

Bridging the gap between adaptation priorities and climate financing in the Pacific Region

Discussion Paper by the SPREP Project Coordination Unit

Introduction

Human-induced climate change, including more frequent and intense extreme events, has caused widespread adverse impacts and related losses and damages to nature and people, beyond natural climate variability¹. Climate change impacts and risks are becoming increasingly complex and more difficult to manage. The IPCC highlight the increasing risk of multiple climate hazards occurring simultaneously, and multiple climatic and non-climatic risks interacting, resulting in compounding overall risk and risks cascading across sectors and regions². Furthermore, vulnerability will rapidly rise in low-lying Pacific Small Island Developing States (SIDS), atolls, and in some mountain regions, already characterised by high vulnerability due to high dependence on climate-sensitive livelihoods, rising population displacement, the accelerating loss of ecosystem services, and limited adaptive capacities³.

Whilst some development and adaptation efforts have reduced vulnerability, the rise in weather and climate extremes has led to some irreversible impacts as natural and human systems are pushed beyond their ability to adapt⁴. Slow-onset disasters such as sea level rise are seen as an existential threat to many Pacific SIDS, to the point that many are now considering extreme responses such as relocating coastal populations to higher ground, elevating low-lying islands, and/or finding a new safe haven in another country.

Whilst progress in adaptation planning and implementation has been observed across all sectors and regions, generating multiple benefits, adaptation progress remains unevenly distributed with observed adaptation gaps⁵. Furthermore, many initiatives prioritize immediate and near-term climate risk reduction which reduces the opportunity for transformational adaptation⁶.

¹ IPCC, 2022

² Ibid

³ Ibid

⁴ Ibid

⁵ Mcleod et al., 2019

⁶ Ibid

Adaptation gaps exist between current levels of adaptation and levels needed to respond to impacts and reduce climate risks. The UNEP report “*The Gathering Storm: Adapting to climate change in a post-pandemic world*” (2021), highlights the costs of adaptation and the estimated financial needs for adaptation from developing countries. It indicates higher values than previously reported, with estimated annual adaptation costs now generally in the upper range of the 2016 estimate of the Adaptation Gap Report of US\$ 140-300 billion by 2030 and US\$ 280-500 billion by 2050⁷.

This paper provides an outline of progress in the region to access climate financing and highlights the ever-increasing gap between the adaptation needs for Pacific SIDS and the levels of financing required to fill those gaps, including proposed actions which SPREP is undertaking.

Progress in accessing climate financing

The paper “*Securing Climate Financing to build Resilience to Climate Change in the Pacific Region*” presented to the SPREP Council Meeting in September 2021, highlighted the low levels of funding accessed by the Pacific under the three UNFCCC funding mechanisms – the Green Climate Fund (GCF), Global Environment Facility (GEF) and the Adaptation Fund (AF) – of which a total of USD 3.5 billion⁸ had been allocated towards climate related projects in the Pacific.

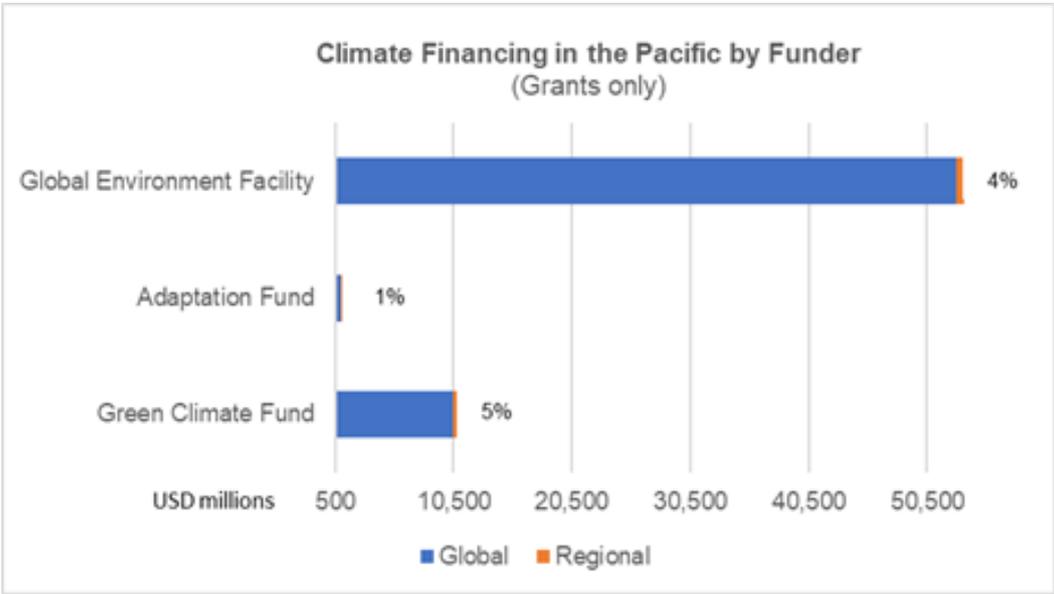
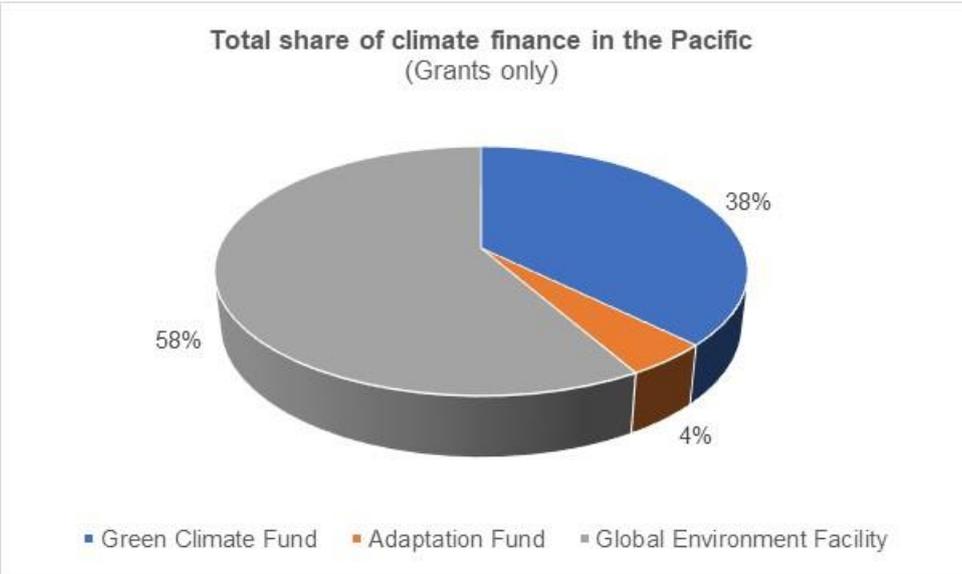
As of 30 May 2022, funding received from the three mechanisms totals USD 4.7 billion or 1.2 percent of the total funding envelope (Table 1). The Global Environment Facility (GEF) has provided 58 percent of the project funding (includes co-financing), the Green Climate Fund (GCF) provides 38 percent whilst the Adaptation Fund (AF) has provided 4 percent.

Table 1. Overview of climate financing in the Pacific

Entity	Number of Projects	Grants (USD)	Loans (USD)	Co-financing (USD)	Total (USD)
Green Climate Fund (2015)	16	404,808,099	73,900,000	685,336,217	1,164,044,316
Adaptation Fund (2001)	11	47,435,648	0	0	42,415,648
Global Environment Facility (1992)	215	630,215,599	0	2,903,717,118	3,533,932,717
TOTAL		1,077,439,346	73,900,000	3,589,053,335	4,740,392,681

⁷ UNEP, 2021

⁸ The figure includes grants, loans and co-financing



This further highlights the gap between the region’s climate mitigation and adaptation needs and priorities, and the level of financing accessed.

Gaps between current level of adaptation and financing

External finance is critical to the Pacific SIDS as a way to supplement governments’ own expenditures through the national budget process, and it is expected to remain so⁹. However, the evidence suggests there remains an ever-increasing gap between the current levels of adaptation and levels needed to respond to impacts and reduce climate risks¹⁰ - with the estimated adaptation costs and likely adaptation financing needs in developing countries about five to ten times greater than current international public adaptation finance flows¹¹.

⁹ Atteridge, A., and Canales, N., 2017.
¹⁰ UNEP, 2021
¹¹ UNEP, 2021

With approximately only ten percent of the available climate financing through the UNFCCC financing mechanisms (i.e., GCF, AF and GEF) allocated to the Pacific SIDS since 1992, the gap between Pacific SIDS adaptation priorities and needs, and the level of financing received to implement these priorities, is continuing to grow.

The UNEP report “*The Gathering Storm: Adapting to climate change in a post-pandemic world*” (2021), highlights the costs of adaptation and the estimated financial needs for adaptation from developing countries. It indicates higher values than previously reported, with estimated annual adaptation costs now generally in the upper range of the 2016 estimate of the Adaptation Gap Report of US\$ 140-300 billion by 2030 and US\$ 280-500 billion by 2050¹².

On the basis of available estimates, in the Pacific sub-region of Melanesia the cost of adapting to climate change could vary from USD 30 million to at least USD 4.5 billion across the subregion over a 5- to 10-year period; while the cost of mitigating climate change could vary from USD 170 million to at least USD 2.9 billion¹³. The World Bank estimated coastal adaptation costs by 2040 ranging from USD 3-11 million for Palau to USD 97-347 million for the Solomon Islands. To climate proof infrastructure from climate-induced flooding for the period 2011-2050, average annual costs range from USD 0.3 million for Tuvalu to USD 20.2 million for Fiji. Protection against tropical cyclone damage, losses in the agriculture sector (5% of GDP by 2100), changes in fish catch and destruction of coral reefs, and possible relocation due to climate change will add to these costs¹⁴. For Kiribati alone, the cost of mitigating sea level rise will reach 4-17% of GDP by 2040.

The IPCC “*Climate Change 2022: Impacts, Adaptation and Vulnerability*” Report¹⁵ notes:

- Most observed adaptation is fragmented, small in scale, incremental, sector-specific, designed to respond to current impacts or near-term risks, and focused more on planning rather than implementation.
- Observed adaptation is unequally distributed across regions.
- Gaps are partially driven by widening disparities between the estimated costs of adaptation and documented finance allocated to adaptation, with the largest adaptation gaps existing among lower income population groups.
- At current rates of adaptation planning and implementation the adaptation gap will continue to grow. As adaptation options often have long implementation times, long-term planning and accelerated implementation, particularly in the next decade, is important to close the adaptation gaps, recognising that constraints remain for some regions.

In meeting the region’s adaptation priorities and needs, there is an urgent need, therefore, to scale up and further increase public adaptation finance both for direct investment and for overcoming barriers to private-sector adaptation. SIDS will not be able to rely on official development assistance nor domestic taxes and fees to meet their adaptation needs. New instruments, actors, and approaches to scale up adaptation finance are emerging, including private-sector adaptation financing. These offer opportunities to raise adaptation finance and to use public adaptation finance to leverage private investment.

¹² UNEP, 2021

¹³ UNFCCC, 2019

¹⁴ World Bank (2016) Pacific Possible: Climate and Disaster Resilience

¹⁵ IPCC, 2022

The rate and scale of adaptation progress at the national level is not enough to keep up with the growing needs, as adaptation costs are rising faster than adaptation financing. The recent IPCC report notes there are feasible and effective adaptation options which can reduce risks to people and nature, with integrated, multi-sectoral solutions that address social inequities, differentiate responses based on climate risk and cut across systems, increasing the feasibility and effectiveness of adaptation in multiple sectors¹⁶. However, this can only be effective through scaling up and further increasing public adaptation finance both for direct investment and for overcoming barriers to private-sector adaptation¹⁷.

The 2021 paper from the PCU, “*Securing Climate Financing to build Resilience to Climate Change in the Pacific Region*”, highlighted significant gaps in countries’ access to the funding mechanisms, in particular, the shortfall in accessing funding mechanisms which are designed to facilitate adaptation. Given the cost of adaptation and the gaps between this cost and the financing received within the region, the current ‘business-as-usual’ practices of sourcing funding through the multilateral channels will not be enough to be able to address the increasing impacts of climate change on the Pacific SIDS, nor provide the financing to fill the required adaptation gaps.

Pacific SIDS response

At the 50th Pacific Islands Forum in Tuvalu in 2019, Pacific Leaders endorsed the development of a 2050 Strategy for the Blue Pacific Continent, noting that Pacific Island countries can form an effective union that builds on the Small Islands Developing States Accelerated Modalities of Action (SAMOA) Pathway and the Boe Declaration on regional security to ensure a safe and secure future for the Pacific in the face of climate change. Importantly, a key driver of the 2050 Strategy was the subsequent adoption by Leaders at the Forum meeting of the Kainaki II Declaration for Urgent Climate Change Action Now, which states, inter alia:

- “To secure the future of our Blue Pacific, we have pursued and must continue to pursue, bold and innovative regional solutions recognising that each of our nation’s futures, as well as the actions we choose to take, are interconnected.
- We have established the Framework for Resilient Development in the Pacific (FRDP) and its inclusive Pacific Resilience Partnership (PRP) as an integrated approach to address climate change adaptation and disaster risk management and to build regional resilience.
- We reinforce the need for transformational change at scale.”

Through these declarations and frameworks, Pacific SIDS have reinforced their commitment to the vital role that regional cooperation plays in supporting climate change action across their vast oceanic domains. Large-scale financing at a regional level is therefore necessary to enable a paradigm shift in modalities to address climate change, and subsequent transformational change.

Pacific SIDS have progressed adaptation planning, institutional and systems improvement, national processes, and review of national frameworks to align to climate finance criteria in anticipation of upscaling access to financing. The financing for transformational change,

¹⁶ IPCC, 2022

¹⁷ UNEP 2021

however, needs to expand drastically to meet the climate change adaptation needs, while there is still time (i.e., within the next 1-2 decades).

Urgent action and a realignment of climate adaptation priorities to either new or non-traditional financing structures and mechanisms requires consideration. There is it is time to seek funding beyond these traditional funding sources and explore funding more innovation related to programmatic partnership approaches, financial structures and instruments.

Proposed SPREP approach to close the gap

Fossil fuel consumption is driving climate change and Pacific SIDS are struggling to do their bit to replace imported oil and gas with renewable energy, thus freeing up domestic resources to meet the basic needs of their population. Climate change impacts have reduced the basic necessities such as food and water, and caused substantial damages, and increasingly irreversible losses, in terrestrial, freshwater and coastal and open ocean marine ecosystems¹⁸.

Risks in physical water availability and water-related hazards will continue to increase by the mid- to long-term in all assessed regions, with greater risk at higher global warming levels. In SIDS, groundwater availability is threatened by climate change. Changes to streamflow magnitude, timing and associated extremes are projected to adversely impact freshwater ecosystems in many watersheds by the mid- to long-term across all assessed scenarios¹⁹.

Projected increases in direct flood damages are higher by 1.4 to 2 times at 2°C and 2.5 to 3.9 times at 3°C compared to 1.5°C global warming without adaptation. At global warming of 4°C, approximately 10 percent of the global land area is projected to face increases in both extreme high and low river flows in the same location, with implications for planning for all water use sectors. Challenges for water management will be exacerbated in the near, mid, and long term, depending on the magnitude, rate and regional details of future climate change and will be particularly challenging for regions with constrained resources for water management²⁰.

Growing climate risks require a step change in adaptation ambition.²¹ SPREP will work towards closing the gap between adaptation needs and financing is seeking to explore options beyond the traditional UNFCCC funding mechanisms, and establish innovative financial mechanisms based on catalytic programmatic partnership approaches, and new or emerging financial structures and instruments.

The proposed approach is mindful of the regional architecture and approaches such as country priorities, regional priorities, FRDP and the climate change activities of members of the Council of Regional Organisations in the Pacific (CROP).

The focus will be on adaptation with the overlying outcomes of sustainable livelihoods for communities and ensuring environmental outcomes are achieved as the centrepiece for on-ground activities (Figure 1). The adaptation needs, whilst generating livelihoods and improving or maintaining the environmental base, is critical in ensuring countries can adapt to climate

¹⁸ IPCC, 2022

¹⁹ IPCC, 2022

²⁰ Ibid

²¹ UNEP, 2021

change. It is well documented that climate change is profoundly modifying the conditions under which adaptation measures are conducted, with both direct and indirect impacts on these.

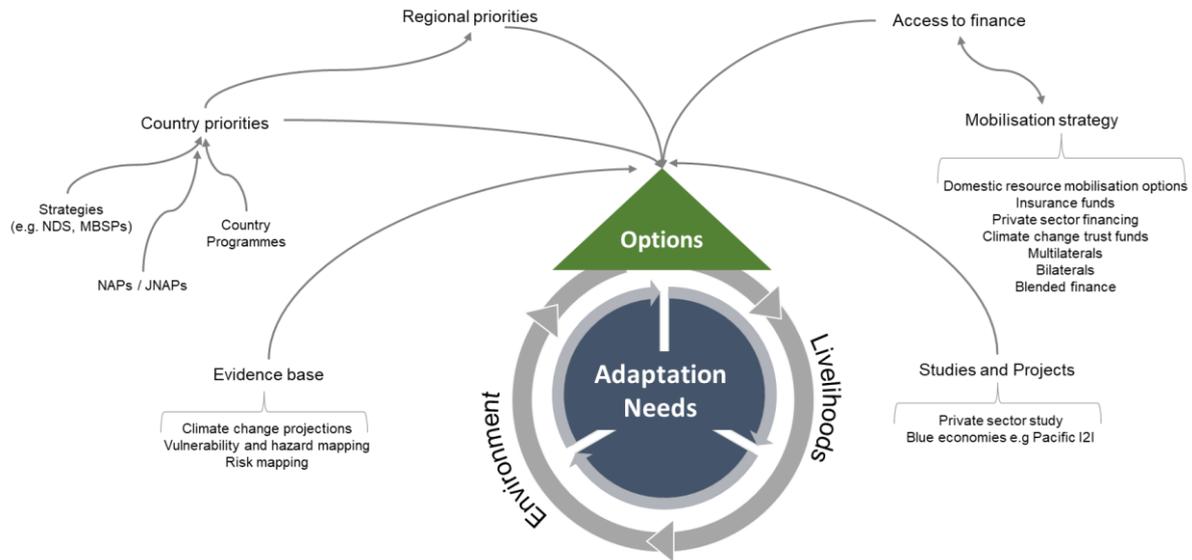
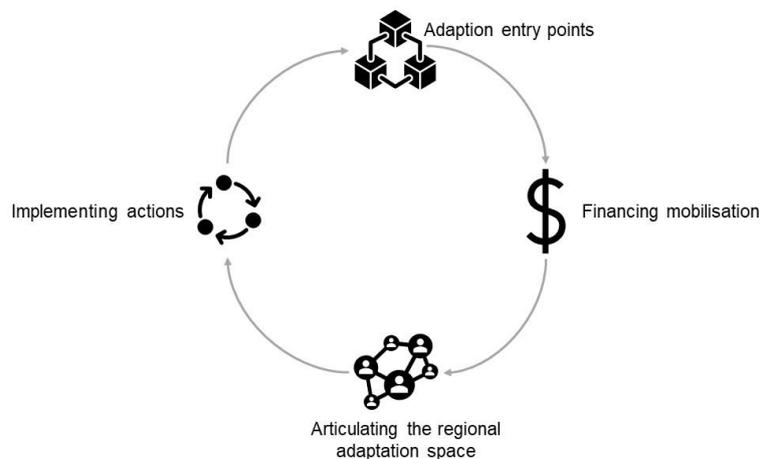


Figure 1: Elements of the proposed SPREP approach

The approach with adaptation needs as its centrepiece will specifically focus on: (i) implementation of adaptation actions; (ii) upscale access to climate finance for Pacific SIDS; (iii) work towards bridging the gap between estimated costs of adaptation priorities and documented finance allocated to adaptation; and (iii) accelerate implementation of adaptation actions to close adaptation gaps.

This would occur over four stages from defining the entry point for adaptation at the regional level, through to identification of finance mobilisation options, and into the development and implementation of a regional response strategy and work programme.



Stage 1: Defining the entry point

Stage 1 provides the evidence and background on the most effective “entry point” for adaptation at a regional scale noting that adaptation measures are implemented at national level. Stage 1 includes a review of the adaptation approaches undertaken in the Pacific region including:

- a. What have been the adaptation approaches in the Pacific?
- b. What has worked and what hasn't worked? Why?
- c. How do you scale-up successful adaptation approaches across the levels in the Pacific i.e., from local – national – regional?
- d. What are the challenges to, and constraints of, adaptation in the Pacific region?
- e. What are potential solutions? Do other regions have successful examples which could be adapted to the Pacific region (multi-regional learnings and sharing of information)?

Stage 2: Finance Mobilisation Strategies

There has been an increasing emphasis over the past decades on finding the solutions to adaptation through the development of country project pipelines to be funded through multilateral funding agencies. However, the mobilisation of multilateral funding into the Pacific region has been slow and limited (refer to the “*Securing Climate Financing to build Resilience to Climate Change in the Pacific Region*” paper). There is a growing urgency for more consolidated and innovative approaches to establishing finance mobilisation strategies to enable greater access to and mobilisation of public and private finance – both domestic and international – for climate adaptation and mitigation.

Stage 2 is building upon the findings from the Stage 1 report, in reviewing and defining finance mobilisation strategies which are suitable and effective for the Pacific SIDS. This would include exploring across the financial, economic, political, and legislative landscapes within the Pacific, the viability of, and opportunities to source funding from:

- a. Multilateral agencies
- b. Bilateral agencies
- c. Insurance and re-insurance funds
- d. Climate change trust funds
- e. Financing mechanisms e.g., green and blue bonds, resilience bonds, blended finance to de-risk investments etc.
- f. Micro-financing mechanisms and insurance mechanisms for vulnerable populations e.g., fishers, farmers, and smallholder tourism operators
- g. Foundations, corporate social responsibility, and private sector investment
- h. Debt for nature and/or debt for climate change swaps, policy-based lending, and a potential loss and damage funding mechanism

Stage 3: Articulating our space in the regional adaptation approaches

Stage 3 would see the development of a regional (SPREP) climate financing for adaptation strategy for short-, medium-, and long-term programming, incorporating the analyses and recommendations from Stages 1 and 2. The strategy would focus on the adaptation needs /priorities and linkages to environment and livelihoods.

Stage 4: Implementation of adaptation approaches and financing mechanisms

Stage 4 involves mobilisation of task forces to identify and prepare financially viable adaptation projects /programmes, using the full range of financing alternatives, followed by rapid implementation of the most critical adaptation actions for Pacific SIDS.

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