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## Climate Finance Displacement in Conflict-Driven Energy Crises: How the Iran War Redirected Developing Country Adaptation Resources

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### ABSTRACT

The 2026 United States-Israel war on Iran and the resultant closure of the Strait of Hormuz precipitated the most severe energy disruption in modern history, triggering cascading fiscal shocks across fossil fuel-import-dependent developing countries. While scholarly and policy attention has focused predominantly on energy security and economic stabilization, the consequences of this crisis for climate adaptation finance in the Global South remain insufficiently examined. This paper addresses that gap through a comparative desk review of five developing countries: Pakistan, Bangladesh, Kenya, Sri Lanka, and Ethiopia. Drawing on official Nationally Determined Contribution (NDC) documents, international climate finance data, and conflict-period policy records, the study examines how the 2026 energy shock activated a three-stage fiscal displacement mechanism: oil import bill escalation compresses fiscal space, which forces emergency fossil fuel subsidy deployment, which in turn crowds out climate adaptation budgets and endangers conditional NDC commitments. Findings reveal a structural vulnerability in the architecture of conditional NDC targets: in all five countries, the majority of adaptation commitments are contingent on international climate finance flows that are simultaneously suppressed by the geopolitical crisis. The paper introduces the concept of the double conditionality trap; wherein domestic fiscal resources are redirected toward energy crisis response precisely when international climate finance flows are themselves disrupted. The analysis further demonstrates that the crisis accelerates clean energy transitions in fiscally robust, energy-secure economies while deepening fossil fuel lock-in and adaptation underinvestment in constrained developing countries, thereby producing an asymmetric transition dynamic with profound implications for climate justice. The paper concludes with recommendations for COP31 on shock-proofing adaptation finance architecture and restructuring NDC conditionality frameworks to withstand geopolitical disruption.

#### Keywords:

*climate finance;*  
*fiscal displacement;*  
*NDC conditionality;*  
*energy security;*  
*geopolitical risk;*  
*adaptation governance*

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