Barriers to Climate Finance for Pacific Island Nations: The Case of Palau

by Kate Altemus Cullen

Edited by
Will Maddock
Micayla Bobsien

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Abstract:

It has been a decade since the Paris Agreement was reached at COP21 in 2015. In this article, Kate Altemus Cullen looks back at the United Nations' early efforts to address the climate finance funding gap through the Green Climate Fund (GCF) and why that gap has persisted. After examining the Republic of Palau as a case study, this article envisions broader international climate finance mechanisms and contends with the implications of climate change for the future of international law.

Introduction

Pacific small island developing states (PSIDS) inhabit a unique space in the domain of international climate law as some of the most vulnerable nations to climate change and the least financially prepared to adapt.[1] Under the United Nations Framework Convention on Climate Change (UNFCCC), the 2015 Paris Agreement requires developed country[2] provide financial resources to developing country Parties, including PSIDS, with the goal of catalyzing collective achievement of the Agreement goals.[3,4] These concepts of differentiating responsibility and collectively raising ambition are fundamental to the Agreement, and provide it with flexibility and strength.[5]

The Paris Agreement stipulates that the transfer of climate finance from developed Parties, who are most responsible for global emissions, to developing Parties must be predictable, inclusive, transparent, and accountable.[3] Developed Parties are primarily responsible for providing and mobilizing that funding, although developing Parties can also contribute.[3] The Agreement tasks the Green Climate Fund (GCF) with serving as the centralized facility for collecting and distributing climate finance from donors to recipients, with the goal of catalyzing collective achievement of the Agreement's goals.[3,6] However, developed countries have been slow to deliver on their funding promises. PSIDS and other nations highly vulnerable to climate change have played a leading role in applying pressure to developed Parties to fulfill their legal obligation and contribute their "fair share" to replenish the GCF.[5,7]

On the other side of the climate finance gap is the inability for developing countries to access the funds that are indeed available through the GCF and the complex web of other bilateral and multilateral sources. The Alliance of Small Island States (AOSIS), the negotiating bloc for small-island and low-lying nations in the UNFCCC, argue that their member Parties are particularly susceptible to this phenomenon due to their limited institutional capacity and high exposure to climate change impacts.[8] AOSIS was successful in raising this point in Paris Agreement negotiations and codifying specific actions to address it via Article 9.9, which directs the GCF to prioritize small-island developing states (SIDS) and Least Developed Countries (LDCs) in their work to "ensure efficient access to financial resources."[3,9] By its mandate, the GCF has a moral and legal imperative to support communities on the front lines of the climate crisis, including Pacific small island communities.

This article focuses on the early stages of implementation of the GCF with respect to the case of the Republic of Palau, a nation of approximately 20,000 people and 340 low-lying islands, to analyze the persistent political and legal barriers to accessing climate finance that many PSIDS face. In doing so, this article seeks to identify limitations and strengths of the GCF as a climate finance mechanism that aspires to support those countries that are least responsible for, and most at risk of, climate change.

Assessment

This assessment characterizes Palau's early experience accessing climate finance under the GCF, and places those findings in the context of Palau's relationships with other bilateral and multilateral climate finance sources. It evaluates Palau's involvement with the GCF in comparison to peer countries to identify shared experiences. In doing so, this work hopes to point to possible structural shortcomings in the legal framework and policy makeup of the Fund that prevented

it from achieving its stated purpose during the first few years of its existence. Moreover, this assessment will present policy reforms, which the GCF Board can take action on, as well as legal reforms, which Parties to the Paris Agreement and UNFCCC would need to approve, to address these issues. The assessment will conclude by considering non-UNFCCC climate finance alternatives and the broader implications of maintaining or changing the status quo of the international climate finance regime.

Palau and the GCF

Among PSIDS, Palau is considered to have average climate finance inflows per capita, and a just below average number of climate finance sources.[10,11] Palau is highly vulnerable to climate change impacts, including coral bleaching, salt water intrusion, coastal erosion, and extreme weather events, which in turn have a profound impact on food security, public health, economic productivity and cultural heritage.[12]

Before the GCF was operational, between 2010 and 2014, Palau received a total of USD 6.2 million in grants intended principally to address climate change issues. These funds arrived from three sources: the Global Environment Facility (GEF), contributing USD 2.8 million, Australia, contributing USD 1.67 million, and Japan, contributing USD 1.61 million. Palau received an additional USD 28.2 million in official development aid that was not climate change-specific, but co-beneficial for climate change objectives.[11,13] Over a similar time period of four years, between 2016 and 2020, the GCF approved and disbursed just USD 37,900 to Palau in the form of funding exclusively for readiness projects, which accounted for only a fraction of the USD 1 million they requested.[14] However, since 2020 this figure has increased to a total of

Figure 1: Volatility of Palau total foreign contributions. Data Source: OECD 2018.

Year	USD, Millions	Change from Previous Year
2009	37.885	
2010	81.473	115.053%
2011	57.675	-29.210%
2012	27.982	-51.483%
2013	21.654	-22.615%
2014	21.386	-1.238%
2015	26.668	24.689%
2016	13.330	-50.014%
2017	14.303	7.299%

six readiness projects with a total budget of $4.3 million and two multi-country projects with a total budget of $12.4 million. These multi-country projects include "Ecosystem-based Adaptation for Reducing Community Vulnerability to Climate Change in Northern Pacific Small Island Developing States" (estimated completion 2030) and "Enhancing Climate Information and Knowledge Services for resilience in 5 island countries of the Pacific Ocean" (estimated completion 2026). In analyzing whether these are adequate to support Palau's climate action needs, a major constraint is the inherently lumpy nature of climate finance investments, development aid grants, and overall foreign contributions. Figure 1 shows how this issue manifested in Palau from 2009 to 2017 and illustrates the oscillating nature of project-based grants, which comprise the vast majority of Palau's climate-specific and general funding from abroad.[13]

Though the requested financing often did not materialize during that time period, Palau re-emphasized their commitment to raising funds, forging partnerships, and seeking capacity development and technological support in their first submitted Nationally Determined Contribution (NDC) under the Paris Agreement.[15] Around the same time, Palau saw a dramatic increase in total

Figure 2: Climate-related development finance 2003-2017: Palau and regional peers.

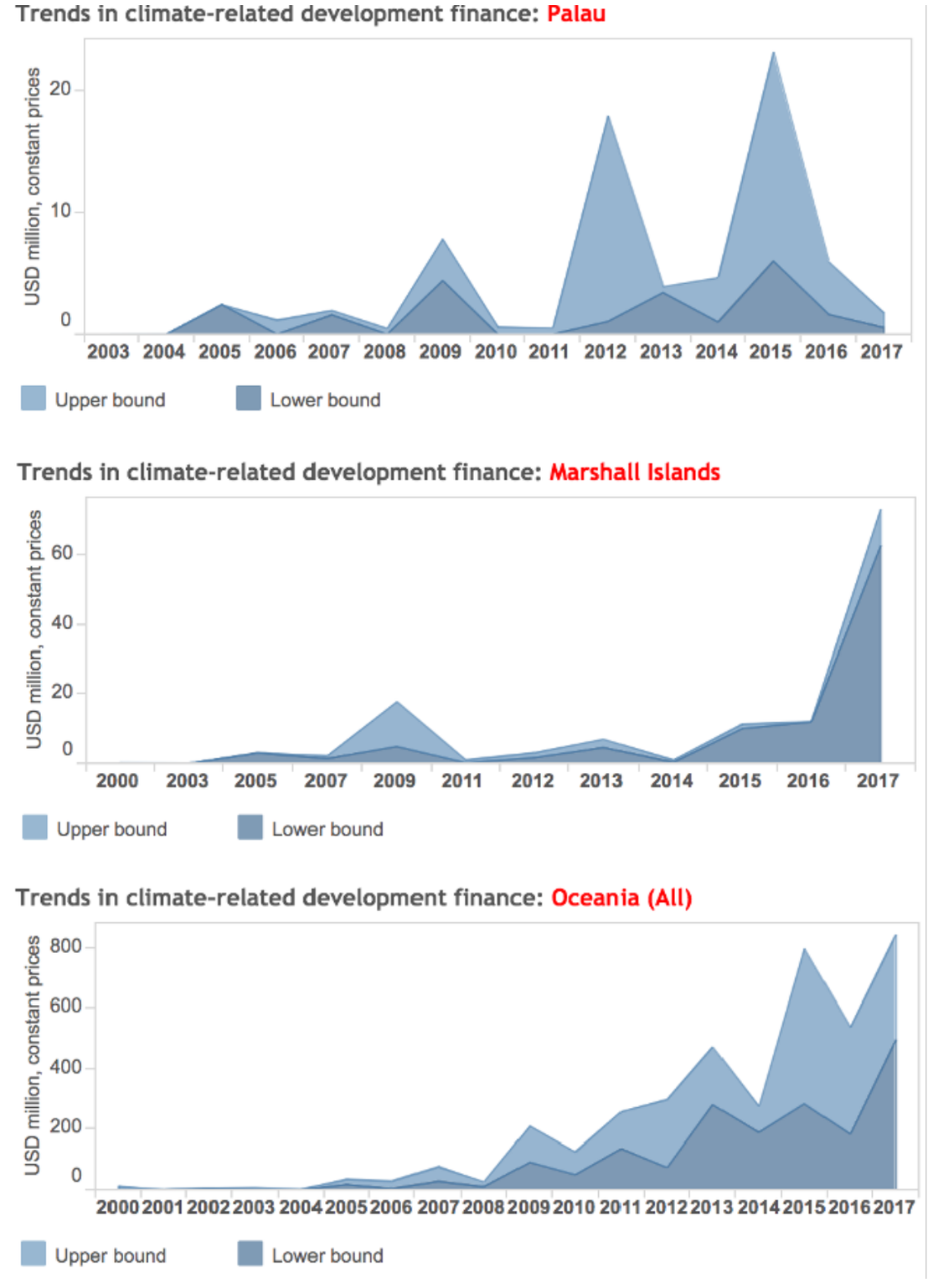

Figure Source: OECD 2018. Note: "lower bound" includes projects with climate change as a principal objective, and the full amount below "upper bound" includes projects with climate change as a principal and/or significant objective.

amount of climate finance received (refer to Figure 2) and a doubling in the number of project partners.[13] This 2015 spike is consistent with the global trend of larger climate finance contributions in a wave of political momentum around the Paris Agreement and establishment of the GCF.[16] It could be argued that while not a direct contributor, the GCF had a large, though temporary, effect on Palau's access to climate finance.

Palau vs. peer countries

A primary function of Palau's ongoing Compact of Free Agreement (COFA) with the United States is a significant, unrestricted contribution to the Palauan government operating budget.[17] While this contribution helps expand the government's institutional capacity, it also impacts Palau's ability to qualify for grants for low-income, least-developed countries.[18] As of 2019, the Marshall Islands, a similarly-sized fellow COFA state, had received significantly more funding from the GCF—USD 563,800 approved and USD 400,000 dispersed for readiness projects.[14] At that time, the Marshall Islands was also part of three approved GCF projects totaling USD 60.6 million in funding. Under GEF funding, the Marshall Islands and Palau display very similar statistics, prompting the question of whether the discrepancy in GCF funding between the two nations could be the result of issues within the GCF itself.[19] Figure 2 shows a comparison of funding between Palau, the Marshall Islands, and Oceania as a whole.

The GCF nonetheless maintained that it delivered on its mandate to strategically allocate resources to those most in need during the first few years of its existence.[14] In fact, the Fund reported in 2019 that it had gone above and beyond some of its goals, including allocating 70 percent of all adaptation funding to LDCs, SIDS, and African States, up from the mandated 50 percent. However, while a large portion of that early adaptation funding reached LDCs, very little was distributed to SIDS LDCs. In 2015 and 2016, only 2 percent of all adaptation funding went to SIDS out of the 24 percent distributed to LDCs at large.[20] Of the little climate finance funding that reached SIDS, an even smaller portion went to Micronesian states like Palau. The PSIDS that received the largest amount of funding per capita during that period were Polynesian states: Tuvalu, Niue, Cook Islands, and Tonga. This is attributable in large part to their wide diversity of funding sources, making their overall climate finance funding pool more resilient to short-term volatility. During the 2010-2014 period, Palau secured funding from Japan, Australia, and the GEF, while Polynesian state Samoa received funding from nine different sources.[11] While some SIDS were able to access funding through diversification, the GCF did not work to the benefit of countries like Palau that were already at a disadvantage in securing significant funding and diversifying their finance sources.

Country negotiators saw centralizing the climate finance pipeline into the GCF as a strategy to encourage more regular and generous contributions from donor countries, and increase accessibility and efficiency of receiving funds for recipient countries.[21] In operation, as evident from Palau's experience, that vision was not realized during the GCF's early years. Palau remains one of the GCF's high priority states—along with other SIDS, LDCs, and African nations—and their negative experience with the Fund suggests structural shortcomings in the legal framework of the GCF requiring potential policy or legal remedies.

GCF reforms

The GCF Board is empowered to make a variety of changes to its policies, programs and discourse that could address the issues

Palau and other states faced in accessing GCF funds. The Board occupies an "unusually powerful" and "autonomous" position under the umbrella of UNFCCC finance mechanisms.[22] Parties frame an overarching direction for the GCF, and the Board has full control of implementation. The GCF Readiness Programme aims to level the playing field for developing nations by providing capacity building and support to prepare GCF applications.[23] Samuwai & Hills (2018) suggest that in the Asia-Pacific region, the GCF Readiness Programme has a "predictable, yet small"[23] impact on the magnitude of climate finance participants later receive. Their analysis explains how climate finance decisions are determined by a myriad of political and economic factors that cannot be easily controlled. The authors suggest (and the comparative analysis above also shows) that it would be advantageous for PSIDS to deprioritize the GCF Readiness Programme and diversify to include climate finance sources that do not have expectations that applicants will engage with such programs. This recommendation would serve countries like Palau that only received a fraction of their readiness request. To address these criticisms, the GCF Board should consider conducting an in-depth review of the Readiness Programme with an outside partner to understand how it could be improved.

Perhaps the most immediate and contentious debate on structural reform to the UNFCCC's climate finance mechanism relates to loss and damage. Ohdedar et al. (2016) argues that the UNFCCC has a legal and moral imperative to push forward and operationalize the Warsaw International Mechanism for Loss and Damage (WIM).[24] Verchick (2018) contends that "the most significant commitment" in operationalizing the WIM "comes in the form of enhanced 'action and support, including finance, technology and capacity-building.'"[25] The challenges Palau and other developing nations faced in accessing climate finance can, in many ways, be attributed to the voluntary nature of climate finance.[24] Folding the WIM into the UNFCCC climate finance system could offer enormous benefits to Palau and address many of the issues Palau and others faced with the GCF.[26]

Non-UNFCCC climate finance mechanisms

Even if these political and legal reforms were implemented and the GCF began artfully delivering on its mandate, it would be strategically beneficial for Palau, PSIDS, and developing countries to continue pursuing funding options outside of the UNFCCC system. The country-driven and consensus-based approach used by the UNFCCC has benefits to mobilizing climate finance, such as accountability through normative and legal tools. But this approach also has weaknesses, such as further disenfranchising minority groups who have been historically marginalized by their governments, and are often disproportionately impacted by climate change.[27] Additionally, because of its structure, the UNFCCC cannot insulate itself from changing global political attitudes, which impact the long-term continuity and funding pool for its programs.[25] To access climate finance outside of the UNFCCC landscape, Palau could consider non-traditional bilateral channels and further engage in regional finance mechanisms.

In contrast to the GCF multilateral approach, bilateral agreements provide more flexibility and allow countries to find better synergies between funding priorities.[11] However, conducting numerous bilateral application processes and negotiations at once also puts undue burden on SIDS, and should therefore be approached with caution. Palau

and other COFA small island states thus face both an opportunity and challenge when it comes to negotiating their funding needs with a primary bilateral financial partner.[17] Given Palau's strategic location as a geopolitical nexus in the Pacific, China has eyed a COFA with Palau at different periods and has increased its influence through tourism and economic investment.[18] Palau could use this as leverage to negotiate permanent climate finance funding into their COFA with the U.S. or into a new COFA with China. This strategy does not directly translate to other Pacific states, but presents a general framework of leveraging geopolitical competition for the benefit of investment in national priorities.

Palau can also diversify its climate finance pool from UNFCCC sources by tapping into and helping to expand Pacific regional mechanisms. The Secretariat of the Pacific Regional Environment Programme (SPREP) has been successful in launching local mechanisms for capacity building, technology transfer, and resource sharing. Palau could seek climate finance funding for its energy sector through existing programs that support clean energy investment and technical assistance. Additionally, Palau could seek climate finance for technology support through other independent finance programs.

Conclusion

Reforming the GCF and broadening the international climate finance regime into a more complex system is a daunting but worthwhile task that would greatly benefit climate mitigation and adaptation in Palau, PSIDS, developing countries, and all communities on the front lines of climate change. This analysis has identified some shortcomings of the UNFCCC climate finance framework, but it has also shown that there is no clear best path forward. Bondansky (2017) traces our collective global inability to address climate change to the lack of guidance in democratic theory—the underpinning of the international law regime—on issues of global externalities.[28] The externalities of greenhouse gas emissions are acutely transboundary and irreversible, making climate change a challenging issue to solve within the UNFCCC international climate law realm. In envisioning real solutions to the wicked problem of global climate change, all tools and options should be on the table. In that vein, this assessment demonstrated some of the potential benefits of prioritizing non-UNFCCC climate finance mechanisms over the GCF and the importance of operationalizing the WIM for the benefit of long-term climate finance flows to the most vulnerable nations. Climate adjudication and litigation is beginning to emerge on both national and international scales, and could lead to a paradigm shift toward a reality of financial compensation for climate change-related damages.[28]

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