SEIZING THE MOMENT:
A NEW CLIMATE FINANCE GOAL THAT DELIVERS FOR THE PACIFIC

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Executive Summary and Recommendations

We are approaching the halfway point of the crucial decade for climate action and Pacific communities are enduring some of the world's worst climate impacts, despite contributing the least to the climate crisis. From devastating storms, droughts and floods to the existential threat of rising sea levels, global heating is threatening lives, livelihoods and cultures across the region.

The decisions we make now will determine if the world is successful in limiting global heating to 1.5°C, and the extent of the climate devastation for Pacific communities on the frontlines of the crisis.

Climate finance to low-income countries[i] is the cornerstone of effective global action on climate change. Without adequate climate finance, the gap between the costs of climate impacts for low-income countries and the availability of funding to support adaptation, mitigation and loss and damage responses will continue to grow. The real world impacts of these funding gaps are less resilient communities, rising gender inequality, spiralling debt as countries battle to recover from climate disaster after climate disaster, and the locking in of further climate damage because governments lack the means to transition their economies away from fossil fuels.

In 2009, wealthy nations, including Australia and New Zealand, committed to providing USD 100 billion annually in climate finance to low-income countries from 2020 to 2025. After missing the target in the first two years, it was met in 2022, with the help of generous accounting methods. However, since 2009, the cost of addressing climate change for low-income countries has skyrocketed - from billions to trillions per year, due to global climate inaction and rising emissions.

The United Nations Climate Change Conference (COP29) in Baku, Azerbaijan in November this year will be critical in ensuring vulnerable countries and communities have access to the climate finance they so desperately need. Governments will come together in Baku to finalise negotiations for the post-2025 climate finance goal: the New Collective Quantified Goal on Climate Finance (NCQG). Agreeing an ambitious and inclusive new target for climate finance could not be more critical for communities across the Pacific, and for the global climate ambition needed to limit global heating to 1.5°C.

This report brings together the voices, experiences and demands of civil society from across the Pacific region, including Australia and New Zealand. It has been endorsed by the Pacific Islands Climate Action Network and 55 organisations and networks across seven countries, including Australia and New Zealand. The report presents a comprehensive vision for a new climate finance goal that delivers for the most vulnerable communities, and that sets the world on track to scale up climate action, phase out fossil fuels and transition to a cleaner, greener and more just future for all.

Lessons from the first climate finance goal

The shortcomings in the delivery of the USD 100 billion goal have had dire consequences for Pacific Island nations and other low-income countries. To ensure that the NCQG rises to the challenge, governments should reflect on the lessons learned and chart a new path forward.

1. **Inadequate and delayed funding:** Climate finance contributions fell short of the USD 100 billion target for the first two years of the goal. Wealthy countries claimed to meet the target for the first time in 2022. However, 70 per cent of this finance was delivered as loans and counted at face value rather than grant equivalent,[ii] which has led to a significant overestimation of climate finance delivery.
2. **Adaptation is underfunded:** Adaptation has been chronically underfunded. If continued, the shortfall in adaptation finance will lead to a funding gap as high as USD 366 billion per year. The quality of adaptation finance has also been called into question, which is undermining efforts to address the root causes of vulnerability and foster climate resilience.

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i For the purpose of this report we use the term low-income country to refer to developing countries as defined in the United Nations Framework Convention on Climate change (UNFCCC).

ii See glossary for definition of grant equivalent reporting.

3. **Exclusion of marginalised groups:** Less than 10 per cent of climate finance reaches local initiatives, just 2.9 per cent identifies gender equality as a principal objective,[1] and only 2.4 per cent supports child-responsive activities.[2] Women also experience exclusion from climate change decision-making. More inclusive and transformative funding is needed to ensure marginalised groups are resourced to drive climate solutions in their communities.
4. **Debt spiral exacerbation:** Inadequate climate finance and the heavy reliance on loans is increasing debt distress in low-income countries and diverting funds from critical public services, which women and other marginalised groups rely on. While Australia and New Zealand have a good record of prioritising grant-based finance for the Pacific region, the low level of climate funding to the Pacific compared with needs is forcing countries to take out loans to pay for reconstruction and recovery from climate disasters.
5. **Lack of private finance accountability:** Wealthy countries have suggested that using public finance to "mobilise" private finance is key to increasing climate finance. However, private climate finance has not been mobilised at scale and the delivery of this finance remains opaque. Private finance favours mitigation projects in middle-income countries - where profits can be made - over adaptation efforts in vulnerable regions, making it less accessible for Pacific countries.
6. **Overestimation of contributions:** Current reporting practices enable the double-counting of aid funding and an overestimation of climate finance. Greater accountability is needed to ensure wealthy governments are accountable to their commitments and obligations and are not just reclassifying aid funding as climate finance.
7. **The missing billions for loss and damage:** The USD 100 billion goal did not include finance for loss and damage. Yet, global climate inaction has accelerated climate impacts, and led to escalating losses and damage, with costs estimated at upwards of USD 400 billion a year.[3] Low-income countries urgently need new and additional climate finance to rebuild and recover from loss and damage in the wake of climate disasters.

SEIZING THE MOMENT: RECOMMENDATIONS FROM CIVIL SOCIETY

For Pacific communities on the frontlines of the climate crisis, the failure of wealthy countries to meet their climate finance promises is measured in homes damaged, livelihoods lost, and rapidly rising seas. COP29 presents a critical opportunity to rebuild trust and re-imagine our collective futures. To achieve the climate action that the world so desperately needs, Australia and New Zealand and other wealthy countries should provide leadership for climate finance ambition.

Australia and New Zealand: Step up to act in solidarity

Australia and New Zealand's climate finance contributions are falling short of need. Australia's commitment to provide AUD 3 billion over 2020-2025 is well short of its estimated fair share of the USD 100 billion goal, which is AUD 4 billion per year.[4] Likewise, New Zealand's commitment of NZD 325 million annually is well below its estimated fair share of between NZD 558 million and NZD 953 million per year.[5] Both countries have redirected substantial portions of their climate finance from existing aid budgets, undermining climate and development action across the region.

To continue to build genuine and respectful partnerships across the Pacific region, and to foster trust in global negotiations, Australia and New Zealand should step up their support for global climate solutions.

The Australian Government should:

- Take immediate steps to achieve its fair share of the USD 100 billion climate finance goal, estimated at AUD 4 billion annually, and commit an initial AUD 100 million in new and additional finance to the the global Fund for Responding to Loss and Damage.
- Ensure that all climate funding is delivered in the form of grants not loans and is additional to Australia's aid obligations.

The New Zealand government should:

- Commit to providing a fair share of global climate finance, in the form of public grants and in addition to other aid funding.
- Commit new and additional finance to the global Fund for Responding to Loss and Damage.

Both countries should announce new post-2025 climate finance commitments that align with their fair share of the NCQG once it is agreed. Action to meet climate finance obligations should be matched by domestic climate ambition that is aligned with the realisation of a 1.5°C pathway, including a scaling up of emissions reduction and a rapid phase out of fossil fuels.

MAKING THE NEW CLIMATE FINANCE GOAL WORK FOR THE PACIFIC

The NCQG negotiations represent a pivotal moment to establish a climate finance framework that truly meets the needs of Pacific Island nations and other low-income countries. The NCQG is also crucial in building the international trust and cooperation needed to accelerate global climate ambition and action. As leaders in the Pacific Region, and members of the influential Umbrella Group at the UNFCCC negotiations, Australia and New Zealand have a critical role to play in delivering the ambitious climate finance goal.

To foster a cleaner, greener and more just future, Australia and New Zealand should support Pacific governments by advocating for the NCQG to reflect the following principles:

1. **The NCQG should be ambitious and respond to global need:** At least USD 1 trillion annually is required from wealthy countries to low-income countries in grant-equivalent terms. Importantly, this climate finance should be new, additional, and predictable.
2. **Public, grants-based finance should be at the core of the NCQG:** The NCQG should include a clear target for public finance and ensure that adaptation and loss and damage finance is provided via grants.
3. **Climate finance obligations should be underpinned with equity:** The NCQG should reaffirm the obligations of the wealthy and high-emitting countries in Annex II of the UNFCCC, which includes Australia and New Zealand. It should make clear that Annex II obligations are not conditional upon contributions from other countries coming up the development ladder. This does not preclude welcoming voluntary contributions from non-Annex II countries, nor working with those countries to improve transparency and reporting of the climate finance they provide.
4. **The NCQG should enshrine sub-goals for adaptation, mitigation and loss and damage finance:** The NCQG should create distinct targets for mitigation, adaptation, and loss and damage, ensuring an equitable distribution of funds and preventing double-counting.
5. **The NCQG should prioritise accessibility for vulnerable countries, local communities, women and other marginalised groups:** The NCQG should ensure funding reaches the most vulnerable countries. Minimum allocation floors for vulnerable groups and regions, alongside robust accountability measures, can ensure equitable access to and effective use of climate finance. Accessibility for women and other marginalised groups should also be supported through direct access, locally led initiatives and feminist funding modalities.
6. **The NCQG should improve, not worsen, the global South debt crisis:** The NCQG should prioritise grant-based finance to avoid worsening debt in the global South, incorporating debt sustainability assessments, debt cancellation and debt service suspension mechanisms.
7. **The NCQG should establish robust reporting, review and accountability processes:** The NCQG should adopt robust reporting and accountability processes, ensuring climate finance is accurately reported and genuinely additional.

FINDING THE MONEY: MOBILISING TRILLIONS FOR CLIMATE ACTION

New and innovative approaches are needed to mobilise the trillions of dollars that low-income countries require to respond to the climate crisis. While the costs are high, there are a range of mechanisms available to wealthy countries to generate funding for climate solutions, while also supporting the flow of finance away from fossil fuels. These include:

1. **Ending fossil fuel subsidies:** This could provide billions in additional funding for domestic climate action and international climate finance, while also fostering the urgent phase out of fossil fuels and supporting critical progress towards emissions reduction targets.
2. **Tax justice:** Implementing tax systems reform, including new climate damages taxes, wealth taxes and windfall profits taxes targeting those most responsible for the climate crisis, could mobilise billions globally and reduce national and international inequality.

Kwailau, Malaita Province, Solomon Islands: Adriana, stands in her vegetable garden. Much of her land has been rendered unable to grow potatoes after being inundated with seawater from rising tides. Oxfam acknowledges the support of the Australian Government through the Australian NGO Cooperation Program (ANCP). Photo: Collin Leafasia/Oxfam.

1. Introduction

> *"The battle for 1.5 degrees will be won or lost in the 2020s – under the watch of leaders today. All depends on the decisions those leaders take – or fail to take – especially in the next eighteen months. It's climate crunch time."*[6]
>
> – ANTÓNIO GUTERRES, SECRETARY-GENERAL OF THE UNITED NATIONS

The halfway point of the critical decade for climate action is approaching, and Pacific communities are at the dire frontline of global heating. Despite being the least responsible for the climate crisis, they are battling the daily realities of a rapidly heating planet, which is threatening lives, livelihoods, culture, security and wellbeing. More frequent and intense storms are destroying schools, homes, hospitals, and crops. Droughts, floods and biodiversity loss worsen hunger and poverty. Damage caused to marine and coastal ecosystems affect traditional food-harvesting and ways of life, harming Indigenous peoples' cultural and spiritual connections with place. Women and girls, and other groups who experience marginalisation, are disproportionally impacted, increasing inequality and undermining human rights. These escalating climate impacts are occurring against the backdrop of rising sea levels that pose an existential threat to communities, cultures and homelands across the region.

Climate finance from the international community can enable the Pacific to adapt, rebuild and recover. Yet, despite pledges and promises, international climate finance contributions remain inadequate to the scale of need. In 2009, wealthy countries, including Australia and New Zealand, committed to provide USD 100 billion in climate finance to low-income countries each year between 2020 and 2025. They have been late to deliver on this promise – achieving this target for the first time in 2022 and only with the help of generous accounting methods. Rising emissions and global climate inaction, mainly from wealthy, high-emitting countries, have also blown out the cost of addressing climate change for low-income countries – from billions to trillions per year.

The United Nations Climate Change Conference (COP29) that is taking place in Baku, Azerbaijan in November this year, marks a crucial juncture for global climate ambition, as governments finalise negotiations for the post-2025 climate finance goal: the New Collective Quantified Goal on Climate Finance (NCQG). The NCQG is being negotiated as governments also develop their new emissions reduction plans – Nationally Determined Contributions (NDCs) – for the period of 2025 to 2035. These plans are critical for limiting global heating to 1.5°C, and an ambitious climate finance goal will be a core foundation to their success.

The failure of wealthy governments to meet their climate finance obligations in the first years of the USD 100 billion goal has eroded trust and is undermining urgently needed global action on climate change. At COP28, negotiations were hampered by a disconnect between the demand to phase out fossil fuels and wealthy countries' lack of climate action, as well as the persistent shortfall in international climate funding that low-income countries need to scale up climate responses. All countries benefit from a low-emissions future, but climate finance should be firmly in focus: without access to additional resources, low-income countries face impossible choices between preparing for drought and rebuilding after disaster, or building schools, hospitals and employment opportunities.

To avoid the worst of the climate crisis, we need ambitious plans and unprecedented action. Pacific Island countries cannot be clearer in their demands for wealthy countries to scale up their climate action, and increase international climate finance, in line with the trillions of dollars needed for adaptation, mitigation and loss and damage responses. The new climate finance goal is an opportunity for Australia and New Zealand to rise to the challenge and provide the climate leadership that our world desperately needs.

THE CLIMATE FUNDING GAP IN THE PACIFIC

Pacific Island countries and communities urgently need additional funding to scale up efforts to adapt to climate change, to rebuild and recover from climate-induced disasters, and to transition their economies away from fossil fuels. But climate finance to the Pacific region continues to fall well short of need. Between 2014 and 2019, around USD 3.3 billion was committed for climate projects in the Pacific, an average of USD 550 million per year.[7] This is well short of the approximately USD 1 billion[iii] in adaptation finance that the International Monetary Fund estimates is needed annually across the region,[8] or the USD 5.2 billion needed by 2030 to implement renewable energy plans in Pacific Island countries.[9] Loss and damage from extreme climate events already cost Pacific Islands between USD 2.7 and 7 billion between 2000 and 2022[iv, 10] and is expected to grow significantly as climate impacts worsen.

Positive features of finance to the region include the prioritisation of adaptation funding, which made up 44 per cent of climate finance flows,[v] and the delivery of almost all adaptation finance through grants.[11] However, there is also a concern that climate funds are not reaching those most in need, and that data and information on the use and effectiveness of the funds is limited at the national level.[12]

Case study: Rising climate costs for Pacific Island countries - Vanuatu

Climate change means the disasters facing Vanuatu are becoming more frequent and severe. When Cyclone Pam ripped through Vanuatu in 2015, it caused at least USD 450 million in loss and damage, equivalent to an unfathomable 64 per cent of Vanuatu's GDP.[13] The international community provided USD 184 million in response and recovery funding.[14] The government and citizens of Vanuatu were left to cover the remaining USD 265 million, which amounted to approximately 38 per cent of GDP.[15] As a result, Vanuatu's debt increased from 21 per cent of GDP before Cyclone Pam to 45 per cent four years later, mainly due to reconstruction lending.[16]

In 2020, Cyclone Harold caused loss and damage to the value of 61 per cent of Vanuatu's forecast GDP, immediately resulting in a budget deficit equivalent to USD 97 million.[17] Australia provided AUD 11 million in immediate response and committed AUD 23 million in a five-year recovery package: a little over one per cent of the loss and damage incurred. In 2023, Tropical Cyclones Judy and Kevin affected 80 per cent of the population and resulted in USD 433 million in loss and damage.[18] Australia committed AUD 12.8 million towards response and recovery efforts – close to 2 per cent of the loss and damage incurred.[19]

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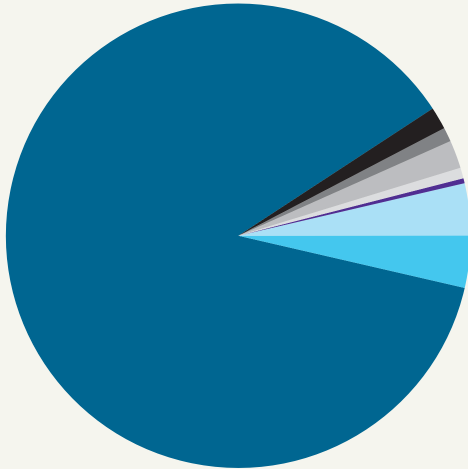
iii The IMF estimates that between 6.5 per cent and 9 per cent of GDP is needed annually for climate finance across the Pacific, which is the equivalent of approximately USD 1 billion.

iv Loss and damage from all extreme weather events in Pacific Island countries was USD 7 billion, and USD 2.7 billion for events that can be attributed to climate change. Noting that attribution is challenging and more research is needed which may increase this low number.

v 44 per cent of climate finance was directed towards adaptation initiatives, 29 per cent to mitigation initiatives and 27 per cent to cross-cutting initiatives.

Case study: Rising climate costs for Pacific Island countries - Fiji

In 2016, Cyclone Winston caused loss and damage worth USD 1.4 billion – 30 per cent of Fiji's annual GDP. Fiji only received USD 188 million from the international community, including USD 27 million from Australia, in a mixture of urgent humanitarian funding and longer-term public financing and loans. This left the government and citizens of Fiji to cover 85 per cent of the recovery costs. The World Bank estimates that almost 100 per cent of Fiji's GDP (FJD 9.3 billion, or USD 4.1 billion) is required in investments over the next 10 years to strengthen Fiji's resilience to climate change.



Fiji loss and damage from Cyclone Winston 2016: total loss and damage USD 1.4 billion

- UN Flash Appeal, USD 22
- Other funding, USD 14
- Australia bilateral funding (cash + in kind), USD 27
- New Zealand bilateral funding (cash + in kind), USD 10
- EU bilateral funding (cash + in kind), USD 5
- World Bank loan, USD 50
- ADB loan, USD 50
- Remainder of unfunded loss and damage, USD 1,203

Source: Richards, J (2018). Climate and Gender Justice. Rosa Luxemburg Stiftung. https://www.rosalux.de/en/publication14246/id/39802/climate-and-gender-justice

"Loss and Damage can have a serious consequence on our economy. Each time we are struck by a severe climate impact, it is harder and harder for us to bounce back – what happens when the impacts are so much bigger than what we can fix? What are we going to do to ensure our livelihoods are secure?"[20]

- CHARLENE HOFF, COOK ISLANDS

Members of the Women I Tok Tok Tugeta (WITTT) network coordinate food distribution in Efate, Vanuatu in the wake of Tropical Cyclones Judy and Kevin. Photo: ActionAid.

2. Lessons from the first climate finance goal

Lessons from the USD 100 billion climate finance goal must shape the NCQG. The ambition, structure and policy settings of the NCQG will be critical in ensuring the goal is fit-for-purpose, meets the needs of climate-vulnerable communities, and charts a path for the urgently needed just global transition.

LESSON 1: THE USD 100 BILLION GOAL – TOO LITTLE, TOO LATE

Wealthy countries only claimed to meet the USD 100 billion target for the first time in 2022, after falling short for the first two years of the goal.[21] However, 70 per cent of this funding was delivered as loans that must be repaid with interest. Oxfam estimates that when loans were counted as grant equivalent rather than at face value, the real value of wealthy countries' climate finance support in 2022 fell to between USD 28-35 billion – just one-third of what was promised.22 Grant equivalent reporting provides a more accurate approach to the reporting of climate finance loans and other financial instruments. It reflects the financial effort of the provider or the financial benefit to the recipient, based on the terms of the loan. This enables a differentiation between highly concessional loans with lower interest rates and non-concessional loans and other instruments that reflect market conditions and higher interest rates. Grant equivalent reporting is now standard in aid reporting, but is not mandatory for climate finance reporting.[22]

Most climate finance also comes from wealthy countries' inadequate aid budgets,[23] despite their commitment to provide finance that is "scaled up, new and additional, predictable and adequate".[24] This diverts funding from critical development activities and seriously risks further stalling progress on the Sustainable Development Goals.

Wealthy countries' failure to meet their climate finance promises undermines trust in climate change negotiations and impedes global cooperation for ambitious and just climate change action. At COP28, low-income country negotiating blocs, including the Alliance of Small Island States (AOSIS) and other low-income country negotiating blocs, supported the call for a phase-out of fossil fuels as long as it is "just and equitable" – meaning wealthy countries must take the lead, and adequate finance must be provided to support low-income countries' energy transition.

LESSON 2: THE GROWING ADAPTATION FUNDING GAP

Inclusive and community-led adaptation initiatives are critical in building effective climate resilience for communities on the frontlines of the climate crisis, yet adaptation has been consistently underfunded. Low-income countries have long called for a greater prioritisation of adaptation finance. This call was recognised in the 2021 Glasgow Climate Pact, which urged wealthy countries to double adaptation finance for low-income countries from 2019 levels by 2025.[25] In 2023, the Global Stocktake found that "adaptation finance will have to be significantly scaled up beyond the doubling".[26] Yet the shortfall in adaptation finance remains, and is leading to a growing financing gap of up to USD 366 billion per year until 2030.[vi, 27]

vi The UNEP estimates adaptation finance needs are USD 215-387 billion per year until 2030, with the adaptation financing shortfall between USD 194-366 billion per year.

Beyond the financing gap, a growing body of evidence is raising questions about the quality of some internationally supported climate adaptation projects. The failure to get climate finance to local levels or address the root causes of vulnerability has meant that some projects did not adequately build climate resilience, and in some cases even increased vulnerability through maladaptation.[28] Wider uptake of the Principles for Locally Led Adaptation,[29] which were developed in response to this problem, and clear progress on their implementation, should guide how governments deliver future climate finance.

LESSON 3: CLIMATE FINANCE NOT ADEQUATELY REACHING LOCAL COMMUNITIES, WOMEN AND OTHER MARGINALISED GROUPS

Climate change impacts are not felt equally. Women and girls, Indigenous peoples, people with disabilities, LGBTQIA+ people, and other marginalised groups are disproportionately impacted, as climate change exacerbates existing inequalities.Women and other marginalised groups also experience exclusion from climate change decision-making at all levels. This results in the design of climate responses that overlook their needs, and creates barriers to accessing climate funding.

Less than 10 per cent of global climate finance is directed at local initiatives,[30] yet locally led climate change activities complement national-level investments, delivering many adaptation activities at lower cost. These projects simultaneously build communities' adaptive capacity and generate local economic development benefits through improved livelihoods and enhanced access to basic services, such as clean energy.[31]

Further, just 2.9 per cent of climate finance identifies gender equality as a principal objective,[32] and only 2.4 per cent supports child-responsive activities.[33] Women-led and gender-responsive approaches are particularly vital in driving climate change responses that are designed to meet the needs of the most marginalised and climate-vulnerable communities. Projects that tackle the root causes of climate change and gender inequality concurrently lead to progress towards both climate and gender equality goals.[34] While small improvements have been made in climate financing focused on gender equality, inclusive and transformative funding across the board is needed in the NCQG to ensure marginalised groups can access the funding needed to drive effective climate solutions in their communities.

Case study: The impact of Tropical Cyclone Winston on women mud crab fishers in Fiji

In February 2016, Category 5 Tropical Cyclone Winston struck Fiji, causing unprecedented devastation. In Fiji's Bua Province the cyclone had profound impacts on women mud crab fishers, with one study of 68 fishers, primarily women, across 16 villages, finding that 52 per cent ceased harvesting mud crabs after the cyclone.[35] Fallen trees, debris and adverse weather in the wake of the cyclone impacted mud fishers' access to mangroves. Fishing was also deprioritised due to the need to focus on repairing homes. The few fishers who continued fishing reduced the frequency of collection trips, and the size and number of crabs caught decreased significantly.

The cyclone severely disrupted the local economy and food security. Mud crab fishers were reliant on selling their catch for income, and experienced income losses and increased financial insecurity in the wake of the cyclone. Before the cyclone, mud crabs were primarily sold to traders or consumed within households. However, after the cyclone, 65 per cent of the fishers sold crabs to local traders out of necessity, often at lower prices due to damaged infrastructure and limited market access. This shift not only reduced household food consumption but also affected nutrition, as mud crabs provided a significant source of protein.

The experience of mud fishers in the wake of Cyclone Winston underscores the critical need for targeted climate finance to enhance resilience and support recovery that can reach local communities directly, particularly women. This includes adequate and timely financial support for emergency relief and reconstruction, investment in sustainable livelihoods, and a focus on improving local infrastructure to support market access in post-disaster communities.

Gender-responsive and locally led approaches are critical in ensuring finance enables women and local communities to drive targeted responses that meet their needs, including those of the most marginalised groups.

LESSON 4: CLIMATE FINANCE LOANS ARE EXACERBATING THE GLOBAL CLIMATE DEBT SPIRAL

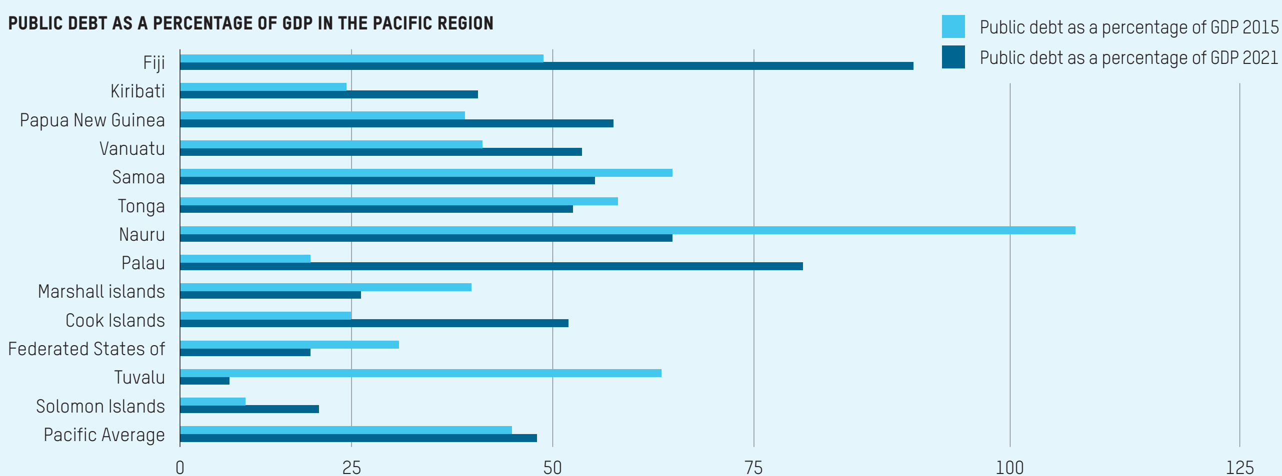
Global climate financing has relied heavily and persistently on encumbering low-income countries with debt to fight a climate crisis barely of their making. In 2022, as in previous years, two-thirds of global public climate finance was provided as (often non-concessional) loans,[36] worsening a growing and concerning debt crisis across the global South. Further, there is a considerable risk that unless the gap between the cost of the climate crisis and the delivery of climate finance is closed, climate change will fuel debt distress across the region, as countries are forced to take on more loans to pay for reconstruction and recovery from climate disasters. In the Pacific region, Kiribati, Marshall Islands, The Federated States of Micronesia, Papua New Guinea, Samoa, Tonga and Tuvalu are at high risk of debt distress, and Timor-Leste and Vanuatu are at moderate risk.[37] The average external debt of Small Island Developing States rose from 45.4 per cent between 2007 and 2009 to 58.5 per cent between 2020 and 2021.[38]

> *"High debt is rarely a problem of fiscal profligacy or poor public debt management but rather dramatically heightened exposure to external shocks, exacerbated by deficiencies in the global debt architecture."*[39]

Low-income countries' debt burdens can undermine action to tackle climate change and phase out fossil fuels. High debt repayments divert resources away from critical climate change responses. In 2021, low- and middle-income countries spent USD 372 billion on debt repayments – more than four times the amount wealthy countries provided in climate finance.[40] For lower income countries, this meant spending five times more on debt repayments than on tackling climate change.[41] The need for foreign currency to repay external debt can also compel countries to rely on export-oriented sectors that deepen the climate crisis – including fossil fuel extraction and industrial agriculture – which undermines the clean energy transition.[42]

Multilateral development banks (MDBs) are central in what is increasingly recognised as a global climate-debt spiral, due to their overwhelming use of debt-based mechanisms to deliver climate finance. In 2022, 40 per cent of total climate finance reported was attributed to MDBs, who had delivered 91 per cent of their finance as loans over the previous five years, with less than a quarter on concessional terms.[43]

Without a massive increase in climate finance and action to address the climate-debt spiral there is a significant risk that climate change could lead to a vicious cycle in which governments in low-income countries are forced to divert funding from critical public services that women and other marginalised groups are particularly reliant on. This in turn impacts on countries' capacities to prepare for and respond to future climate impacts and undermines progress towards gender equality and development goals.



Source: Adapted from Roger, S (2022) *Debt Landscape and Fiscal Management Issues in Pacific Small Island Developing States,* The United Nations Economic and Social Commission for Asia and the Pacific.

LESSON 5: THE MOBILISATION OF PRIVATE CLIMATE FINANCE IS FALLING SHORT

Wealthy governments have argued that the mobilisation of private finance investments is key to meeting climate finance needs in low-income countries and to the realisation of the USD 100 billion goal. However, in contrast to the 'billions to trillions' narrative – which suggested that billions of dollars in public finance would catalyse trillions in private investment – research from Oxfam has found that climate finance from private investors mobilised by public finance has flatlined at around USD 14 billion per year.[44] There are a range of accessibility, quality, transparency and accountability concerns associated with the delivery of private climate finance that also challenge the central role it has been given by wealthy governments.

A key limitation is that private finance is not being delivered to where it is needed most. Most private finance is invested in mitigation initiatives, which are more likely to generate profits. In contrast, adaptation and loss and damage initiatives, particularly gender-responsive and community-led initiatives, are less likely to receive private investment because they are unlikely to result in financial returns on investment.[45] Private finance also generally favours wealthier countries in the global South, because they have more developed infrastructure and institutions, while countries most vulnerable to climate change are deemed 'too risky' for investment, which skews private climate funding away from the countries that need it most.[46]

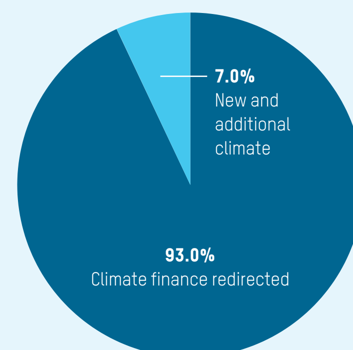
Further, poor transparency makes it difficult to verify reporting of mobilised private finance. Data is provided to the OECD confidentially, but public reporting varies across countries. Levels of detail and methods for counting are inconsistent even among the countries that do choose to publicly report private investments, and some ambiguous payments are reported as climate finance with little detail as to their climate impact, including export credits and public-private partnership funding.[47] The NCQG needs greater transparency and accountability to ensure accurate reporting of private finance mobilisation, as well as a clearer definition of what makes up climate finance and whether private climate finance should be counted.

LESSON 6: REPORTING RULES ENABLE OVERESTIMATION AND DOUBLE COUNTING OF CLIMATE FINANCE

A lack of transparent and rigorous reporting has enabled an overestimation of climate finance flows. This is in part due to relaxed and ambiguous rules, and a lack of clear definitions, which allow wealthy governments to overestimate the climate relevance of their contributions. Research by Care Denmark found that just 7 per cent of wealthy countries' climate finance between 2011 and 2020 was provided on top of governments' obligation under the Sustainable Development Goals (SDGs) to provide 0.7 per cent of their Gross National Income (GNI) in international aid.[48] This is particularly concerning in the context of a rising SDG funding gap, which reached USD 4 trillion in 2023; an increase from USD 2.5 trillion in 2015.[49] While improving climate change considerations in development programming is an important endeavour, more transparent reporting is required to determine if new and additional climate finance has been provided to address climate risks, or if it is merely a reclassification of existing aid spending.

Greater accountability is also needed to ensure climate finance reporting is accurate and contributor governments are accountable to their commitments and obligations. Under the Rio Marker reporting system, projects can be reported as climate finance if they are either principally or significantly focused on climate change. For projects with a principal climate focus, the whole project budget is reported against climate finance targets. For projects with a significant focus on climate change, most contributor countries apply a fixed percentage (generally between 40-50 per cent) to determine how much of the overall project budget is counted as climate finance. Several reviews of Rio Marker coding have questioned the accuracy of reporting across projects tagged as having either a principal or significant focus on climate change.[50] Reporting of projects with a significant focus on climate change has raised particular alarm, with the climate focus of projects often difficult to identify or to justify.[51] The NCQG should ensure accurate reporting that reflects the amount of support being provided.

NEW AND ADDITIONAL CLIMATE FINANCE, 2011-2020



Source: Adapted from Hattle, A (2023) *Seeing Double: Decoding the 'Additionality' of climate finance, Care Denmark.*

LESSON 7: LOSS AND DAMAGE WAS MISSING FROM THE USD 100 BILLION GOAL

The USD 100 billion climate finance goal was designed to address mitigation and adaptation financing needs in low-income countries. However, as mitigation efforts have fallen short, particularly in wealthy countries, and many low-income countries are reaching their adaptation limits, climate-induced loss and damage has arisen as a key issue for climate vulnerable countries, with women and other marginalised communities disproportionately impacted.

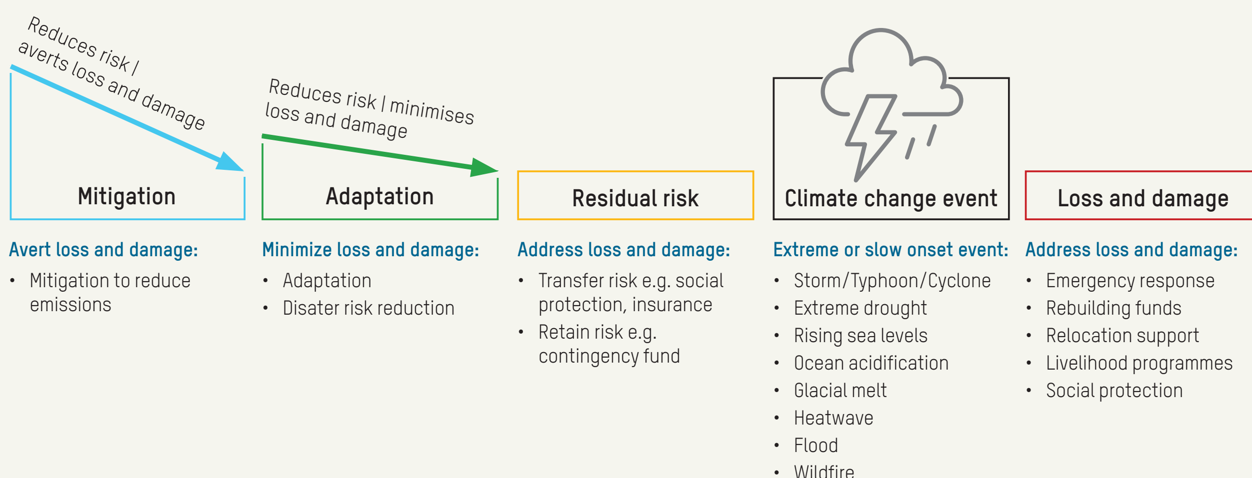
Pacific Island countries have been leading the call for additional finance to respond to climate-induced losses and damage for decades, and Article 8 of the Paris Agreement highlighted the importance of averting, minimising and addressing loss and damage.[52] However, wealthy countries have consistently pushed back against providing funding at scale for loss and damage and are still arguing that loss and damage should not be included in the new post-2025 climate finance goal.

The landmark decision to establish a global Fund for Responding to Loss and Damage at COP27 in 2022 shifted the dial on loss and damage financing. Progress towards operationalising the Fund was made at COP28 in 2023, with a request to wealthy countries to take the lead in providing funding.[53] There is as yet no plan to ensure the Fund has adequate resources, nor is there any agreement of the scale needed. Estimates suggest that loss and damage need is at least USD 400 billion per year, which will only grow if ambitious action is not taken to keep global heating to 1.5°C.[54] Pacific governments and other low-income countries have called for a minimum of USD 100 billion a year to be channelled through the Fund.[55] Unless loss and damage is incorporated into the NCQG and wealthy countries can count loss and damage finance delivered through the Fund and bilaterally towards their climate finance obligations, it is difficult to see how reliable loss and damage funding will be achieved at the scale needed.

Explanatory box: What is climate-induced loss and damage?

Loss and damage includes the loss of life, and loss or damage to livelihoods, cultural heritage, Indigenous knowledge, biodiversity, homes and land caused by climate-induced disasters, such as cyclones, floods and bushfires, drought, sea level rise, acidification of the ocean and desertification. Loss and damage can be economic, including costs such as infrastructure and homes, and non-economic, including loss of lives, culture and damage to education during disasters.

Loss and damage can be seen in the context of mitigation, adaptation, disaster risk reduction and humanitarian programs as demonstrated in the following graphic:



Source: Richards (2022) in UNEP Adaptation Gap Report 2023. Underfinanced. Underprepared. https://www.unep.org/resources/adaptation-gap-report-2023

3. How does Australia and New Zealand's climate finance stack up?

AUSTRALIA

Australia's climate finance commitment increased from AUD 2 to AUD 3 billion over the five-year period of 2020-2025. However, this continues to fall well short of its fair share of the USD 100 billion per year climate finance target for 2020-2025, which is estimated at AUD 4 billion annually.[56] The Climate Action Tracker has assessed Australia's climate finance contributions as critically insufficient.[57] In 2022-2023, Australia's total climate finance was just AUD 619 million,[58] around 15 per cent of its fair share. Further, while the Australian Government supported the establishment of the new global Fund for Responding to Loss and Damage at COP27 in 2022, it has yet to join the other wealthy countries and make a contribution towards the Fund.[vii,59]

A positive feature of Australia's climate finance has been the prioritisation of public, grant-based finance. However, there has been a concerning upward trend in climate finance with terms not generous enough in concessionality to be counted as aid, including some loans and private finance mobilised, which are currently 15 per cent of Australia's reported climate finance.[60]

Positively, Australia has been a consistent supporter of adaptation funding. In 2022-2023, Australia allocated 62 per cent of its climate finance towards adaptation, and in nominal terms its adaptation funding has more than doubled since 2019, in line with the 2021 Glasgow Climate Pact.[61] However, the quantum still falls short of Australia's fair share. A doubling of adaptation finance by 2025 would mean a target of USD 40 billion, of which Australia's fair share is AUD 1.7 billion (USD 1.3 billion)[62] – more than four times the approximately AUD 300 million provided in 2022-2023.[63]

Australia is the biggest climate finance contributor in the Pacific – delivering at least AUD 655 million to the region over 2020-2022, at least 42 per cent of Australia's climate finance. However, the shortfall in Australia's overall climate finance and redirection of aid to fund climate initiatives means the amount of climate finance, and aid for wider development projects, provided by Australia remains vastly inadequate.

The number of Australian-funded investments with a focus on climate change is increasing, but without commensurate increases to the aid budget or new climate finance budget measures. This raises concerns around double-counting of aid funding, as well as the redirection of funding from critical development programs towards climate change. This reallocation of spending does not benefit Pacific countries and communities, which require access to both enhanced aid and climate finance.

Between 2020 and 2022, of Australia's bilateral and regional climate finance to the Pacific region, only 4.6 per cent of investments had a "principal" focus on climate change. The majority of investments had only a "significant" focus on climate change (95.4 per cent).[64] Since 2012, the proportion of funding that Australia provides for projects with a principal focus on climate change has declined steadily.[65] Principal climate funding is critical to support transformative climate change responses that are aligned with the realisation of the goals of the Paris Agreement.

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vii Countries to make a commitment to the Fund for Responding to Loss and Damage include: Italy and France, 100 million Euro, Germany and the United Arab Emirates: 100 million USD, the United Kingdom 40 million GBP, and nine other countries plus the EU Commission.

Explanatory box: Australia's aid funding fuelling the climate crisis

In 2020, 19 per cent of Australia's aid funding was directed to Multilateral Development Banks (MDBs), including the World Bank, Asian Development Bank and Asian Infrastructure Investment Bank. Between 2016 and 2021, these MDBs together provided over USD 23.84 billion to fossil fuel development projects, which will exacerbate the climate crisis.[66]

Based on Australia's shareholdings in each MDB, Australia's 'share' of this fossil fuel financing would represent USD 601 million (AUD 828 million) over the same period.[67]

Australia signed the Clean Energy Transition Partnership at COP28 in 2023, and committed to aligning its international public funding towards the clean energy transition and the realisation of the Paris Agreement goals.[68] This means Australia should exert its influence within the MDBs to ensure that Australia's aid funding is not being directed at fossil fuel projects that are undermining climate action and worsening climate impacts for the most vulnerable communities.

NEW ZEALAND

In 2021, New Zealand increased its climate finance commitment to NZD 325 million per year, a four-fold increase on previous commitments. Oxfam Aotearoa estimated at the time that the increased contribution was at the low end of New Zealand's climate finance fair share.[69] However, the lower end of the range for New Zealand's fair share (NZD 301.5 million) was estimated using cumulative CO2 emissions data that excluded methane and nitrous oxide. These greenhouse gases make up a significant proportion of New Zealand's emissions, largely due to the scale of dairy farming. As a result, the figure used to set the lower end of the range was likely to underestimate New Zealand's fair share.

Even more significantly, Oxfam's 2021 analysis conservatively assumed that public finance would only need to make up two thirds of the global goal. Therefore, New Zealand's fair share of climate finance was calculated as a share of USD 67 billion of global public funding assumed needed. This was in line with OECD recommendations at the time, but is no longer safe to assume, as private finance has not been mobilised at the scale that was projected.

An updated analysis by Oxfam Aotearoa and World Vision New Zealand addresses these issues, finding that New Zealand's fair share is between 0.38 per cent and 0.66 per cent of the global goal, including emissions from all greenhouse gases and land-use change. For the current global goal of USD 100 billion (NZD 146 billion), this is between NZD 558 million and NZD 953 million.[70]

Of the NZD 1.3 billion in climate finance committed to the end of 2025, NZD 500 million, or 38 per cent, was redirected from existing aid funding. New Zealand should provide further increases to climate finance without redirecting funds from development aid.

In 2022, New Zealand committed NZD 20 million to address loss and damage in developing countries, prioritising the Pacific. However, this contribution diverted funds from the country's existing NZD 1.3 billion climate finance commitment, rather than being additional funds.[71]

All of New Zealand's climate finance is provided as publicly funded grants, with at least 50 per cent allocated to adaptation and at least 50 per cent delivered to the Pacific region. The expansion of New Zealand's climate finance program is being delivered through a Climate Finance Strategy which states commitments to equity, inclusion and partner-led sustainable development.[72] These aspects of New Zealand's approach to climate finance are in line with international best practice and should be continued, as the size of the commitment is scaled up over time.

In 2022-2023,In 2022-23, New Zealand allocated NZD 455 million in total climate finance, partially catching up on an underspend in previous years. Of this, 54 per cent had a principal objective of adaptation, and 41 per cent was marked as significant to adaptation.[73] This is an aggregate figure for all climate-relevant finance and does not distinguish between a principal or significant focus on climate change. New Zealand's official climate finance spend reported to the UNFCCC will be lower because the climate finance component of significant funding is typically reported at 30 per cent of the total activity value.

The New Zealand Government has budgeted to provide climate finance until the end of 2025, but has not yet made any decisions regarding extending this allocation.[74] The New Zealand Government should make further commitments to provide climate finance from 2025. This will require increasing New Zealand's contributions to provide a fair share of the NCQG, including to respond to loss and damage, without diverting funds from its already severely stretched aid budget.

4. Seizing the moment

The next five years are critical for Pacific Island countries on the frontlines of the climate crisis. How we respond to climate change in our region and globally will have direct consequences for communities battling cyclone after cyclone in Vanuatu and Fiji, or rising sea levels in Kiribati and Tuvalu. Pacific Island countries and communities have a strong history as global climate leaders, including as a critical voice for ambitious international climate finance and loss and damage funding. Pacific governments and other Small Island States have taken a lead in NCQG negotiations by presenting a comprehensive vision for an NCQG that responds to the needs of the world's most climate-vulnerable countries as well as fostering the global ambition needed to keep global heating to 1.5°C.[75]

Australia, New Zealand and other wealthy countries should seize the opportunity presented by the NCQG to deliver a massive increase in climate finance. This means urgently delivering on climate finance fair shares for the USD 100 billion goal and agreeing an ambitious, needs-based and inclusive post-2025 climate finance goal at COP29. Business-as-usual approaches cannot solve the biggest challenge facing our region; the world needs urgent climate ambition enabled by a rapid increase in finance.

DELIVERING CLIMATE FINANCE FAIR SHARES

Australia and New Zealand's climate finance contributions are falling short of need for Pacific Island nations and other low-income countries. To continue to build genuine and respectful partnerships across the Pacific region, Australia and New Zealand should step up their support for global climate solutions.

Australia

The Australian Government should:

- Take immediate steps to achieve its fair share of the USD 100 billion climate finance goal, estimated at AUD 4 billion annually.
- Commit an initial AUD 100 million in new and additional finance to the global Fund for Responding to Loss and Damage. This should be additional to funding that is being directed to the Pacific Resilience Facility.
- Ensure that all climate funding is delivered in the form of grants not loans and is additional to Australia's aid obligations.
- Announce a new post-2025 climate finance commitment that aligns with its fair share of the NCQG once it is agreed.

New Zealand

The New Zealand Government should:

- Commit to providing a fair share of global climate finance, in the form of public grants and in addition to other aid funding.[76]
- Commit new and additional finance to the global Fund for Responding to Loss and Damage.
- Announce a new post-2025 climate finance commitment that aligns with its fair share of the NCQG once it is agreed.

Action to meet climate finance obligations should be matched by domestic climate action to scale-up emissions reduction and foster a rapid phase out of fossil fuels.

MAKING THE NCQG WORK FOR THE PACIFIC

The post-2025 climate finance goal must support low-income countries to scale up climate change responses in line with escalating needs, enable just global transitions, and ensure the fair, fast and funded phase-out of fossil fuels that is so critical for a 1.5°C future. Pacific governments, including Australia and New Zealand, should provide leadership in NCQG negotiations to ensure an ambitious, inclusive and effective NCQG.

Australia and New Zealand are both members of the influential Umbrella Group[77] at UNFCCC negotiations, and Australia chairs the group. Other members of the Umbrella Group include massive economies and fossil fuel producers like the USA, Canada, UK, Norway, and Japan. The positions and proposals that Australia and New Zealand bring to the Umbrella

Group and to the wider NCQG negotiations could have a significant influence over the direction of the discussions and can set the agenda on the level of ambition that wealthy countries should be aspiring to.

By leading on the delivery of an ambitious climate finance goal, Australia and New Zealand can ensure a safer, more secure and prosperous future for the Pacific region and the world. To foster a cleaner, greener and more just future, the NCQG should reflect the following seven principles:

Principle 1. The NCQG should be ambitious and respond to global need

A Pacific perspective on NCQG ambition

- The NCQG should reaffirm governments' commitment to accelerate climate action in line with the best available science. This includes a just transition away from fossil fuels and rapid emissions reductions.
- A minimum of USD 1 trillion in grant-equivalent terms should be provided annually through the NCQG. Climate finance should be new, additional, and predictable.

The NCQG must be ambitious and shaped by the evolving needs of low-income countries, climate-vulnerable communities, and science. Pacific Island countries and other Small Island States, African countries and India[78] have called for a massive expansion in climate finance in line with escalating climate costs. There is no doubt that wealthy, high-emitting countries owe a huge climate debt to the low-income countries that have contributed little to global emissions, but are on the frontlines of the climate crisis. Climate justice organisations have estimated this debt to be USD 5 trillion per year.[79] This moral indebtedness necessitates urgent leadership across all areas of climate action.

Current estimates of climate finance needs in low-income countries for mitigation, adaptation and loss and damage exceed USD 1 trillion per year. This number is likely an under-estimate and may increase as more detailed and updated information comes to hand, including the needs assessment report due in the second half of 2024. Cost estimates are underpinned by the following elements:

- The Intergovernmental Panel on Climate Change (IPCC) has assessed that mitigation expenditure needed in low- and middle-income countries in 2°C warming scenarios will be between USD 1.4 to USD 2.8 trillion per year, mostly for the energy transition.[80] In order to limit warming to 1.5°C, significantly higher levels of climate finance will be needed. The cost of inaction is even higher.
- The UN Environment Program (UNEP) estimates that low-income countries will need between USD 215 and 387 billion in adaptation finance per year in this decade.[81]
- The NCQG should also respond to the ever-increasing sums necessary for loss and damage resulting from failed and/or delayed financial support for mitigation and adaptation actions. Estimates for loss and damage finance needs in low-income countries are at least USD 400 billion per year.[82]

To meet funding needs, the NCQG should provide a minimum baseline of USD 1 trillion in grants and grant-equivalent finance. Further, wealthy countries should stop redirecting aid funding towards climate finance. Instead, the NCQG should clearly specify that climate finance will be provided as new and additional financial resources to countries' aid obligations. Robust accountability mechanisms are also needed to address double-counting of aid as climate finance. Further, the unpredictability of the climate crisis makes it critical that the NCQG reflects the evolving financial needs of low-income countries, and establishes a mechanism for regular review and enhancement,linked with the Global Stocktake.

An ambitious post-2025 climate finance goal should:

- Provide a minimum baseline of USD 1 trillion in grants and grant equivalent finance, in line with low-income countries' funding needs for adaptation, mitigation and loss and damage.
- Ensure climate finance is new and additional to aid obligations.
- Be adaptive to the changing needs of low-income countries, by establishing a mechanism for regular review and enhancement of climate finance to ensure the target remains sufficient over the life of the goal.

Kwailau Village, Malaita Province, Solomon Islands: Susan who makes her living from producing shell money (a form of traditional currency still in use for ceremonies and disputes), pictured on the walls she constructed to stop the high tides flowing onto her property. Oxfam acknowledges the support of the Australian Government through the Australian NGO Cooperation Program (ANCP). Photo: Collin Leafasia/Oxfam.

Principle 2. Public, grants-based finance should be at the core of the NCQG

A Pacific perspective on prioritising grant-based finance

- Climate finance should be in the form of grants, concessional loans, or justice-aligned instruments that create fiscal space for low-income countries.
- Climate finance transactions should not contribute to the expansion and continuation of the production of fossil fuels.

Public finance is essential in ensuring the NCQG responds to the needs of climate-vulnerable and low-income countries and affected communities.[83] While private finance has a role to play for mitigation in middle-income countries, public grants-based finance is particularly important to support adaptation and loss and damage responses, for which loans and private finance are not appropriate. It is also necessary to meet the polluter-pays and common but differentiated responsibilities and respective capabilities principles. As such, the NCQG should include specific targets for public finance, including grants and the grant-based equivalent of highly concessional loans. The NCQG should also specify that grants are the only form of finance appropriate for adaptation and loss and damage, and that SIDS and LDCs will also require grants for mitigation. Strong common definitions of climate finance should be developed in the NCQG for both the public and private finance targets. The innovative sources of finance that could be relevant in mobilising public finance are outlined in section 5.

"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 [to] 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

Public, grant-based finance should be centred and scaled in the NCQG by:

- Establishing specific targets for the provision of public finance, prioritising grants and then the grant-based equivalent of highly concessional loans, and the mobilisation of private finance.
- Agreeing strong definitions of public finance and mobilised private finance to guide the delivery and reporting of finance across both targets.
- Ensuring public, grant-based climate finance is prioritised for adaptation and loss and damage initiatives in climate-vulnerable countries, particularly for LDCs, SIDS and marginalised communities.
- Supporting the use of innovative finance sources to boost climate finance, including diverting fossil fuel subsidies and implementing tax measures, in line with the polluter-pays principle, common but differentiated responsibilities and respective capabilities (CBDR-RC), and Article 2.1.c of the Paris Agreement.

Principle 3. Climate finance obligations should be underpinned with equity

A Pacific perspective on the NCQG contributor base

- The NCQG should be underpinned by the principle of common but differentiated responsibilities and respective capabilities (CBDR-RC).
- There should be fair, just, and equitable burden sharing among wealthy countries for achieving the NCQG based on their share of historical emissions of greenhouse gases.

The question of who is obligated to provide climate finance is one of the most contentious issues in NCQG negotiations. There have been global shifts in wealth and emission levels since the establishment of the United Nations Framework Convention on Climate Change (UNFCCC) in 1992, and these have been raised to justify the expansion of the contributor base for climate finance beyond the wealthy countries that were originally obligated to provide climate finance, as listed in Annex II of the UNFCCC.[84]

While these calls may seem reasonable, independent studies on climate finance fair shares and burden-sharing approaches have concluded that the historic Annex II contributor base continues to be responsible for the great majority of climate finance owed to low-income countries – due to their consistently high income and high per capita pollution levels.[85]

When considering all non-Annex II countries, some research suggests that countries including Singapore, Israel, Brunei, and Kuwait would now come into scope to provide climate finance based on their ability to pay and historic responsibility for climate change.[86] China would not yet be obligated to contribute, as its per capita income and emissions from 1990 to 2018 are low, although its current emissions pathway would see it appear in scope in coming years.[87]

Many countries that are not obligated to pay climate finance are already providing significant contributions. In absolute terms, China was the eleventh largest climate finance provider in 2020 and volunteered more in climate finance than Norway, Switzerland, Australia or New Zealand, who are all obligated by the UNFCCC to pay climate finance.[viii,88] South Korea, India, Brazil and Russia are also in the top 20 providers of climate finance globally.[89] However, these contributions are not being reported with the same transparency as Annex II countries.

In this context, it may make sense to establish separate processes for a dialogue on the voluntary provision of climate finance and reporting requirements for non-Annex II countries. This could happen as part of the Sharm-el-Sheikh Dialogue which is due to make progress on 2.1c, ensuring the overall financial architecture and flows support the transition to a low emission economy (see explanatory box). However, this dialogue should take place after COP29

viii China provided USD 1.2 billion via multilateral channels in 2020 and likely more bilaterally.

as it is not realistic to expect these matters to be fully resolved in 2024, and there is considerable concern that this issue is distracting from the responsibility of historically high polluting and wealthy countries to provide scaled up finance, as well as stifling the overall negotiations.[90]

Low-income countries – who have been the champions of ambition on the NCQG – are united through the G77[ix] that the NCQG is to be delivered by Annex II wealthy countries to low-income countries in line with the principle of common but differentiated responsibilities and respective capabilities (CBDR-RC) enshrined within the UNFCCC.[91]

To ensure governments are successful in agreeing the NCQG at COP29, and delivering the climate finance that is essential for accelerating climate ambition, the NCQG should reconfirm the responsibility of Annex II countries to provide climate finance to low-income countries "in continuation of their existing obligations under the Convention".[x] This does not preclude non-Annex II countries from continuing to make voluntary financial contributions, but acknowledges the historic and ongoing responsibility Annex II countries have for climate change and their significant economic capacity to respond. Wealthy countries doing the right thing and delivering adequate climate finance should not be dependent upon non-Annex II countries also providing finance.

The principle of CBDR-RC should be maintained in the NCQG by:

- Reaffirming the climate finance obligations of wealthy and high-emitting countries included in Annex II of the UNFCCC.
- Welcoming voluntary contributions from non-Annex II countries.
- Ensuring any dialogue on contributor base issues is moved to a separate process outside of the NCQG and to be held after COP29.

Explanatory box: Mandates for the NCQG and 2.1.c

The foundational mandate for the NCQG is Article 9.3 of the Paris Agreement which agreed that developed countries would continue the existing USD 100 billion collective mobilisation goal through to 2025, and "set a new collective quantified goal from a floor of USD 100 billion per year, taking into account the needs and priorities of developing countries."[92]

Separately, the Paris Agreement also agreed to "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" (Article 2.1.c).[93]

These two elements are clearly intentionally separate within the Paris Agreement. Article 9.3 is specifically designed to replace the USD 100 billion goal with a global North to global South climate finance flow. However, the wealthy, historically high polluting countries like Australia and New Zealand have sought to conflate the two and have variously argued that 2.1.c should be used within the NCQG to: expand the contributor base for the NCQG; and, that the NCQG should focus on finance from the private sector.[94] This has had the effect of slowing progress on the NCQG, which is putting at risk the wider climate talks and hence the international community's efforts to address climate change.[95]

Article 2.1.c, "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development", is an important guiding principle with many possible operational elements. The Climate Action Network International has identified seven principles for financial system transformation[96] that each deserve inclusion in deliberations on Article 2.1.c.

While the NCQG is an element of this financial system transformation, by assuring a framework for predictable transfer of public climate finance to the global South from the global North, the place to take 2.1.c forward is the work program in the Sharm el-Sheikh Dialogue, which has been established for this purpose. Trying to force the NCQG and 2.1.c together risks undermining progress on the NCQG, and could impact wider climate talks.

ix G77 is the Group of 77 and China - the main negotiating group for low and middle-income countries in the UNFCCC. It has 134 member countries.

x The Convention has laid out that the Parties need to take climate actions, including on finance, on "the basis of equity and in accordance with their common but differentiated responsibilities and respective capabilities" (Art. 3.1) and articulated the requirement for "adequacy and predictability in the flow of funds and the importance of appropriate burden sharing among the developed country Parties" (Art. 4.3).

Children in canoes playing near the shore in Guadalcanal, Solomon Islands. The impact of climate change is already a reality, and children are incredibly vulnerable to its effects. Image: Plan International.

Principle 4. The NCQG should enshrine sub-goals for adaptation, mitigation and loss and damage finance

A Pacific perspective on NCQG sub-goals

- A critical element of the NCQG is the inclusion of loss and damage, alongside mitigation and adaptation as separate sub-goals. There should be equal distribution of finance across all sub-goals and funding for loss and damage should be primarily public and grant-based.
- Existing global climate mechanisms should be prioritised, including the Pacific Resilience Fund, Adaptation Fund, Least Developed Countries Fund, Special Climate Change Fund, and the Fund for Responding to Loss and Damage.

The Paris Agreement recognises mitigation, adaptation, and loss and damage as the key thematic areas for climate action. The NCQG should ensure that finance is delivered accordingly.

The NCQG should establish sub-goals for mitigation, adaptation, and loss and damage finance. This will formalise loss and damage as the third pillar of finance and ensure an equitable allocation across all three pillars. It is critical that loss and damage finance is included in the NCQG to ensure the climate finance target upholds its mandate to take "into account the needs and priorities of developing countries" and "to strengthen the global response to the threat of climate change in the context of sustainable development and efforts to eradicate poverty".[97]

The NCQG should include a clear accountability and reporting framework to prevent double-counting across the sub-goals. The sub-goals should not preclude Annex II countries from prioritising finance for certain thematic issues in line with partner countries' climate change goals. However, the NCQG should include a review process that tracks funding across the three thematic areas and supports its realignment should imbalances occur.

Australia and New Zealand can use their track record of prioritising adaptation finance to champion a major global adaptation financing increase, which is critical for frontline communities, particularly women and other marginalised groups.

Finance should be delivered equitably across adaptation, mitigation and loss and damage, by:

- Establishing sub-goals for adaptation, mitigation and loss and damage, with an equitable distribution of finance across each pillar.
- Including an accountability and reporting framework to prevent double-counting and to ensure the delivery of sufficient public finance for adaptation and loss and damage needs.
- Noting that Annex II countries require flexibility to prioritise funding for certain thematic issues in line with partner governments' climate change plans, establishing a review process to track and realign funding if imbalances arise.

Principle 5. The NCQG should prioritise accessibility for vulnerable countries, local communities, women and other marginalised groups

A Pacific perspective on accessibility

- Minimum allocation floors for Small Island Developing States (SIDs) and Least Developed Countries (LDCs) are paramount, particularly in relation to adaptation and loss and damage responses.
- Direct access for national and regional institutions, including local NGOs and community-based organisations should be prioritised.

How climate finance is delivered is just as important as *how much*. The NCQG is an opportunity to improve the climate finance landscape so that it centres human-rights based, locally led and gender-responsive climate finance, and upholds the United Nations Declaration on the Rights of Indigenous Peoples. A significant limitation of the climate finance architecture to date has been the inaccessibility of finance for highly climate-vulnerable countries, including across the Pacific region, as well as communities on the frontlines of the climate crisis, particularly women and other marginalised groups.[98] The NCGQ is an opportunity to address this challenge.

Minimum allocation floors for vulnerable groups should be established to ensure the Pacific islands and other highly climate-vulnerable countries – including SIDS and LDCs – receive their fair share of climate funding.

The NCQG should also be consistent with governments' existing human rights commitments and obligations, including commitments stipulated in the preamble of the Paris Agreement, such as "the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity."[99]

To realise this, *the NCQG should ensure frontline communities, particularly women and other marginalised groups, have voice and agency in climate finance decision-making at all levels*. Clear accountability measures should also be established to ensure that climate finance supports and advances human rights. These measures should directly benefit people and communities in a way that acknowledges and seeks to redress persistent and intersecting inequalities and discrimination.

The NCQG should also commit to provide 25 per cent of funding to locally led initiatives, in line with governments' Grand Bargain commitment and the principles for locally led adaptation.[100] Prioritising direct access funding modalities will enable greater access to climate finance for marginalised and disproportionately impacted groups, including Indigenous peoples, women, children and youth, and people with disabilities.

The NCQG should also integrate feminist funding models that prioritise accessible, flexible, core and multi-year grant funding, to address inequalities in global financing. Age, disability and sex-disaggregated indicators should also be included, alongside a gender-responsive child rights marker to track the proportion of finance that is child-responsive. To operationalise gender- and child-responsive and disability-inclusive finance, the NCQG should provide practical guidelines to the Green Climate Fund, Adaptation Fund, the Global Environment Facility, the Fund for responding to Loss and Damage, and multilateral banks.[xi]

The NCQG should ensure accessibility to vulnerable countries and communities, including by:

- *Ensuring the NCQG is underpinned by the principles of human rights and equity and fosters the participation of women and other marginalised groups in climate finance decision-making at all levels.*
- Implementing funding floors to support a regional balance in the delivery of climate funding and to ensure funding flows to vulnerable and capacity-constrained countries such as the LDCs and SIDS.
- Including age, disability and sex-disaggregated indicators, and a gender-responsive child rights marker, to track the proportion of funding directed to child-responsive outcomes.

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xi The guidelines should include gender-and-child responsive, and disability inclusive policies, indicators, reporting requirements, safeguards, and the need for child, gender and disability rights impact assessments.

- Committing to provide gender- and child-responsive and disability-inclusive climate finance, including a commitment of 25 per cent of climate finance delivered to locally led initiatives, including through direct access and feminist funding modalities.

Case study: The Shifting the Power Coalition

The Shifting the Power Coalition is a regional alliance focused on strengthening the collective power, influence and leadership of Pacific women in responding to disasters and climate change. The Coalition is made up of 12 women-led organisations and the Pacific Disability Forum, and is supported by ActionAid Australia.

By elevating the voice and agency of diverse Pacific women in decision-making processes, the Coalition has enabled women to shape disaster preparedness, response and recovery, as well as influencing climate change and disaster policy. The Emergency Response Grants enable Coalition members to quickly access funding in times of crisis so they can drive response and recovery efforts that meet the needs and priorities of diverse women and girls.

The Coalition also convenes the Pacific Island Feminist Alliance for Climate Justice, which brings together feminist civil society organisations and activists to respond the unique impacts of climate change on women, girls and LGBTQIA+ peoples in the Pacific. The Alliance's grant-making approach shows that feminist funding models that provide multi-year, longer-term funding, alongside well-coordinated rapid response funding windows, can enable feminist groups to drive effective climate action.[101]

Principle 6. The NCQG should improve, and not worsen, the global South debt crisis

A Pacific perspective on the climate-debt spiral:

- Public, grant-based climate finance should be prioritised.
- Climate finance that is provided or mobilised as loans and other debt instruments should meet the minimum level for concessional financial terms and conditions that are well below prevailing market terms and conditions.
- The NCQG should respond to the impact that the high cost of capital and high transition costs has on climate responses in SIDS and LDCs by creating fiscal space through mechanisms like debt relief and local currency lending as well as supporting wider reform of the international financial architecture.

The NCQG should actively address the link between the climate crisis and the escalating global South debt crisis, by prioritising grant-based climate finance in line with the scale of need. A significant proportion of wealthy countries' climate finance is currently delivered as loans, including through the MDBs, which in 2020 provided 91 per cent of their financial support in the form of loans. This has contributed to a growing global South debt crisis – with over 60 climate-vulnerable countries in or at risk of debt distress.

Consideration should be given within the NCQG to reduce the debt risks arising from climate finance delivered through loans, including by the MDBs. This should include the use of equitable debt sustainability assessments (DSAs) to determine the level of concessionality that should be applied to loans and an automatic debt service suspension mechanism should be included in future multilateral, bilateral, financial intermediary and private loans. MDBs and International Financial Institutions (IFIs) could also channel climate finance through existing, dedicated Climate Funds, including the Green Climate Fund, which typically have more favourable financial terms and greater eligibility of access to funds.[xii] Unconditional debt cancellation should also be ensured for all countries that need it, across all creditors (bilateral, multilateral and private).

xii For example, the Green Climate Fund, which typically has more favourable financial terms and greater eligibility of access to funds than MBD loans.

The NCQG should respond to the climate-debt spiral, including by:

- Prioritising grant-based finance and other financing options that do not generate debt.
- Where concessional finance is used, it should be reported as its grant equivalent.
- Incorporating equitable debt sustainability assessments and automatic debt service suspension mechanisms into all multilateral, bilateral, financial intermediary and private loans.
- Ensuring all climate finance contributors follow responsible borrowing and lending principles.

Principle 7. The NCQG should establish robust reporting, review and accountability processes

A Pacific perspective on enhanced transparency:

- Wealthy countries should provide annual progress reports and intermediate updates on financial support, ensuring that climate finance is not double-counted and is additional to aid contributions. This should include disaggregated data on finance accessed and the types of instruments used.
- The NCQG should be dynamic, with mid-term and end-of-goal reviews to adjust the quantum of finance based on evolving needs and priorities.

Weak transparency and reporting requirements have undermined accountability in relation to wealthy governments' climate finance obligations and are eroding trust among low-income countries. The NCQG should ensure reporting and accountability processes are fit for purpose and uphold the integrity of the climate finance system, including the obligations of wealthy countries to provide new and additional climate finance in line with low-income countries' needs.

The NCQG should establish a sound and common definition for what is counted as climate finance, and reassert the requirement for climate finance to be new and additional to governments' aid obligations. Transparency in reporting climate finance is essential as it ensures accountability, builds trust, and allows for better planning and decision-making. In practice, improved transparency involves countries, including Australia and New Zealand, reporting full project lists with comprehensive funding details for each project, including the share of climate finance reaching local actors. This supports greater government accountability and more effective action against climate change. The NCQG should also establish a review process, aligned with the Global Stocktake, that tracks and realigns funding across the three thematic areas and responds to increases in low-income countries' funding needs.

The NCQG should enhance climate finance transparency and accountability by:

- Mandating the reporting of:
  - Full project lists with comprehensive information about each project.
  - Details about funding additionality and the grant equivalents of climate finance disbursed (including the terms of any non-grant instruments).
  - The share of climate finance which reaches local actors.
- Establishing a review process, aligned to the Global Stocktake, to enable climate finance target adjustments in accordance with low-income countries' needs.
- The review process should also track funding across thematic areas, and support the realignment of funding across mitigation, adaptation, and loss and damage should an imbalance in funding occur.

5. Finding the money for global climate solutions

New approaches are needed to generate adequate funding to support low-income countries to respond to escalating climate impacts and to keep global heating to 1.5°C. Wealthy countries are pointing to the mobilisation of private finance as the answer to the question of how to generate new climate funding. However, governments can't rely on private finance alone to mobilise the trillions needed for low-income countries per year.

There are a range of innovative finance mechanisms available to wealthy countries that would enable them to generate new funding for climate finance, as well as redirecting finance away from climate-damaging activities, such as fossil fuels and seabed mining. These include the redirection of fossil fuel subsidies and national and global tax reform. In addition to generating new funds for climate finance, these mechanisms could also play an important role in tackling global inequality.

END FOSSIL FUEL SUBSIDIES

Globally, public and private finance flows for fossil fuels are still greater than those for climate adaptation and mitigation.[102] Explicit subsidies for fossil fuel production and consumption reached a record USD 1.3 trillion globally in 2022. Implicit subsidies pushed this figure over USD 7 trillion. Production subsidies alone accounted for USD 51 billion.[103] Ending these subsidies could provide additional funding for domestic climate action and international climate finance, while also fostering the urgent phase out of fossil fuels and supporting critical progress towards emissions reduction targets.[104]

In Australia, governments provided AUD 14.5 billion in subsidies to fossil fuel producers and major consumers in 2023-2024 – more than three times its fair share of the USD 100 billion global goal.[105] Redirecting the AUD 54 billion for fossil fuel subsidies budgeted by the Australian Government over the next four years would go a long way towards meeting its international aid and climate finance obligations.[106]

New Zealand claims it does not subsidise fossil fuel production or consumption and has been an outspoken advocate for ending fossil fuel subsidies globally.[107] However, New Zealand provides a tax exemption for offshore fossil fuel exploration.[108] Another form of subsidy for fossil fuel consumption is the free allocation of units in the Emissions Trading Scheme to emissions-intensive industries, costing an estimated NZD 600 million in lost revenue in 2020 alone.[109]

IMPLEMENT TAX JUSTICE

Reforming tax systems could also generate significant new funding for climate finance. Targeting those most responsible for causing the climate crisis – the wealthiest companies and individuals – would also reduce national and international inequality.

National and global tax reform

- **Climate damages tax**

  A Climate Damages Tax on fossil fuel industries would ensure the polluters that are most responsible for climate change pay compensation for the climate damage their products are causing. If structured carefully to avoid passing costs onto low-income consumers, a Climate Damages Tax levied on fossil fuel companies has the potential to raise USD 900 billion globally within a decade.[110] In Australia the Superpower Institute has calculated that a Carbon Solutions Levy could raise AUD 100 billion per year.[111]

- **Windfall taxes**

  Windfall taxes on the excess profits of the biggest global corporations could raise around USD 1 trillion a year.[xiii]

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xiii 722 mega-corporations raked in USD 1 trillion a year in windfall profits in 2021 and 2022. A windfall tax of 90 per cent on last years' windfall profits could generate USD 941 billion – money that now could be used to tackle poverty and climate change.

Loreto Island, Malaita Province, Solomon Islands: Miriam, her husband Stephen and their son and daughter at their home on Loreto Island. The island is under threat from rising sea levels. Oxfam acknowledges the support of the Australian Government through the Australian NGO Cooperation Program (ANCP). Photo: Collin Leafasia/Oxfam.

These taxes could be targeted specifically at the 45 largest energy corporations globally, which made an average of USD 237 billion a year in windfall profits in 2021 and 2022.[112] In Australia, a windfall profits tax on the fossil fuel industry could raise more than AUD 20 billion a year,[113] and a reformed Petroleum Resource Rent Tax could generate over AUD 8 billion each year.[114] In New Zealand, calls for a windfall profits tax on energy companies have drawn attention to the excess dividends paid to shareholders while companies delay investment in renewable energy.[115]

- **Wealth taxes**

  A tax on between 3 and 5 per cent on the world's wealthiest could raise USD 1.7 trillion per year,[116] and could also help limit some of the most climate-damaging behaviours: recent research shows that just 12 billionaires have emissions that exceed that of over two million homes.[117] In Australia, a wealth tax on the richest five per cent could raise AUD 30 billion per year.[118] In New Zealand, Treasury analysis showed that a 1.5 per cent tax on wealth over NZD 5 million would raise over NZD 3 billion per year. New Zealand also lacks any tax on income from Capital Gains, which the Tax Working Group estimated could raise over NZD 5 billion per year.[119]

- **Addressing tax avoidance**

  Tax avoidance by multinational corporations costs the world USD 163 billion each year. The Tax Justice Network estimates that Australia could generate USD 3.8 billion and New Zealand could generate USD 592 million per year by putting in place robust tax standards to stop corporations and the wealthy avoiding tax.[120]

Changing global tax rules – the climate justice imperative

Action to fix global tax rules that divert critical funding away from low-income countries is urgent. Swift action could unlock trillions in additional funds for the climate and development responses in some of the most climate-vulnerable countries worldwide.

A United Nations-led process is now underway to develop a Framework Convention on Tax, which could ensure a representative and democratic say for all countries in setting and enforcing tax rules. If designed in the right way, the UN Framework Convention on Tax could clamp down on tax havens and tax avoidance by the world's wealthiest corporations and individuals. It could also address systemic corporate loopholes, such as transfer mispricing, which cost countries – particularly low-income countries – trillions in lost revenue. The Framework Convention on Tax also provides an opportunity to ensure future tax rules are gender-responsive and climate-sensitive, incentivising positive and renewable practices and behaviours while targeting the most polluting industries.[121]

All governments in the Pacific region, including Australia and New Zealand, should actively engage in the negotiations for a UN Framework Convention on Tax and advocate for a Convention model that is aligned with tax justice and climate justice goals.

Molpoe village, Vanuatu: Antonie carries harvested taro to his home. In 2022, Molpoe was hit by a devastating landslide caused by torrential rain, which has become more frequent due to extreme weather. The landslide destroyed many homes and plantations that people relied on for their livelihoods. Oxfam acknowledges the support of the Australian Government through the Australian NGO Cooperation Program (ANCP). Photo: Ivan Utahenua/Oxfam.

6. Conclusion

The new climate finance goal is a critical opportunity for Australia and New Zealand to demonstrate leadership and solidarity with the Pacific region. By embracing an ambitious, inclusive, and needs-based NCQG, these nations can help build a resilient future for all. Australia and New Zealand negotiators and policymakers can champion a transformative climate finance agenda, ensuring that the Pacific and other vulnerable regions receive the support they need to thrive in a changing climate. The time for action is now – let's seize the moment!

GLOSSARY

Grants	Grants are funding transfers that do not require repayment.
Concessional loans	Concessional loans are provided with no or lower than market value interest rates, and often an extended repayment schedule.
Non-concessional loans	Non-concessional loans are provided at, or near to, market terms.
Public bilateral finance	Bilateral public climate finance provided by wealthy countries' bilateral agencies and development banks.
Public multilateral finance	Multilateral public climate finance provided by multilateral development banks and multilateral climate funds, attributed to wealthy countries.
Mobilised private finance	Private finance mobilised by bilateral and multilateral public climate finance, attributed to wealthy countries.
Export credits	Export credits are subsidies to companies from wealthy countries to undertake climate-related business in low-income countries. They are provided by developed countries' official export credit agencies.
Rio Markers System	The reporting system used by donor countries to report development finance flows that are targeting the themes of the Rio Conventions, including climate adaptation, climate mitigation, biodiversity and desertification. Donor funding can be scored as having a principal or significant focus depending on the climate significance of the investment.
SIDS	Small Island Developing States
Low-income country	For the purpose of this report we use the term low-income country to refer to developing countries as defined in the United Nations Framework Convention on Climate Change (UNFCCC).
Direct access	Direct access funding modalities empower local actors to participate in climate finance decision-making and support greater access to climate finance. The mechanism enables local actors to access funding directly from global climate funds, rather than through accredited intermediaries.
Grant Equivalent reporting	Grant equivalent reporting provides a more accurate approach to the reporting of climate finance loans and other financial instruments. It reflects the financial effort of the provider or the financial benefit to the recipient, based on the terms of the loan. This enables a differentiation between highly concessional loans with lower interest rates and non-concessional loans and other instruments that reflect market conditions and higher interest rates. Grant equivalent reporting is now standard in aid reporting, but is not mandatory for climate finance reporting.

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Lilisiana, Malaita Province, Solomon Islands: Houses on the edge of the Langa Langa lagoon in Malaita Province, where rising tides are inundating the town. Oxfam acknowledges the support of the Australian Government through the Australian NGO Cooperation Program (ANCP). Photo: Collin Leafasia/Oxfam.

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Russell Islands in the Solomon Islands.
Image: Plan International.

FULL LIST OF SIGNATORIES

Pacific Islands Climate Action Network (PICAN)
Climate Action Network Australia
New Zealand Climate Action Network
Kiribati Climate Action Network (KiriCAN)
Tuvalu Climate Action Network (TuCAN)
Solomon Islands Climate Action Network (SICAN)
Vanuatu Climate Action Network (VCAN)
Australian Council for International Development
ActionAid Australia
Oxfam Australia
Oxfam in the Pacific
Oxfam Aotearoa
350 Pacific
350 Aotearoa
Shifting the Power Coalition
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Alliance for Future Generations - Fiji
Pacific Network on Globalisation
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International Women's Development Agency (IWDA)
Amnesty International Australia
Friends of the Earth Australia
Rising Tide
ARRCC (Australian Religious Response to Climate Change)
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Tasmanian Climate Collective
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Lighter Footprints
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Climate Emergency Australia
CBM Australia
Uniting Church Synod of NSW & ACT
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Pacific Youth Migration Platform
Aotearoa New Zealand Human Rights Foundation
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Cover image: Nelly, a farmer in rural Lapmuman village on Tanna Island, Vanuatu, stands in her garden. She has participated in workshops run by Oxfam partner, Farm Support Association, and learned climate adaptation techniques to increase her yield. Photo: Rachel Schaevitz/Oxfam.