Melanesian
Spearhead
Group

CLIMATE FINANCE STRATEGY
2019–2021

Director General of the Melanesian Spearhead Group Secretariat, Ambassador **Amena Yauvoli**

Foreword

Melanesia is a large subregion in the Pacific, extending from the western side of the Pacific Ocean to the Arafura Sea, and eastward to Fiji. It comprises Fiji, New Caledonia, Papua New Guinea, Solomon Islands and Vanuatu.

Melanesia has a tropical climate, with an average daytime temperature of around 27 ºC, high humidity and an annual monsoonal wet season that occurs between November and March.

Solomon Islands and Vanuatu are among the least developed countries, while Fiji and Papua New Guinea are classified as developing countries.

The land and oceans are a major contributor to Melanesia's economy and future prosperity for the approximately 9 million people in the subregion, where Papua New Guinea is the largest country with 8 million people. The subregion has vast natural and cultural resources that are important for global ecosystems and biodiversity and for the indigenous peoples and their livelihoods within the subregion.

The Melanesian Spearhead Group's needs-based climate finance strategy is an important first step in carefully analysing the finance landscape in the subregion and exploring traditional and innovative financing options, both public and private, for supporting regional climate mitigation and adaptation action implemented at the national level.

The Melanesian Spearhead Group Secretariat is delighted to partner with the UNFCCC secretariat in implementing this project with a view to supporting the efforts of its member countries in particular to better profile their national adaptation and mitigation projects and capacity-building at the national level for effective implementation using predictable climate financing sources.

Melanesian Spearhead Group Climate Finance Strategy

MSG countries received committed international climate finance of USD 1.9 billion between 2010 and 2017, the majority of which was allocated to mitigation activities. Expenditure of domestic climate finance, also allocated primarily to mitigation activities, varied widely across the subregion, ranging from approximately USD 100 million in 2014 for Fiji to USD 54 million in 2012–2016 for Vanuatu. Preliminary needs assessments have been conducted for some sectors in MSG countries. The methodologies used and time periods covered differ across the assessments and hence there is no accurate way of harmonizing and aggregating the assessed needs for the subregion. However, the following figures provide an order of magnitude indication of the required financing: on the basis of available estimates, the cost of adapting to climate change could vary from USD 30 million to at least USD 4.5 billion across the subregion over a 5- to 10-year period; while the cost of mitigating climate change could vary from USD 170 million to at least USD 2.9 billion. Most financing needs are conditional, as per the countries' nationally determined contributions. As already emphasized, these are just estimates and are likely to be revised upwards once the countries begin to conduct detailed needs assessments. However, the figures highlight the gap between the available and required finance for implementing priority mitigation and adaptation action in MSG countries.

The MSG countries need to implement mitigation and adaptation action urgently to counter the impacts of climate change. By collaborating on an MSG climate finance strategy, the subregion can better position itself to rapidly mobilize and scale up climate finance.

A. Strategic framework

The **goal** of the MSG climate finance strategy is to ensure that climate finance can be effectively accessed, mobilized and scaled up to contribute to achieving climate goals in the subregion.

The **objective** is to make the scaling up of climate finance predictable and clear and to provide opportunities for attracting climate-friendly investment in the subregion.

The expected impacts are:

1. An increase in adaptation action and the capacity to cope with the consequences of climate change;
2. An increase in mitigation action and the capacity to mitigate carbon emissions;
3. Strengthened institutional capacity to effectively implement climate action.

The following principles guide the strategy:

1. Ownership of the climate finance strategy and implementation of mitigation and adaptation initiatives by all stakeholders;
2. Inclusivity of all stakeholders affected by the mitigation and adaptation initiatives;
3. Sustainability and effectiveness of mitigation and adaptation initiatives;
4. Mainstreaming of climate change issues in national development planning and budgeting.

B. Strategic areas

Strategic area 1: identifying and mobilizing effective and appropriate financing for climate action in the subregion

New and innovative financing instruments, such as bonds (green bonds, resilience bonds, catastrophe bonds), de-risking instruments (insurance and guarantee products, liquidity facilities), and funds and structured products, can be used to mobilize public and private sector climate finance for the subregion. Blended debt, equity and grant finance can be used strategically to address private sector investment risk.

Actions:

- Identify priority climate projects and link them to appropriate financing instruments;
- Prioritize subregional adaptation and mitigation projects identified by MSG countries:
  - Adaptation projects in the areas of food security, land degradation, forests, agriculture, fisheries and marine resources, climate-resilient infrastructure, water and sanitation, and health;
  - Mitigation projects in the areas of forests, agriculture, renewable energy and energy efficiency;
- Develop multi-country and multi-sectoral project pipelines for mitigation and adaptation priorities identified by MSG countries;
- Develop appropriate new and innovative financing instruments.

Strategic area 2: designing a financing vehicle to catalyse and mobilize private sector investment in climate action in the subregion

A dedicated vehicle for financing adaptation and mitigation initiatives in MSG countries can be designed to pool funds from different financing sources, including international and national, and public and private sector sources. It can quickly disburse funds to MSG countries for subregional climate finance priorities through direct access, align management and reporting procedures, and harmonize the eligibility criteria for potential climate mitigation and adaptation initiatives. Specific funding windows can enable risk-appropriate capital for projects.

Action: Mobilize and attract finance for mitigation and adaptation projects from all potential sources and through all channels of finance.

Strategic area 3: building on existing financing mechanisms to mobilize climate finance for the subregion

MSG countries can expand on opportunities in mitigation and carbon finance for projects in the renewable energy, energy efficiency, waste management, cooling, forest (including mangroves) and water sectors. By actively engaging in and building on existing carbon markets, additional sources of financing for mitigation and adaptation projects can be generated. Such engagement can also help to build capacity for the cooperative mechanisms under Article 6 of the Paris Agreement.[1] Other existing financing mechanisms, such as the nationally appropriate mitigation action facility, can also be tapped to mobilize climate finance for the subregion.

Action 3.1: Explore financing opportunities via carbon finance and emissions trading.

1 Noting that unit acquisition under Article 6 cannot be counted as climate finance.

Action 3.2: Explore financing opportunities via the nationally appropriate mitigation action facility.

Strategic area 4: strengthening coordination and collaboration to enable effective mobilization of climate finance for the subregion

Climate finance mobilization and climate action implementation are not sufficiently coordinated in the subregion. For the MSG to act effectively and be considered the hub for mobilizing climate finance and coordinating climate action for MSG countries, its collaboration with other institutions must be strengthened through targeted action. Such action can increase the profile of the MSG to enable it to act as the focal point for mobilizing climate finance for the subregion. By taking on this role, the MSG can fill the coordination gap, thus benefiting its member countries. To do so, the MSG needs to have appropriate tools and capacity.

Actions 4.1:

- Strengthen institutional coordination between the MSG and other subregional institutions;
- Monitor and assess implementation of the MSG climate finance strategy;
- Mobilize financing to fund implementation of the MSG climate finance strategy;
- Collaborate and improve coordination with existing forums in the subregion;
- Strengthen the technical and backstopping capacities of the MSG;
- Develop a road map for the MSG to access climate finance for the subregion.

Actions 4.2:

- Improve subregional knowledge exchange and set up a climate information hub;
- Set up a comprehensive, user-friendly climate finance knowledge platform for the subregion;
- Matchmake bankable mitigation and adaptation projects and potential investors;
- Share best practices across the subregion;
- Share MSG countries' mitigation and adaptation project pipelines;
- Showcase successful projects and programmes within the subregion and across regions;
- Hold international and regional forums as a platform for climate finance dialogue;
- Establish a publicly accessible online knowledge platform for the subregion;
- Set up an online climate information hub as a repository of climate-related data for MSG countries.

Strategic area 5: capacity-building for developing and implementing mitigation and adaptation projects

The MSG can enable increased capacity-building at the community level across the subregion. Bottom-up development of mitigation and adaptation projects and programmes is needed to allow climate finance to flow to grass-roots initiatives that are have an impact at the community level. Concerted efforts and action are required to ensure that any mobilization of climate finance by the MSG is also channelled to those initiatives.

Actions 5.1:.

- Develop project mitigation and adaptation pipelines up from the community level;
- Develop community-driven development models to benefit local institutions and beneficiaries;
- Ensure the flow of climate finance to community-level climate action and initiatives.

Actions 5.2:.

- Ensure climate change is mainstreamed in national development and sectoral plans, and budgets;
- 'Climate proof' relevant national development policies and plans.

Action 5.3: Develop subregional approaches to designing mitigation and adaptation pipelines.

Strategic area 6: strengthening and developing measurement, reporting and verification systems for means of implementation

The MSG countries need robust national monitoring systems to effectively measure, report and verify climate finance and mitigation and adaptation action. The MSG can coordinate the improvement of public financial management systems to enable experience-sharing across the countries. Over time, the MSG can become the central repository for climate finance data and reporting across the subregion.

Action 6.1: Strengthen and develop public financial management systems and measurement, reporting and verification systems for means of implementation.

Actions 6.2:

- Align bilateral and multilateral reporting with national systems;
- Improve coordination among development partners and with relevant national institutions, such as line ministries, for more effective climate finance reporting.

Actions 6.3:

- Build buy-in at the political and technical level for the alignment of measurement, reporting and verification across national systems;
- Ensure ownership of the enforcement of appropriate measurement, reporting and verification at all levels through ministerial-level directives to line agencies.

Executive summary

Mission statement and overview

This document presents the first subregional needs-based climate finance strategy for the Melanesian Spearhead Group (MSG) countries of the Pacific, namely Fiji, Papua New Guinea, Solomon Islands and Vanuatu.

The aim of the strategy is to support the MSG countries in determining their climate finance needs by undertaking an analysis and evaluation of a financial plan of action to enable greater access to and mobilization of public and private finance, both domestic and international, for climate adaptation and mitigation programmes and to develop a means of implementation framework for the countries. Climate finance flows for mitigation and adaptation were mapped as part of assessing the regional climate finance landscape and to determine the costs of mitigating and adapting to climate change with a view to designing solutions driven by the MSG countries' priorities and needs for better access to and mobilization of climate finance.

Stakeholders

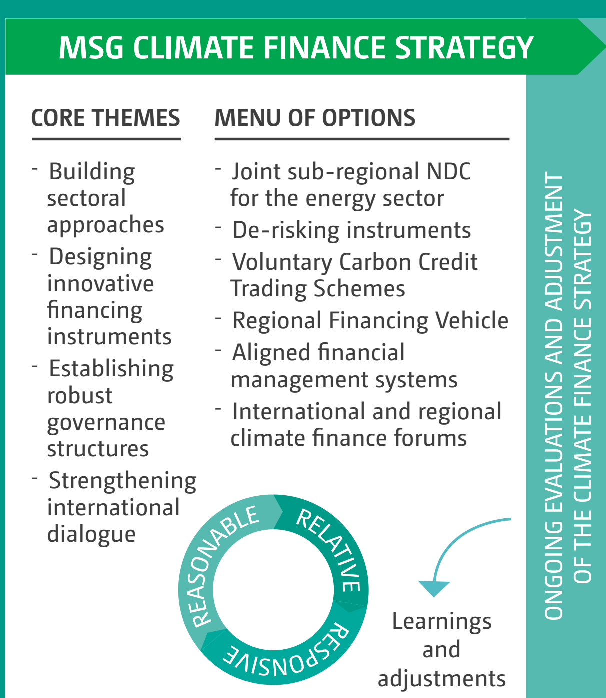
Key national agencies involved in the assessment and strategy development are ministries and departments in the areas of climate change and development, national planning and aid coordination, and finance and treasury. In addition, the United Nations Development Programme, Pacific Islands Forum Secretariat, Secretariat of the Pacific Community, German Agency for International Cooperation and the Commonwealth's Climate Finance Access Hub have been involved as partners in the discussion with MSG government officials on finalizing the strategy and means of implementation framework.

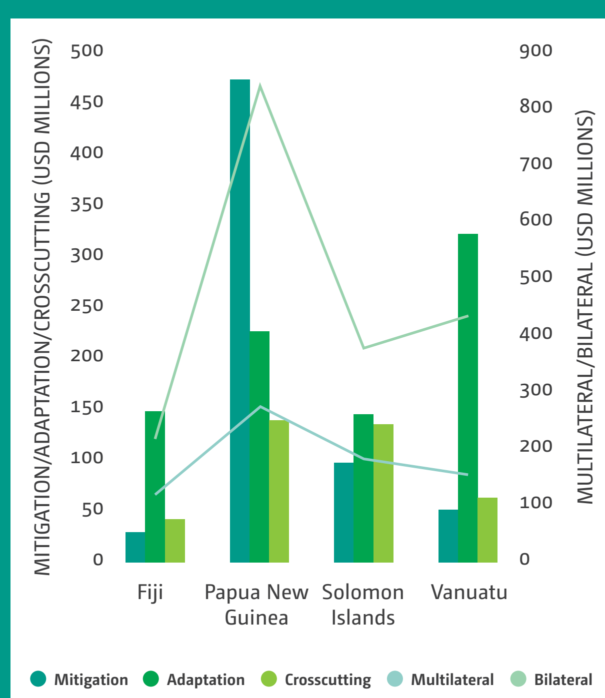
Objectives

- To provide guidance on effectively mobilizing and matchmaking climate finance for priority adaptation and mitigation action in the subregion;
- To collate country-driven assessments of climate finance needs and priorities in order to propose an integrated subregional approach to mobilizing climate finance.

Issues and solutions

The Melanesian islands are among the world's most vulnerable countries to climate change impacts and highly susceptible to natural disasters, particularly tropical cyclones, tsunamis, floods and tidal abnormalities. Developing countries, such as the MSG countries, often have the least capacity for climate change mitigation and adaptation but the greatest need for financing.





(Continued on the back)

ISSUE	SOLUTION
MSG countries face a complex international financing landscape, with limited national capacity to support their access to and the disbursement of climate finance. The subregion is disproportionately exposed to the effects of climate change.	Climate finance is received via multilateral and bilateral contributions of partners and the private sector to the subregion.
Aggregating climate finance needs is challenging given the lack of harmonized data on mitigation and adaptation requirements across the subregion. MSG countries struggle to conduct needs assessments against comprehensive quantitative and qualitative data from which a detailed investment plan can be prepared to fund those requirements. Any cost estimates are preliminary and need to be further assessed.	MSG countries have detailed mitigation priorities, clearly targeting a large increase in the share of renewable energy in electricity generation. The Governments of the MSG countries recommended a coherent climate finance policy to guide the establishment of a national plan to finance mitigation and adaptation activities and to support the implementation of priorities.
Although MSG countries received USD 1.9 billion in committed international climate finance between 2010 and 2017, this is insufficient to meet country climate finance needs to implement climate action. While expanding climate finance sources is essential, basic issues of access need to be addressed.	The Adaptation Fund and the Green Climate Fund are unique from other climate funds in that they allow developing countries to directly access climate finance funds through accredited entities. Although the donor landscape is generally fragmented, the situation is slightly better when it comes to multilateral donors, with 76 per cent of funding sourced from three contributors: the Asian Development Bank, World Bank and Green Climate Fund. It is essential to have the expertise to conduct financial and technical assessments of mitigation and adaptation initiatives against environmental and social objectives, and innovative financing instruments that match the risk–return appetites of investors.
MSG countries face many financial challenges, including weak capital markets, ineffective financing structures, inability to attract private sector finance, and insubstantial governance structures.	In order to establish sectoral approaches, a joint subregional nationally determined contribution for the energy and forest sectors could be prepared. Options for innovative financing instruments include de-risking instruments, voluntary carbon credit trading schemes and regional financing vehicles. Robust governance structures can be established by aligning financial management structures. International and regional forums can serve as a platform for climate finance dialogue.

MELANESIAN SPEARHEAD GROUP
GROUPE FER DE LANCE MÉLANÉSIEN

Stanley J. Wapot
Program Manager
Sustainable Development
Email: sj.wapot@msg.int
Website: msgsec.info

United Nations
Framework Convention on
Climate Change

UNFCCC Secretariat
climatefinance@unfccc.int

The preparation of this strategy is in response to the twenty-third Conference of Parties, requesting the UNFCCC secretariat, in collaboration with the operating entities of the Financial Mechanism, United Nations agencies and bilateral, regional and other multilateral channels, to explore ways of assisting developing country Parties in assessing their climate finance needs and priorities, in a country-driven manner, including technological and capacity-building needs, and in translating those needs into action (decision 6/CP.23, paragraph 10).