Securing Climate Financing to build Resilience to Climate Change in the Pacific Region

SPREP Council Meeting

(June 2021)





Developed by:
Melanie King and Rupeni Mario
SPREP Project Coordination Unit

Contents

Introduction

SIDS are exceptionally diverse and yet highly vulnerable to the effects of climate change due to geophysical constraints, small size, geographic dispersion, susceptibility to natural disasters, heavy reliance on imported fossil fuels, limited private sector opportunities, weak institutions and fragile ecosystems[1]. Consequently, SIDS face numerous climate impacts, including rising temperatures, changing precipitation patterns, flooding, drought, reduced availability of freshwater resources, sea level rise and coral reef decline. The impacts of climate change will affect livelihoods, coastal settlements, infrastructure, ecosystems and economic stability in SIDS, and sea level rise poses an increasing threat to low-lying coastal areas[2].

Governments are making crucial investments in development, which helps build resilience to climate change. In the context of climate finance, SIDS have repeatedly called for prioritised international support for adaptation and mitigation activities and have echoed the importance of climate aid as key to their overall development[3]. However, in addressing the threats to climate change, the array of adaptation measures required exceeds many countries' financial capacities[4]. External finance is therefore critical in supplementing Pacific Islands governments' own expenditure through the national budget process and it is expected to remain so[5].

With the emergence of the Green Climate Fund (GCF) in 2015, there has been a shift in Countries' approaches to accessing financing to meet their Nationally Determined Contributions (NDC) ambitions towards low-emission, climate-resilient pathways. Since the establishment of the GCF, approximately US$603 million has been approved for grants in the Pacific (GCF US$362m; GEF US$219m[6], AF US$21m).

Opportunities are available for the Pacific to increase its share of financing, particularly as Funds such as the Adaptation Fund, are not being utilised. Additionally, financing ambitions within the Green Climate Fund are yet to be achieved with the Pacific lagging behind other regions in terms of access. However, in accessing the range of climate financing options, there still remains a number of challenges and barriers for Pacific SIDS in securing finance

---

[1] Nurse et al, 2014.

[2] IPCC, 2014.

[3] Chase et al, 2020.

[4] Atteridge, A., and Canales, N., 2017.

[5] Ibid.

[6] Calculated from approved projects and concepts under GEF6 and GEF7.

and these need to be overcome or mitigated against in order to take advantage of the opportunities and increase the level of finance approved.

This paper provides an overview of the current landscape in climate financing across the financing mechanisms of the UNFCCC – Green Climate Fund, the Global Environment Facility and the Adaptation Fund) – and the emerging opportunities and challenges for the Pacific Members in accessing financing within these funds. Whilst financing is achieved through grants, loans and co-financing, the key focus is on grants and focuses on projects (i.e. excludes Readiness and NAP funding), aligning with SPREP's accreditation to both the Green Climate Fund and the Adaptation Fund.

State of climate financing in the Pacific region

The 2017 report, *Climate Finance in the Pacific: An overview of flows to the region's Small Island Developing States*, noted in the period 2010 – 2014, a total of US$748 million in finance principally targeting climate change was committed to the Pacific Island countries including contributions for regional activities. The recipients of the largest amounts were Timor Leste, Samoa, Tonga, Vanuatu, Papua New Guinea and Fiji. By comparison, the largest recipients on a per capita basis was Tuvalu, Niue, Cook Islands and Tonga[7].

Of this, 72 percent was sourced through bilateral channels. Across the region as a whole around 59 percent of the climate finance was for adaptation activities, 36 percent for mitigation activities and 5 percent targeted cross-cutting i.e. both mitigation and adaptation[8]. The majority of the funding was delivered as project-based support. In terms of sectoral distribution, the largest share of funding supported work to create an "enabling environment" i.e. activities supporting the development of climate policies and mainstreaming climate change into national planning. For adaptation, the largest category of support was for research whilst for mitigation the largest portion went towards renewable energy[9].

The report further highlights for the period, the Pacific Island countries were allocated a total of US$13.58 billion in development assistance. Of this, US$1.76 billion (13 percent) was marked as broadly contributing to the objectives of the UNFCCC. Of this total amount[10]:

[7] Atteridge, A., and Canales, N., 2017.
[8] Ibid.
[9] Ibid.
[10] Ibid.

- US$748 million is reported by donors as having climate change as its primary objective. This total includes direct grants (likely the majority), as well as, potentially, “grant-equivalent” amounts where concessional lending has been used.
- A further US$1,014 million is reported as having climate change as a “significant” objective (i.e. funds targeted to another purpose, but with climate co-benefits). This amount includes not only grants but also some lending components.
- Bilateral channels make up a considerable portion (US$538 million, or 72%) of the US$748 million in finance principally targeting climate change, and an even larger portion (US$917 million, or 90%) of the flows labelled as having “significant” climate co-benefits.

Since 2015 the climate financing landscape in the Pacific is shifting towards a greater emphasis on the UNFCCC financing mechanisms as core providers of funding for climate mitigation and adaptation actions, aligning with the establishment of the Green Climate Fund (GCF). Since the establishment of the GCF approximately USD 603 million has been provided to Pacific SIDS in grants to fund countries climate ambitions across a range of sectors including urban development, coastal management and adaptation, renewable energy, water resources, biodiversity, agriculture, fisheries and multi-sectoral projects.

Climate financing under the UNFCCC mechanisms

Pacific SIDS have access to three UNFCCC funding mechanisms - the Green Climate Fund (GCF), Global Environment Facility (GEF) and the Adaptation Fund (AF) – of which a total of USD 3.5 billion[11] has been allocated towards climate related projects in the Pacific. Of this, USD 799 million has been allocated in grants, USD $73 million in loans and US$2.7 billion in co-financing (refer Table 1). The Global Environment Facility remains the majority funder contributing 51 percent of funding for grants, followed by the Green Climate Fund comprising 45 percent, and the Adaptation Fund comprising 3 percent (Figure 1.1).

Table 1. Overview of climate financing in the Pacific

Entity	Number of Projects	Grants	Loans	Co-financing	Total
Green Climate Fund (2015)	14	362,033,665	73,900,000	656,019,092	1,088,052,757
Adaptation Fund (2001)	9	26,177,824			26,177,824
Global Environment Facility (1992)	206	411,203,734		2,069,818,345	2,481,022,079
TOTAL	**229**	**799,415,223**	**73,900,000**	**2,725,837,437**	**3,595,252,660**

[11] This figure includes grants, loans and co-financing.

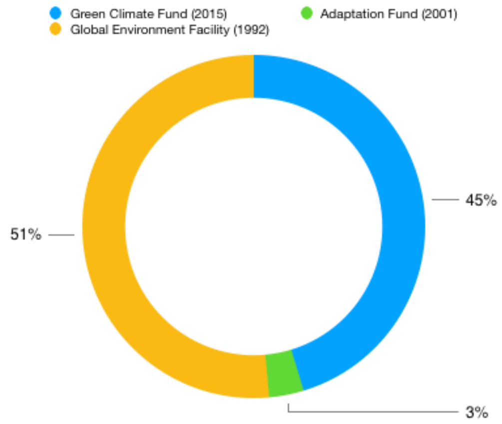

Figure 1-1. Climate financing breakdown by Fund for Grants

Figure 1-2. Breakdown of climate financing by grants, loans and co-financing across Funds

A comparison of access by Countries across all three funds (Figure 1.3) highlights:

- All Pacific countries with the exception of Tonga, has accessed funding from the Global Environment Facility.
- Only four countries – Fiji, Marshall Islands, Vanuatu and Tonga - have accessed funding from the Green Climate Fund for national projects. However, all countries will have received benefit through the multi-country or regional level projects.
- Only four countries – Cook Islands, Fiji, Federated States of Micronesia and Solomon Islands – have accessed funding from the Adaptation Fund.

Timor Leste, Samoa, Tonga, Vanuatu, Papua New Guinea and Fiji were reported in the 2017 report as the recipients of the largest amount of funds. In early 2021 (grants only), multi-country or regional projects are dominating, with the Solomon Islands (US$82.1 million), Samoa (US$72.9 million), Marshall Islands (US$67.9 million) and Vanuatu (US$58.1 million) leading the way as recipients of the largest funding for national projects (Figure 1.4).

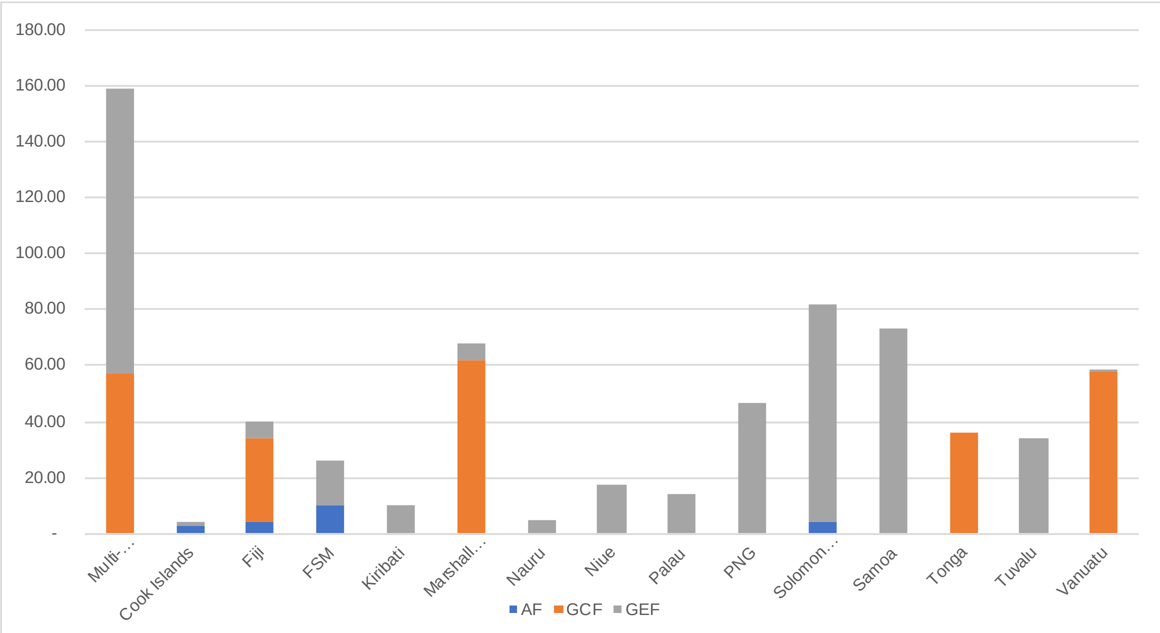

Figure 1-3. Access to climate finance Funds by Country

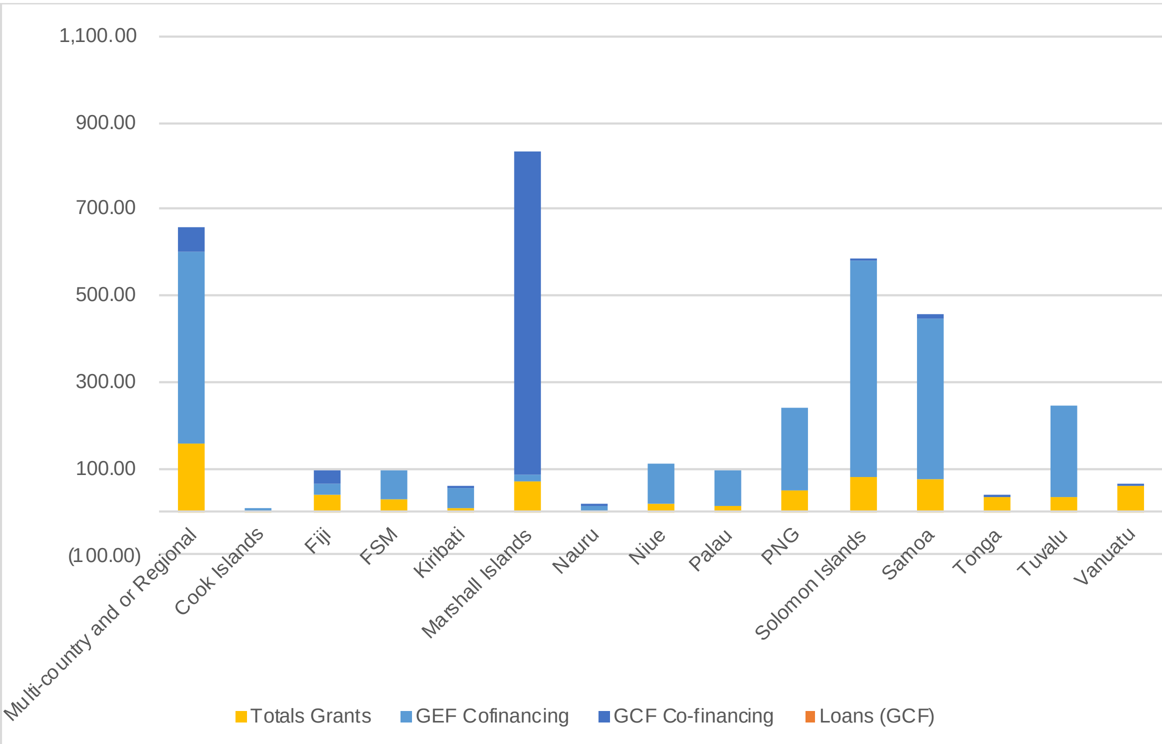

Figure 1-4. Financing breakdown per Country by grants, loans and co-financing

Global Environment Facility

The Global Environment Facility (GEF) was established in 1992 to tackle the most pressing environmental problems. The GEF has recently agreed to a new direction which:

- Strategically focuses its investments to catalyze transformational change in key systems that are driving major environmental loss, in particular energy, cities and food;
- Prioritizes integrated projects and programs that address more than one global environmental problem at a time, building on the GEF's unique position and mandate to act on a wide range of global environmental issues; and
- Implements new strategies and policies to enhance results, including stronger engagement with the private sector, indigenous peoples, and civil society, and an increased focus on gender equality.

The Global Environment Facility remains the largest funder of climate-related financing in the Pacific in terms of overall funding, however, the Green Climate Fund is emerging as a dominant funding source, and it is anticipated that with an increase in the number of projects approved over the next 1 – 3 years, the GCF will take over from the GEF in terms of the largest funding source for grants (excluding co-financing) in the region.

Since 1992, the GEF has provided more than $21.1 billion in grants and mobilized an additional $114 billion in co-financing for more than 5,000 projects in 170 countries. The Pacific region has received a total of approximately USD 411 million in grants (includes STAR allocation, multi-country and regional projects) and has mobilised approximately USD 2 billion in co-financing. Of the GEF funding to the region, the four largest recipients have been Kiribati, Papua New Guinea, Samoa and Vanuatu (Figure 1-5).

The GEF projects in the Pacific focus across a number of core environmental issues - land degradation, biodiversity, chemicals and waste, international waters, climate change. The size of projects funded by the GEF currently under implementation, range from USD 11, 150 to USD 17.8 million. Of note, the Fund, unlike the Green Climate Fund or Adaptation Fund operates on substantial co-financing (1:6 ratio) as a prerequisite for funding.

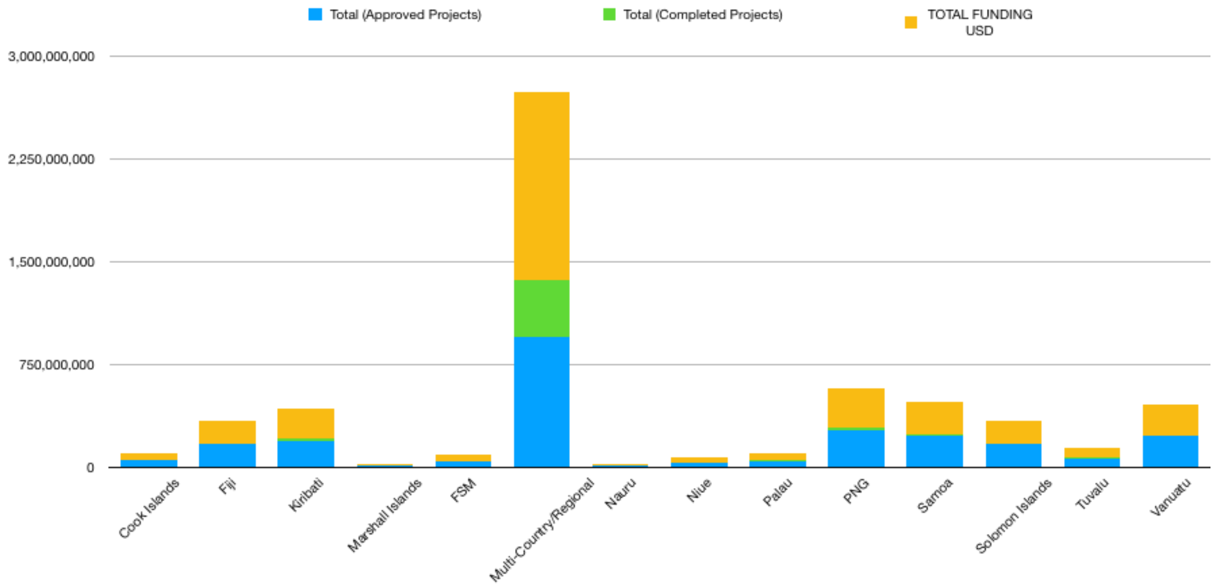

Figure 1-5. GEF allocations per country

Green Climate Fund

The Green Climate Fund (GCF) was established to support developing countries raise and realize their Nationally Determined Contributions (NDC) ambitions towards low-emissions, climate-resilient pathways. The GCF is committed to achieving a balance between funding for mitigation and adaptation initiatives and invests across four focal areas: built environment; energy & industry; human security, livelihoods and wellbeing; and land-use, forests and ecosystems.

In contrast to the GEF, the Green Climate Fund (GCF) has only been operational since 2015 and has contributed USD 362 million towards the Pacific in grants with USD 73.9 million in loans and USD 656 million in co-financing (Figure 1.6). Of the projects currently under implementation, the funding base ranges from USD 1.1 million to USD 57.7 million – a significant difference in the size of grants provided and a reflection on the GCF's investment areas. These funds finance 14 projects with mitigation projects comprising 14 percent, adaptation projects 57 percent and cross-cutting projects 28 percent (Figure 1.7). Sectorally, the projects focus includes renewable energy (4), water resources (4), coastal infrastructure (3), climate information services (2), and agriculture (1).

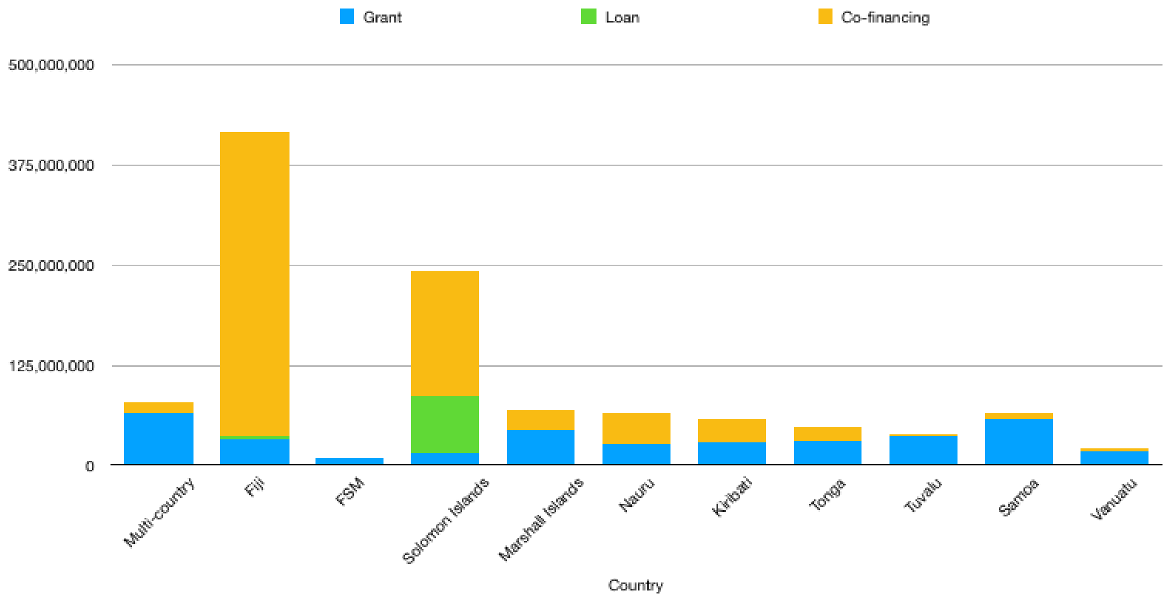

Figure 1-6. Access to GCF funding by Country

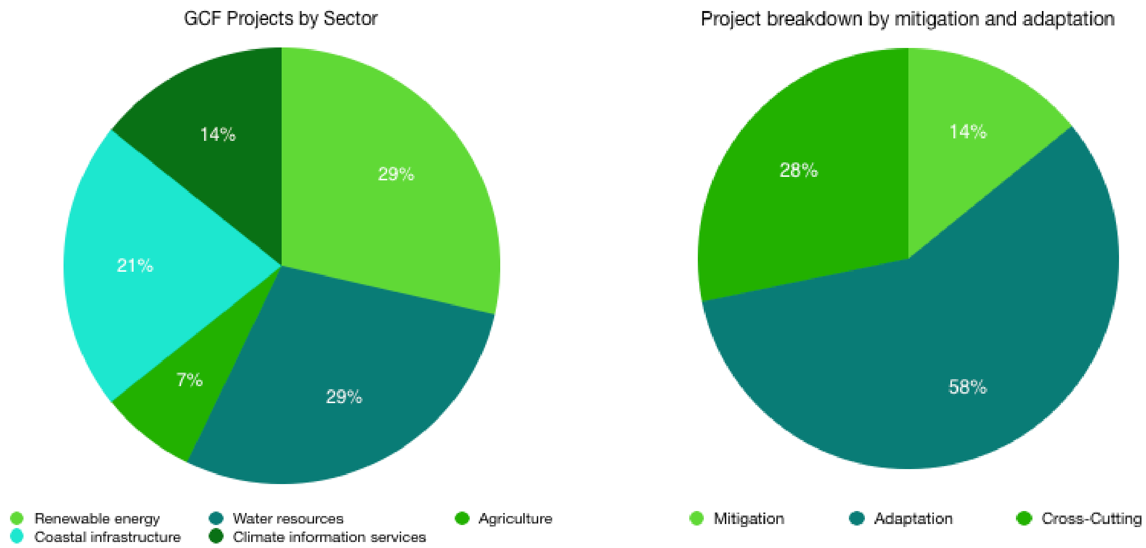

Figure 1-7. GCF funded projects by Sector and Climate focus

Adaptation Fund

The Adaptation Fund (AF) aims to increase resilience through concrete adaptation projects and programmes that reduce the adverse effects of climate change facing communities, countries, and sectors. Initiatives are based on country needs, views and priorities. The Adaptation Fund: (a) Assists developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change in meeting the costs of adaptation; (b) Finances concrete adaptation projects and programmes that are country driven and are based on the needs, views and priorities of eligible Parties.

Funding for projects and programmes is on a full adaptation cost basis to address the adverse effects of climate change and is available for projects and programmes at national, regional and community levels. Funding modalities include Readiness support, single country projects (US$20 million funding cap per country), regional projects (US$14 million per project), enhanced direct access (US$5 million per country), small grants to foster innovation (US$5 million) and large grants to roll out innovation adaptation practices (<US$5 million) and learning grants (US$150,000 per project).

To-date access to the Adaptation Fund by Pacific countries has been low with only USD 26 million accessed by the Pacific countries for projects in sectors of coastal management, urban development and multi-sector. Of this, five (5) projects are currently under implementation as at March 2021, based in the Cook Islands, FSM, Solomon Islands and Fiji (Figure 1-8). A further project (in Kiribati) is in the review phase. Only six (6) countries – Cook Islands, FSM, Solomon Islands, Samoa, Papua New Guinea and Fiji have accessed the AF since its inception in 2009. Unlike the GEF and GCF, the Adaptation Fund does not operate on the requirement of co-financing, and whilst co-financing is utilised in projects it is not necessarily recorded or reported.

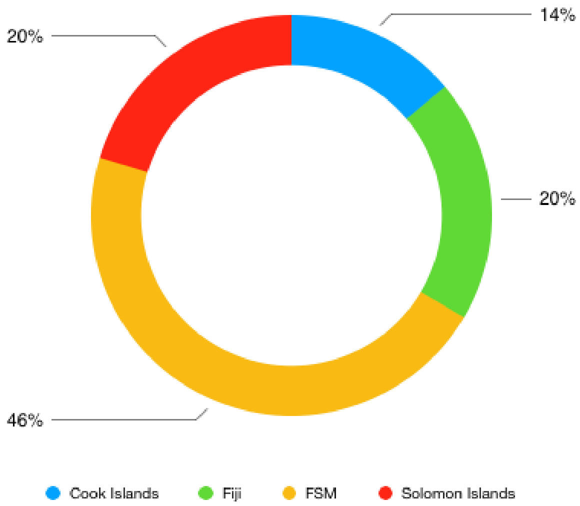

Figure 1-8. Countries with projects under implementation

Opportunities for Member Countries

Overall, the analysis of the current landscape highlights a number of gaps in how Countries are accessing climate financing and therefore provides for a set of opportunities for the Pacific region to increase their access to financing to meet their climate change mitigation and adaptation needs.

There are a number of emerging strategic opportunities for Member Countries in securing climate financing to meet their climate change goals. These include:

1. **Accessing available resources**: There remain a number of opportunities for Countries in utilising the full range of climate financing options available. As outlined above, analysis highlights the lack of engagement with the Adaptation Fund by countries, and yet the funding modalities are designed specifically for individual country needs and regional needs e.g. the Adaptation Fund provides up to USD 20 million to each country for nationally driven projects (with a cap of USD 10 million per project) and up to USD 14 million per regional project. In addition, other modalities such as regional projects, capacity building and readiness, innovation funds are also available and under-utilised. This provides a major opportunity for countries to define their climate adaptation priorities and explore options to engage with all of the funders to achieve their priorities and targets.

   Furthermore, Countries working with Direct Access Entities can benefit from synergies between the funders in developing projects. This enables potential for scaling-up into programmatic approaches or blending across funders to address large-scale adaptation issues (refer below dot point #2).

   In progressing these opportunities, SPREP organised a regional workshop with Countries and the Adaptation Fund in May 2021 aimed at introducing the Adaptation Fund and highlighting the available funding modalities and opportunities available. Further engagement with countries is underway to highlight the potential and / or discuss future potential projects.

   Utilising Readiness Preparatory Support: The GCF provides up to US$1,000,000 per year for Countries to access under the Readiness Support & Preparation programme. The objective is to enhance the capacity of national institutions to efficiently engage with GCF. A number of opportunities lie with the Readiness programme, namely through the utilisation of the support to: (a) this support enables a Country to effectively establish a country programme of future investments. This support can be used to develop a country programme of climate priorities which is not only limited to GCF funding but can provide a country-wide assessment of priorities and potential funding sources, and; (b) utilise the support to develop the project pipeline through working with accredited entities in developing project concept notes. Whilst the development of concept notes is starting to take place under the Readiness projects, this is usually undertaken by consultants and without identifying and partnering with an accredited entity – this is essential for any concept note to move beyond the idea and into the GCF project pipeline.

The AF has made available several small grants under its Readiness Programme in the areas of

- Readiness Package Grant to facilitate the delivery of more enhanced, targeted and tailored readiness support for accreditation to developing countries. The maximum amount of grant is US$ 150,000 per country to support national implementing entities (NIE) accreditation to the AF through South-South Cooperation (SSC)
- South-South Cooperation Grants to facilitate South-South cooperation and enable select accredited implementing entities to provide peer support for accreditation to countries that wish to gain accreditation with the Fund
- Project Formulation Assistance (PFA) Grants for each NIE for project or programme formulation assistance is up to a maximum of US$20,000 per project. PFA grants supports project development for NIEs to undertake specific technical assessments such as environmental impact assessments, vulnerability assessments etc during the project preparation and design stage
- Technical Assistance (TA) Grants to help NIEs build their capacity to address and manage environmental and social as well as gender associated risks within their projects or programmes in accordance with the Fund's Environmental and Social Policy (ESP) and Gender Policy. The TA for the Environmental and Social Policy and Gender Policy is aimed at strengthening the capacity of NIEs to identify, screen, address and manage environmental and social risks as well as gender related issues in their projects or programmes. The grant is up to a maximum of US$25,000 per NIE. The TA for the Gender Policy is meant for NIEs that already have robust environmental and social policies to put in place measures to avoid, minimize and/or mitigate adverse gender impacts in accordance. The grant is up to a maximum of US$10,000 per NIE.

Utilising National Adaptation Planning: A 'one-off' funding modality of up to $3,000,000 is provided by the GCF under the NAP Readiness. These funds are available to Countries to prepare for undertaking adaptation planning and developing strategic frameworks to address national adaptation priorities. A number of opportunities arise in this area including: (a) Attention could be given to reviewing Countries' Joint National Action Plans (JNAPs) and ascertain whether these plans remain effective or require amending, rather than the development of a new plan. The advantage of this would be less resources expending on developing new plans, and the ability to quickly mobilise funding for priorities already identified under the JNAPs; and (b) The development of the NAPs and the identification of priorities needs to be integrated more closely with Country programmes and resource mobilisation plans.

2. **Scaling up of projects beyond a pilot or site driven focus:** Achieving sustainable development impact beyond a one-off project or programme investment through replicability and scalability is a core element to the Green Climate Fund's criteria to invest in projects. Opportunities for growth and expansion of projects from pilot or small-scale (either in sector or geographical focus) are available through the 'scaling-up' context or 'blending' (refer below).

   Funds under one funding source can be utilised for testing project concepts within pilot or small-scale projects, and then developed or expanded under additional funding sources. For example, a project could be piloted or limited in scale under another fund, and utilise the results and impact from this project as the basis of continuation under the GCF. Given the limitations of funding from the Adaptation Fund, this phased approach is a tangible and realistic method for countries to consider.

The Adaptation Fund provides Project Scale-up Grants to NIEs to support planning, designing, enhancement and overall capacity to develop scale-up pathways for AF funded projects or programmes nearing completion or already completed. A maximum of US$ 100,000 per project /programme is available.

3. **Blending of funds to achieve goals**: Financing provided by GCF to intermediaries may be used by the latter to blend with their own financial resources in order to increase the level of concessionality of the financing they extend to projects and programmes, and is considered an effective method of financing across the funding agencies**.** Blending can be an effective mechanism for Countries to receive the required funding for their priorities, build partnerships across funders and accredited entities, and maximise or value-add to their priorities through more effective resource mobilisation. However, it does require Countries to be very clear on the priority, early identification of the accredited entity, and for early identification of, and dialogue with funders for this to be achieved.

Options for “blending” funding should be explored in more detail. Fund ‘blending’ would involve a project or programme co-funded by the Adaptation Fund and the Green Climate Fund. This option would enable countries to develop larger-scale projects rather than pilot or small-scale projects and maximise the various funding sources they have available. It would also value-add through maximising expertise from across funders, accredited entities and other partners.

Options for “blending” funding could also be initiated under the GEF STAR or regional project allocations. Fund ‘blending’ would involve a project or programme co-funded by the GEF and other funders e.g. AF or GCF. This would also be an effective mechanism to achieve the GEF’s co-financing requirements. This option would enable countries to develop larger-scale projects rather than pilot or small-scale projects and maximise the various funding sources they have available. It would also value-add through maximising expertise from across funders, accredited entities and other partners.

4. **Utilisation of Direct Access Entities**: There is an emerging recognition from funders of the role regional and national entities can play in supporting countries to access finance, particularly, the unique position they hold within countries and regions. The Pacific region currently hosts the following direct access entities:

    - Green Climate Fund: three regional direct access entities (DAEs) – the Secretariat for the Pacific Regional Environment Programme (SPREP), the Pacific Community (SPC), the Micronesian Conservation Trust (MCT) and two national direct access entities – the Ministry of Finance and Economic Management (Cook Islands), and the Fiji Development Bank.
    - Adaptation Fund: two regional accredited entities – the Secretariat for the Pacific Regional Environment Programme (SPREP) and the Micronesian Conservation Trust (MCT), and two national accredited entities - the Ministry of Finance and Economic Management (Cook Islands) and the Ministry of Finance and Economic Development (Tuvalu).

    This provides for a unique niche and opportunity for SPREP and other direct access entities in the region to work on behalf of Countries to access funds through the Green Climate Fund and Adaptation Fund, and for Countries to be served by an organisation embedded within the region, understanding their priorities and needs and dedicated to environmental and climate change issues in the region.

Recent developments within the Green Climate Fund are showing a concerted move away from the utilisation of international accredited entities to support project development and implementation, to a shift towards support of regional and national accredited entities. This is demonstrated through: (a) a move to build capacity and resources (human, technical, institutional) within the regional and national DAEs; and (b) support for project pipelines and projects to be developed by regional and national entities rather than international entities.

In maximising the support from direct access entities (DAE) in the region, it is imperative that countries understand the role and function of a DAE. Currently, concept notes for project proposals are being developed in isolation through either internal country mechanisms, third parties or through consultants prior to any DAE involvement. It is critical the DAE is engaged early in the process and is an active leader with the country in developing the concept note. This will enable DAEs to more fully support project proposals and reduce the timeframe required in project development as in many cases, concept notes are having to be redeveloped to better fit the funder's mandate and investment criteria, and there are elements within the project development which must be undertaken by the DAE.

Challenges in accessing climate finance

Whilst a number of opportunities are emerging through interactions with the funding agencies, accessing finance is also met with a number of challenges for SIDS which need to be mitigated against before effective access can be achieved. These challenges can be fund specific or relate across the broader climate financing spectrum.

The 2017 report, *Climate Finance in the Pacific: An overview of flows to the region's Small Island Developing States*, noted in the period 2010 – 2014 highlighted challenges at that time relating to accessing climate finance. These currently remain and are further discussed in detail in the GCF Independent Evaluation Unit report.

The recent Independent Evaluation Unit report[12] for the Green Climate Fund highlighted a number of areas in which the Green Climate Fund had not successfully adapted to meet the unique requirements of SIDS. These included:

[12] Chase et al. 2020.

a. The GCF's modalities and processes are not sufficiently effective to address the specific challenges of climate change in SIDS and the urgency for climate action.
b. The current GCF model for accreditation and direct access is disadvantaging those SIDS with low capacity, experience or confidence in directly accessing the GCF.
c. The most significant barrier SIDS face in accessing the GCF is the lack of capacity to develop concept notes and funding proposals to the GCF standard.
d. GCF finance in SIDS has appropriately focused on grant-funded adaptation, although it is premature to assess the extent to which the GCF SIDS portfolio is achieving intended results. There is space for funding more innovation related to financial structures and instruments.
e. The GCF's approach to the private sector in SIDS is not sufficiently articulated or coordinated.
f. The GCF policy landscape has flexibility to accommodate the circumstances of SIDS, but certain policy and governance issues that are important to SIDS require further Board discussion and decisions.

Whilst these findings are based on a review of the Green Climate Fund's investment in the Pacific, they also have relevance for the Adaptation Fund and the Global Environment Facility and need addressing at the fund-level to ensure more effective uptake of climate financing from Pacific countries. Furthermore, further challenges or limitations facing Pacific countries need to also be addressed as part of the accessing of climate finance – these need to be addressed by both Countries and by the funds. These include:

a. **Low knowledge of, or understanding of, Funder's focus and investment criteria**: The Pacific is able to access financing across the three funders – GCF, AF and GEF - thus broadening the opportunities available through targeting specific funds for the best fit for particular programmes / projects. However, there remains persistent barriers and challenges in moving project ideas through the approval pipeline in a timely manner. One of the identified barriers from experience, has been with the lack of a clear roadmap from countries, leading to project ideas with no clear overarching goals or objectives, and no clear linkages to the specific funder's mandate, being submitted for development.

   Improving Countries' understanding of, and the commitment to, a clear roadmap and the development of project ideas to direct access entities which provide a clear focus on climate problems, will assist in reducing the timeframes for project development. The lack of focus or understanding of the particular mandates of funds and how to identify, target and prioritise opportunities. For example, the focus areas across the funders remain broad and provide ample opportunities for sectoral engagement such as broad built environment, energy & industry, human security, livelihoods and wellbeing and land-use, forests and ecosystems (Green Climate Fund); and water resources management, land management, agriculture, health, infrastructure development, fragile ecosystems (Adaptation Fund). However, in many cases the proposed projects entering accredited entity work programmes lack strategic focus, are focused on a specific development issue rather than a climate issue, are focused at too minute a level for funding on its own and lack large-scale project identification which is required in order to meet the funders' investment criteria.

A greater understanding of the mandates and how to embed project concepts within these mandates will enable greater efficiency and effectiveness during the project development stage. More detailed road-mapping of priorities against Countries strategic climate change policies and strategies, and more targeted and prioritised project concepts will enable direct access entities to better support and align Country priorities to specific funders' mandates and investment criteria.

b. **Limited capacity to absorb increasing amounts of development assistance**: SIDS are having increasing limited capacity[13] to absorb both the funding and the requirements of the development assistance flowing into the region "unless there is a corresponding increase in TA and support for implementation."[14] Evaluations by the Independent Evaluation Group (IEG) of the World Bank similarly found that the World Bank's scale of potential support is limited by "the ability to borrow given existing high indebtedness as well as by the absorptive capacity of governments".[15]

c. **Regional and programmatic approaches:** In the GEF, programmatic approaches have had limited traction in SIDS, although the "ridge-to-reef" approach (i.e. a holistic approach of coastal zone management) is gaining traction. Whilst programmatic approaches would assist in capturing economies of scale, it has been challenging to develop. A recent example has been the request by the GCF to undertake a Pacific regional programmatic approach to key issues under a "flagship programme". However, this has been challenging in (a) obtaining common ground and

[13] It is notable that capacity in this respect goes beyond just human resource

[14] Chase et al. 2020.

[15] World Bank, 2016.

understanding of what the programmatic approach should look like with accredited entities and (b) motivating countries to move towards a regional programme approach and away from their national agendas.

d. **Private Sector participation and mobilisation of private finance:** All of the funding agencies encourage participation of the private sector, however, the approach taken by the GCF in particular, does not take into account the micro-scale, low-capital base and low capacity[16] of the private sector in the Pacific. It also does not take into account other options for private sector engagement through partnering on a project (outside of the financing modality), utilising corporate social responsibility plans and projects, and the different mandate for the private sector versus that of the public sector.

e. **Articulation and mapping of key priorities:** A key challenge in effectively accessing climate financing has been the lack of clear articulation or mapping out by Countries of their climate priorities. For many of the project ideas on country programmes or on accredited entity work programmes, these do not equate to a project which can meet the funders investment criteria. This is perhaps due to PICs viewing such potential projects / programmes as a development opportunity rather than focusing on the issue from a climate change perspective. The pre-planning and concept stages require resource mobilisation and this cannot be effectively utilised if the country has not clearly thought through climate-related priorities. The inability to move a project idea through the pipeline can lead to reputational risk and demoralization, along with ineffective allocation of resources.

f. **Capacity constraints:** Low numbers of qualified staff working in key capacities "constrain the ability of countries to access and manage different sources of concessional finance and limit their absorption and implementation capacity"[17]. In addition to human resource capacities, other constraints relate to technical, monitoring, evaluation, implementation and enforcement capacities.

In the Pacific, the capacity constraints are exacerbated by the small population size of the island countries, which often results in smaller entities and government departments lacking sufficient staff to dedicate to the project process. Many of the

[16] Independent Evaluation Unit, GCF, 2020.

[17] Ibid.

Pacific countries prefer lower funded projects (i.e. <$10 million) as this is all they are able to absorb and manage effectively. However, such approaches do not always attractive to funders and accredited entities, as these are deemed to be too low to garner value and come with high transactional costs.

g. **High transactional / operational costs:** Operating in SIDS is much more expensive than most other country contexts. Transportation is expensive within SIDS, and SIDS' markets are too small to enable economies of scale. The recent GCF IEU report highlighted the Pacific region as the highest in terms of transactional costs. Many of the funders whilst acknowledging this, do not necessarily manage the challenge through appropriate resourcing. This is an area whereby the multi-country or regional approach is preferred as it reduces and / or bundles the transactional costs and increases the indicators for the investment criteria.

Conclusion

The climate financing field has expanded significantly with the establishment of the Green Climate Fund in 2015, thereby providing substantially more opportunities for Pacific countries to access finance to target their climate ambitions. Across the three UNFCCC specific funding mechanisms – Green Climate Fund, Global Environment Facility and the Adaptation Fund - a number of opportunities for Pacific Member Countries are emerging which SPREP as the Regional Implementing Entity and Executing Entity, can take the lead on developing further with Member Countries. Opportunities for scaling up and blending of funds remains central to future strategies for projects / programmes, with this approach (a) providing the necessary funds, expertise from experienced implementing entities, value adding to climate priorities etc, and (b) assisting to build the necessary capacity over time within implementing entities and countries to effectively develop and implement larger-scale and more complex projects and programmes.

However, accessing finance for Pacific countries to meet these opportunities can also be challenging as highlighted in the recent Independent Evaluation Unit (GCF) report on GCF investment in SIDS. It is in this space, that Regional Implementing Entities such as SPREP are uniquely placed to assist countries to move forward. Regional DAEs are in high demand in SIDS; these entities are often identified as the partner of choice by SIDS, particularly for the Pacific. The IEU report noted SIDS stakeholders expressed preferences for working with these regional DAEs when possible, given these entities' knowledge of the specific SIDS context, their technical capacity, their mandate to support member countries, and their strong personal relationships with stakeholders in those countries[18]. SPREP has a strong incentive and climate change mandate, along with well-respected technical staff to support countries to access climate financing. This unique positioning is central to the direction established by SPREP's Project Coordination Unit in focusing on the opportunities for financing access, whilst working with funding bodies and countries to develop solutions to mitigate against the challenges facing Pacific SIDS.

[18] Chase et al 2020.

Bibliography

Atteridge, Aaron, and Canales, Nella. (2017). *Climate finance in the Pacific: An overview of flows to the region's Small Island Developing States*. Stockholm Environment Institute, Stockholm Centre.

Chase, Vasantha, David Huang, Nayeon Kim, Jessica Kyle, Howard Marano, Logan Pfeiffer, Archi Rastogi, Andreas Reumann, and Peter Weston (2020). *Independent Evaluation of the Relevance and Effectiveness of the Green Climate Fund's Investments in Small Island Developing States*. Evaluation Report No. 8, October 2020. Independent Evaluation Unit, Green Climate Fund. Songdo, South Korea.

Nurse, L.A., R.F. McLean, J. Agard, L.P. Briguglio, V. Duvat-Magnan, N. Pelesikoti, E. Tompkins, and A. Webb (2014). *Small islands. In: Climate Change 2014: Impacts, Adaptation, and Vulnerability*. Part B: Regional Aspects. Contribution of Working Group II to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change[Barros, V.R., C.B. Field, D.J. Dokken, M.D. Mastrandrea, K.J. Mach, T.E. Bilir, M. Chatterjee, K.L. Ebi,Y.O. Estrada, R.C. Genova, B. Girma, E.S. Kissel, A.N. Levy, S. MacCracken, P.R. Mastrandrea, and L.L. White(eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA, pp. 1613-1654.

UNFCCC. (2021). Introduction to Climate Financing. https://unfccc.int/topics/climate-finance/the-big-picture/introduction-to-climate-finance, Accessed 16 March 2021.

World Bank. (2016). World Bank Group Engagement with Small States: Taking Stock. Washington, DC: World Bank.