Secretariat of the Pacific Regional Environment Programme
TWENTY-FIRST SPREP MEETING
Madang, Papua New Guinea
6 – 10 September 2010

Agenda Item 15.3: Global Environmental Financing

Purpose

1. To provide a brief overview of available regional and global financing for the environment, including discussion on some recent developments, as background for the exchange of views among environment ministers.

Background

2. The adverse impacts of climate change and environmental degradation in the Pacific region are well documented and continue to accelerate. There is now global acceptance that the most vulnerable populations are those least able to afford to fund the response, i.e. the peoples of the developing world. Significant financial investment is necessary if the impacts on humanity and the world's ecosystems are to be averted.

3. Many financial mechanisms have been developed in recent decades, however there is still an insufficient global response. Environmental degradation continues to outpace these responses, particularly while the estimates of the investments required to address climate change continue to escalate. There is a lack of clear guidelines to gauge the effectiveness of these mechanisms, as well as to assess equity and fairness in the allocation of resources between the North and South.

4. To date, most assessments and valuations of climate change impacts have concentrated on the more apparent economic sectors such as infrastructure and production. More thorough accounting of the impacts on goods and services provided by natural ecosystems has the potential to require major upward revisions to the current investment calculations.

5. The Pacific Climate Change Roundtable (PCCR) meeting in October 2009 noted the need for greater harmonisation of environmental funding arrangements and called for a feasibility study of a Pacific Regional Adaptation Fund or funding modality, with a technical backstopping mechanism. This study has commenced and the report should be available in September, 2010.

Environmental Funds

6. Existing environmental financing mechanisms include national government spending, private sector spending, foreign direct investment, international loans and official development assistance (ODA). A number of new regional and global financing mechanisms have come on stream in the past decade.

7. Of note is that private sector investments constitute over 80% of global investment and financial flows, and have therefore been identified as an important focus for sources of funding to address climate change, whereas ODA comprises less than 1 percent of investments globally and 6 percent in least developed countries.[1] Official development assistance, however, usually targets specific development needs to assist the poorest countries, and will continue to provide considerable resources for those most vulnerable to climate change. In this respect, there is widespread debate about the extent to which large climate change pledges, including the US$30 billion associated with the non-binding Copenhagen Accord, may divert or relabel existing ODA.[2]

8. The more commonly known environmental financial mechanisms include the following:

- **The Global Environment Facility (GEF)**

9. This is probably the best known of the environmental funds for the Pacific. The GEF provides primarily grants to recipient countries for projects and programmes that protect the global environment in six focal areas: climate change; biodiversity; international waters; persistent organic pollutants; ozone depletion; and land degradation.

10. The GEF is the official financial mechanism for four Rio conventions: the Convention on Biological Diversity (CBD); United Nations Framework Convention on Climate Change (UNFCCC); the Stockholm Convention; and the United Nations Convention to Combat Desertification (UNCCD). The GEF was established in 1991 as a pilot trust fund administered by the World Bank.

11. Conferences of the parties provide guidance to GEF operations. For example, in 2001 the UNFCCC established a Special Climate Change Fund (SCCF) and a Least Developed Country Fund (LDCF), managed by the GEF. In 2007, the GEF was designated as the interim secretariat for the Kyoto Protocol Adaptation Fund, which now has its own institutional arrangements.

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[1] United Nations Framework Convention on Climate Change, 'Investment and Financial Flows to Address Climate Change', Bonn, 2007.

[2] See, e.g. Heinrich Böll Stiftung, 'New Finance for Climate Change and the Environment', July 2008; International Institute for Environment and Development, "Baseline for trust: defining 'new and additional' climate funding", June 2010.

12. The GEF Pacific Alliance for Sustainability Programme (GEF-PAS) has provided a regional framework that has enhanced Pacific Island Country access to GEF resources. The GEF-PAS Programme Framework was approved by the GEF Council under the GEF-4 in April 2008, and this framework covered 28 projects with a total budget over $100 million. More detail on the GEF-PAS, including lessons learnt and information on GEF-5 and future investment scenarios, is outlined in Working Paper 9.2.4 to the 21st SPREP Meeting.

- **Multilateral Development Banks (MDBs)**

13. Multilateral development banks in recent decades have restructured their operations as a response to the global need to address environmental concerns. They are major players in providing finance to protect the world's ecosystems, as well as participating as agencies of the GEF.

14. The World Bank, as the GEF trustee, has been instrumental in mobilising additional resources or co-financing in a range of areas, including renewable energy and energy-efficiency investments. The World Bank Group (including the International Development Association and the International Finance Corporation) also finances projects outside the framework of GEF and the UNFCCC. It led the development of carbon finance, in conjunction with the Clean Development Mechanism (CDM) of the Kyoto Protocol, and now has more than 10 carbon funds worth over $2 billion to purchase greenhouse gas emissions reductions.[3] It adminsters the Clean Technology Fund, the Pilot Programme on Climate Resilience and the Forest Investment Programme.

15. Other MDBs have also increased climate-related lending. For example, the Asian Development Bank is committed to an annual target of $1 billion of investments in energy-efficiency, operates a Carbon Market Initiative for Certified Emission Reductions under the CDM, and the Asia Pacific Carbon Fund that provides funding against the purchase of future carbon credits from CDM projects.

16. Some key multilateral funds announced since 2007 include:

- The World Bank Forest Carbon Partnership Fund (FCPF)
- The GEF Tropical Forest Account (TFA)
- The World Bank Clean Technology Fund (CTF)
- The GEF-IFC Earth Fund
- The World Bank Strategic Climate Fund (SCF) and Pilot Programme for Climate Resilience (PPCR)
- The Kyoto Protocol Adaptation Fund

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[3] Heinrich Böll Stiftung, 'New Finance for Climate Change and the Environment', July 2008.

17. The above exclude the Copenhagen Green Climate Fund, the $30 billion of new and additional resources mentioned in the Copenhagen Accord for 'fast-start' climate financing to developing countries for 2010-2012, and the Accord's stated goal for developed countries of 'mobilizing jointly USD 100 billion dollars a year by 2020 to address the needs of developing countries.' However, the Accord does not state whether this funding includes amounts pledged to the World Bank's Climate Investment Funds (CIFs) but which were mostly unpaid at the time of the Copenhagen Climate Change Conference in December 2009, and there is no clear definition of what constitutes 'new and additional' resources.

- **Bilateral Funds**

18. A number of bilateral funds exist, apart from or in relationship with Official Development Assistance. These include:

- The Global Climate Change Alliance (GCCA) of the European Commission
- The Environmental Transformation Fund – International Window of the United Kingdom
- The Spanish Millenium Development Goals Fund
- The Japanese Cool Earth Partnership
- The German International Climate Initiative
- The Norwegian Agency for Development Cooperation Rainforest Initiative
- The Australian Global Initiative on Forests and Climate (GIFC)
- The German Life Web Initiative

19. The proliferation of funds raises challenges of coordination and harmonisation of fund operations, donor contributions and recipient country activities. They are not linked to the governance structures or the goals of the UNFCCC, CBD, UNCCD or Stockholm Convention. They can also pose challenges of absorptive capacity: some recipient countries may require stronger financial management systems to effectively administer and disburse new funding.

Issues for discussion

20. **How can Pacific Islands countries and territories better access new funds to help address environment and climate change issues?** As noted, while the new funds become operational, with separate criteria and access requirements and fiduciary and reporting burdens, they could provide additional layers of complexity to an area that is already quite confusing. This road has been well-travelled with regard to ODA procedures and processes in general, and it will be essential that these lessons guide the approaches to environmental financing.

21. **How can funding arrangements under the GEF-5 and GEF-PAS be enhanced to better address the needs of Pacific Island Countries?** Some of these issues are discussed in the working paper for Agenda Item 9.2.4 of the 21st SPREP Meeting.

22. **How will the increasing emphasis on operation by the World Bank affect PICTs?** Much of the recent multilateral funding pledges have been geared toward operation by the World Bank. Clearly the Bank has significant comparative advantages in this regard. However, the principle governing the World Bank is premised on the level of a country's contribution, and these funds were developed outside the UNFCCC/CBD/UNCCD frameworks.

23. **How well are Pacific islands' needs addressed in the North-South discussion of the levels of investment required?** The level of investment that the South considers commensurate with environmental degradation, and in particular in response to impacts of climate change, also brings to bear the aspects of moral responsibility and equity. While the new funding sources indicate an acknowledgement by the North of this responsibility, the recent global economic recession has also caused some donors to reassess possible contributions.

24. **How can more effective linkages be achieved between Pacific environment and finance ministries in relation to new sources of finance for the environment and climate change?** This should be considered in the context of the recent Pacific Islands Forum Communiqué in which Leaders tasked Forum economic and environment ministers and executives of CROP agencies to advise on options to improve access to, and management of, climate change resources.

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21 August 2010