack long-term strategies and organisational structures to manage compound climate–conflict risks

Funders' climate and conflict teams are siloed, preventing operational collaboration

### Planning and development of programmes

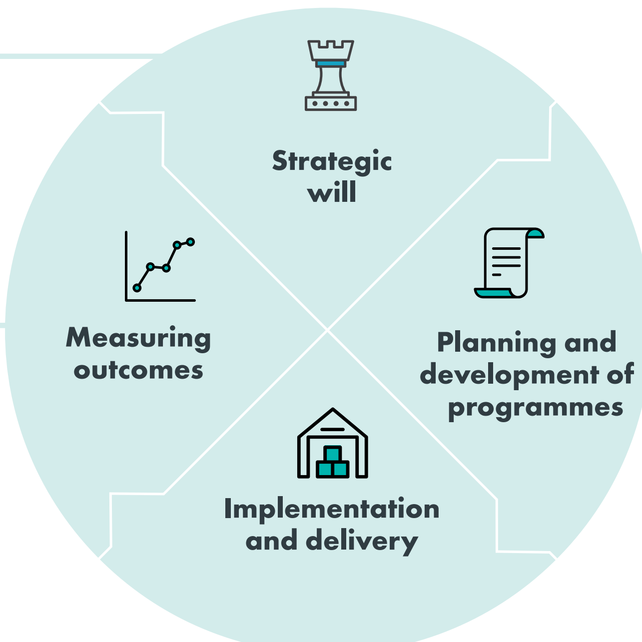
Multilateral climate funds' complex/rigid accreditation standards are too much for government institutions and national organisations in FCS

Accreditation barriers prevent local communities and CSOs directly accessing climate finance

Climate funders' project approval processes may mean 1–2 years' unfunded work for applicants, without guarantee of application success

Structural damage/access issues in FCS lead to difficulty providing the socio-economic and meteorological data required to justify climate adaptation projects

Language and technical capacity barriers inhibit government institutions and local organisations from writing funding proposals for climate funders




### Measuring outcomes

Standard project M&E processes, where information stays between executing organisations and communities, limit climate funders' monitoring of fiduciary risks and accountability

Project M&E cycles are too short for effective evaluation of integrated climate–conflict programming

### Implementation and delivery

Inflexibility in pre-planned climate projects prevents adaptation to volatile FCS contexts, leading to delays, closure and waste

Conflict-sensitive guidance for climate projects in FCS is inconsistently adopted and adaptation projects lacking conflict sensitivity may exacerbate conflict

Funders and multilateral implementers may struggle to find right local organisations to operate in areas of conflict, or with relevant climate expertise

# How institutions can overcome these challenges

The four case studies profiled in this report provide practical solutions to overcome the diverse challenges in the life-cycle of climate adaptation projects and programmes in FCS. Some of them provide solutions to address challenges across all the stages of the life-cycle, such as the UN Peacebuilding Fund, whereas others have solutions that are tailored to individual aspects of the cycle, such as financing or supporting partners (see Figure 3). They are summarised below, while detailed information, learnings and recommendations for climate actors can be found in each companion case study.

## Case study: The UN Peacebuilding Fund

The UN Secretary-General's Peacebuilding Fund (PBF) is the organisation's financial instrument of first resort to sustain peace in countries or situations at risk of or affected by violent conflict. The Fund supports integrated UN responses to fill critical gaps, to respond quickly and with the flexibility to support peacebuilding opportunities and to catalyse processes and resources in a risk-tolerant fashion. From 2017 to 2021 the PBF funded at least 74 projects, in 33 countries, that responded to climate security dynamics or otherwise incorporated environmental peacebuilding into their approach.

### Key learnings for climate actors

- **The PBF has a high risk appetite and tolerance to working in places affected by conflict.** This is possible because risk is well conceptualised (clear guidance available), analysed in reality (joint conflict assessments) and planned for (risk matrix, clear coordination and approval process).

- **Local organisations and local stakeholders are provided for systematically in funding to reach the communities that need most support and ensure local ownership.** The PBF complements funding streams to UN agencies with 40% of funds systematically targeting civil society organisations (CSOs). It has also created a small grant facility to channel smaller grants (between $2,500 and $20,000) to grassroots organisations.

- **Project flexibility is written into guidelines and operational protocols to ensure that approval processes are rapid**, and appropriate to the type of change being requested, helping to keep projects relevant to changes on the ground. Flexible budget lines allow implementing partners to make direct changes to a project, if these are below 15% of the budget, without going through lengthy approval processes. This is facilitated by local tracking as well as tracking at headquarters.

# Case study: Crisis modifiers

Crisis modifiers (CMs) are ring-fenced contingent funds built into development and resilience programmes to flexibly respond to shocks and emerging crises that would otherwise jeopardise the delivery of programme services and the achievement of programme objectives. They are used to fund responses to geographically limited, smaller crises (e.g. localised flooding in the project area), which are often unaddressed by traditional humanitarian funding (Willitts-King et al. 2020), or to continue with a development intervention but approaching it differently due to a changing situation (e.g. training of community health workers online, instead of in person, as a response to COVID-19).

## Key learning for climate actors

- **Crisis modifiers (CMs) provide a mechanism for pre-planned climate adaptation interventions to improve operational flexibility** to adapt to reasonably expected crises that will almost inevitably arise in conflict or fragile contexts.
- **CMs can also lower climate finance providers' risk-based aversion to investing in such contexts**, which is often caused by high risk perceptions rather than actual risks, by supporting more accurate assessment of conflict risks and setting out in advance clear strategies to manage them.
- **CMs have also expanded the standard risk management mentality to create more enabling and risk-aware internal project environments**, and have enabled local development actors to respond to humanitarian emergencies, accelerating and complementing humanitarian response.

# Case Study: Peace bonds

Peace bonds are a new financial instrument proposed by Interpeace – an international peacebuilding organisation – to fund projects that contribute to development and peace objectives in countries affected by conflict and fragility. They do not exist in the market yet, but would be created as a "type of bond instrument whose proceeds would be exclusively applied to partly or fully finance or re-finance new or existing projects that have a peace impact and are verifiably aligned with peace bond principles and standards" (Interpeace and SEB 2022, 15).

Implementing climate adaptation projects in conflict settings often under hybrid governance (e.g. under state/non-state group governance) requires public and private investors to work in different ways, which necessitates partnerships with peacebuilding and local actors. The innovation of peace bonds would be to build this peacebuilding work directly into the financial cost of the climate adaptation project to decrease risks for both local beneficiary communities and investors, as opposed to more traditional forms of financing that usually reduce risks only for investors.

## Key learnings for climate actors

- **Peace bonds could decrease the borrowing costs of funding climate adaptation projects**. Adaptation investments in fragile and conflict zones usually have to pay a higher interest rate when borrowing money to compensate for the higher risks associated with the unstable environment. By implementing interventions to mitigate conflict risks to which the project implementer has committed in the peace bond legal documents – such as conflict analyses, local participatory governance mechanisms, social accountability and social listening approaches, and insider mediation practices – lenders could accept a lower interest rate and therefore lower the borrowing cost of the overall adaptation project.

- By adopting conflict-mitigating interventions, **peace bonds could also add to the information available about risks to help investors understand which are the real risks, as opposed to perceived risks**, and therefore lower their risk-based aversion to investing in FCS.
- Once peace bonds become established and widely commercialised, **they could have the potential to increase the level of private sector funding for climate change adaptation channelled to fragile and conflict-affected countries** which would not add to existing high government debt burdens.

## Case study: COVAX and the COVID-19 Vaccine Delivery Partnership

When the COVID-19 pandemic hit in 2020 and researchers developed effective vaccines against the virus, a specific new alliance – COVID-19 Vaccines Global Access (COVAX) – was established. COVAX was designed specifically to ensure that the most vulnerable in every country get access to COVID-19 vaccines, and implicitly had to consider the hardest to reach in conflict-affected or fragile situations. COVAX also developed a Readiness support mechanism, inclusive of the COVID-19 Vaccine Delivery Partnership (CoVDP) – an interagency initiative to accelerate vaccination coverage in countries that face the biggest challenges to reaching their vaccination targets, such as Afghanistan, Burkina Faso, Democratic Republic of Congo, Ethiopia, Ghana, Kenya, Nigeria, Sierra Leone, Somalia and Sudan (WHO et al. 2022; Kraus 2022).

### Key learnings for climate actors

- The COVAX Readiness and specifically CoVDP 'One Team, One Plan, One Budget' approach demonstrates the **importance of building consensus among actors working in the same country, ensuring that the needs of the countries are the central focus** for all engagement and there is flexibility in funding to address bottlenecks as they arise.
- The CoVDP 'One Plan, One Budget' approach in particular **sped up the administrative processes in the target countries** (which included FCS such as Afghanistan, Burkina Faso and DR Congo) by enhancing coordination and **simplifying the complex funding landscape for countries by providing a menu of funding availability** and what types of bottlenecks or challenges it could address.

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Mercy Corps is a leading global organization powered by the belief that a better world is possible. In disaster, in hardship, in more than 40 countries around the world, we partner to put bold solutions into action — helping people triumph over adversity and build stronger communities from within. Now, and for the future.

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