



FORUM ECONOMIC MINISTERS MEETING

1-2 August 2024

**INFORMATION PAPER NO. 11: CLIMATE AND DISASTER RISK FINANCE**

*Regional Climate Finance and Disaster Risk Finance Updates*

**Purpose and Recommendations**

**Purpose**

This paper aims to provide Ministers with an update on the various streams of work contributing to addressing the issue of accessing climate finance and efforts to strengthen Member Countries fiscal resilience in the face of Climate Change impacts, including the development of the Pacific Climate Finance Access and Mobilisation Strategy, (CFAMS).

**Summary**

The significant impact of climate change and predicted rise in greenhouse gas emissions until 2030 will put added stress on Forum Island Countries (FICs). This places an urgent need on the region to be innovative and develop measures to assist our Members in accessing substantial and timely climate finance. Over the past decade, PICs have primarily relied on multilateral climate funds as well as bilateral sources. However, accessing these funds has been challenging and time-consuming.

New opportunities, such as the Loss and Damage Fund established at COP28 and the regional Pacific Resilience Facility (PRF), offer significant potential for accessing and mobilising climate finance. To effectively manage these new funding sources, PICs need to adopt innovative approaches, mobilize private sector finance, strengthen public financial management (PFM) systems, improve climate investment decision-making through informed risk and financial information, prioritize capacity building, and take a regional approach to consolidate efforts.

To help improve and ease Member access to global climate finance platforms, FEMM endorsed the development of a Pacific Climate Finance Access and Mobilisation Strategy (CFAMS) in 2022. With the intention of addressing climate finance access challenges the CFAMS work is now incorporated as part of the Pacific Roadmap for Economic Development (PRED). The finalisation of this work was slightly paused to allow the PRED to be finalised and ensure that all Economic priorities are properly sequenced and aligned to avoid overlaps and duplications.

A complimentary engagement and collaboration effort, led by Cook Islands and Palau, supported by the Asia Development Bank (ADB) and the Green Climate Fund to develop a Regional Programmatic Approach to Climate Action (RPACA) (see **Annex II**). The RPACA initiative has identified six (6) regional priorities specified in the paper for regional programmatic resource mobilisation. This will form and compliment the mobilisation elements of the CFAMS with relevant linkages and added value to PRED.

Enabling effective climate investment decisions also require the availability of data and financial analysis to inform decision makers. In this regard, PIFS in conjunction with partners proposes developing a regional climate change taxonomy to support work on Climate budget tagging and strengthening PFM systems to enable better climate investment analysis and decision making.

This paper has been developed separately to provide an update on climate and disaster risk finance based on the FEMM decisions from 2022 and 2023 and for Members to provide further guidance on how this work could be strengthened.

## **A. Problem/Opportunity Identification**

The most recent Intergovernmental Panel on Climate Change (IPCC) Report highlights that Small Island Developing States (SIDS), including Pacific Island Countries (PICs), face severe and escalating climate impacts, which significantly threaten our development. The report underscores the urgent need for improved access to climate finance, enhanced adaptation strategies, and international support to bolster resilience and sustainable development.<sup>1</sup>

2. Further, the impacts of sudden onset disaster events such as tropical cyclones, flooding, volcanic eruptions and tsunamis cause development setbacks that not only cause physical and environmental damage, but they also cause far reaching social and economic devastation for our countries and communities. The recent example of twin tropical category 4 cyclones hitting Vanuatu within a week is a stark reminder of our region's high exposure to climate related risks and inherent vulnerabilities. The Post-Disaster Needs Assessment (PDNA) for Vanuatu estimated that the total cost of damages and losses from Tropical Cyclones Judy and Kevin amounted to approximately VUV 51.2 billion, or USD 433 million or approximately 45% of their GDP. The recovery needs were projected to be around VUV 91.6 billion, or USD 773 million equivalent to 81.4% of GDP.<sup>2</sup>

3. These inherent challenges mean that climate finance and disaster risk finance needs are increasing, with current estimates putting the region's climate financing needs at 6.5%–9.0% of regional GDP, or almost US\$1 billion to US\$3 billion annually between now and 2030. However, approved climate financing to date, averaging around US\$309 million annually for Forum Island Countries (FICs) from 2010 to 2021<sup>3</sup>, falls far short of these needs, with inconsistent access and implementation efforts across members. Pacific Island Countries face significant challenges in gaining or increasing access to climate financing from multilateral climate funds due to institutional and human resource capacity constraints, which limit their ability to plan, fund, and implement climate adaptation projects, compounded by strenuous and complex access requirements that are often difficult to navigate.

4. Over the past decade (2010-2021), the PICs efforts in accessing climate finance have focused mainly on global funds such as the GCF, Adaptation Fund, GEF, and Climate Investment Funds, alongside key bilateral sources like Australia, the EU, New Zealand, Japan, China, the U.S., and multilateral development banks (ADB and World Bank). Climate finance flows into the region over this period are estimated to be between US\$2.2 billion and US\$3.4 billion, averaging approximately US\$309 million

<sup>1</sup> <https://www.ipcc.ch/report/ar6/wg2/chapter/chapter-15/>

<sup>2</sup> <https://www.ilo.org/publications/vanuatu-tropical-cyclones-judy-and-kevin-2023-post-disaster-needs>

<sup>3</sup> UNFCCC Technical Assessment of Climate Finance in Pacific Island Countries report, 2024

annually, which falls short of the region's estimated need of USD 2 billion per year until 2030. A significant challenge in obtaining accurate data arises from the lack of a clear, accepted climate finance definition, leading development partners to often combine climate finance with Overseas Development Assistance (ODA). This bundling creates variance between standalone climate finance flows and those integrated with ODA, as depicted in the graph below:

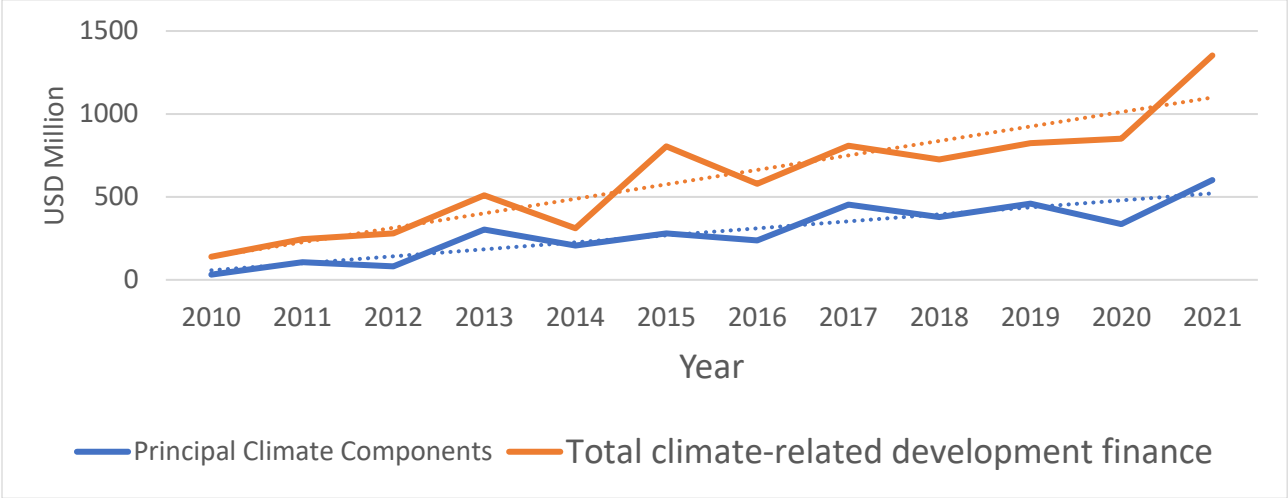


Figure 1: Primary Climate Finance flows to the region versus climate-development related flows (Sources: UNFCCC Technical Assessment report, 2024)

5. Using country submissions to the UNFCCC, including Nationally Determined Contributions (NDCs), National Adaptation Plans (NAPS), Long Term-Low Emission Development Plans (LT-LEDs) and Biennial Reports (BRs), together with climate finance data extracted from the latest OECD Creditor Reporting System (CRS) data base, spanning from 2010 to 2021, the analysis reveals that approximately half of the Pacific Island Countries have estimated their climate action costs at USD 13.2 billion. The region therefore receives only about a quarter of needed climate finance from international sources. This major gap in climate finance flows to the region calls for a new approach to accessing and mobilising climate finance.

6. Of all the climate finance flows into the region, more than half comes from the Multilateral Development Banks, (54%), 26% from bilateral arrangements and only 20% from the Multilateral Climate Funds (MCFs). Most of the funding has been through grants or grant equivalents (73%) with the remaining 27% in the form of debt.

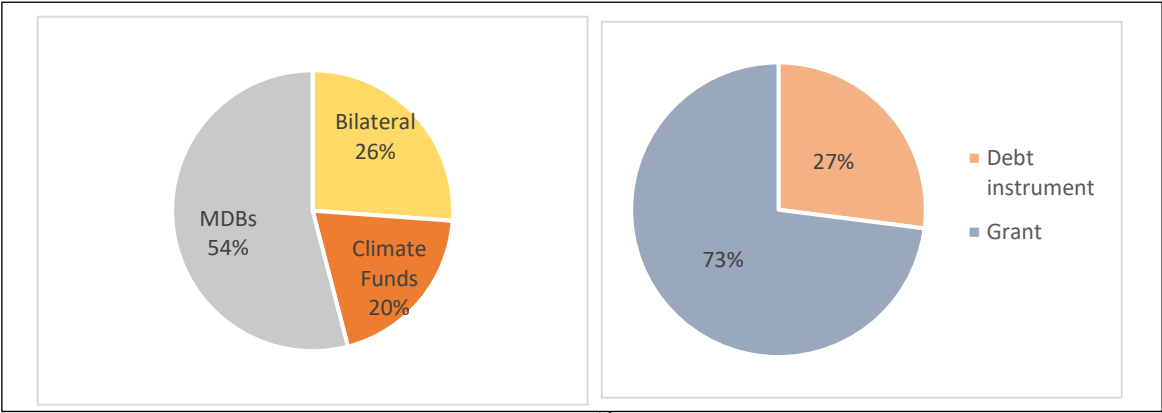


Figure 2: Major Sources of climate finance to the region and most common instruments used.

7. Addressing the large financial needs will require considerable mobilisation of 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, PICs need to elevate their efforts towards more regional and programmatic financing approaches, therefore it is an opportunity for the Climate Finance and Mobilisation Strategy (CFAMS), to address some of these challenges.

## **B. Background**

8. The 2050 Strategy for the Blue Pacific Continent (2050 Strategy) has a heavy emphasis on building resilience in the region, underscored by the Leaders declared position that climate change remains the greatest security and existential threat faced by our region. The Leaders' vision for the 2050 Strategy also features prominent references to the need for urgent, immediate and appropriate action to combat the threat and impacts of climate change.

9. At the meeting of Forum Economic Ministers in 2022, Ministers noted with concern the shortfall in meeting the climate finance needs of Pacific Island Countries (PICs) from existing global climate funds<sup>4</sup> and endorsed the development of a regional Climate Finance strategy. With significant gaps between climate financing needs and accessibility to climate funding or mobilisation of climate funding, the challenges to adapt and mitigate the evolving impacts of climate change against PICs would be significantly impacted consequently impacting the realisation of the PIF Leaders vision on the security and wellbeing of the Pacific people.

10. The Secretariat has engaged and worked very closely with the UNFCCC Secretariat, under the Needs Based Financing Project (NBF) to develop the CFAMS, starting with a Technical Needs Assessment Report, (*Annex I*). The NBF is a Conference of the Parties (COP) mandated work program f with the aim of providing developing countries with technical assistance in assessing their climate finance needs and priorities.

11. To improve Member access to global climate finance platforms, FEMM endorsed the development of a Pacific Climate Finance Access and Mobilisation Strategy (CFAMS) in 2022. The CFAMS, addressing climate finance access challenges, is now part of the Pacific Roadmap for Economic Development (PRED). One of the proposed priority actions under the PRED include the need to strengthen regional collaboration to increase access to climate finance and this will be operationalised through the development of the Climate Finance Access and Mobilisation Strategy (CFAMS). The CFAMS, therefore underscores not only access to climate finance, but also the need to strengthen resilient and sustainable development. Finalisation has been delayed ensuring the PRED properly sequences all economic priorities, avoiding overlaps and duplications.

12. CFAMS will have the following strategic focus areas:

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<sup>4</sup> FEMM 2022 Outcomes, para 30(i).

- i. Capacity building and Institutional strengthening;
- ii. Access to Climate Finance;
- iii. Efficient utilisation and management of climate finance, and
- iv. Innovative Financing mechanisms.

13. Engagement and collaboration with development partners such as the Asian Development Bank (ADB) together with the Green Climate Fund, has supported the complimentary development of a Regional Programmatic Approach to Climate Action (RPACA) led by the Cook Islands and Palau. The RPACA identifies six (6) regional priorities for resource mobilisation, aligning with the CFAMS and PRED, and requires out-of-session endorsement to ensure timely project proposal development ahead of a planned investment forum.

14. The RPACA work has consolidated PICs top climate action priorities into six (6) major programmes around which the regional Accredited Entities (AEs) and regional partners will join forces to seek funding for. In order of priority, these include:

1. Resilient Infrastructure;
2. Renewable Energy;
3. Water/WASH;
4. Waste;
5. Food Security; and
6. Innovative Financing.

### **C. Enabling Environment for Effective Climate Finance Mobilisation and Utilisation**

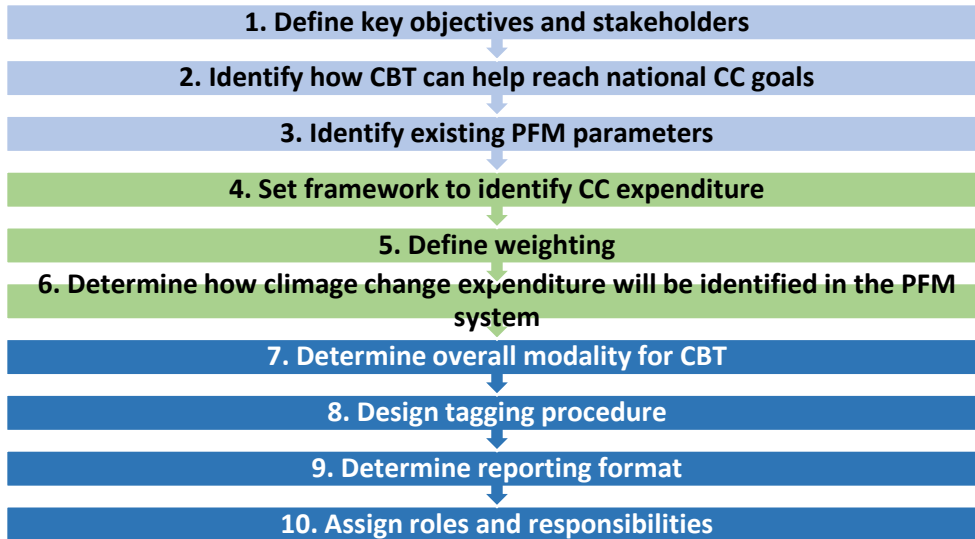
15. Domestic and external public finances constitute the largest share of investments to combat climate threats. However, the level of sophistication of public financial management (PFM) undermines the fiscal response articulated by governments. Moreover, because of redundancies in PFM, external finances are also channelled through parallel systems that undermines the efforts for improving absorptive capacity of national PFM systems, rendering it void public investments preferences.

16. Budgeting for climate change creates a strong nexus with climate finance effectiveness as it helps refine PFM practices. Climate Budget Tagging (CBT) is an evidence-based systematic framework that enables the tracking of climate-related expenditures and can ultimately support policy makers in making informed budget decisions. At its core is the process of the adoption of a calculation methodology to enable the users to interpret the budget lines uniformly to ensure data integrity.

17. Several approaches and methodologies for CBT (and other thematic budget tagging) exist. One specific approach and methodology is outlined in three broad phases and ten component steps as illustrated below, adopted from the UNDP ‘Climate Change: Knowing What You Spend’ guidance note for government.<sup>5</sup> (see *Annex III* for further detail on CBT and references).

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<sup>5</sup> <https://www.undp.org/sites/g/files/zskgke326/files/publications/RBAP-DG-2019-Climate-Budget-Tagging-Guidance-Note.pdf>



*Figure 3. Ten steps of a climate budget tagging initiative*

18. More specifically, budget tagging provides the following benefits and strategic objectives:
- i. Evidence based decision making;
  - ii. Enhanced tracking and reporting;
  - iii. Alignment with climate policy objectives;
  - iv. Facilitating citizens' engagement, and
  - v. Integrating policy, planning and finance functions.

19. Further, creating a common understanding of the most often used terms associated with climate change activities, by developing a regional Climate Change taxonomy, will ensure a consistent application of meaning across different users, including standardisation and transparency for policy makers. A regional climate change taxonomy could potentially benefit members by identifying potential sustainable environmentally friendly economic/investment opportunities and inform due diligence processes to some extent when accessing different climate finance products.

20. As alluded to above, CBT forms part of the overall PFM system and therefore provides several entry points for its introduction into national systems. Rolling out a CBT program will vary slightly from one jurisdiction to the other depending on local national context. Engaging early with the Technical Advisers in a pre-planning phase will help avoid delays during implementation.

#### **D. Consultations**

21. The CFAMS was first socialised with Member countries during the Regional Programmatic Approach for Climate Action workshop in Nadi followed by a presentation to the Pacific Climate Change Roundtable, (PCCR) meeting in Samoa. Senior Member countries Climate Change and Finance Officials from Member countries were present during these consultations. A technical discussion of the Strategy involving senior PSIDS climate negotiators was also held in the margins of the Bonn UNFCCC intersessional meeting in early June. Further consultations are planned including a validation workshop.

22. Feedback received from Members following each of the consultations have been incorporated into the latest draft version of the CFAMS.

**E. Next Steps/Proposed Approach**

23. The proposed approach is to consider the refinement of the draft CFAMS and continue socialising the Strategy with Members to inform its scope and intended outcomes. In addition, utilise existing mechanisms such as the TWG and the PESC to socialise and finalise the CFAMS for consideration by FEMM. The proposed next steps is as follows:

- i) Finalise the CFAMS through a validation workshop;
- ii) Socialise CFAMS through TWG and PESC; and
- iii) Present CFAMS for FEMM Endorsement out of session.
- iv) Once CFAMS is endorsed by FEMM, the next step in the process is to convene the investment forum where potential investors, multi-lateral development banks, multilateral climate funds, donor partners as well as interested philanthropic foundations and the private sector will be presented with climate investment options based on the identified regional priorities.

Pacific Islands Forum Secretariat  
25 July 2024