FINANCE FOR CLIMATE CHANGE RESPONSES

Access to climate change funding among small Pacific developing member countries (DMCs) is constrained by their limited human and technical capacity to prepare funding proposals and implement climate change-related programs and projects amidst the complex global climate funds architecture. Programs on all sides would benefit from greater harmonization and transparency of financing conditions and processes. Climate finance needs to be embedded in national development strategies and integrated with national budgets, supported through capacity development. The Asian Development Bank (ADB) is supporting a working group of Pacific Finance Ministers to address these challenges.

Background
Pacific Islands Forum leaders have continuously highlighted the threat posed by climate change to their member countries. In May 2009, the Governors of the ADB Pacific DMCs requested support for strengthening climate change adaptation. This message was reiterated by Forum Economic Ministers in their 2011 Communiqué, and again in May 2012 when the Pacific governors emphasized their need for technical and financial assistance to ensure an effective climate change response.

In response to the Pacific governors’ request to support the Working Committee of Pacific Finance Ministers, ADB financed a study to examine more closely the Pacific DMCs’ climate change financing needs, advise how to align them with current financing schemes, and design actionable recommendations for improving the countries’ access to climate change funding.

Scope and Approach
Over the last decade a number of climate funds have been established under the United Nations Framework Convention on Climate Change (UNFCCC). In addition, more than 40 international and regional mechanisms have been put in place. However, these financial resources remain either inaccessible or insufficient for most Pacific DMCs. Regional coordination is hampered by current mechanisms that are either minimally effective or are overburdened by the increase in climate change adaptation activities by multilateral sources.

Small Pacific DMCs and multilateral and bilateral agencies with dedicated climate change funds have been surveyed to (i) review and profile available climate change finance, (ii) examine the country experiences and lessons gained in accessing climate financing, and (iii) examine grant and co-financing opportunities and (iv) explore the feasibility of establishing a regional mechanism for mobilizing dedicated resources.

Financing Needs, Gap, and Demand
The identified financing needs were significant. Based on their National Adaptation Programmes for Action (NAPA) on climate change, five Pacific DMCs require a total of $59 million to finance adaptation initiatives, with Timor-Leste requiring the most at $21.3 million. Three Pacific DMCs completing the Joint National Action Plan require a total of $70 million for adaptation and disaster risk reduction, with Cook Islands having the largest requirement at $48 million.

Coastal marine ecosystems (a critical part of Pacific DMCs’ food security), agriculture, and water resource management are the top sectors for adaptation work, accounting for nearly 70% of total financing needs.

A mixed picture with some Pacific DMCs apparently showing climate financing surpluses highlights the extra budgetary nature of climate change finance, the outdated estimates of financing needs and the apparent mismatch between supply and demand of funds. Available yet incomplete country data indicate significant climate financing gaps, with country requirements much higher than available resources. Pacific DMCs needs are not always aligned with available resources as availability is driven to a significant degree by donor priorities rather than recipient needs.

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1 The Cook Islands, Fiji, Kiribati, the Marshall Islands, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.
As Ministries of Finance take greater control over climate change financing, the number of countries showing financing gaps is expected to increase.

**National and Regional Financing Modalities**

The greatest need is for external climate change financing to augment national systems and resources to implement climate change programs and policies. While external resources ensure linkages to climate-specific impacts, they can also threaten the mainstreaming of climate change considerations into national planning and budgeting. This threat can be managed by tailoring the modality to national circumstances and by utilizing each country’s national planning and public financial management systems. The three basic forms of national modalities identified by Pacific DMCs as most applicable to their situation are budget support, extra-budgetary funds, and project-based finance (see table).

Regional modalities are seen by Pacific DMCs as being complementary, but not replacing national efforts. With strong links to national plans, regional efforts can be more resource efficient, avoid duplication of national efforts, and promote multi-sectoral planning and implementation.

**Issues and Lessons**

The small Pacific DMCs have limited capacity for project proposal preparation and implementation, weak public financial management, and only limited climate change mainstreaming in national planning and budget systems. They need external support to improve national systems to better track cross-government programs, such as those responding to climate change.

The climate fund community, with its complex processes for project applications, has shown a tendency to drive the national agenda on climate change. The funders need to exert better program coordination and harmonization and more transparent funding processes and conditions.

**Way Forward**

With climate change closely linked to sustainable development; principles pertaining to country ownership, use of national planning and public financial management systems, and improved donor coordination will be highly relevant. Small Pacific DMCs should start by examining their existing national modality that work most effectively in development finance. Existing Pacific regional facilities are able to provide capacity development to assist in this process.

The July 2013 Pacific Forum Economic Ministers’ Meeting endorsed the development of professionally prepared Pacific DMC climate change financing prospectuses to highlight medium-term adaptation and disaster risk management policies, programs and corresponding financing needs.

In order to highlight ownership and promote the use of country systems in improving access to climate change financing, Pacific DMC finance ministers should continue to regularly engage with development partners and funding agencies in key international and regional forums.

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