



PACIFIC ISLANDS FORUM SECRETARIAT

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8 August 2023

FORUM ECONOMIC MINISTERS MEETING

9-10 August 2023

AGENDA ITEM 7a: PACIFIC CLIMATE FINANCE OPPORTUNITIES

Purpose

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This paper provides an update on regional and global Climate Finance developments including discussions on the New Collective Quantified Goal (NCQG) and the Loss & Damage Transitional Committee work in response to the COP27 call for a Loss and Damage Facility. In view of the various Climate Finance ongoing developments, the paper also proposes a revised approach to the development of a Regional Roadmap on Climate Change Finance and investments, including a stronger focus on mobilising innovative and private financing opportunities.

Summary

Access to transformational climate finance that is sufficient and at the required scale, remains a critical priority for the Pacific. Forum Island Countries' efforts in the past decade have predominantly focused on the UNFCCC mandated Climate Finance Mechanisms and the multilateral global climate funds, including the Green Climate Fund (GCF), Adaptation Fund (AF), the Global Environment Facility (GEF) and the Climate Investment Fund (CIF). In addition, member countries have increasingly looked to their development partners for bilateral arrangements that have expanded the traditional ODI envelopes to include climate financing. Despite these developments, access to climate finance continues to face systemic roadblocks including the absences of consolidated data, capacity shortfalls, gaps in the public financial management systems (PFM), and a lack of alignment between national priorities and regional efforts. With limited scope in the smaller member countries, the ability to mobilise private sector finance is also constrained, including accessing climate finance at scale.

This paper reviews the current global developments in climate finance and makes the linkages to other risk related financing approaches being trialled in the Pacific. It will also provide an update on the work that the regional agencies are doing in trying to expand and improve the climate finance architecture in the region.

A. Problem/Opportunity Identification

1. Pacific Island Countries face significant challenges in gaining or increasing access to climate financing from multilateral climate funds. Across the Pacific, Governments face institutional and human resource capacity constraints, which limit their ability to plan, fund,

and implement climate adaptation projects. Accessing climate finance require strenuous and complex access requirements that are often difficult to navigate.

2. However, ongoing and increasing climate change impacts mean that the climate finance needs are also increasing with current estimates putting the region's climate financing needs at an estimated 6.5%–9.0% of regional GDP or almost US\$1 billion annually¹. However, approved financing to date of around US\$220 million² annually over the past decade for FICs has fallen far short of the needs (only one fifth) with access and implementation efforts not uniformly attributable across members.

3. Pacific Island Governments have focused on crucial investments in development, with particular emphasis on building resilience to climate change. In the context of climate finance, PSIDS have repeatedly called for prioritized international support for adaptation and mitigation activities and have echoed the importance of grant-based climate finance as key to their overall development³. However, in addressing the threats to climate change, the array of adaptation measures required exceeds many countries' financial capacities. External finance is therefore critical in supplementing Pacific Islands governments' own expenditure through the national budget process, and it is expected to remain so for the foreseeable future.

4. Studies published by two different Organisations estimates that the climate financing needs for the Asia-Pacific⁴ region stands at over USD3 trillion with the Pacific region needing over USD863 billion between now and 2030 to meet their adaptation and mitigation needs. (See below):

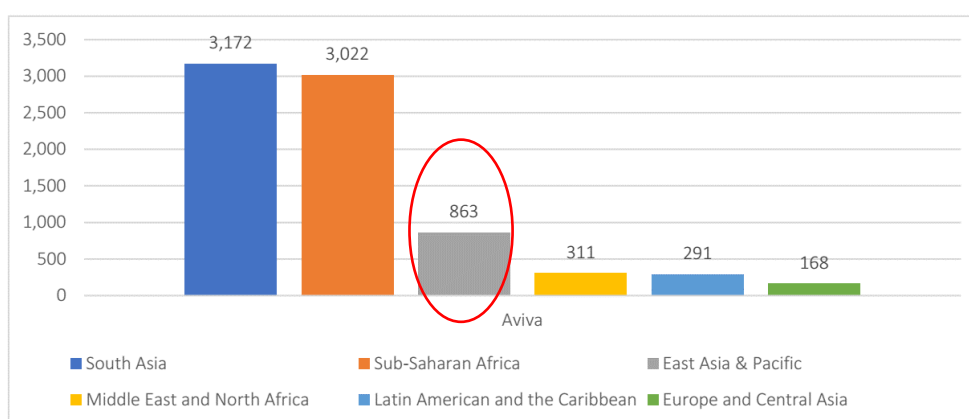


Figure 1: Estimated Climate Finance needs per region (in USD billions)

Source: RMI Climate Finance Access Network Sept. 2022

5. Addressing the magnitude of the climate needs require considerable mobilization from external financial resources. To this end, a more expedient approach towards accessing the climate finance commitments by developed countries and the funding sources under the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement (e.g., GCF, AF and GEF), is needed. In addition, FICs have expressed their dissatisfaction with these mechanisms and have called for easier access modalities accompanied by a commitment to at least double adaptation financing.

B. Background and new developments in the Global Climate Funding architecture

¹ IMF. 2021. Unlocking Access to Climate Finance for Pacific Island Countries. <https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2021/09/23/Unlocking-Access-to-Climate-Finance-for-Pacific-Islands-Countries464709>

² Consolidated figure from PIFS climate finance assessment reports completed in 11 PICs.

³ Nurse, et al

⁴ https://cfanadvisors.org/wp-content/uploads/2022/09/NCQG_Needs_Final-1.pdf

6. Pacific Forum Member Countries have continued to air their frustrations on the global stage that despite the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement acknowledging the vulnerabilities and special circumstances of Small Island States, when it comes to accessing climate finance, we continue to struggle to get the funding required to address the impacts of climate change, in particular adaptation finance.

7. Against this backdrop, PICs have continued to try and navigate the strenuous and numerous access requirements demanded by the various Climate Financing mechanisms. In that regard, FICs, supported by the CROP Agencies and Development partners have tried to strengthen institutional arrangements and safeguards, improve Public Financial Management (PFM) systems and associated financial controls, including investing in capacity development to better position themselves to meet the stringent requirements of the climate funds. To date, only three Member Country entities and two regional institutions have gained Direct Access accreditations to the GCF.⁵ Many other national entities are still on the journey.

8. Influencing the modalities and structure of the various Climate financing mechanisms in the UNFCCC climate negotiations, where finance dominates the discussions, often with limited success, is hampered by the very protracted processes. To this end, PSIDS have been very vocal in calling for a review of the financing mechanisms, in particular the GCF, AF and the GEF. Further, the recent success at COP27 on the Loss and Damage arrangements including a dedicated financing mechanism for loss and damage, has provided impetus to the call for a climate financing architecture that is more responsive to the needs of SIDS, as the most vulnerable countries to the impacts of climate change and disasters.

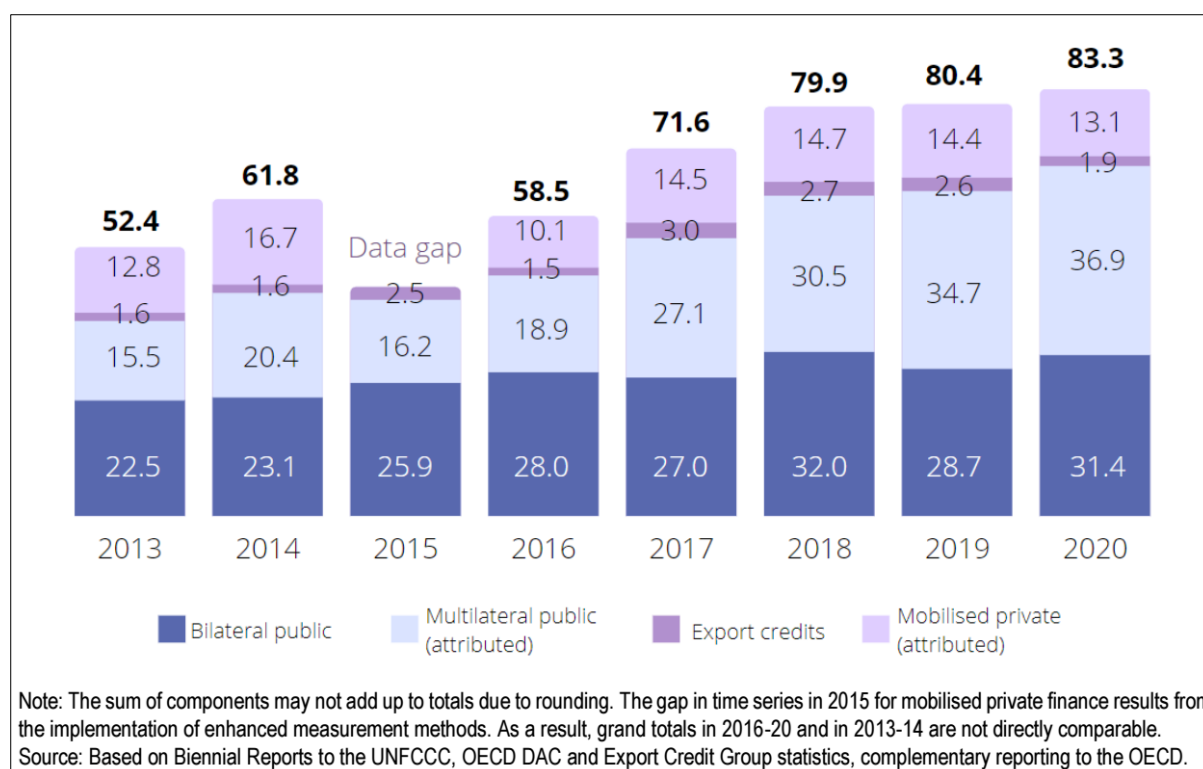
9. It is well documented that the demand for financing to address the impacts of climate change continues to grow, however, the supply side has not lived up to the commitments and the promises made by those most responsible for causing climate change.⁶ The US\$100 billion goal is expected to be met for the first time in 2023. However, the OECD report on the US\$100 billion mobilization calls into question the true quantum of climate finance, citing the absence of a universally accepted definition for what constitutes climate finance. For example, the report highlights how some countries count loans for climate related projects as climate finance even though this will need to be repaid by the recipient countries.⁷

Figure :Climate Finance provided and mobilised from 2013 to 2020 (USD Billions), within the UNFCCC Financing mechanisms

⁵ Fiji's Development Bank, Cook Islands Ministry of Finance and Economic Management, the Micronesian Conservation Trust, the Pacific Community (SPC) and the Secretariat of the Pacific Regional Environment Programme (SPREP) have acquired national and regional direct accreditation to the GCF.

⁶ OECD report: Climate Finance and the US\$100 billion goal, September 2022

⁷ OECD report: Aggregate Trends of Climate Finance Provided and Mobilised by Developed Countries in 2013-2020



10. Taking consideration of the lessons learnt in trying to mobilise the US\$100 billion goal, negotiations are currently in an advanced stage on the New Collective Quantified Goal (NCQG) for climate finance with the expectation that it will be operational by 2025. Noting that the US\$100 billion goal was largely a political decision and dictated by the developed countries, the NCQG process is viewed as the most significant development in climate finance since the Paris Agreement.⁸

11. The significance of the NCQG discussion is in its cross-cutting nature and intersectionality with other discussions in the climate negotiations, especially with regard the Global Stock take, the new Loss and Damage Funding arrangements and the recent developments in seeking specific financing windows and modalities for Mitigation, Just Transition and the adaptation financing gap. Noting decision 1/CP21 para 53, the Conference of the Parties decided that the NCQG should be set from a floor of US\$100 billion per year, taking into consideration the needs and priorities of the developing countries. Article 9 of the Paris Agreement specifically mentions, “.... taking into account the needs and priorities of the developing country Parties”

12. Current estimates put the developing country needs at trillions of dollars with acknowledgement that public finances alone will not be sufficient to cover the needs. The NCQG work programme has therefore explored additional sources including from the private sector. However, mobilising private sector financing for grant-based modalities, as called for by SIDS may be more difficult than imagined. Risks associated with uncertainty of returns, lack of scale and liquidity, macroeconomic risks and long duration of implementations discourage direct private sector investments in the region.

13. Against this risk landscape, a study by the IMF suggests that regional MDBs, like the Asia Development Bank, can play a role by providing the conduit for private sector

⁸ Towards a Collective and Quantified goal based on Needs, CFAN, September 2022

mobilization through mitigating some of the risks, including by sharing of projects across different locations, through the establishment of SPVs to generate scale.⁹ The report further states that SIDS climate needs are predominately adaptation, however, private finance gravitates more towards mitigation programs given their potential to generate returns. In that regard, policy options can help attract private finance by setting out clear investment targets like renewable energy transition and decarbonizing industries, including technology transitions. The figure below demonstrates the imbalance between global mitigation and adaptation investments.

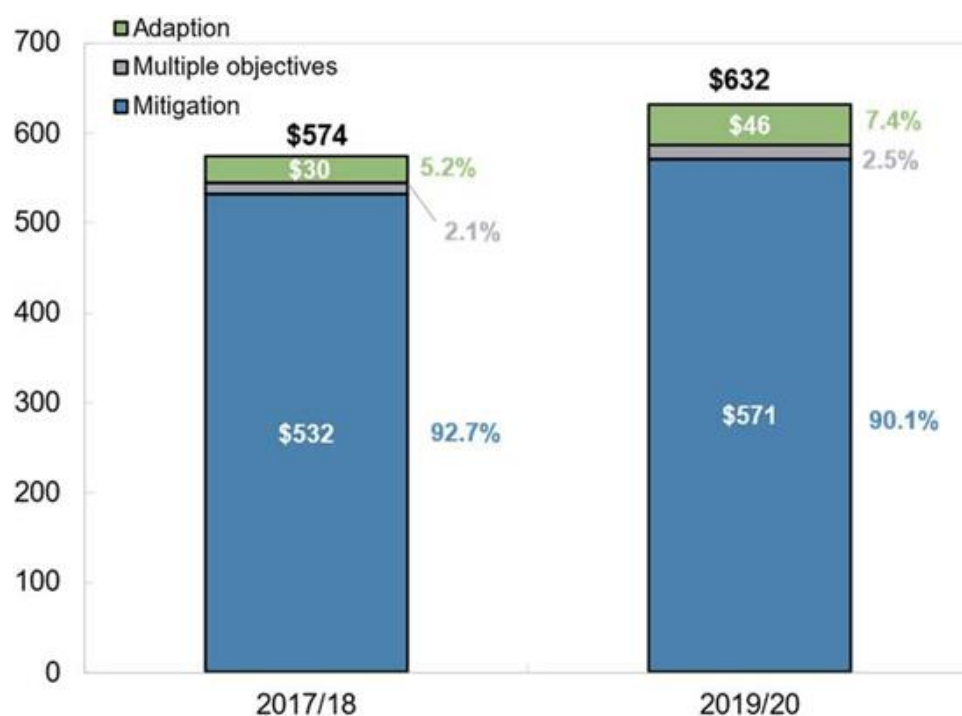


Figure 2: Biannual Average Climate Finance mobilised outside of the Climate finance mechanisms by uses (in billions of US dollars). Source: IMF Publication

Regional Efforts in Addressing Climate Finance

14. The region's previous attempts at having a regional framework to address Climate Change was through the "Pacific Islands Framework for Action on Climate Change 2006–2015", followed by the integration of Climate and Disaster risks into the Framework for Resilience Development for the Pacific (FRDP, 2017 -2030). Absent from these regional frameworks were financing strategies or resources to help their implementation. However, a number of countries have developed their own National Climate Finance Strategies but there has been no analysis of how successful they were in delivering the intended quantum of climate finance.

15. Following FEMM 2022, work on developing the Disaster Risk and Climate Finance Roadmaps started, beginning with interviews with key informants to gauge the level of understanding and the likely structures of the roadmaps in terms of what they should focus on. For the most part, the same stakeholders occupy the same space within the National settings in

⁹ Mobilising private finance in Emerging Markets and Developing Economies, IMF publication, July 2022

relation to Climate finance and disaster risk finance. Through preliminary discussions, the question of why the need to develop two separate roadmaps was raised on several occasions. Most felt that once the roadmaps are finalised, their implementation will fall on the national governments. Having two different Roadmaps will likely cause confusion and stretch national capacities, also noting that most Member Countries already have National Climate Change financing strategies.

16. Against this backdrop and after further consultations, the technical team felt that we can develop the two roadmaps separately but look for points of convergence at the implementation stages. However, with ongoing global negotiations and discussions in the Climate finance space, for example the NCQG negotiations, the Loss and Damage financing facility and the restructuring of the Green Climate Fund, developing and finalising a strategy ahead of the conclusion of these developments may be premature.

17. Efforts have focussed on trying to influence these global discussions with the Advisers developing regional position papers to ensure that the Pacific regional concerns are taken into considerations in these discussions. A paper on Loss and Damage, setting out the Pacific understanding of contextualised loss and damage, especially on non-economic losses and slow onset events, coupled with financing modalities was produced (annex I). A second paper on “what GCF we want for the Pacific,” (annex II), was produced in time for the GCF 36th Board meeting from the 10th to 12th July. The intention was that these papers can help inform and hopefully influence the discussions within the various climate finance discussions.

18. PIFS also acknowledges the progress on advancing the building of capacity and capability on financial instruments provided by UNDP in support of the request at the 2022 FEMM outcomes document. The Secretariat, together with UNDP and other regional agencies, will continue working with interested PIFS members on unlocking Climate and SDG finance through specific financial instruments including at regional level.

19. In addition, PIFS, collaborating with key regional stakeholders, will partner with the UNFCCC Secretariat in developing the Regional Climate Finance Roadmap, parallel to the global climate finance developments. (See Annex III for the proposed workplan).