

Twin clouds on the horizon

AVERTING A COMBINED CLIMATE AND DEBT CRISIS IN THE PACIFIC THROUGH LOCALLY-DELIVERED CLIMATE FINANCE





Twin clouds on the horizon: averting a combined climate and debt crisis in the Pacific through locally-delivered climate finance

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Foreword

In recent decades, extreme weather events in the Pacific have increased markedly both in intensity and frequency, causing significant destruction and loss to our 'large ocean states'. I myself was brought up and raised in the island state Tonga and I have experienced a number of times the brunt of such natural disasters.

I hail therefore this report in heralding the alarm of the 'twin clouds' looming indiscriminately over the horizon. It is a combined climate and debt crisis that has been brewing for some time and it places Pacific nations, already affected by climate change, at even greater risk.



In this report, the 'twin clouds' of the combined climate and debt crisis in the Pacific are analysed and backed with case studies drawn from our island nations. These case studies highlight how climate finance is not trickling down to local communities, where it is needed most. These local communities are rich in local and indigenous knowledge, but are facing significant barriers to accessing funding for climate resilience projects. There is also the growing risk of a climate change-induced debt crisis in the Pacific, due to the high vulnerability of our 'large ocean states' to disasters exacerbated by climate change. This report is calling for better ways of delivering climate finance to ensure that local communities have access and support to lead their own initiatives, and to ensure that climate change does not lead to indebtedness.

In the last thirteen years of my work with Caritas Tonga, as well as my own experiences as President for Caritas Oceania, I have learnt so much from being closely involved with two major groups – local communities and fellow co-workers. After storms, I visit people in my community and I am always lifted by their resilience and their spirit of helping each other. They are always smiling. But when I visit them privately in their homes, they share their real emotions. There is a lot of pain and many tears. When one reads the report, one hears the voices and struggles of local communities who often go unheard at the global level.

We are at a very critical time in our fight for climate resilience, especially in the Pacific which is facing existential threats from climate change. The world's challenge is to listen and see with attentive ears and eyes the struggle of those on the frontlines of climate change, and to have the courage to take action in solidarity. Thus the report is a contribution to our common mission of imagining the rightful future of our natural home on which we all depend.

Malo aupito,

Cardinal Soane Mafi
Bishop of Tonga and Niue
President of Caritas Oceania



Abbreviations

ADB	Asian Development Bank
AIFFP	Australian Infrastructure Financing Facility for the Pacific
COP	Conference of the Parties
DAC	Development Assistance Committee
DSSI	Debt Service Suspension Initiative
EbAEDP	Ecosystem-based Adaptation Enterprise Development Programme
EU	European Union
GCF	Green Climate Fund
GEF	Global Environment Fund
GDP	Gross Domestic Product
IMF	International Monetary Fund
IIED	International Institute for Environment and Development
IPCC	Intergovernmental Panel on Climate Change
JICA	Japan International Cooperation Agency
KANGO	Kiribati Association of NGOs
MEART	Marine Environmental Awareness and Response Team
OECD	Organization for Economic Cooperation and Development
PIANGO	Pacific Islands Association of NGOs
PICAN	Pacific Islands Climate Action Network
PIF	Pacific Islands Forum
PIFS	Pacific Islands Forum Secretariat
PNG	Papua New Guinea
PRF	Pacific Resilience Facility
SPREP	Secretariat of the Pacific Regional Environment Programme
UNDP	UN Development Program
UNFCCC	UN Framework Convention on Climate Change
VRCA	Vaisigano River Catchment Area



Mangroves in the Ba Delta, Fiji. The Ba river is subject to frequent flooding caused by a range of factors, including climate change. Credit: Jubilee Australia.



Executive summary

The Pacific is a region of large ocean states, with its people stewards over vast stretches of the Pacific Ocean. The region's unique and diverse natural environment is already under threat from climate change, with Pacific Islands experiencing tropical cyclones, sea level rise, storm surges, coral bleaching, changing rainfall patterns and droughts. As global temperatures rise, the impacts of increased heat stress and ocean warming are likely to lead to even more impacts. At the same time, the region faces an economic threat in the form of growing public debt. This report considers these 'twin clouds' on the horizon and looks at how climate finance, complemented by debt relief, can help address the climate crisis without exacerbating debt.

Climate finance in the Pacific

The International Monetary Fund (IMF) has estimated that Pacific Island countries each need between 6.5% and 9% of Gross Domestic Product (GDP) per year in financing on average for adaptation infrastructure. This equates to almost US \$1 billion per year. Total annual climate finance commitments to the region currently fall well below that amount. Much of what is committed goes to mitigation rather than adaptation, which is arguably the greater need in a region with low emissions that is already feeling the impacts of climate change. IMF has estimated that only 44% of climate finance committed for Pacific Island countries 2014-19 was dedicated to adaptation, with a further 28% on activities combining adaptation and mitigation.

From 2015 to 2020, based on Organization for Economic Cooperation and Development (OECD) data, around US\$3.6 billion in climate finance was committed to Pacific Island countries or regional initiatives in the Pacific. Finance is provided through bilateral and multilateral channels, including the Green Climate Fund (GCF), other climate funds, multilateral development banks and bilateral contributors such as Australia, the European Union (EU), Japan and New Zealand.

Existing commitments are falling short of estimated needs, and this is without even considering that these estimates do not include finance to address loss and damage - that is, the cost of replacing the infrastructure lost during a disaster or the loss of money or economic potential as a result of the disaster. Given the significant impact of natural disasters in the Pacific, additional finance in the region will be needed to address loss and damage.

Climate finance and debt

Pacific Island countries are currently facing looming debt burdens, with existing debt challenges exacerbated by the COVID 19 pandemic and the Russia-Ukraine war. The most recent IMF-World Bank debt sustainability analyses have classified seven Pacific countries (Kiribati, Marshall Islands, Micronesia, Papua New Guinea, Samoa, Tonga and Tuvalu) at high risk of debt distress. Solomon Islands and Vanuatu are considered at moderate risk of debt distress, while a recent IMF report also noted that Fiji's debt was 81% of GDP. Most of the Pacific's external debt is concessional and owed to public creditors (particularly Asian Development Bank (ADB) and World Bank), which lowers the risk that they will be forced into default. However, the region's small economies and the risk of major climate disasters mean that a combined climate and debt crisis could be only one cyclone away.

Vanuatu's Cyclone Pam in 2015 provides an example. After the cyclone, government debt almost doubled, from 21% of GDP before to 39% afterwards. Four years after that, government debt to GDP was over 50%, largely due to lending for reconstruction. In its 2019 review of Vanuatu's economic and financial prospects, the IMF stated "there is little fiscal space to address another natural disaster".

Other research has found a strong correlation between being a highly indebted country and being exposed to frequent climate-induced disasters, or has demonstrated how climate induced loss and damage can



drive debt. For example, IMF analysis of 11 disasters in low-income countries found that public debt in those countries increased by an average of 10% three years after the disaster. So while a poor debt sustainability rating may not be a major cause for concern on its own, the combination of high debt levels and vulnerability to climate change pose a significant risk in the Pacific.

To add to this, the existing mechanisms for debt relief are insufficient, with two of the main recent mechanisms - the G20's Debt Service Suspension Initiative and the IMF's Catastrophe Containment and Relief Fund - used by only a small number of Pacific countries.

Right now, climate finance itself does not appear to be a significant driver of debt in the Pacific. Based on OECD data, only 13% of climate finance provided from 2015-2020 in the Pacific was given as loans. These loans were mostly provided to finance large infrastructure - including an airport redevelopment, hydropower facility and wharf upgrades. This focus on grants is contrary to global trends, which have seen most climate finance elsewhere delivered as loans. It is possible that this trend could reach the Pacific in future. For example, the region's largest bilateral donor - Australia - has signalled an interest in blended finance and established a Climate Infrastructure Window in its flagship loans mechanism, the Australian Infrastructure Financing Facility for the Pacific.

Moreover, climate finance data does not include information on financial flows from China. Between 2015 and 2020, China committed over US\$6 billion in loans in the Pacific, making it one of the region's largest bilateral public creditors. It is difficult to identify what, if any, of this finance would be classified as "climate finance" if coming from an OECD contributor. There is also lack of information and concerns with accuracy in the reporting of climate finance by many other international donors. In order to properly understand and address the issues identified with climate finance the international community needs to commit to more accountable and transparent reporting of its climate finance expenditures.

Getting climate finance to where it is most needed

Based on the above analysis, this report argues strongly for the need for a significant increase in climate finance and loss and damage finance to the Pacific - to support the region's adaptation needs, mitigate the economic threat posed by climate-change induced disasters and address ongoing losses and damages. It also argues this finance should be provided primarily as grants rather than loans. However, the volume of finance is only part of the picture.

An equally important question is how to ensure finance gets to where it is needed most. The current climate finance architecture is complex, involving multiple layers of oversight, accountability and approval



to shepherd financing from the contributor to the climate adaptation or mitigation project they are funding. Within countries, there are also challenges bringing climate finance to the vulnerable communities most affected by climate change. Pacific communities' intergenerational Indigenous cultural knowledge includes knowledge about environmental protection and preservation that can play an important role in shaping solutions to climate change, but these communities are not being given access to the resources needed to make use of this knowledge in climate change adaptation efforts. Despite this, the Pacific Islands Climate Action Network (PICAN) has commented that most funds received are not yet reaching those most in need, and that there is limited data and information on the use and effectiveness of the funds at national level. The Pacific Islands Association of NGOs (PIANGO) has also commented on the lack of access to adaptation finance at community level and the need for this to be scaled up.

“There is a need for donors to take the risk and invest in both climate actions plus investing in strengthening local civil society institutions. Only when donors directly fund the local civil society which includes community based organisations, women’s groups, youth groups etc; would they see the multiplier effect of their investment and thus ensuring the effectiveness of aid.”

– JOSAI JIRAUNI OSBORNE, PIANGO

Based on engagement with communities and projects on the front line of climate change in the Pacific, this report has identified several challenges local communities face to accessing climate finance, including:

- Lengthy delays in accreditation processes slowing down the flow of funds to national, subnational and local levels;
- Lack of awareness of what climate finance might be available to support local adaptation and how to apply for it - this is particularly a problem for women and vulnerable groups;
- Onerous grant application processes which are barriers for small businesses and community-based organisations seeking finance;
- Lack of financing mechanisms specifically focused on grassroots, local and traditional solutions;
- Stringent governance, reporting and financial management requirements for funding that smaller organisations may struggle to meet.

The report contains a number of case studies drawn from the work of civil society in Tonga, Papua New Guinea's Admiralty Islands, Fiji, Kiribati and Samoa. The difficulties of obtaining funds for much needed climate change adaptation work can be seen in the challenges faced by the Marine Environmental Awareness and Response Team on Manus Island, where information flows about funding sources are scarce and hard to engage with, as well as in the efforts of local organisations obtaining GCF funding through the Vaisigano Catchment Project in Samoa.

Positive examples of climate adaptation work are shown in the Kiribati Association of NGOs (KANGO)/PIANGO and Catholic Relief Services/Caritas Samoa partnerships, with larger more experienced NGOs helping newer, local organisations through the challenges of finance application processes by taking on the role of 'financial agent' and helping build local capacity. Similarly, through community-led participatory programs in Tonga and Fiji, positive developments can be seen in recovery and resilience efforts where participation and inclusion are emphasised.

Within the region, initiatives like the Pacific Resilience Facility - a US\$1.5 billion fund to support local level adaptation initiatives in the Pacific proposed by the Pacific Islands Forum - could help to provide a vehicle for channelling funds where they are most needed. It is critical that the design of this fund supports this.



Recommendations

Area	Recommendation	Directed to
<p>Providing more grant-based climate finance and financing for loss and damage</p>	<ul style="list-style-type: none"> Contributors should provide their fair share towards meeting the target of US\$100 billion per year in climate finance, and support a new post-2025 climate finance goal that meets the needs of recipient countries for financing for mitigation, adaptation and loss and damage. Bilateral and multilateral contributors should substantially increase the volume of climate finance they provide to Pacific Island countries and organisations, based on the estimated adaptation costs of 6-9% of GDP per country per annum. Climate finance should be new and additional, and reported transparently. The shortfall in climate finance in the Pacific should be made up from grants, not loans. 	<p>Contributors</p>
<p>Financing the Pacific Resilience Facility</p>	<ul style="list-style-type: none"> Contributor governments should commit funds to the PRF, and use their influence to encourage other governments and the private sector to do the same. Pacific governments should consult Pacific civil society on the design and implementation of PRF mechanisms in-country, to maximise impact for local communities. The private sector should commit funds to the PRF and use their influence to encourage their industry counterparts to do the same. 	<ul style="list-style-type: none"> Contributors Pacific Governments Private sector
<p>Putting local communities and civil society at the heart of climate finance</p>	<ul style="list-style-type: none"> Contributor countries, working closely with Pacific governments and civil society, should reform the global climate finance architecture to address barriers to access and place decision-making power in the hands of Pacific actors. Contributor countries and Pacific governments should explore mechanisms that deliver finance directly to local level, working closely with civil society on the design of those mechanisms. This should include offering the required support for civil society and local actors to deliver, monitor and evaluate their work. Contributor countries and Pacific governments should ensure that vulnerable and marginalised groups - including women and people with disabilities - are prioritised for access to climate finance. 	<ul style="list-style-type: none"> Contributors Pacific Governments



Area	Recommendation	Directed to
Rethinking the emphasis on large infrastructure – especially where loan financed	Climate finance contributors to the Pacific should rethink the focus on large infrastructure, particularly where this is more focused on economic growth than climate change and should ensure that a significant proportion of climate finance goes to initiatives that more directly help vulnerable communities achieve their adaptation goals.	Contributors
Extending debt relief	Multilateral creditors, bilateral creditors and private sector should collaboratively agree on mechanisms to systematically address the current debt crisis - including in the Pacific. This could include: <ul style="list-style-type: none">• Establishing an automatic mechanism for debt service suspension following a natural disaster or other shock;• Developing a global approach to debt relief and restructuring for heavily indebted countries.	Creditors



Houses along the Ba River in Fiji. The Ba river is subject to frequent flooding caused by a range of factors, including climate change. Credit: Jubilee Australia.



Introduction

The Pacific Islands region is at the frontline of a global climate crisis, disproportionately experiencing the impacts of rising sea levels, increased temperatures, ocean acidification and extreme weather events, including cyclones, king tides and tropical storms. Pacific Islanders have done little to cause the climate crisis, but live with its impacts every day.

High income countries have committed to provide US\$100 billion per year in climate finance to low-income countries.¹ This funding can be viewed as the repayment of a “climate debt”, whereby countries that have pursued economic growth based on high carbon emissions now repay some of their gains to the countries that have contributed far less to global carbon emissions but feel a greater impact from climate change. However, wealthy countries are behind on these payments and the US\$100 billion target remains unmet.

As high-income countries continue to drag their feet on climate finance, a second crisis is brewing in the Pacific as sovereign debt levels climb in the face of repeated natural disasters, the COVID-19 pandemic and global economic shocks. Seven Pacific Island countries are currently rated by the IMF as being at high risk of debt distress,² while another two are at moderate risk of debt distress. Among the other economic impacts of this, high debt levels reduce the amount of budget space Pacific countries have to invest in adapting to climate change.

This report looks at the interplay of the climate and debt crises in the Pacific, and examines the role that climate finance can play in repaying the ecological debt that high-income countries owe to those countries experiencing the disproportionate and irreversible impacts of climate change, while also alleviating (and not exacerbating) the financial debt that Pacific Island countries are grappling with.

The report also looks at whether climate finance is getting to where it is most needed in the Pacific. If vulnerable communities in the Pacific are facing the impacts of climate change today, what role can and does climate finance play in helping them to become more resilient? With a significant amount of climate finance in the region currently directed to large infrastructure projects, what can be done to ensure that the small-scale local projects that communities need and want are not left behind?

This report will first set the scene by discussing the impact of climate change on Pacific Island countries, and then look at the current climate finance landscape in the region. It will then examine the looming Pacific sovereign debt crisis and examine the role that climate change plays in exacerbating debt levels, the role that climate finance can play in addressing debt, and the risks that may come from future delivery of climate finance via loans or other debt instruments.

The report will then turn to the question of whether climate finance, once delivered, is getting to where it is most needed. Drawing on case studies and interviews with civil society organisations across the Pacific, the report will identify some of the barriers that prevent local communities from accessing the finance they need for adaptation and responding to loss and damage, as well as good practice models that have helped to bridge the gap between the international financing architecture and local adaptation needs.

Finally, the report will explore policy options for ensuring that donor countries repay their ecological debt, without creating debt obligations in return, and in ways that prioritise the most vulnerable.



1. Climate Change in the Pacific

The Pacific is already experiencing the impacts of climate change. Large ocean states, including in the Pacific, are currently affected by tropical cyclones, sea level rise, storm surges, coral bleaching, changing rainfall patterns and droughts.³ As global temperatures rise, the impacts of increased heat stress and ocean warming will leave Pacific Islands even more exposed, with low-lying and coastal areas most vulnerable.⁴ Half of Pacific Islanders live within 10km of the coast, and more than 50% of infrastructure is within 500m of the coast.⁵ According to the Intergovernmental Panel on Climate Change (IPCC), there is high confidence that the severity and frequency of coastal flooding globally will significantly increase from 2050.

The Pacific experiences both slow onset events (like sea level rise) and extreme weather events (like cyclones). More than 616,000 people from 17 Pacific countries were displaced between 2008 and 2019 as a result of 97 disaster events, with Papua New Guinea (43%), Fiji (24%) and Vanuatu (15%) the most affected.⁶ Slow onset events, such as ocean acidification and sea level rise, quietly affect coastal fisheries, tourism, aquaculture, and the coastal protection that coral reefs provide.⁷ Pacific Island nations are not uniform, and experience climate change differently, as well as having different adaptive capacities. The Secretariat of the Pacific Regional Environment Programme (SPREP) identified that the most vulnerable reef-dependent communities are Solomon Islands, Kiribati, PNG, Micronesia, Tonga and Tuvalu.⁸ Even though forecasting impacts in small islands is challenging, research has shown that the burden of disasters on the Pacific Islands is more acute than in Caribbean Islands and it has been underestimated.⁹ A geographically scattered population, low mobility and high trading costs can also make recovery from disasters harder.¹⁰



Wide impact: storm waves generated by Cyclone Pam breaking at Teaoraereke, Kiribati in March 2015. Credit: Caritas.

Disasters have hit Pacific Island economies hard. Between 2000 and 2019, the Centre for Research on the Epidemiology of Disasters' Emergency Events Database recorded 7,348 disaster events, which resulted in US\$82 billion economic losses from Oceania.¹¹ Individual disasters have had dramatic financial impacts in the Pacific:

- Palau's National Emergency Committee estimated that Typhoon Surigae represented losses of US\$4.8 million across several sectors—health, infrastructure, education, food security, community/residential dwellings, communications and utilities.¹²
- In Vanuatu, tropical Cyclone Pam in 2015 caused loss and damage to the Vanuatu agricultural sector valued at US\$56.5 million (64.1% of GDP) and 166,600 people (out of a population of 270,000) were affected.¹³ Again, in 2020, Cyclone Harold cost the country US\$600 million or 60% of GDP. These disasters have compounded the impacts of slow onset risks like ocean acidification.¹⁴
- Fiji's Tropical Cyclone Winston affected 57% of livelihoods related to the agricultural sector, 17% related to commerce, 10% to manufacturing, 8% to tourism and 8% to transportation.¹⁵ The 2016 cyclone caused an estimated US\$1.42 billion in damage (around 30% of GDP) affected 540,000 people, and left 150,000 people in need of shelter assistance.¹⁶



A family moved to a bus shelter in Naqia village, Tailevu province Fiji, after their house was damaged by Cyclone Winston. Credit: Caritas.

As discussed below in Section 3.2, these financial impacts go beyond immediate financial costs and loss of income, and can increase national debt levels at the same time as reducing capacity to repay them. The potential for climate change induced debt crises is explored in more detail below.

Non-economic losses can be as disruptive as economic losses. Disasters can cause disconnection to place, land, cultural and totem affinities, disenfranchisement, denial of access to services and protection, conflict and inequalities, increased risk of gender-based violence and exploitation, increase in informal settlements, stress on natural resources, reduced human mobility, loss of cultural heritage and Indigenous knowledge, decline in biodiversity and ecosystem services and loss of health and life.¹⁷ At their worst, climate change related disasters are deadly and the Pacific is highly represented in death tolls from disaster. Samoa, American Samoa and Niue were each within the top ten countries by total deaths per million inhabitants as a result of climate-induced disasters.¹⁸

Pacific governments and communities are developing solutions to adapt and recover. Regionally, the Pacific Island Forum Leaders have endorsed a Framework for Resilient Development, which sets out priority actions to build resilience for climate change while furthering economic development.¹⁹ Leaders have also endorsed the 2050 Strategy for the Blue Pacific Continent, which includes “Climate Change and Disasters” among its thematic areas and sets out strategic pathways for a regional response to climate change.²⁰ Pacific governments have identified, through their National Adaptation Plans and Nationally-Determined Contributions, priority projects that would build resilience, prevent damage from climate-related events and reduce domestic emissions.²¹ At the local level, communities are a key source of resilience in the Pacific and there is significant Indigenous and local knowledge to inform adaptation initiatives.²² Pacific Island communities are also building on the generations of knowledge built up as stewards of their lands and waters, and traditional cultural and spiritual links that inform ways of caring for and restoring their environment, to develop new ways of adapting to climate change. While many of these initiatives are about changing our approach to development, there is also a demonstrated need for finance to resource adaptation to climate change. This is discussed below.



Sandbagging a hole in the Betio causeway, Kiribati eroded by waves from Cyclone Pam. Credit: Caritas.

2. Climate finance in the Pacific

As part of the UN Framework Convention on Climate Change (UNFCCC) process, wealthy countries have committed to provide funds to support the mitigation and adaptation needs of low-income countries.

The 2010 COP16 Accord states: “developed country Parties commit, in the context of meaningful mitigation actions and transparency on implementation, to a goal of mobilising jointly US\$100 billion per year by 2020 to address the needs of developing countries”.²³ This goal remains unmet - with the OECD estimating that only US\$83 billion was mobilised in 2020.²⁴ It is now predicted that this goal will not be met until 2023 at the earliest.²⁵ Key decisions surrounding this goal made it clear that finance is intended to be “new and additional”, that is, over and above existing Official Development Assistance, but recent analysis has shown that less than half of all climate finance could be considered “new and additional”.²⁶ At COP in Paris in 2015, parties extended the goal to 2025. Parties have also begun discussions towards a new post-2025 goal.

What is climate finance?

At its broadest, the term “climate finance” is used to refer to any “local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change”.²⁷ However, the term is often used to refer to financing provided by high income countries (either directly or via multilateral funds or institutions) to low-income countries (or institutions within them), for the purposes of climate change mitigation and adaptation. This is the way the term is used throughout this report.

In practice, defining what counts as climate finance depends upon the data being used. Most reporting classifies a project as climate finance if it has been reported to the OECD Development Assistance Committee (DAC) as having a focus on climate change adaptation and/or mitigation (based on Rio Markers - tags used by reporting countries to indicate the focus of the financing).²⁸ For this report, the term “climate finance” is used to cover flows of funds from high to low-income countries, as reported to the OECD DAC Creditor Reporting Scheme. It considers projects with a principle or significant focus on climate change as climate finance. Other financing is referred to as “climate related finance” (for example, finance from China, which does not report to OECD DAC).



Flood protection near Malia's home. The Green Climate Fund is supporting work to benefit 27,000 people living in the flood-prone Vaisigano river catchment in Apia, Samoa. Credit: Caritas.

From 2015 to 2020, around US\$3.6 billion in climate finance was committed to Pacific Island countries or regional initiatives in the Pacific.²⁹ The largest recipients in the region over this period were Papua New Guinea (PNG), Vanuatu and Solomon Islands, with significant commitments (US\$738.55 million) flowing to regional initiatives. Analysis by IMF on an earlier time period (2014-19) found that 52% of climate finance came from bilateral sources and 48% from multilateral funding.³⁰ This includes financing for projects principally aimed at climate mitigation or adaptation as well as financing where the donor has declared climate adaptation or mitigation to be a “significant” focus of the project.

The Green Climate Fund (GCF) is the most significant multilateral climate fund in the Pacific.

The GCF is the world’s largest dedicated multilateral climate fund, set up under the UNFCCC and financed through contributions by national governments (as well as a handful of regional and city governments). Countries receiving financing under the GCF are required to establish a National Designated Authority, responsible for approving GCF projects in that country. Projects are then implemented by Accredited Entities – including international organisations, national government agencies and local organisations.³¹ Each country in the Pacific has an approved GCF project. Only one of 16 GCF projects in the Pacific is being implemented by a national entity with the remainder implemented by international or regional entities (including Pacific regional entities, such as Secretariat of the Pacific Regional Environment Programme and Secretariat for the Pacific Community).³² Most of the GCF projects in the Pacific are focused on capital-intensive infrastructure investments. As of December 2021, the GCF had committed around US\$1.12 billion to projects in the Pacific, although less than this has been disbursed.³³

There are 13 other main climate funds available to Pacific Island countries.³⁴ Six of these offer debt instruments and grants, while the rest offer only grants.³⁵ The funds include:

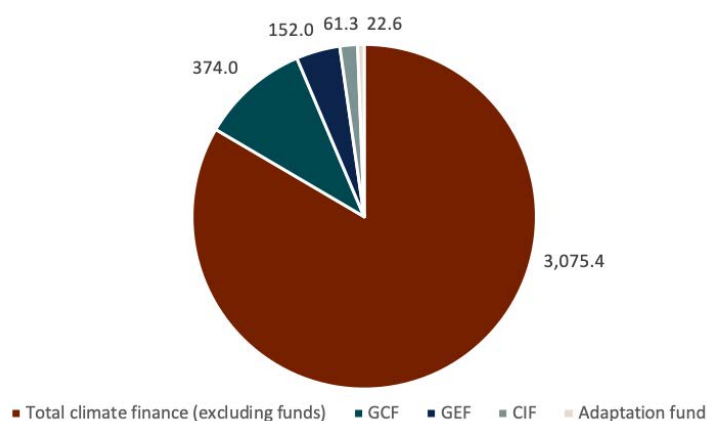
- Global Environment Facility: a large multilateral trust fund focused on financing environmental protection initiatives in low-income countries. Its focus areas include climate change adaptation and mitigation, as well as broader environmental areas such as biodiversity and land degradation.³⁶ It mainly channels financing for climate adaptation through two more specific funds: the Least Developed Countries Fund and the Special Climate Change Fund.³⁷
- Adaptation Fund: a fund that finances adaptation projects and programs in low-income countries. It is financed by national governments and private contributors, as well as revenues from a UN carbon credit scheme.³⁸



- Other multilateral climate funds, including the Asia-Pacific Climate Finance Fund, which focuses on funding financial risk management products relating to climate change,³⁹ the Pilot Program for Climate Resilience, which provides program finance for climate resilient national development plans, and the Asian Development Fund, the ADB's grants fund for low-income countries.⁴⁰
- Bilateral climate funds, including the Abu Dhabi Fund for Development and the Canadian Climate Fund for Private Sector in Asia II.

Global climate funds as a proportion of total climate finance in the Pacific

DAC Data, 2015-2020, US\$ millions



Pacific Island countries also receive a significant amount of climate finance from bilateral sources and multilateral development banks.

Bilaterally, the largest climate finance contributors in the region are Australia, the European Union (EU), Japan and New Zealand.⁴¹ Australia delivers financing through a range of mechanisms, including the Australia Pacific Climate Partnership – an umbrella program that delivers financing for “climate and disaster resilient, low carbon growth” across the region.⁴²

There is a significant gap between the climate finance delivered in the Pacific and the region’s need for finance.

The IMF has estimated that Pacific Island countries each need between 6.5% and 9% of GDP per year on average for adaptation infrastructure. This equates to almost US \$1 billion per year.⁴³ In fact, the total amount that the GCF has disbursed to the Pacific since it was established in 2015 equates to less than half of the region’s estimated financing needs in a single year.⁴⁴ While views vary on what kinds of infrastructure and other non-infrastructure investments are needed (for example, investments in nature-based or traditional solutions), it is clear that the Pacific region is urgently in need of much more climate finance.



Loss and Damage

Climate finance focuses on financing initiatives to adapt to the impacts of climate change (for example, building seawalls or storm shelters), and to mitigate the impacts of climate change (for example, shifting energy to renewable sources). However, to date, it has not covered loss and damage. The term “loss and damage” refers to the impacts of climate change that go beyond those that communities can adapt to.⁴⁵ This includes loss and damage caused by extreme weather events such as cyclones and floods, and slow onset events such as sea level rise, salinisation and ocean acidification.⁴⁶ Loss and damage can be either economic, including the impacts of climate change on farmers or the cost of replacing damaged infrastructure,⁴⁷ or non-economic, including “loss of life, degraded health, losses induced by human mobility, as well as loss or degradation of territory, cultural heritage, Indigenous knowledge, societal/cultural identity, biodiversity, and ecosystem services”.⁴⁸ Addressing loss and damage can overlap with humanitarian disaster recovery where a humanitarian disaster is caused by climate change, but the call for loss and damage financing is calling for such financing to be provided automatically and not on the basis of charity.⁴⁹

In 2013, at COP19, it was acknowledged that some impacts of climate change are permanent and not preventable through adaptation or mitigation. This led to the establishment of the Warsaw International Mechanism to enhance support to address climate change-related loss and damage in vulnerable developing countries, including through finance.⁵⁰ However, very little progress has been made to enhance action and support on the ground or to mobilise finance under this mechanism.⁵¹ As the Parties to the Paris Agreement work to develop a new climate finance goal by 2024, civil society has called for the new goal to explicitly include a target for loss and damage financing.⁵²

The UN Development Program’s (UNDP) guidance on budgeting for climate change recommends assessing potential loss and damage without going into specifics about financial flows from high to low-income countries.⁵³ Meanwhile, Pacific Island countries are setting up contingency funds (e.g. Fiji’s Ongoing Contingency Funds for Disaster Risk 2015, Micronesia’s Disaster Assistance Emergency Fund 2004, Tuvalu’s Climate Change and Disaster Survival Fund 2015).⁵⁴

Of the climate finance committed and delivered, a significant proportion is set aside for mitigation and does not directly address countries’ needs for adaptation or to address loss and damage.

IMF estimated that of US\$3.3 billion climate finance committed for Pacific Island countries between 2014-2019, 44% of this was dedicated to adaptation, with a further 28% on activities combining adaptation and mitigation.⁵⁵ Analysis by Stockholm Environment Institute in 2017 found 59% of all climate finance in the Pacific focused on adaptation with a further 5% focused on both adaptation and mitigation.⁵⁶ PICAN has highlighted the importance of adaptation financing to reduce Pacific communities’ vulnerability to climate change, and has called for at least 50% of climate finance globally to be focused on adaptation. A further issue is the lack of a dedicated financing stream to fund loss and damage from climate change that cannot be adapted to (see box above).⁵⁷ While contributors often provide ad-hoc disaster relief payments after an extreme weather event, the lack of a predictable and dedicated mechanism is a barrier to fast and effective responses.



Over-reporting and inconsistencies in reporting are also major issues. Oxfam has calculated that the true value of support for climate action globally could be as little as one-third of that reported by contributors.⁵⁸ Contributors overstate their climate finance commitments by:

- reporting non-concessional loans as climate finance;
- reporting the full face value of loans, guarantees and other debt instruments rather than the net financial benefit after debt servicing payments and interest are taken into account;
- counting too much financing for projects that are not specifically focused on climate change - for example, counting 50% or 100% of a project's financing as climate-related when only a small component of the project is aimed at addressing climate adaptation or mitigation.⁵⁹

A significant proportion of climate finance is also not additional to ODA, but is a redirection of other aid funding or represents mainstreaming of climate into existing aid projects.⁶⁰ The above practices highlight the need for more transparent and better quality reporting of climate finance commitments and disbursements.

Climate Finance in Caritas State of the Environment for Oceania reports 2015-2021

Caritas Oceania followed climate finance issues through its State of the Environment reports from 2015-2021, as a response to the climate challenges faced by people in the Pacific, such as increasingly extreme weather, coastal erosion and sea level rise, and impacts on local food and water supplies.

Through those seven years, Caritas consistently rated climate finance provided towards communities most in need as “woefully inadequate”. Though it noted increased funding flowing into the region, little of it seemed to be targeted directly at the most vulnerable, and those that were seemed to have large hurdles for community-based organisations. There was also inadequate consultation and involvement of local communities in planning for and monitoring the effectiveness of climate projects.

Key recommendations from the environment reports, sometimes repeated year after year, included:

- Climate finance needs to prioritise the poor, empower local communities to access funding, and provide appropriate transparency and accountability to ensure effectiveness. It needs to provide targeted support for particularly vulnerable groups, such as women, girls and people with disabilities.
- Climate finance needs to support urgent climate adaptation and, where necessary, relocation of communities.
- Countries need to provide more funding for climate adaptation given the urgent need, without threatening food production or livelihoods.
- Climate response projects must be based on sound science, Indigenous and local knowledge, and with the full participation and involvement of affected communities.
- Richer countries, including Australia and New Zealand within the region, to progressively increase climate finance to meet their fair share of the global climate finance goal of USD\$100 billion per year.
- Climate finance allocations must be additional to existing aid commitments.
- The international community needs to provide proper mechanisms and funding to address loss and damage from climate change.

This report builds on and continues the work of Caritas Oceania through its State of the Environment for Oceania reports, and much of the foundations of the current climate finance research in this report have been laid through the engagement and work undertaken by them.



Caritas Tonga worked with the Tongan National Youth Council to distribute food, water, and other supplies immediately after Cyclone Gita. Credit: Caritas.

3. Climate finance and debt

3.1 A growing Pacific debt crisis

Pacific Island countries are currently facing looming debt burdens, with existing debt challenges exacerbated by the COVID 19 pandemic and the Russia-Ukraine war. Many Pacific Island countries went into the pandemic at elevated risk of debt distress.⁶¹ COVID-19 led to border closures and limited international movement, dramatically reducing revenues from tourism. Weak global demand for some resource exports over the period also led to a reduction in export income. At the same time, public health measures to contain and address the COVID-19 pandemic and economic stimulus to support the economy placed additional stress on national budgets. More recently, Russia's war in the Ukraine has hit the global economy hard, driving up the price of commodities such as oil and gas, wheat and fertilisers, which is in turn increasing the cost of imports for Pacific Island nations.⁶² High global inflation rates have also led central banks to increase interest rates, increasing debt servicing costs for low- and middle-income countries.⁶³

The most recent IMF-World Bank debt sustainability analyses have classified seven Pacific countries as being at high risk of debt distress. These are: Kiribati, Marshall Islands, Micronesia, PNG, Samoa, Tonga and Tuvalu.⁶⁴ A country is classified as being at high risk if its debt exceeds certain thresholds under a baseline scenario, but where it is still currently able to service its debt. (A country that is having difficulty making repayments on its debt is considered *in* debt distress). Solomon Islands and Vanuatu are considered at moderate risk of debt distress, which means their debt levels would exceed the set thresholds under a stress test scenario. A 2021 IMF report also noted that Fiji's debt was 81% of GDP.⁶⁵



While some commentators have suggested these risk ratings may be overstated in the case of the Pacific,⁶⁶ a range of factors hamper Pacific countries' ability to sustainably take on public debt. These include the small size of many economies in the region, the fact that populations are both small and often geographically dispersed within countries, dependence on uncertain income sources (in particular, tourism, remittances, commodities and aid) and vulnerability to climate change.⁶⁷ It is also important to note that even where a country is below the debt distress threshold - that is, able to service its debts - the cost of debt servicing can lead to reduced government spending on healthcare, education and other essential public services.⁶⁸

Pacific leaders are taking the issue of sovereign debt seriously. On 5–8 April 2022, the Pacific Island Forum Secretariat and the UN Economic and Social Commission for Asia and the Pacific, along with Fiji and Tuvalu, hosted a Pacific Regional Debt Conference, which brought together Pacific Island governments and their creditor nations.⁶⁹ The conference was aimed at finding solutions to both the debt and climate crises, and was crucial to establishing the link between the two. The conference outcomes discussed several options for addressing debt, some of which are covered in further detail in Section 5.5 below.

Most of the Pacific's external public debt is owed to development partners. The ADB and World Bank together are responsible for almost 60% of all new loans in the Pacific region in recent years.⁷⁰ China is the region's largest bilateral creditor by a substantial margin - holding 20% of the region's debt - and has extended several new loans in the last decade.⁷¹ Japan and Australia also hold around 5% of the region's debt each.⁷² PNG and Fiji also have a small number of private creditors and most of Fiji's public debt is held by domestic creditors.⁷³ Unlike in many other low-income countries, most public debt in the Pacific looks to have been given on a concessional basis - although the terms of many of the debt instruments are not transparent. (A loan is considered concessional where it is given on terms that are more favourable than those available in the market - for example, where there is a lower interest rate, or a longer term, or where a loan is combined with a grant or other benefit.)



Heading out to sea from Auki on Malaita Island in Solomon Islands. Credit: Caritas.



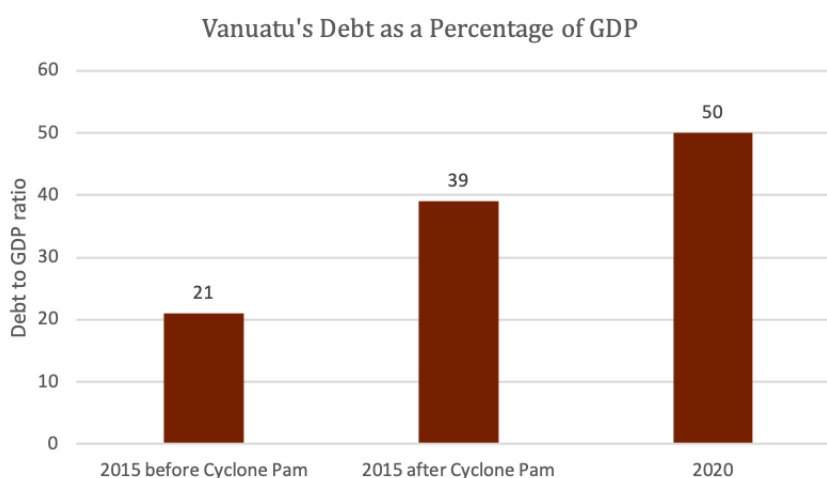
3.2 How climate change fuels public debt

Globally, low-income countries have traditionally prioritised debt repayments over climate adaptation.

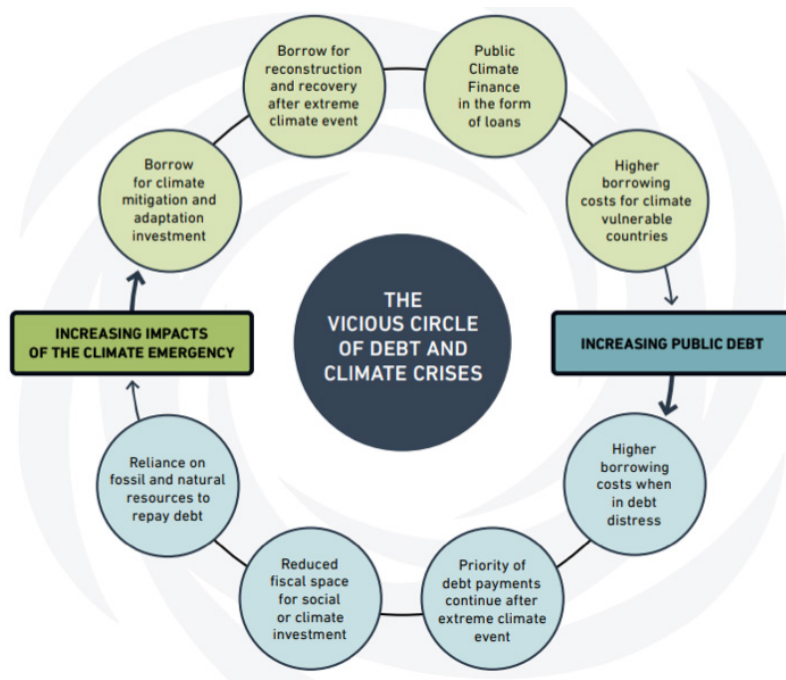
In 2021, lower income countries spent on average over five times more on external debt payments than on projects to protect people from the impacts of climate change.⁷⁴ Countries with high levels of public debt have been forced to divert significant government revenues towards servicing that debt, reducing the funds that they have available to pay for much-needed climate adaptation measures. The prioritising of debt repayments is a feature of the global economic system, as a country that fails to pay its debts will face a downgrade to its credit rating or challenges accessing financing from other lenders. Pacific countries may be better off than other low- and middle-income countries as the majority of public debt in the region is concessional and owed to development partners. On average, external debt servicing requirements in the Pacific are much lower than those in other low and middle income countries.⁷⁵ However, IMF projections suggest that Fiji, Palau, PNG, Tuvalu and Vanuatu will all have a lower government spending to GDP ratio in 2025 than they had in 2019.⁷⁶ Should debt levels climb (even where concessional), the pressure to make repayments, combined with the likelihood of future shocks, is likely to impact on government spending priorities.

The need for financing to pay for loss and damage fuels further borrowing. For low-income countries or those already facing high levels of debt, damage from a disaster is difficult to repair from already overstretched government coffers. Unless external support is available to pay for reconstruction (for example, aid or other payments from larger countries who have caused the climate crisis), countries are often forced to borrow. Research has found that climate induced loss and damage is an important driver of debt in the Global South, with a strong correlation between being a highly indebted country and being exposed to frequent climate-induced disasters.⁷⁷ Other analysis bears this out – for example, the IMF analysed 11 disasters in low-income countries and found that their public debt had increased by an average of 10% three years after the disaster.⁷⁸ Loss and damage financing is therefore crucial to ensure that climate disasters do not fuel increased debt.

Vanuatu's Cyclone Pam in 2015 provides an example. After the cyclone, government debt almost doubled, from 21% of GDP before to 39% afterwards. Four years after that, government debt to GDP was over 50%, mainly due to the reconstruction lending after Cyclone Pam. In its 2019 review of Vanuatu's economic and financial prospects, the IMF stated "there is little fiscal space to address another natural disaster", mainly due to the high debt levels.⁷⁹



Vanuatu's debt to GDP ratio, before and after Cyclone Pam. Source: Iolanda Fresnillo (2020), 'A tale of two emergencies: The interplay of sovereign debt and climate crises in the global south', Brussels: Eurodad



Illaria Crotti and Iolanda Fresnillo (2021) *The Climate Emergency: What's debt got to do with it?*, Brussels: Eurodad.

This provides a good example of ways in which the climate crisis and debt crisis can reinforce each other, forming a vicious cycle from which countries struggle to escape.⁸⁰

Climate change impacts also increase the cost of borrowing. Research on government borrowing among members of the Climate Vulnerable Forum (a group of countries particularly exposed to climate change) found that these countries have paid an additional US\$40 billion in interest payments on government borrowing over the past 10 years. This occurred as these countries' exposure to extreme weather and slow onset risks led to downgrades in their credit ratings, in turn making the terms of financing less favourable.⁸¹

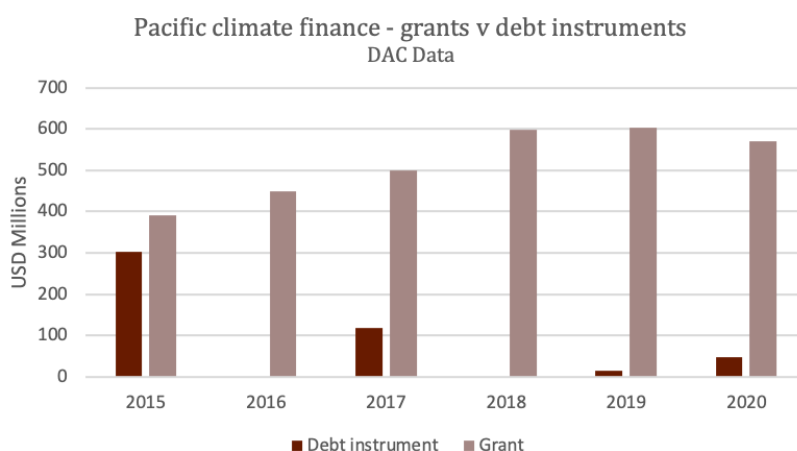
The existing mechanisms available for debt relief are insufficient. During the COVID-19 pandemic, the G20 put in place the Debt Service Suspension Initiative (DSSI), which paused debt repayments for the poorest countries between May 2020 and December 2021. DSSI borrowers committed to use freed-up resources to increase social, health, or economic spending in response to the crisis. After the DSSI expired, the G20 made the Common Framework for Debt Treatments available as an option for countries to access support with debt restructuring or rescheduling. However, only four countries in the Pacific participated in the DSSI - Fiji, PNG, Samoa and Tonga. A further six countries were DSSI-eligible and did not participate, while two countries - Nauru and Palau - were not eligible.⁸² For those that applied for DSSI, only 25% of debt payments in 2020 and 2021 were suspended. These temporary savings need to be repaid from 2023 onwards on top of existing and new debt commitments. Neither DSSI nor the Common Framework covers multilateral debt, which makes up the majority of public debt in the Pacific. Private creditors also did not participate in the DSSI and their participation in the debt restructuring under the common framework is voluntary. Pacific stakeholders have also called for the Common Framework for Debt Treatments to be strengthened by broadening its coverage to include indebted middle-income countries or by instituting a debt service standstill during the negotiation process.⁸³

Over the pandemic period, the IMF also introduced the Catastrophe Containment and Relief Trust, funded by contributions from donor countries. In the Pacific, only Solomon Islands has accessed this fund, with only US\$440,000 in debt payments cancelled.⁸⁴



3.3 What role is climate finance playing in the current debt crisis?

While comprehensive data on delivery of climate finance through debt in the Pacific is lacking, the available data suggests the majority of finance is currently given as grants rather than loans or other debt instruments. According to the OECD DAC data, between 2015 and 2020, around 13% of all climate finance committed in the Pacific was in the form of debt instruments.⁸⁵ Most of these debt instruments were standard loans, but a small number were in the form of reimbursable grants (an investment with the expectation of long-term repayments, but where the provider assumes the risk of failure of the investment).⁸⁶ It is beneficial that only a small proportion of climate finance in the Pacific has been given as loans so far, and insulating climate finance from debt-generating processes is a valuable measure for the economic stability of the region.



Source: OECD, 'Climate Change: OECD DAC External Development Finance Statistics'

Just under half of this debt was due to one transaction in 2015, a US\$229 million loan from Japan for the Nadzab Airport Redevelopment Project in Papua New Guinea. In all other years, over 80% of climate finance in the Pacific has been delivered as grants, and in 2016 and 2018 there was no climate finance delivered in the form of a debt instrument.

Only the larger countries in the region have received climate finance in the form of debt instruments – Papua New Guinea, Solomon Islands, Fiji, Tonga and Vanuatu – reflecting their larger economies and greater capacity to carry debt. Over half of all climate-focused loan financing has gone to PNG, the region's largest economy and a quarter to Solomon Islands.

Climate and ecological debt

Much of the discussion around public debt in the Pacific focuses on the monetary debt that Pacific Island countries and governments owe to their multilateral and bilateral creditors. However, a broader understanding of debt also takes into account the climate debt that countries in the Global North owe to countries in the Global South, as a result of their high greenhouse gas emissions - both past and present. Research carried out by Dartmouth College shows that North America and Eurasia “have caused income losses in the poorest [countries], while they have caused income gains for themselves that exceed those losses in magnitude”.⁸⁷

The concept of climate debt is based on the idea of environmental justice - that every person on the planet has a right to the same resources and amount of environmental space - and thus those that use more resources or occupy more space owe a debt to the others.⁸⁸ On this reckoning, climate finance is just part of the work that higher-income industrialised countries need to do to repay the debt they owe to countries that use fewer resources, but are facing the full force of climate-induced disasters.

“A true ‘ecological debt’ exists, particularly between the global north and south, connected to commercial imbalances with effects on the environment, and the disproportionate use of natural resources by certain countries over long periods of time.”

HIS HOLINESS POPE FRANCIS, LAUDATO SI', PARA 51.

The vast majority (87%) of the climate finance delivered as loans in the Pacific region (as reported to DAC) went to three large infrastructure projects:

- Two loans from Japan International Cooperation Agency (JICA) for the Nadzab Airport Redevelopment Project (US\$257 million), which aims to upgrade an airport near Lae city in Morobe Province, PNG, to handle increased cargo and passenger traffic.
- Loans from the Green Climate Fund, the Abu Dhabi Fund for Development and the Export-Import Bank of Korea for the Tina River Hydropower Project (US\$120 million), which aims to build a large hydropower facility to provide renewable energy to parts of Solomon Islands.
- A loan from JICA for the Port Vila Lapetasi International Wharf Development Project (US\$44 million), which aims to build a new wharf and container yard facilities in Port Vila to mitigate high berth occupancy and improve efficiency.

Two of these projects - Nadzab Airport and Lapetasi Wharf – are marked as having a ‘significant’ focus on climate change in the DAC database, but the project description and objectives on JICA’s website focus on economic development and do not mention climate change.⁸⁹ It is not clear from the project summaries why these two projects would have been considered significantly focused on climate change. The third project, the Tina River Hydropower Project, is recorded as having a significant focus both on climate adaptation and mitigation (its adaptation component appears to relate to flood monitoring that will be done at the dam site).⁹⁰



The Pacific has bucked the global trend of delivering climate finance as loans rather than grants.

The OECD has estimated that 71% of global public climate finance in 2019 (a total of US\$44.5 billion) was provided as loans.⁹¹ Using a different methodology, the Climate Policy Initiative estimates that 61% of global climate finance in 2019-20 was raised as debt (including public and private finance), of which a mere 12% was low-cost or concessional debt. Equity investments, the next largest instrument category after debt, came to 33% of total climate finance. Grant finance only comprised 6% of total flows.⁹² That Pacific climate finance has historically been delivered as grants may be due, at least in part, to the small economies and limited debt-carrying capacity of many of the countries in the region. However, there is clearly a global preference among contributors for delivering climate finance as debt instruments, posing a risk that the Pacific becomes a target of climate finance loans in future.

Australia's role in loans and grants

As the largest bilateral donor and contributor in the region, Australia's policies on development financing influence how such finance is provided across the region. From 2015-20 all of Australia's climate finance (as reported to the OECD Development Assistance Committee) was delivered in the form of grants.⁹³ However, there are indications this may not continue. The Australian Infrastructure Financing Facility for the Pacific (AIFFP), which began in 2019, has AUD\$3 billion available to be disbursed as loans, with only \$500 million available for grants.⁹⁴ The AIFFP is tasked with providing infrastructure financing to Pacific Island countries and Timor-Leste. Four of its 12 announced projects to date are climate-related, including two solar energy projects (in Palau and PNG), transmission infrastructure from hydroelectric facility in Solomon Islands and a flood alleviation project in Fiji.⁹⁵

The AIFFP's focus on financing climate change-related infrastructure may be about to increase. In 2022, the Australian Labor Party announced that it would create a Pacific Climate Infrastructure Financing Partnership to support climate-related infrastructure and energy projects in Pacific countries and Timor-Leste.⁹⁶ The partnership would be a stream within the AIFFP's existing grant and loan envelope – that is, not new money – and as such has the potential to increase the proportion of climate finance delivered as loans in the region. The AIFFP website now indicates that it has a dedicated Climate Infrastructure Window, which “supports renewable and lower-emissions energy generation and transmission”.

Australia's Department of Foreign Affairs and Trade has also commenced a development finance review which will consider options for using blended finance (ie: combining grants and/or loans with private sector or philanthropic funding).⁹⁷ This also signals that debt instruments may be in line to play a larger role in Australia's aid mix in future - including potentially in its plans for delivering climate finance.



A family among the remains of their house in Veidrala village, Ra Province, Fiji. Their house was destroyed by Cyclone Winston. Credit: Caritas.

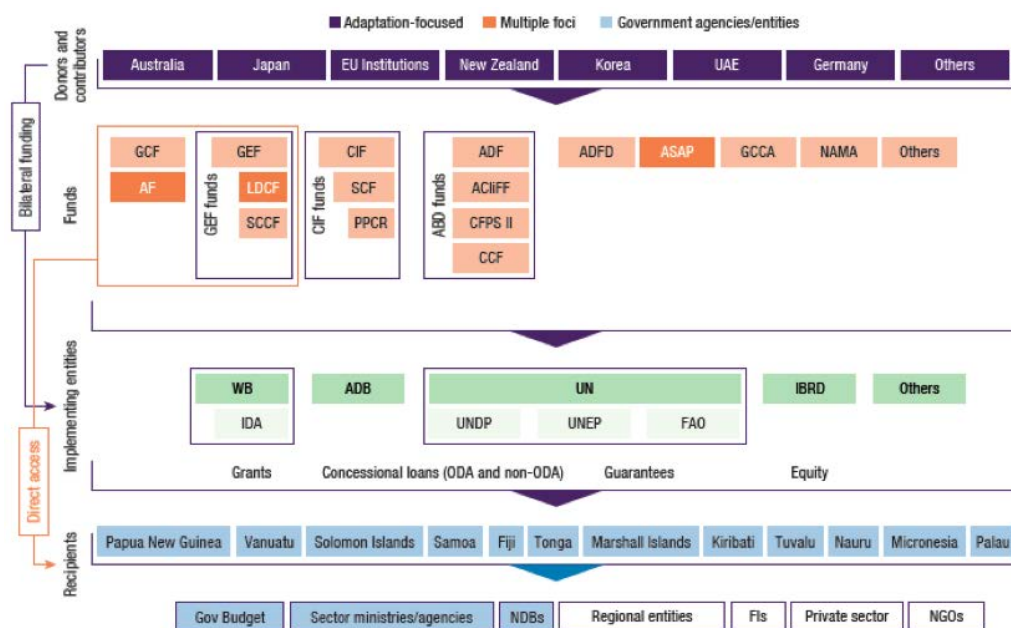
China’s climate-related loans and grants are another part of the picture. Between 2015 and 2020, China committed over US\$6 billion in loans in the Pacific, making it one of the region’s largest public creditors.⁹⁸ As China does not report on its aid using Rio Markers, it is challenging to estimate what component of these loans could be classified “climate finance”. Reporting on climate finance generally excludes financial flows from China, defining finance as flows from “developed” to “developing countries” (with China effectively classified as “developing” based on UNFCCC definitions).⁹⁹ However, it is clear that China is contributing some financing - both loans and grants - to climate change-related initiatives. A 2020 government guidance document on financing for climate change states: “Financial institutions are encouraged to support the low-carbon development of the Belt and Road and South-South cooperation and to promote the implementation of climate mitigation and adaptation projects abroad.”¹⁰⁰ There are also examples of China providing grants and loans to projects in the Pacific that are likely to have adaptation or mitigation benefits, for example a US\$1.6 million grant for “drought relief and climate adaptation” in the Federated States of Micronesia, and a loan of US\$920 million for the Ramu II hydropower project in Papua New Guinea.¹⁰¹ China also provides an annual contribution of US\$200,000 to the Secretariat for the Pacific Environmental Program (SPREP).¹⁰² The overall picture of climate finance provided as loans is therefore likely to be larger once loans from China are factored in.

4. Getting climate finance to where it is most needed

As well as considering the volume of climate finance and the modality through which it is provided, it is also important to consider whether this finance is accessible to those who most need it. The following section of this report draws on the experiences of Caritas Oceania members and other Pacific civil society organisations to look at the existing barriers inhibiting access to climate finance by local communities.

4.1 Accessing climate finance funds in the Pacific

The current climate finance architecture is complex, involving multiple layers of oversight, accountability and approval before money makes its way from the donor to the climate adaptation or mitigation project they are funding.



Source: IMF (2021) *Unlocking Access to Climate Finance for Pacific Island Countries*

Each of the multinational climate funds has its own accreditation criteria, application process and priorities. Several multilateral funds (including GCF and the Global Environment Fund (GEF)) do not allow direct application, but require that entities first go through an accreditation process before they can apply for funding. National government agencies and other Pacific-based organisations have faced challenges with accreditation and project approval, including meeting public financial management standards, putting in place the required environmental and gender policies and safeguards, lack of National Adaptation Plans and lack of government units with the capacity to design and implement a project.¹⁰³



The Green Climate Fund, in particular, has been criticised for an accreditation process that is burdensome - time and resource intensive.¹⁰⁴ Beyond that, the project proposal development is detached from Pacific national development planning and country systems.¹⁰⁵ The gap in defining the local level actors and adaptation processes within the GCF framework means that even though the GCF is committed to fund local adaptation actions, anything outside of the existing structure can be held back.¹⁰⁶ This is concerning because the transparency and accountability of spending and commitment on local projects is limited.¹⁰⁷ Finally, Pacific Island countries recognise GCF's requirement for fund recipients to be able to manage finances and have asked for budget support.¹⁰⁸ Countries like Fiji have national climate finance strategies where project design and pipelines are described, which could facilitate access to funding. However the fact that it took Fiji four years to achieve accreditation to the GCF highlights the challenges.¹⁰⁹

Overall, the global climate finance architecture represents a system that prioritises donor conditions and requirements over meeting the needs of recipients. While donors want to guarantee that funds are spent in the ways they intended, this often requires recipients to undertake resource intensive work to become 'finance ready', rather than adjusting donor processes, priorities and systems to the needs of recipients. The existing structure echoes colonial relationships, where wealthy countries continue to exert control over finance rather than ceding this control to national actors in the affected countries.

4.2 Localisation of climate finance

Within countries, there are also challenges bringing climate finance to the vulnerable communities most affected by climate change. Local communities experience the impacts of climate change first hand and understand what actions are needed to protect their way of life from the impacts they are seeing. Pacific communities' intergenerational Indigenous cultural knowledge includes knowledge about environmental protection and preservation that can play an important role in shaping solutions to climate change. Despite this, PICAN has reported that most funds received are not yet reaching those most in need, and that there is limited data and information on the use and effectiveness of the funds at national level.¹¹⁰ PIANGO has also commented on the lack of access to adaptation finance at community level and the need for this to be scaled up.¹¹¹

"There is a need for donors to take the risk and invest in both climate actions plus investing in strengthening local civil society institutions. Only when donors directly fund the local civil society which includes community-based organisations, women's groups, youth groups etc; would they see the multiplier effect of their investment and thus ensuring the effectiveness of aid."

JOSAIA JIRAUNI OSBORNE, PIANGO

This is symptomatic of a global problem. The International Institute for Environment and Development (IIED) in 2021 reviewed climate finance provided to least developed countries where adaptation was the primary objective. Of the projects included in this amount, under half (46%) showed characteristics of high localisation - that is, where local actors had agency over some of the adaptation components to be funded. Less than 3% of the financing went to projects intended to primarily tackle gender inequalities; only 2% targeted Indigenous Peoples; and less than 19% prioritised non-state enterprises and NGOs.¹¹² An earlier 2017 analysis that looked at both mitigation and adaptation finance found at the time that only 10% of climate finance aimed to reach local actors.¹¹³



The Vaisigano River. Credit: Caritas.

Green Climate Fund - Vaisigano Catchment Project

The Vaisigano River flows through the Apia Urban Area in Samoa’s capital. Over 27,000 people live in the Vaisigano River Catchment Area. This area has a long history of flooding, particularly during cyclones, but the flood risk is increasing, partly due to a change in precipitation patterns as a consequence of climate change.

In December 2016, the Green Climate Fund approved the “Integrated Flood Management to Enhance Climate Resilience of the Vaisigano River Catchment Area (VRCA) in Samoa” project, also known as the Vaisigano Catchment Project. In conjunction with co-financing from the Government of Samoa, the US\$65m Vaisigano Catchment Project aims to “strengthen the adaptive capacity, and reduce exposure to climate risks of vulnerable communities, infrastructure and the built environment in the VRCA”.¹¹⁴ The project runs from 2017 to 2023 and involves flood-proofing infrastructure, improving drainage, establishment of a flood-related health surveillance system, enhancement of an early warning system, and increasing capacity and awareness.



One objective of the project has been the empowerment of the people residing in the VRCA. The Ministry of Natural Resources and the Environment, in partnership with the Civil Society Support Programme and the Small Business Enterprise Centre, launched the Ecosystem-based Adaptation Enterprise Development Programme (EbAEDP) in 2019. EbAEDP aims to enable households, community-based organisations, non-governmental organisations, and existing enterprises to establish ecosystem-based adaptation enterprise projects.¹¹⁵ The program invited proposals of “green” business ventures to improve income generation and/or enterprise development activities in the targeted communities of the VRCA.

Caritas Oceania has written about the Vaisigano River Catchment project in successive Caritas State of the Environment in Oceania reports, particularly the experience of a business owner, Andrew Pedrana. According to Karen Anaya from Caritas Samoa:

Andrew owns a café in the VRCA and as a business owner, was eligible to apply for a grant through EbAEDP.

“I see this as an opportunity for my business to do something for our environment.” Andrew recognises that the VRCA is changing because of climate change and also because of resource management practices. He submitted a proposal for a small plastic recycling scheme and a carbon-free air conditioning model. “The goal is to make my café waste-free and increase employment within the area through the production of products made from recycled plastic.” His long-term hope is to involve neighbouring businesses and start making bricks from recycled PET bottles. “If we can start making construction materials from plastic we can lock it and keep it from entering landfills and waterways... we can also reduce deforestation in the catchment, which will help ease the flooding each year.”

Andrew was successful in applying for a grant, however he found the process of applying for EbAEDP funding to be complex and challenging, even with a computer and internet access. He could only imagine how much harder it may be for someone without a computer, without experience in completing forms, without knowledge of grant processes and little to no formal education. Andrew expressed his concern that the most disadvantaged people in the VRCA would face significant barriers to accessing the grants.

“More needs to be done in resilience building especially in the town area of Apia. ... Something needs to be done because this is not going to go away. It's only going to get worse with climate change. It's going to take a lot of work and a lot of people power to make a difference.”

ANDREW PEDRANA



There is a disconnect between those delivering climate finance and the most vulnerable communities. A recent UNDP analysis of climate finance in the Pacific commented that: “The current climate finance structures and patterns are disconnected from community and do not seem to be effective in bringing about improved and long-term resilience for people.” It noted that civil society groups - including Oxfam and Caritas - have commented that climate finance is not currently working for vulnerable groups - particularly women, Indigenous peoples and people with disability.¹¹⁶ While data on women’s access to climate finance in the Pacific is hard to find, one study in Tuvalu and the Federated States of Micronesia observed that women were largely unaware of climate change initiatives being implemented in their communities. Women’s exclusion went beyond a lack of access to information - factors based on gender roles, such as being expected to organise food for consultations on climate projects - also hindered their active participation.¹¹⁷



Sugarloaf Islands, part of PNG’s Admiralty Islands. Credit: Selarn Kaluwin.



Financing of locally-led solutions in the Admiralty Islands

On PNG's Admiralty Islands, a group of 18 islands in the Bismarck Archipelago north of New Guinea Island, climate change is making its presence felt. Manus Island, the largest island in the group, is already recording sea level rise with levels predicted to rise by a further 5 inches by 2030.¹¹⁸ This exacerbates flooding from high tides and storms, and can result in increased coastal erosion and salinisation of drinking water and agricultural land. Projected increases in temperature and rainfall also have implications for biodiversity and agriculture in the region.

Local NGO Marine Environmental Awareness and Response Team (MEART) is based on M'buke Island, south of Manus, and works on habitat protection and conservation initiatives. MEART has worked with members of the local community to build traditional seawalls from stones and dead logs to protect against flooding and has planted mangroves along the shoreline to prevent coastal erosion. They have also put in place conservation measures such as "no take zones" and Marine Protected Areas to conserve the area's natural ecosystem and ensure that fishing activities are sustainable for future generations. MEART team members have monitored and managed these protected areas on behalf of the community.

In an interview for this report, MEART Team leader Selarn Kaluwin commented on the challenges he and other local environmental groups face in accessing funding for their vital work.

"It's very difficult from where I am - we are isolated by community's remoteness. Accessing information is very hard. Through networking we have been able to enter into partnership with some national NGOs, but it is very challenging to access funding."

SELARN KALUWIN, MARINE ENVIRONMENTAL AWARENESS AND RESPONSE TEAM (MEART)

MEART has accessed funding in the past, primarily through international NGOs whose priorities have overlapped with those of the community. In particular, WWF has provided support to several community initiatives, including the establishment of marine protected areas. The group has also participated in research using a fish device that attracts fishes to minimise reef pressure funded by The Nature Conservancy Fisheries unit.

However, accessing funding from new sources or from larger pots of climate finance remains difficult. Challenges include meeting the criteria of funders from outside, which can involve proposal writing, financial management and reporting requirements that can be challenging for community-based organisations to comply with. As a result, large funders often prefer to work with larger NGOs - big international NGOs and other overseas agencies in PNG - and communities looking to access funding for their work need to partner with those organisations. Kaluwin shared that MEART monitors funding opportunities by searching online and reviewing opportunities listed in local newsletters, and that it has helped to set up a network of community-based organisations (CBOs) in the New Guinea Islands region, to increase their collective access to opportunities. The newly formed NGI-CBOs Environmental Alliance Network has as main objective to advocate and promote the protection of the environment and to address environment, climate change, conservation, forest protection and human rights issues.

Sharon Koitut, Provincial Environment and Conservation Officer, also highlighted the role of international NGOs in financing conservation and adaptation initiatives in and around Manus. She



noted that communities can develop proposals themselves, to be implemented by a community-based organisation, but that in practice this approach was most often successful where the community could draw on the support of retired individuals and educated community members who had worked for government or NGOs and then returned to the community. One of the ongoing challenges is the need for the community to formalise as a CBO or NGO, with a formal committee and financial management systems to apply for and manage grants.

Another issue that affects access to climate finance is that offices tasked with implementing climate adaptation projects are often far from the project site - rather than being located in the area where the work is taking place. Manus Island has seen some successful climate adaptation projects, including two funded by the ADB, but in some cases the funding has taken a long time to arrive due to its requirements and process - in one case more than four years from proposal development - which can cause frustration for communities.

Since almost all financing of climate change projects come from larger organisations such as ADB, this becomes a cause for other issues such as delays in actual project implementation and completion within proposed timeframes. These delays are hard to avoid due to the various processes and requirements that come with these funding sources and awarding of contracts to implementing organisations. Ms Koitut suggested it could be more helpful if a percentage of funding were provided through the government's provincial offices, which are charged with implementing climate change projects. In this way, finance would be made accessible to communities and CBOs who struggle to comply with the criteria from outside funders.

When asked about what he would do if more funding was available, Mr Kaluwin discussed the community's plans for a seawall. He noted that there are community members in the M'buke area currently working as engineers in Port Moresby and Lae, who have ideas for seawall options that would work with the local landscape. These local solutions are ready to put in place - once the financing becomes available.



5. The way forward

Based on the analysis above, this report sets out five broad recommendations to ensure that climate finance alleviates the impacts of climate change in the Pacific without making debt burdens worse.

5.1 Providing more new and additional grant-based climate finance

As noted above, the Pacific needs significantly more climate finance to meet the need for both adaptation and loss and damage, with estimates suggesting the financing needs across the region are close to US\$1 billion per year for adaptation alone. Bilateral and multilateral contributors are also falling short on their commitment to provide US\$100 billion per year in climate finance globally. Climate finance commitments are also often overreported. There is therefore an urgent need for high-income countries, including traditional donors in the region such as Australia, New Zealand, the EU and Japan, to substantially increase the volume of climate finance they give to initiatives in Pacific Island countries.

It is also important that donors provide greater transparency and clearer communication in how they report on climate financing, so that the funding committed and disbursed can be easily tracked and contributors held accountable. As noted above, over-reporting or unclear reporting limits the ability of recipient countries to hold contributor countries accountable for their commitments.

Unlike elsewhere, most climate finance in the Pacific is provided as grants, but there are signs this may change and a clear global donor preference for delivering climate finance as loans. Loan finance does not necessarily lead to unsustainable debt burdens in all cases - for example, where this finance allows for increased economic activity that brings in more government revenue. However, in the Pacific, many of the initiatives needed to address climate change do not appear to be good contenders for loan financing. This is especially the case for loss and damage finance, which by definition is not designed to lead to new economic growth but simply help recover from losses. Loss and damage-financed projects are aimed at helping countries respond to an acute shock that is not of their creation (and which has been exacerbated by other countries' carbon emissions). It does not make sense for the country experiencing the damage to then be required to repay that money with interest. Similarly, adaptation financing that aims to prevent future damage, but will not increase economic activity, will not necessarily result in governments having more money in future in their coffers than they do now. These kinds of projects should be financed by grants.

Providing climate finance as debt - particularly when debt instruments are not concessional or are at terms close to those in the market - also undermines its function as a payment that repays the debt owed by the countries that caused the climate crisis to those that bear the brunt of it.

To obtain loans, we know our children and their children will continue to pay the cost that we are bearing now with interest. Grants, on the other hand, aid the immediate needs of communities. They also allow smaller groups, such as youth and women's groups to have access and initiate projects that they understand would facilitate their needs and meet the criteria of the grants. Communities take ownership on how they want to design, plan and implement their projects and they feel empowered knowing this was their initiative. Loans have always had a hook – whether the project becomes sustainable or not, you still have to pay up.

- FRANCES NAMOUMOU, PACIFIC CONFERENCE OF CHURCHES



Recommendation

- Contributors should provide their fair share towards meeting the target of US\$100 billion per year in climate finance, and support a new post-2025 climate finance goal that meets the needs of recipient countries for financing for mitigation, adaptation and loss and damage.
- Bilateral and multilateral contributors should substantially increase the volume of climate finance they provide to Pacific Island countries and organisations, based on the estimated adaptation costs of 6-9% of GDP per country per annum.
- Climate finance should be new and additional, and reported transparently.
- The shortfall in climate finance in the Pacific should be made up from grants, not loans.

5.2 Financing the Pacific Resilience Facility

The regional Pacific Resilience Facility (PRF) provides a financing option that puts Pacific governments and institutions in control of climate finance for the Pacific. The PRF is a regional financing mechanism that will provide a self-sustaining source of funding for small-scale projects to strengthen community resilience to the risks and impacts of climate change and disasters in vulnerable communities.

The PRF is unique amongst other climate financing facilities in that:

- It is 'owned, led and designed' by the Pacific.¹¹⁹ The PRF puts Pacific peoples in the driver's seat of this climate finance vehicle, rather than being applicants to multilateral development banks, global institutions or bilateral funders. This represents an important shift in ownership and decision-making power to the Pacific and to the Global South more broadly.
- The PRF will target low quantum, community-level climate adaptation and resilience projects, filling a clearly identified gap in the funding that is available and accessible to local communities. As outlined earlier in the report, most global climate finance targets large-scale mitigation projects, which favour large infrastructure projects implemented by national governments.
- The PRF will not increase Pacific debt. Capital for the PRF will be raised through grants, and the projects will also be grant-based.

First proposed in 2018 by the Economic Ministers of the Pacific Islands Forum (PIF) and endorsed by PIF Leaders in 2019, the PRF Prospectus was formally launched in May 2021 at the Pacific Islands Forum. Helen Clark, Prime Minister of New Zealand and former Head of the United Nations Development Program, has been appointed Special Envoy of the Pacific Island Forum for the PRF. PIF Leaders are seeking support and commitments from development partners, including governments and businesses. A global pledging event is anticipated in the second half of 2023. The first round of disbursement of funds for climate adaptation and resilience projects is likely to be at least a few years away.

The PRF is designed to prioritise the most vulnerable, including women and girls, children, the elderly and people living with disabilities. Mechanisms to ensure this will include a requirement that projects include a focus on vulnerable and at-risk communities.



How will the PRF work?

The PRF will have a target capital base of US\$1.5 billion. Income generated from this preserved capital base will be used to fund projects as well as the operational costs of the PRF. Funds will be disbursed to Pacific governments on a triennial basis. The initial disbursement will be US\$200million, of which US\$180 million will be shared amongst Pacific Island countries. Subsequent triennial disbursements to each country will be determined at three-year intervals.¹²⁰

Grants-based project funding will be disbursed through existing national government mechanisms. This supports greater use of national structures and systems, as outlined by the 2005 Paris Declaration on Aid Effectiveness and the 2008 Accra Agenda for Action.¹²¹ In addition to project funding, the PRF will provide technical assistance where appropriate and as identified by each Pacific country. The technical assistance can cover “project pipeline development, including but not limited to project design, implementation and evaluation”.

“The use of the PRF to address the region’s debt situation and at the same time build community resilience against disasters can be a ‘win-win’ option for the Blue Pacific.”

DR FILIMON MANONI, DEPUTY SECRETARY GENERAL OF THE PACIFIC ISLANDS FORUM, MARCH 2022¹²²

The PRF may provide a better option to ensure financing reaches local communities - but participation will be key to ensuring this works in practice. Pacific civil society representatives we interviewed for this research were broadly supportive of the PRF. In particular, they highlighted the benefits of putting Pacific people in control of delivering climate finance in the region, as well as the targeting of small scale, locally-led projects which would place the people most affected at the centre of decision-making.

The ability of the PRF to resolve the challenges that local communities currently face in accessing climate finance will depend on each country’s mechanisms for enabling communities to access and participate in funding processes related to the PRF. The following are some factors which are likely to affect communities’ experience of PRF funding:

- The type and level of awareness-raising and capacity-building at the community level (including in local languages) to ensure that local communities have the knowledge and capacity to fully engage in PRF-related processes, and are supported to lead sustainable and impactful climate resilience projects.
- The accessibility, inclusivity and transparency of government processes to allocate PRF funding, including in the application stages, as well as the timeliness with which applications are processed.
- The duration of projects funded. One of the criticisms of climate finance to the Pacific so far has been a tendency by global contributors to focus on shorter-term, project-based funding, rather than enabling longer-term project planning and objectives, including capacity building, to enhance sustainable outcomes for community resilience.¹²³

Given the huge scope of need for enhancing climate resilience in the Pacific the PRF’s target capital base should be lifted in future. The current \$1.5 billion target is a good start, however a higher capital base would generate greater income and enable higher volumes of climate finance for project funding.

Finally, global support for the PRF should be accompanied by efforts to enhance the accessibility of other climate finance initiatives to local communities.



Recommendation

- Contributor governments should commit funds to the PRF, and use their influence to encourage other governments and the private sector to do the same.
- Pacific governments should consult Pacific civil society on the design and implementation of PRF mechanisms in-country, to maximise impact for local communities.
- The private sector should commit funds to the PRF and use their influence to encourage their industry counterparts to do the same.

5.3 Putting local communities and civil society at the heart of climate finance

The current climate finance architecture is donor-driven and onerous for Pacific Islands governments and organisations to access. Some small grants facilities exist, including the Global Environment Fund's Small Grants Programme, which provides grassroots organisations, CBOs and NGOs with financing for climate change adaptation and mitigation and environmental projects. However, the bulk of financing remains hard to access. Alongside delivering more climate finance, and capitalising the PRF, contributors should reform the global climate finance architecture to place more power in the hands of the countries that are receiving the funds.

Case studies in this report have highlighted some of the barriers that local community organisations face in accessing finance even where this finance is available at national level, including complex and bureaucratic grant processes, lack of information, lack of consultation and inclusion of marginalised groups and a focus on large-scale projects that overlooks smaller community-based projects. There are also several ways that organisations have overcome some of these barriers, including:

- Developing small grants facilities: larger facilities that are in turn regranted to smaller organisations using simple and low-barrier systems for applications and grant management (see Women's Fund Fiji case study, below).
- Supporting organisations to enter into partnerships and networks, for example with a larger organisation providing financial management services to a smaller organisation (see 'Overcoming bureaucratic financing barriers through partnerships', below).
- Building civil society networks to share information and collaborate on initiatives.
- Actively ensuring civil society is involved in the development and delivery of larger climate finance initiatives.

Working with civil society, national governments and contributors should consider how to design mechanisms that draw on these lessons to deliver more financing to the local level.




Recommendation

- Contributor countries, working closely with Pacific governments and civil society, should reform the global climate finance architecture to address barriers to access and place decision-making power in the hands of Pacific actors.
- Contributor countries and Pacific governments should explore mechanisms that deliver finance directly to local level, working closely with civil society on the design of those mechanisms. This should include offering the required support for civil society and local actors to deliver, monitor and evaluate their work.
- Contributor countries and Pacific governments should ensure civil society is informed and involved in delivery of climate finance initiatives and able to ensure accountability.
- Contributor countries and Pacific governments should ensure that vulnerable and marginalised groups - including women and people with disabilities - are prioritised for access to climate finance.

Overcoming bureaucratic financing barriers through partnerships

Communities across the region have used networks and entered into partnerships to access funding. An illustrative example is the collaboration between regional peak body Pacific Island Association of NGOs (PIANGO), and its national member Kiribati Association of NGO (KANGO). PIANGO initially partnered with KANGO as its fiscal agency for a Commonwealth Foundation project addressing climate displacement. KANGO had the local contacts and expertise to manage the project, while PIANGO covered grant management and reporting. Having gone through the process with a fiscal agent, KANGO was able to secure funding on its own for future projects.

Caritas Samoa shared a similar example of partnering with a US-based NGO, Catholic Relief Services, who supported grant management for a US Agency for International Development (USAID) grant. While Caritas Samoa had the expertise to implement the project, they did not have the internal systems in place that would enable them to apply for and manage a grant from USAID in compliance with the often complex grant conditions. As well as providing support for Caritas Samoa to access the grant, Catholic Relief Services also built the team's capacity and internal systems needed to attract and manage similar grants. After a successful grant outcome and having built organisational capacity, Caritas Samoa was able to secure further financing directly from USAID. This support has also created a ripple effect as Caritas Samoa is now in turn mentoring a local organisation to strengthen its financial systems.



Case study: Flexible funding approaches to boost locally-grounded, women-led disaster responses¹²⁴

Women's Fund Fiji (WFF) is the Pacific's first national women's fund. It describes itself as “an empathetic and adaptive feminist fund that influences and mobilises financial and non-financial resources for feminist and women's rights organisations and movement to progress the human rights of women, girls, and gender non-conforming people in Fiji”. In 2021, it was registered as a local entity under Fiji's Charitable Trust Act.

The Fund being the resource mobilisation arm of the feminist and women's movement in Fiji, is a good example and model of how flexible and adaptable granting mechanisms can channel international funds to locally led initiatives.

The Fund has three types of grants:

- 1) Sustainability Grants** – Support programs and projects that enhance gender equality in Fiji. This is a multi-year funding for core costs and activities.
- 2) Movement Building Grants** – Support organisation and participation in movement building activities that will contribute and strengthen the women's movement. Both sustainability and movement building grants are available for registered and non-registered organisations. These organisations include established and active small, emergent, and rurally based organisations without previous experience with managing donor funding, and registered organisations with previous grant experience.
- 3) Resilience Grants** – Support crisis management or crisis activities in the initial or the recovery period of sudden onset crises. The grant is open for its current and former grantee partners for their response and recovery in any crisis activities. These include natural disasters such as cyclones and flooding, and crisis events such the COVID-19 pandemic. Through its resilience grant, the Fund's current and former grantee partners can access small grants of up to FJD 50,000 (approximately USD 22,000) to address immediate needs in the aftermath of a crises or disaster, as well as to fund longer-term recovery and resilience initiatives. As WFF already has existing relationship and is aware of the capacity of its partners, funding can be disbursed rapidly – within 24 hours or 1 day – to ensure that funds reach the affected community as quickly as possible. The Fund was able to disburse funds in the span of 1 day to its grantee partners for COVID-19 and Tropical Cyclone Yasa response.

An example of a Resilience Grant recipient is Rise Beyond the Reef (RBTR), a women led non-profit organisation established to address rural remote Pacific communities. They focus on improving women and children's lives through ecologically sustainable income-generating projects using traditional skills and material, while addressing gender inequities, building women leaders, and empowering women and girls facing domestic violence.

Rise Beyond the Reef is a current long-term grantee partner of WFF. The Fund supported the organisation in its disaster recovery program working with indigenous women and their rural communities. Their economic, leadership development and resilience program supports and builds trust through economic development partnerships with rural remote women and their communities.

RBTR programs support artisans to turn debris left after the cyclone into value-added products. For example, salvaged hardwood stumps were painted and repurposed as stools and tables, fallen coconuts were processed into oil and animal feed and the shells made into jewellery. The program also provided portable sawmills to these communities to help them rebuild and repair damaged homes with fallen trees.

Rise Beyond the Reef also worked with the community to develop medium and long-term recovery plans and opportunities for women that builds and strengthens their resilience. Women were involved, taking on leadership roles, and were part of decision making in every step of the recovery process. The program includes craft and agriculture inputs, product development and market access support, re-establishing community gardens and food banks to address food insecurity. Overall, the organisation ensures that when communities are replanting their crops for subsistence and income, and sourcing with climate-resilient seedlings and plants.

“In any crisis or disaster, it is vital when you respond, the first thing communities need is restoring their dignity, and this has to be done immediately in span of 24 hours-3 days. Once we can restore their dignity, they will be in a better space both mentally and physically to tell us what their need is and working in partnership to fully recover from any crisis or disaster. This becomes a recovery process that the community and the partners take ownership, in shaping their own recovery phase and same time support their own definition of their recovery process in adapting, building, and strengthening their resilience.”

KUINI RABO, ACTING SENIOR PROGRAM MANAGER, WOMEN'S FUND FIJI

WFF adopts a flexible and adaptable funding model. For its grants call, partners are invited to submit an expression of interest, and WFF will accept submissions in local languages, handwritten or audio-visual formats. For organisations selected to put in a full proposal for the sustainability grant, WFF provides information sessions and proposal writing workshop to provide guidance in submission of proposals and detail budget. As part of the proposal stage, WFF conducts a due diligence process to identify the organisation's financial and grant management, governance, human resources, and risk management capacities and offers support with any areas that need strengthening and risk mitigation measures. This recognition that “one size does not fit all” allows it to direct financing to a wide range of locally led initiatives while still addressing the expectations of larger back-donors.



Rise Beyond the Reef community – Nakorotubu women, Credit: WFF/Rob Rickman



5.4 Rethinking the emphasis on large infrastructure – especially where loan financed

A feature of some of the larger climate finance committed in the Pacific is a focus on large infrastructure projects. For example, more than half of GCF financing committed in the Pacific 2015-21 was for building or renovating large infrastructure: the Fiji Urban Water Supply and Wastewater Management Project (which involves construction of a new water intake facility and upgrades to existing facilities), the Tina River Hydropower Project (which will build a new hydropower facility), and the Sustainable and Climate Resilient Connectivity for Nauru project (which involves construction of a new climate-resilient port). As discussed above, most of the DAC-declared climate finance provided as debt in the past five years has gone to three large infrastructure projects (including the Tina River project). Australia's new Climate Financing Window in the AIFFP is also exclusively focused on financing infrastructure.

This focus on infrastructure financing makes sense in many ways - providing an opportunity for projects that achieve countries' economic goals as well as their climate adaptation or mitigation goals, and going towards initiatives that countries may struggle to finance without external support. It can also be attractive to donors/lenders - who can get a large amount of funding out the door in one transaction, and end up with a tangible piece of infrastructure to show for it. However, there is a risk that focusing so much of the financing on large infrastructure takes the focus off small-scale adaptation, and leaves communities that are currently experiencing the impacts of climate change without relief in sight.

It is also questionable whether the financing of large energy generation infrastructure in the Pacific falls within the spirit of climate finance, given the region's extremely low contribution to global emissions. Investment in solar and hydro projects or other energy infrastructure may be more appropriately paid for through development aid, with additional climate finance directed towards adaptation initiatives.

Recommendation

Climate finance contributors to the Pacific should rethink the focus on large infrastructure, particularly where this is more focused on economic growth than climate change, and should ensure that a significant proportion of climate finance goes to initiatives that more directly help vulnerable communities achieve their adaptation goals.

Tongan communities build their own resilience with the support of civil society

Tonga, like other Pacific countries, is highly vulnerable to cyclones. In February 2018, Tropical Cyclone Gita damaged 4,000 homes and completely destroyed 800. Over 4,500 people were evacuated. It was the most intense storm in Tonga in over 60 years, and the damage caused was equivalent to 38% of Tonga's GDP.

In the aftermath of the devastation, Caritas Tonga and Habitat for Humanity New Zealand, with funding from New Zealand's development program, undertook a community resilience-building and home repair program. This helped local communities to identify their own needs and solutions to improve community resilience to disasters, such as cyclones and earthquakes.

As part of the program, Caritas Tonga staff provided 'Participatory Approach for Safe Shelter Awareness' and 'Build Back Safer' training workshops for the communities. Through a participatory and capacity-building approach, communities were supported to build their skills and knowledge on how to be more prepared and resilient to disasters, and to make sure that no-one in their community was left behind. Sesilia Malialosa Tapueluelu, Caritas Tonga's Project Officer, said, "The community has the opportunity and responsibility of developing their own practical solutions and plan. We are just there to support them, to strengthen what they already have and build on what is there. We walked them through some approaches and factors to consider."

At the heart of the participatory approach was a commitment to ensuring that workshop participants were a true reflection of the community, with women, men, elders, youth, people living with disabilities and the most vulnerable represented. When Caritas Tonga first approached a community, their staff would liaise with the community council to discuss the participation and representation of all groups within the community. They would then work with a community representative to make sure that representation was achieved, and only then would they run the training workshops.

Talanoa sessions were another important part of the participatory process. *Talanoa* is a widespread concept throughout the Pacific, and refers to an open, non-hierarchical dialogue where everyone has a chance to speak and be heard. Malialosa explained: "It is an opportunity for everyone to share their own view. It gives space for everyone to be heard without judgement and to feel belonged. Everyone has something to say, and what they are saying must be included in developing the community plan. The plan should address the needs of all."

Training workshops were designed to be as accessible as possible. Taking gender inclusiveness as an example, Caritas Tonga considered women's traditional roles related to childcare and housework, and made sure the timing and location of the workshops fitted their existing commitments. Training was held in the communities and had appropriate start/finish times and breaks, which allowed women to be close to home to attend to things at home, school or in the community, yet still fully engage in the training. Women could also bring children to the training if needed.

"In Tonga women are at the forefront of activities in the communities, churches and schools. We have a saying in our Tongan culture: "When women are engaged, the outcome of that program, goal, activity would indeed be successful" as women carry the heart of the family and community. They fully commit to these programs because they are willing to learn new insights and knowledge to help their families. In times of disaster, women are able to stand tall and have courage to protect their families with all the new skills and knowledge they have acquired through this project."

– MALIA SULIANA FALEMAKA, DIRECTOR OF CARITAS TONGA



On a site visit to Halovave Community in [area of Tonga], workshop participants discuss risk, vulnerability and capacity in relation to safe and unsafe structures. Credit: Caritas.



Community members participating in a training workshop. Credit: Caritas.

The program also included measures to support sustainability of outcomes. For example, community plans included a ‘train the trainer’ model, where people who were trained by Caritas Tonga went on to train other members of their community, with support from Caritas Tonga as needed.

Another part of the program involved the repair or rebuilding of over 500 homes for community members at higher risk of marginalisation, so that their houses could better withstand disasters or had improved accessibility. Caritas Tonga prioritised community members most at risk, including people with disabilities and female-headed households. The type of repair was dependent on the priorities of each household, for example installing an accessible bathroom or a ramp for someone living with a disability.

This is an example of the outcomes that can be achieved when communities have ownership of climate resilience initiatives alongside the support of organisations who can provide capacity-building and assistance to access climate finance, combined with the delivery of climate finance that enables local leadership and the provision of appropriate levels of support. The success of the program lay in its commitment to community-led solutions, inclusion and participation of all community members, and sustainability of outcomes. It was underpinned by the support of a Tongan NGO with a philosophy of enhancing the dignity of all people in the community and of ensuring that communities are supported to lead their own development.



5.5 Debt relief

The debt problems emerging in the Pacific region are part of a broader picture of increasing debt - with 58 of the world's poorest countries in debt distress or at high risk of it.¹²⁵ Small island developing states have faced particularly significant distress, in part fuelled by tourism downturns and climate change vulnerability, coupled with underlying economic factors such as remoteness and small economic bases.¹²⁶ While additional climate finance will help to address part of this problem, there is also a need to reform the current international debt architecture.

"We need a global financial system that is fit-for-purpose. This means urgent debt restructuring and reforms of the long-term debt architecture."

ANTONIO GUTIERREZ, UN SECRETARY-GENERAL¹²⁷

Recommendations for reform of international debt architecture

In April 2022, Eurodad, Jubilee Australia, Jubilee Debt Campaign UK and Erlassjahr.de put forward a set of recommendations for reform of the international debt architecture to respond to the growing debt crisis. This included:

- Establishing a debt payments moratorium and comprehensive restructuring in the wake of external shocks (climate extreme events, natural disasters, health pandemic or other) (see below).
- Creating a Global Debt Transparency Registry to provide a publicly accessible registry of loan and debt data, housed in a permanent institution, independent of lenders and borrowers (i.e. UN).
- Review of debt sustainability frameworks to integrate climate and other sustainability risks and countries' financing needs for climate change adaptation, mitigation and achieving the Sustainable Development Goals.
- Creating a permanent sovereign debt resolution framework, under the auspices of the UN, that prioritises human rights over debt service.
- Other reforms, including developing binding principles on Responsible Borrowing and Lending, better regulating credit rating agencies and the asset management industry, and coming to a global agreement on the importance of capital account management.¹²⁸

A key measure that could assist in the Pacific context would be to establish an automatic mechanism for debt payments suspension, debt cancellation and debt restructuring in the wake of extreme weather events or other major shocks. This should cover public and private lenders and complement loss and damage financing. Leaving the financial resources available in the country on the ground is simply the easiest, fastest and most reliable way to provide support for emergency relief and the first efforts towards reconstruction. After the debt service suspension period ends, a debt sustainability analysis should be conducted, considering the losses and damages, as well as the financing needs for recovery and reconstruction, with creditors then providing the debt restructuring and debt cancellation needed.

One option that has been mooted - including at the Pacific Regional Debt Conference in April 2022 - is debt-for-climate swaps - where creditors provide debt relief in exchange for a commitment by debtor countries to spend the money they save in debt servicing on climate action or ocean conservation. The Outcomes Document from that conference notes that this may require further investigation in the Pacific context.



While debt swaps can create space in the budget to invest in climate change adaptation, they are limited in their ability to meaningfully reduce debt burdens. For example, where debtor countries have struggled to repay their loans, they may also struggle to pay for the climate initiatives under the swap. Debt swaps can also come with high transaction costs or with conditions that restrict the decision-making of Pacific governments. Funds freed up under a debt swap would not take away the need for more new climate finance, so are not a substitute for other genuinely additional climate finance. Traditionally, debt swaps have involved bilateral or private creditors, which also poses a challenge in the Pacific context where most external debt is owed to multilateral development banks. The bilateral nature of swaps has also exposed countries to more institutional influence over their decision-making.

As the current debt crisis goes well beyond the Pacific, there is an argument that any realistic solution needs to address the global problem simultaneously. Following the COVID-19 pandemic, there have been calls for a stronger global approach to proactively addressing debt in low- and middle-income countries that would ensure countries have space in their budgets to address climate change. A collection of civil society groups has called for a Debt Relief for Green and Inclusive Recovery Initiative, which would bring together all creditors - bilateral and multilateral, public and private, to provide debt relief and free up resources for economic recovery from COVID-19 and address climate change.¹²⁹ They propose a global initiative that combines comprehensive debt relief from public creditors with a restructuring of private debt for highly indebted countries, and debt swaps considered for countries that are not yet heavily indebted. Eligibility for the scheme would be based on realistic debt sustainability assessments that take climate risks into account.¹³⁰ Addressing the current global debt crisis in a systematic and coordinated way would help to prevent more countries from falling into debt distress, and ensure countries have the funds to finance climate change adaptation or respond to crises.

“From the Pacific, we call for Jubilee...for grants not loans for adaptation...for reparations for climate and ecological debts owed us.”

REV. JAMES BHAGWAN, GENERAL SECRETARY OF THE PACIFIC CONFERENCE OF CHURCHES¹³¹

Recommendation

Multilateral creditors, bilateral creditors and private sector should collaboratively agree on mechanisms to systematically address the current debt crisis - including in the Pacific.

This could include:

- Establishing an automatic mechanism for debt service suspension following a natural disaster or other shock;
- Developing a global approach to debt relief and restructuring for heavily indebted countries.

Conclusion

The Pacific region finds itself facing two clouds on the horizon - the current climate crisis, which will have further severe impacts as the planet continues to warm, and the risk of a debt crisis, as public debts grow among countries in the region. Addressing both challenges requires an immediate significant increase in grant-based climate finance and loss and damage finance to the Pacific, to ensure that countries and communities across the region can respond to the climate crisis without worsening public debt. It also requires coordinated measures to address the growing global debt crisis for low- and middle-income countries so that debt repayments do not take money away from climate change action and recovery.

Communities are already putting in place locally-appropriate solutions to cope with climate change, from mangrove planting and building seawalls to rebuilding homes and repurposing cyclone debris. It is essential that those communities (including their most marginalised members) can access climate finance for that work, and that communities and the civil society groups that represent their interests are part of decision-making on how climate finance is spent.

Climate finance is, at its heart, the repayment of a debt owed by countries that caused climate change to those that experience its worst effects. It is essential that high-income countries do not shirk that debt, but instead stand in solidarity with those on the front lines of climate change.



Tony Raymond, a fisherman and teacher from Pele Island near Port Vila, Vanuatu. He says fish are getting smaller and the local reef is dying due to silt washed down from the highlands. Credit: Caritas.



Frère from Port Vila, Vanuatu. Within days of Cyclone Pam hitting Vanuatu, he was back making a living by selling to tourists photos of themselves with his iguana. Credit: Caritas.

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