Climate Financing in the Pacific

Resource Mobilization and Sustainable development in Asia-Pacific countries in Special Situations

Session 4: Climate Finance and Innovative financing Instruments in the Pacific

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By Jale Samuwai
Resilience Financing Analyst – Climate Finance & Resilience
jalec@forumsec.org

Address Private Mail Bag, Suva, Fiji | Telephone (679) 331 2600 | Facsimile (679) 322 0266 | Email info@forumsec.org | Website http://www.forumsec.org
The Pacific Islands: Who are we?
Pacific Risk Landscape

- Small size economies, narrow resource base, small populations, remoteness, market access, high dependence on aid, coupled with weak enabling environment etc
- PICs are categorized as some of the most at risk countries to disasters in the world
  - 7 PICs makes up the top 20 countries in the 2021 World Risk Index [Top 3 are all PICs]
- 84% of disasters in the region are climate induced in nature
  - This is the new normal for the Pacific: intensity and frequency of disasters are increasing every year
- Annual economic loses from disasters is estimated to be around USD 1.075 billion~ 5% of combined GDP of all PICs (for some PICs GDP losses is equivalent to more than 10%)
- Disasters and shocks are widening inequalities and is undermining the efforts against poverty reduction in the region.
  - Social sectors suffer most from these impacts (Poverty, inequality and disaster risk are reinforcing each other)
  - It is estimated that PICs need an additional aid package of USD 2.5 billion to address COVID-19 alone.
  - Additional 1.2 million Pacific Islanders are now living in poverty die to COVID-19 (+40% from pre-COVID estimates).
What is the scale required by Pacific SIDS?

Global scale for adaptation

- Average annual adaptation costs in developing countries are currently in the range of US$70 billion with the expectation of reaching US$140-300 billion in 2030 (UNEP 2020).

Pacific regional scale


US$2.97bn up to 2030
US$276m up to 2030
US$430m
US$200m
What is the state of access for Pacific SIDS?

Past 10 years:

- **US$2.2 billion** approved for Pacific SIDS (excludes regional or global projects with no clear national allocations and those with vague climate objectives).
- Equates to an annual average of **US$220 million** – FINANCING GAP in Pacific SIDS.
- 98% projectised; 2% in general/sector budget support & technical assistance.
What is the state of access for Pacific SIDS?

Key multilateral global climate funding sources:

GCF Approved projects for Pacific SIDS (US$440m)
Key Financing Challenges

- Constant Recovery Mode from disasters
- Access to finance is still an ongoing issue in the region
  - Complex and competitive financing landscape particularly for climate finance (PICs receive about 1% of global CF as per 2021 OECD estimates)
  - Enabling environment (regulatory environment, institutions, policies, PFM etc) to attract quantum of finance (public and private) of most PICs are relatively weak
- Difficulty in coordinating external funding (donors) in the region to align with region’s priorities for example the FRDP
- Short term project funding (3-4 years: issue of sustainability)
- Opportunities for domestic diversifications very limited
- Debt constraints
- Underdeveloped private sector
  - Very small to no domestic private sector
  - Investment costs very high
- Tackling of finance impacts (data limitations)- assessing effectiveness of investments
Additional Financing Mechanisms currently adopted by PICs

- National Trust Funds
  - Tuvalu Survival Fund
  - Micronesia Trust Fund
  - Tonga Climate Change Trust Fund
  - Vanuatu National Green Energy Fund
  - Fiji Climate Relocation and Displaced People’s Trust Fund for Communities and Infrastructure

- National/Regional Accredited Entities to the GCF and the AF (Direct Access)
  - Fiji Development Bank
  - Cook Islands Ministry of Finance and Economic Management
  - SPC
  - SPREP
  - MCT
  - Tuvalu Ministry of Finance- AF

- Green Tax
  - Palau Pristine Environmental Fee
  - Fiji’s Environment and Climate Adaptation Levy
Additional Financing Mechanisms currently adopted by PICs

- Credit Market
  - Green Bonds
  - Blue Bonds

- Parametric Insurance
  - Pacific Catastrophe Risk Insurance Company (PCRIC)
  - Pacific Insurance and Climate Adaptation Programme (PICAP)

- Private sector Initiatives (National Development Bank)
  - Sustainable Energy Financing Facility- FDB (guarantee provided by WB)

- REDD+ Financing
  - Fiji
  - Solomon Islands
  - PNG
What is the state of **Climate Finance Effectiveness** in the Pacific?

- Lack of climate budget tagging/tracking tools and national M&E constraints – difficult to accurately track the effectiveness of climate finance in the Pacific.

- Disbursement of approved climate funding slow – stringent funding templates or limited absorptive capacity at recipient end.

- Too much focus on short-term projects from vertical climate funds – distract countries from achieving quality results due to capacity constraints.

- Preoccupation with accessibility – need to balance with effectiveness (impact).
Pathway to Scaling up of Climate Finance

- Fulfilment of the finance promises by developed countries e.g. 0.7% of ODA, USD 100 billion CF goal etc
- Ease of access and preferential treatment for Pacific SIDS to multilateral funds
- Conversation on scaling up should not only focus on financial instruments and market creations: also need to consider other aspects such as information/empowerment, regulations and instructional capacities both at the demand and supply side
- Programmatic approaches (7+ years)
- Optimizing co-benefits of sustainable/resilient development and COVID-19 recovery
- Debt cancellations/suspensions to allow fiscal spaces for finance green resilient recovery plans
- Peer to peer learning on other mechanisms such debt to climate swap, carbon emission levy, remittances, investments in nature base solutions etc
- Strengthening enabling environment and incentives for more private sector engagement- blended financing and tax reforms etc
End

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