

CLIMATE FINANCE ACCESS AND MOBILIZATION STRATEGY FOR ISLAND STATES IN THE INDIAN OCEAN (2022–2025)





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I. Introduction

1. The Needs-based Climate Finance project (NBF), which was established in response to the request of the Conference of the Parties at its twenty-third session that the secretariat explore ways and means to assist developing country Parties in assessing their needs and priorities and in translating the climate finance needs into action,¹ has assessed finance flows from the best available data, summarized the needs expressed in national submissions and undertaken a gap analysis in consultation with country experts with a view to building the basis for a climate finance mobilization and access strategy.
2. In summary, climate finance received from developed countries to all six countries² belonging to the region defined as island States in the Indian Ocean (ISIOs) amounted to **USD 6.18 billion**³ between 1991 and 2020. USD 2.87 billion was for adaptation, USD 2.50 billion for mitigation and USD 807.44 million for cross-cutting activities. The majority of the funds was received by Sri Lanka (55%), followed by Madagascar (21%), Mauritius (12%), Maldives (5%), the Comoros (4%) and Seychelles (3%). Underlying data and methodology used is included in the technical assessment of climate finance for the island States in the Indian Ocean as an annex to this strategy.⁴
3. The needs of the region include mitigation action in the energy, transport, industry, forestry and land use, and waste sectors, and adaptation action in the critical infrastructure, tourism, water supply and sanitation, health, biodiversity, food security (agriculture, livestock, fisheries), coastal zone protection and marine resources and disaster risk reduction sectors. On the basis of the information provided by Comoros, Maldives, Mauritius, Seychelles, and Sri Lanka the finance required to cover the needs expressed to 2030 has been estimated at **USD 49.6 billion**.⁵
4. The ISIOs have framework policies on mitigation and adaptation. Common areas discussed in these policies include the need for information-generation and -sharing, planning for adaptation action, mainstreaming climate considerations in sectoral plans and policies, establishing institutional arrangements, putting in place processes for managing and monitoring climate action and calls for the development of sustainable financing instruments.
5. The strategic framework discussed below aims to provide the ISIOs with the means to rapidly scale up access to predictable climate finance to enable them to meet all adaptation and mitigation needs for 2022–2025.

¹ Decision 6/CP.23, para. 10.

² Comoros, Madagascar, Maldives, Mauritius, Seychelles and Sri Lanka.

³ The USD 6.18 billion total includes the flows from the Global Environment Facility to ISIOs since its establishment (USD 975.21 million in 1991–2020).

⁴ See <https://unfccc.int/topics/climate-finance/workstreams/needs-based-finance-nbf-project/nbf-documents>.

⁵ The estimated data is based on available information provided by ISIOs through various national reports, such as nationally determined contributions and national adaptation plans. Consequently, it may not reflect all the financial needs for mitigation and adaptation of ISIOs. This report does not include information on financial needs for loss and damage in the region.

II. Strategic framework

6. The goal of the ISIO climate finance mobilization and access strategy is to ensure that climate finance can be effectively accessed, mobilized and scaled up to contribute to the achievement of climate goals in the region.
7. The objective is to scale up climate finance and to attract climate-related investment in the region.
8. The expected results in the countries are:
 - (a) Increased adaptation action and capacity to cope with the impacts of climate change, including averting, minimizing, and addressing disaster losses and damages;
 - (b) Increased mitigation action and capacity to mitigate carbon emissions with a focus on increasing energy security;
 - (c) Strengthened institutional and technical capacity to access climate finance from a variety of sources and effectively implement climate action; and
 - (d) Empowerment of the ISIOs to position their needs at the forefront of climate finance mobilization and access.
9. The following principles guide this strategy:
 - (a) ISIOs ownership of the strategy and implementation of adaptation and mitigation initiatives with the participation of a broad range of stakeholders;
 - (b) Sustainability and effectiveness of mitigation and adaptation initiatives; and
 - (c) Mainstreaming of climate change issues in national development planning and budgeting.



III. Strategic areas of collaborative action

A. Scaling up climate finance for adaptation

10. The ISIOs make a negligible contribution to climate change but are among the most vulnerable to its impacts. Adaptation is a priority for them, with several common priority sectors identified: coastal zone management, water security, food security, and disaster preparedness and management. Regarding mitigation, their priority sectors are renewable energy, transport and waste.

11. Historically, climate finance provided to the ISIOs has been by and large evenly distributed between adaptation and mitigation activities, with the energy, water supply and sanitation sectors receiving the largest share (50.9%) of the total climate finance provided to the countries. However, while climate finance provided to the ISIOs has focused on these sectors, other priority sectors, such as health, tourism, education, infrastructure and other, have not been receiving amounts commensurate with their level of priority.

Actions

1. Investment in adaptation sectors

- (a) Conduct detailed needs assessments for the priority sectors, including an assessment of technology and capacity-building needs, to articulate the scope of financing required; and
- (b) Explore the use of a common regional methodology for these assessments, including for adaptation where possible, to build a more robust business case for regional investment in previously neglected sectors.



2. Multisector project pipelines

In view of the similarities in priority sectors and needs across the ISIOs, identify and develop multi-country and multisector project/programme pipelines for the adaptation and mitigation priorities identified by the countries.

3. Project aggregation

As the ISIOs share common priority needs, there is significant potential for project aggregation. This would increase attractiveness among investors, thereby allowing access to a greater number of funds, and potentially reduce transaction costs associated with mobilizing and accessing climate finance. Develop approaches to designing mitigation and adaptation project pipelines, including consideration of merging or aggregating climate-related projects between the countries.

B. Partners and sources of finance

12. ISIOs receive international finance from several sources: bilateral donors, climate funds and multilateral development banks. Among these, bilateral donors account for approximately 50% of the climate finance committed and disbursed to the region.
13. ISIOs have been able to access financing from various funds, but a large proportion of it has been devoted to technical assistance. There is a need to expand the scale, scope and sources of financing in line with the countries' needs.
14. As adaptation is a priority for the ISIOs, public sector financing, particularly from international sources, will be required to play an important role, supplemented by domestic sources of finance.
15. Furthermore, accounting for and tracking public sector climate flows is currently a challenge as data are sparse.
16. The cycles of disbursement of financial resources from large funds, such as the Green Climate Fund, the Global Environment Facility and the Climate Investment Funds, have been cited as a limiting factor in accessing climate finance by the ISIOs, indicating a need to explore other sources to supplement the finance expected from climate funds and a need to adopt a strategic long-term approach to accessing finance for climate-related activities.



Actions

1. Empowered engagement

Develop a regional modality, such as a legal entity, which would support the ISIOs in engaging with donors and international sources of climate finance. The modality should take into consideration priority sectors, partner expertise and pre-existing relationships with donors to support the identification of sources that align with national needs, priorities and capacities. This regional modality would support countries in engaging and matching donors with projects.

2. Private sector engagement

- (a) Enhance understanding of how the private sector is already contributing to climate finance in the region by developing a database of private sector entities active in climate action and their level of involvement; and
- (b) Establish a network of private sector climate finance entities across the ISIOs to develop ways and means to enhance the engagement of the private sector in climate finance related activities in the region.

3. Diversification of sources

- (a) Mobilize new sources of finance, e.g. the private sector, through the development of public–private partnerships and the use of appropriate new and innovative financing instruments; and
- (b) Explore the use of a broad set of finance instruments such as bonds (green bonds, blue bonds, resilience bonds, catastrophe bonds), de-risking instruments (insurance and guarantee products, liquidity facilities) and funds and structured products to mobilize private sector climate finance for the region with public support. Blended debt, equity and grant finance should be used strategically to attract private sector investment.

4. Direct access

Strengthen the institutional capacities of national designated authorities and direct access entities within the ISIOs to pool climate finance from various sources, including national, international, public and private sources, to enhance the predictability of finance access and disbursement.

C. Capacity-building and awareness-raising

17. ISIOs face a complex international financing landscape, with limited national capacity to support access to, and disbursement of, climate finance. Accessing climate funds is arduous as each fund has its own procedures and access modalities. Building domestic capacity to design and articulate quality project proposals is a common need among the countries, despite some success in accessing funds from bilateral sources and climate funds to date.

Actions

1. Project preparation and capacity

- (a) Evaluate existing regional capacity and capacity gaps in relation to preparing project proposals, with mapping to include details of project recipients, implementing entities, project cost, objective and scope, among other key variables;
- (b) Establish an online hub for international, regional and national project preparation resources, facilities, pools of experts and individual ‘project experts’ for the various priority sectors that can be called upon to assist the ISIOs in preparing programmes and projects;
- (c) Establish a regional scientific knowledge hub for climate change actors, focusing on scientific studies and collecting and analysing scientific data from various sources on climate change, in order to facilitate the development of climate project proposals;
- (d) Facilitate, with the support of development partners, hands-on training and mentorship programmes to foster the development of regional capacity to prepare project and programme proposals for priority sectors, including training on the structuring of finance for them; and

(e) Consolidate information (potentially on a common platform) on the various climate funds and funding windows accessible to the ISIOs, their procedures for access and criteria for eligibility.

2. Awareness-raising

- (a) Raise awareness of climate-related activities that are planned and in development in a targeted manner among impactful national and regional public and private actors to build cross-sectoral buy-in for this strategy; and
- (b) Engage with central banks, financial regulators and other fiduciary stakeholders in order to increase their engagement in, and knowledge of, climate finance issues.

3. Building regional expertise

Harness existing financial and technical expertise by engaging national and regional financial actors in the development of project pipelines and innovative financial instruments.

4. Accessing and exchanging information

- (a) Establish a publicly accessible online knowledge platform for the region for compiling information on projects and programmes that have already been implemented or for which financing was successfully accessed; and
- (b) Exchange regional good practices for mobilizing and accessing finance; this would be organized in a structured manner through regular regional virtual or in-person knowledge exchange forums.



D. Enabling policies

18. Many ISIOs have developed framework policies on mitigation and adaptation actions, and have implemented several sectoral policies that include, to varying degrees, action on mitigation and adaptation, as well as climate finance. While all the ISIOs have energy policies that focus on increasing the share of renewables in the energy mix, adaptation sectors are not yet fully covered in their policy documents. Moreover, information on the status of implementation of the framework and sectoral policies is not readily available.

Actions

(a) Compile an inventory of climate-related policies to gain a better understanding of the climate change priorities and plans of the ISIOs to allow for better coordination across countries. This inventory could contain existing and planned policies related to mitigation and adaptation action as well as climate finance and information on the status of implementation of existing policies. A policy inventory could also be an initial step in fostering regional policies on climate action; and

(b) In mainstreaming climate change issues in national and sectoral development plans and budgeting, implement institutional reviews and climate budget tagging to gain a better understanding of climate-related public expenditure both nationally and ultimately across the region.

E. Institutional arrangements

19. The ISIOs have stated the need to put in place institutional arrangements to foster further collaboration between the six countries, specifically for implementing this strategy. Moreover, they have stressed the need to work closely with private sector entities to increase their engagement in and contribution to climate financing.

Actions

(a) Explore the possibility of formalizing the ISIO partnership modality through the six countries, for instance by signing a memorandum of understanding; and

(b) Develop guidelines for effective institutional arrangements for accessing, mobilizing and managing climate finance based on regional and international best practice.



F. Measurement, reporting and verification, and transparency

20. A robust national monitoring system is needed for effective and transparent measuring, reporting and verifying climate finance, and adaptation and mitigation action, and for monitoring the implementation of this strategy.

Actions

(a) Analyse domestic institutions' existing data collection practices relevant to climate action and climate finance. Establish a coordination mechanism to improve the sharing of data across ministries and countries, including through setting up an online climate information hub as a repository of climate-related data for the ISIOs;

(b) Engage with climate finance stakeholders, such as academia, think tanks, governmental and non-governmental organizations, in the development of climate finance data and information platforms. Develop an online platform for information on existing domestic and regional capacity related to priority sectors. It could facilitate the sharing of expertise across the region and the access to internationally recognized methodologies for measuring the impact of climate action;

(c) Track adaptation finance and adaptation action and share that information with ISIOs, bearing in mind the stated sectoral priorities of the ISIOs. Adaptation sectors are potentially not receiving systematic attention because of the challenges associated with data availability for these sectors and the difficulty of assessing and articulating the impacts of adaptation action in the absence of universally accepted metrics and methodologies;

(d) Initiate structural interventions to enhance tracking, measurement and reporting of adaptation impacts via vulnerability and risk assessment. Credible and robust data on adaptation impacts and action can support the channelling of finance flows to adaptation sectors; and

(e) Build buy-in at the political and technical level to align measurement, reporting and verification in national systems and ensure ownership of the enforcement of appropriate measurement, reporting and verification at all levels through ministerial-level directives to line agencies.

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Further information, related to the NBF Project
is available on the UNFCCC webpage

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