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JEAN-PAUL PENROSE

Pacific Development
Director, UK Foreign,
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FOREWORD

In November 2021 the United Kingdom (UK) will host the United Nations Framework Convention on Climate Change Conference of the Parties (COP) 26 in partnership with Italy. We are committed to delivering an inclusive and ambitious COP with four key outcomes focused on:

- **Mitigation.** To secure global net zero emissions by 2050 and keep 1.5 degrees within reach;
- **Adaptation.** To increase support for adaptation to protect communities and natural habitats;
- **Climate Finance.** To mobilise at least USD100 billion per annum in accordance with the Paris Agreement to support developing countries respond to the climate emergency; and
- **Collaboration.** To promote partnership between governments, businesses, civil society and other stakeholders to tackle mitigation, and promote adaptation and resilience.

The Pacific region is especially vulnerable to the perils of climate change. Action, particularly to deliver increased resilience, is critical and urgently required. This report explores how the use of climate finance in the Pacific could be strengthened to contribute towards increased resilience.

Climate finance is a priority for the UK COP26 Presidency. There needs to be a fundamental shift in access to finance. We need to streamline the processes by which climate finance is delivered, with lower transaction costs and less fragmentation, faster disbursement and more alignment to national plans. Not only does finance need to be more accessible by those who need it most, it needs to increase in both quantity and quality. The international community must deliver on its commitments, including to mobilise USD100 billion of climate finance a year and with more of it going to adaptation.



Climate finance must also focus upon delivering increased resilience for the poorest and most vulnerable communities.



As this report makes clear, the challenge in the Pacific is one of both quantity and quality of climate finance. This may mean using such finance differently in the future. Perhaps through more programmatic approaches and by using it to test proof of concept which, if successful, can then be replicated and scaled up using a range of financing options. Climate finance must also focus upon delivering increased resilience for the poorest and most vulnerable communities. The report notes the challenges that the Pacific faces in accessing climate finance – in terms of both accreditation and in bidding for funds.

The UK will deliver £11.6 billion of climate finance over the period 2021-25. This includes £1.44 billion (2020-23) to the Green Climate Fund making us the largest funder. As a major bilateral and multilateral provider of climate finance we mobilise our leverage in international fora to promote the interests of the most disadvantaged and vulnerable to climate change. We will continue to do this in the run up to, and after, COP 26.

The UK is proud to be working with United Nations Development Programme and the Pacific Islands Forum on this critical issue. I sincerely hope that this report and its proposals for reform will generate debate on the role and future of climate finance in the Pacific, and that these views will feed into and enrich discussions and negotiations at COP26 and beyond.



Funafuti, Tuvalu (Photo: UNDP)



ACKNOWLEDGMENTS

The idea for this discussion paper was conceived by Jean-Paul Penrose of the British High Commission, Suva, as part of the United Kingdom's (UK) preparations for COP26. The paper was subsequently developed jointly by the United Nations Development Programme (UNDP) Pacific Office in Fiji, the UK Foreign, Commonwealth & Development Office (FCDO) and the Pacific Islands Forum Secretariat (PIFS). The research and design for this paper was led by Moortaza Jiwangi and Lisa Buggy (UNDP Pacific Office) with inputs from Jale Samuwai, Aaron Buncle, Zainab Kakal and Daniel Lund (technical advisors). The team is grateful for strategic inputs from Jean-Paul Penrose (UK FCDO) and Exsley Taloiburi, Karlos Lee Moresi and Ledua Vakaloloma (PIFS Resilience Team). The team also appreciates the review undertaken by Nicola Glendinging (UNDP Pacific Office). The work was funded by the UK FCDO and resourced through the ongoing UNDP Governance for Resilient Development in the Pacific (Gov4Res) project with support from Australia, Korea, New Zealand and Sweden.

The paper was informed by key informant interviews as well as strategic input and review by representatives from Cook Islands, Fiji, Samoa, Solomon Islands, and Tuvalu, representatives from the Pacific Technical Working Group on Climate Finance and Public Financial Management, the European Union, the Green Climate Fund, the Pacific Financial Technical Assistance Centre, the Pacific Catastrophe Risk Insurance Company, the Australia Pacific Climate Partnership, the Department of Foreign Affairs and Trade (Australia), Oxfam in the Pacific, UNCDF LoCAL, the Center for Global Development, the UNDP Climate Promise Team, the UNDP Nature, Climate and Energy Team, the UNDP Finance Sector Hub, UNDP Pacific Office and UNDP Bangkok Regional Hub.

Disclaimer: The views expressed in this publication are those of the authors and do not necessarily represent those of UNDP, UK FCDO or PIFS.





EXECUTIVE SUMMARY

Pacific Island countries have indicatively mobilised over USD2.2 billion in climate finance in the past 10 years. While the amount of climate finance accessed has increased in recent years, the finance available still falls significantly short of the estimated adaptation and mitigation investment needs required to protect Pacific economies and enable them to deliver against their Nationally Determined Contributions (NDCs) and climate change adaptation priorities. Furthermore, there is growing recognition that the way climate finance is accessed and utilised is not currently delivering meaningful and sustained resilient development results.

The aim of this paper is to identify possible areas of reform and prompt further dialogue to ultimately strengthen the effectiveness, impact, delivery, and access to climate finance in the Pacific region. This paper was informed by a literature review and analysis of current approaches to climate financing, key informant interviews and a series of systems mapping exercises. This paper is intended to inform a series of dialogues on climate financing strategies which will be convened in the Pacific region and internationally. The paper is structured around four key sections outlined below.



KEY MESSAGE 1. Despite significant amounts of climate finance being raised, climate change is still having profound effects on the achievement of development priorities in the Pacific. It is not clear if simply filling in the financing gap will suffice.

A. Current climate finance trends in the Pacific.

The amount of climate finance mobilised in the Pacific has increased in recent years, in line with the rollout of the Green Climate Fund (GCF) and other flows from multilateral and bilateral development partners. A large component of this finance is provided through project-based modalities. These are not often integrated into wider sectoral plans or national budget and planning processes. Due in part to capacity challenges within Pacific governments,

there is a tendency to rely on externally driven project modalities and this can reduce opportunities for sectoral integration. Furthermore, the project-by-project focus of much climate financing tends to hinder the replication and scale-up required to effectively achieve climate change adaptation and mitigation priorities in the region. The costs of delivering through such modalities suggest some inefficiency in the current use of climate finance.



KEY MESSAGE 2. The majority of climate finance flows to the Pacific are provided through short-term and project-based initiatives and are generally ‘off-budget’. These narrow approaches tend to be poorly integrated into development, thereby making it harder to achieve long-term impact for communities.

B. ‘Surfacing’ the issues around the effectiveness of climate finance.

A deeper dive into the enablers and inhibitors that currently exist within the climate finance ecosystem was undertaken using systems mapping. These enablers and inhibitors influence the current approaches to financing. Below are the issues that are being ‘surfaced’ through this paper.



KEY MESSAGE 3. The requirements for access and accreditation of climate financing in the region is a distraction for country systems in achieving better quality results.

The deep dive highlighted huge resourcing requirements and the significant timelines to achieving accreditation to directly access climate finance. Some financing approaches, particularly the focus on climate change vertical funds, are distracting countries in the Pacific from achieving better quality results. Climate finance delivery and reporting structures require countries to manage multiple and rigorous requirements, and in some instances, require duplication of national systems and processes to do so. Accessing climate finance can be challenging and time consuming for institutions with limited resources and capacity.

Longer-term community resilience needs to be the key driver for financing solutions. Most of the climate finance mobilised has not been translated into real benefits for vulnerable communities. It is therefore imperative that a greater portion of climate finance is devoted to protecting the most vulnerable from the escalating impacts of climate change.



KEY MESSAGE 4. Climate finances appear to be disconnected from the priorities of the people most impacted by climate change. Longer-term community resilience needs to be the key driver, rather than simply filling in financing gaps.

Most climate change interventions in the Pacific are still delivered in the form of relatively short-term projects, falling outside the purview of national finance systems.¹ Apart from issues of sustainability, the project-based modality does not allow implementing bodies to focus on interventions that are geared towards bringing about long-term social changes. Rather, the focus is on easily observable changes. Similarly, current financing trends miss valuable opportunities, such as the effective engagement and incentivisation of the private sector.



KEY MESSAGE 5. Attracting and incentivising private sector investment in the Pacific remains a missed opportunity and solutions need to be cognisant of the specific context and size of private enterprises in the Pacific.

C. ‘Shifting’ the approach to financing climate action.

An optimal trajectory for climate finance in the Pacific is the right combination of accessing higher levels of financing along with achieving a more sustained impact, particularly at the community level. Countries may consider placing more emphasis on seeking impactful investments and understanding the necessary conditions for climate finance to bring about more sustainable outcomes, including longer term, programmatic delivery.

Ultimately, any approach to financing climate action needs to be supported by better adherence to and application of development effectiveness principles, as laid out in the Busan Declaration of Effective Development Cooperation, by both development partners and recipient countries. Specifically, this requires strengthened country ownership, a focus on results, effective partnerships, and transparency and accountability.

More effective ‘management’ of climate finance is required and could in part be enabled through a greater emphasis on programmatic and longer-term initiatives. Countries should articulate more comprehensive Climate Change Financing Frameworks (CCFFs) which include prioritised and costed financing needs but also reform measures for the application of country systems to meet those needs. Some reform initiatives are already being pursued in the Pacific such as the development of climate finance strategies, climate budget tagging and climate expenditure reviews.

A more development-oriented approach will foster better incentives for countries and partners to deal with the root causes of vulnerability and focus on addressing these through a range of financing sources and instruments.

¹ PIFS & SPC, 2019. Regional Synthesis Report of the Pacific Climate Change and Disaster Risk Finance Assessments https://www.forumsec.org/wp-content/uploads/2019/09/PCCFAF-Synthesis-Report_2019_Web-Version.pdf



KEY MESSAGE 6. A development focused approach to climate financing will allow for a greater focus on the drivers of vulnerability and more programmatic, evidence-based and inclusive interventions.

Along with climate finance being more cognisant of resilient development outcomes, this type of approach centres the treatment of risk (such as climate change) as an integral part of development planning and financing. Such an approach to climate finance can be used to demonstrate how to integrate climate adaptation and mitigation into wider national development plans through mechanisms such as the Sustainable Development Goal (SDG) and associated development financing frameworks.



KEY MESSAGE 7. Climate finance should demonstrate how to better integrate climate ambition at scale into wider development policies, plans and budget frameworks and be used to leverage broader development finance.

D. Possible areas of reform and taking the discussion forward

This paper, rather than setting out a series of recommendations, sets the scene for taking the discussion forward to determine an optimal trajectory, finding a balance between two critical dimensions of climate finance: ‘access’ and ‘level of impact’. The following areas are proposed for further dialogue and in-country testing to determine what can be done collectively across and between countries, implementing partners and the international community responsible for climate finances to help progress along an optimal trajectory. Possible areas of reform include:

Direct access and accreditation will continue to be a focus of the Pacific region. However, more strategic consideration of direct *access entities* should be given in terms of resourcing (time, staff and monetary) required for the accreditation process. Ensuring that the entity is the most appropriate fit for the direct access needs of the country should be a priority consideration. Furthermore, more emphasis should be placed on opportunities that better suit the Pacific context in terms of size and scale. This may require adapting climate finance rules to promote smaller scale community resilience programmes.



KEY MESSAGE 8. Streamlining and simplifying access procedures across funding instruments could support a more efficient allocation of climate finance resources.

In-country systems reform. Countries need to create an enabling environment that will attract and allow them to better manage multiple sources of financing. This may include both private and international sources of finance, focusing on both climate change and development finance.

Strengthening the enabling environment includes the integration of climate risk into planning and budgeting; enhancing capacity of central finance and planning functions at national and sub-national levels; and inclusion of climate risk into oversight, transparency, and accountability mechanisms. It will also include enhancing the quality of the project pipeline being proposed for financing, based on more programmatic, inclusive, and evidence-based initiatives.



KEY MESSAGE 9. In-country systems reform can help improve climate finance effectiveness through the integration of climate change considerations into Public Financial Management (PFM) systems and central planning and budgeting processes.

Recalibrating financing and partner support. Support from the international community can be better adapted to the Pacific context. This can include adapting the size and scale of investments; integrating climate risk into development financing portfolios; supporting community-based financing for adaptation; and allowing more scope for risk-taking and innovation.



KEY MESSAGE 10. Financing and support from the international community can be better adapted to the Pacific context by allowing more scope for risk-taking, innovation and a diverse range of financial instruments. Similarly, donor partners are urged to integrate climate change considerations more comprehensively into their mandates and performance systems.

Agile learning platforms and collective action across the region can help to take approaches to scale. There is an identified need for stronger partnerships and greater collaboration, bringing all stakeholders to the table. Furthermore, adapting to climate change and orienting climate finances appropriately, is a vastly complex and ambitious process. As such, space should be provided for continuous testing of approaches, with a greater emphasis on dedicated learning from these experiences. The establishment of country-led platforms for continuous knowledge sharing and learning can: 1) generate and diffuse knowledge across countries in the Pacific; 2) facilitate peer-to-peer cooperation between countries and better organise technical assistance and capacity building initiatives from partners; and 3) allows space for determining common positions across countries in the Pacific to further substantiate the Pacific's position in regional and global arena.



KEY MESSAGE 11. There is a need for stronger partnerships and greater collaboration. Learning networks can help to take more effective climate finance approaches to scale within and across countries in the Pacific.





INTRODUCTION

Climate change is a key challenge to the achievement of national development priorities in all Pacific Island countries (PICs). In an effort to reduce the risks presented by a changing climate and support the transition to climate-resilient development pathways, PICs have indicatively mobilised over USD2.2 billion in climate finance in the past 10 years, from multilateral and bilateral channels. Localised research and ongoing discussions have largely focused on the amount of climate financing programmed within the region, and the associated challenges and capacity constraints involved with accessing and managing these funding flows. However, there is a growing perception – especially among recipient PICs - that much of this climate finance is not being accessed and used in a way that efficiently and effectively achieves its intended climate-resilient development objectives.²

There is growing evidence that the vulnerability of PICs to climate change continues to increase, despite the ‘significant’ climate investments they have received to date.³ Moreover, very little information is available in the region on the impacts for communities of the climate finance that has been mobilised.⁴ Few countries have made substantive progress in the development and financing of their NDCs and despite current efforts in the region, PICs are still not achieving their sustainable development targets. Furthermore, PICs are experiencing several challenges in implementing climate actions at scale and there are questions as to whether climate related investments and outputs are being sustained.

As such, there is an emerging view that a broader perspective is needed for assessing the effectiveness of climate-finance – one that looks beyond just the quantity of resources dedicated for climate action. Climate finance assessments that have been undertaken in the region, under the Pacific Climate Change Finance Assessment Framework (PCCFAF), have utilised development effectiveness principles (as laid out in the Paris Declaration

² OECD, 2019. Aligning Development Cooperation and Climate Action: The Only Way Forward

³ Klock, C. & Nunn, P.D. 2019. Adaptation to Climate Change in Small Island Developing States: A Systematic Literature Review of Academic Research, *Journal of Environment and Development*, 28(2), 196-218.

⁴ Samuwai et al, 2020. Demystifying climate finance impacts in Small Island Developing States: Pacific women’s perspectives from Funafuti and Weno, *Small States & Territories*, 3(2), 283-302.

on Development Effectiveness in 2005) to frame a common understanding of effectiveness, for both recipients (PICs) and suppliers (donor partners) of climate finance. These have been centred around strengthening ownership and leadership; alignment and harmonisation; and managing for results and mutual accountability. **This framing of climate finance effectiveness looks at the conditions needed for turning finance flows (of whatever quantity) into meaningful and sustained development outcomes.**

At the 2019 Pacific Forum Economic Ministers Meeting (FEMM), the need to review and reflect upon the overall effectiveness of climate finance to date was emphasised, and the concept of the “Triple Dividend of Resilience” was introduced as a conceptual framework for assessing the effectiveness of investments. This concept suggests that climate change investments and interventions must seek to produce three outcomes or ‘dividends’ which together help to build resilience. These dividends relate to the degree to which an investment or activity:

1. Reduces losses and damages from climate change impacts;
2. Unlocks economic potential; and
3. Derives development co-benefits.

According to this concept and in the context of the Pacific, increasing climate finance effectiveness often requires efforts to strengthen existing systems for planning, managing and tracking finance; reforms to ensure the quality and integrity of development interventions; as well as concerted efforts to diversify stakeholder participation and better involve the private sector and civil society in the design and delivery of climate finance initiatives.

These regional discussions have opened the space for a more focused discourse on the **efficiency of spend and the quality of results achieved**, especially with regards to efforts to address community vulnerability and resilience.

The overarching aim of this paper is to identify common reform priorities and prompt further dialogue on ways to improve effectiveness of climate finance in the Pacific. The focus is primarily on climate risk reduction and adaptation to climate change,⁵ and the analysis focuses on what the optimal financing arrangements and reform priorities for the region might look like when considering critical issues. It does so by exploring the issues through three specific review questions: a) What approaches have been used to deliver climate-related development finance in the Pacific region over the last 10 years? b) What were the main enablers and barriers to the effective use of financial resources under different approaches? and c) What are the priority areas for further discussion and reform?

The paper was developed through a rapid review of recent literature, key informant interviews with country and partner representatives as well as a sense-making workshop facilitated by the United Nations Development Programme (UNDP), with participation from UNDP, Pacific Islands Forum Secretariat (PIFS) and the United Kingdom (UK) Government.

⁵ The challenges in the Pacific in relation to climate change are framed more in the context of its vulnerability to the impacts of climate change, as opposed to its contribution to global levels of green-house gases.

A regional ‘Talanoa’⁶ event on Climate Finance Effectiveness was held in September 2021 which also provided input for this paper. It is intended that this was the start of a series of dialogues in the Pacific and internationally in the lead up to the United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP) 26 in November 2021, informed by the key messaging of this discussion paper. The paper also marks the start of a research exercise envisaged for the next two years through the PIFS coordinated Technical Working Group (TWG) for Climate Finance and Public Financial Management (PFM) in the Pacific region.

This discussion paper is organised as follows: **Part A** sets the scene, provides an overview and identifies trends around key modalities, instruments, and entities used to deliver climate-related development finance in the Pacific over the last 10 years. **Part B** takes a deeper dive into the challenges and issues understood to be affecting the effectiveness of current financing approaches. **Part C** offers means of broadening approaches to climate finance beyond access and accreditation. **Part D** identifies potential areas to take the discussion forward and provides guidance on future reform areas, both for country and development partner stakeholders.

⁶ *Talanoa* is a conversational process used daily by Pacific peoples and involves sharing of stories and development of knowledge.



PART A:

CLIMATE FINANCE TRENDS IN THE PACIFIC

KEY MESSAGES

- Despite significant amounts of climate finance being raised, climate change is still having profound effects on the achievement of development priorities in the Pacific. It is not clear if simply filling in the financing gap will suffice.
- The majority of climate finance flows to the Pacific are provided through short-term and project-based initiatives and are generally ‘off-budget’. These narrow approaches tend to be poorly integrated into development, thereby making it harder to achieve long-term impact for communities.



Despite significant amounts of climate finance raised, climate change is still having profound effects on small Pacific Island states...

Honourable Seve Paeniu,
Minister of Finance, Tuvalu

Climate finance has been an issue of regional importance for several years and has been a key subject at Pacific leaders’ dialogues and source of regional pressure for urgent international action. It plays a central part in the message of the *Kainaki II Declaration for Urgent Climate Change Action Now*, issued by Pacific Forum Leaders in 2019, with a focus on continued efforts to meet global climate finance commitments. Localised research and ongoing technical discussions have focused on the quantity of climate financing coming to the region and how this is being accessed.⁷ These issues are pertinent, as PICs find themselves on the frontline of the impacts of climate change and seek ownership and control over how financing is delivered and programmed. However, differing accounting methodologies and a lack of comprehensive data analysis for the region remains a challenge for the provision of up to date and accurate climate financing information. This paper utilises current regional data where possible, to at least identify the predominant trends.

⁷ Stockholm Environment Institute (SEI), 2017. Climate finance in the Pacific: An overview of flows to the region’s SIDS; Samuwai & Hills, 2018. Assessing Climate Finance Readiness in the Asia-Pacific Region; PIFS & SPC, 2019

Since 2010, the Pacific has indicatively accessed around USD2.2 billion in climate finance.⁸ This is a conservative estimate, based on approved projects in the region and equates to around USD200 million in climate finance per year for the region. This falls short of an approximate indicator of USD235 million per year, estimated solely for coastal adaptation costs for PICs (and not including other identified adaptation needs).⁹ The current global estimated requirements of developing countries for adaptation are around USD70 billion per year.¹⁰ Initial estimates for the investment required to meet Pacific Nationally Determined Contributions (NDCs) mitigation targets will require more than USD3 billion over 10 years.¹¹

It is estimated that between 2011 and 2016 the Pacific received an average of USD2 billion per year in foreign aid.¹² As such, climate finance flows are still a relatively small component of external funding flows to the region. The low climate component in Overseas Development Assistance (ODA) may indicate a missed opportunity for leveraging even greater spend towards climate change action by governments and development partners.

Climate finance flows to the Pacific region have markedly increased in recent years - in line with the rollout of the GCF and step up in climate finance provided through other multilateral and bilateral mechanisms.¹³ Preliminary analysis undertaken by PIFS in 2020 indicated that approximately **59% of climate finance flows for the 2010-2019 period was from bilateral sources and 41% from multilateral sources.** It is worth noting that while bilateral sources account for the bulk of climate finance in the Pacific, most bilateral finance addresses climate change as a secondary objective or a co-benefit when compared to the funding objectives of dedicated climate change vertical funds. This highlights the complexities of the current methodologies used to account for climate finance.

Of the climate finance received through multilateral channels, a large proportion is from the Green Climate Fund (GCF). Each country in the Pacific now has an approved GCF project (inclusive of regional projects and readiness support funding) and, for some countries such as Samoa and Fiji, there are now multiple GCF projects underway. Annex 1 outlines the current GCF and Adaptation Fund (AF) projects currently approved for the region.

All GCF projects are large-scale by Pacific standards¹⁴ and, in line with this characteristic, most GCF projects in the Pacific have been concentrated on (capital-intensive) infrastructure-related investments.

⁸ Pacific Island Forum calculations (2020). Conservative estimate based on approved projects. Data drawn from PIFS and UNDP led national climate finance assessments in ten Pacific Island countries; SEI, 2017; Lowy Institute, 2018; Climate Funds Update; Green Climate Fund, Adaptation Fund, Global Environment Facility, Climate Investment Fund, ADB, World Bank websites.

⁹ World Bank, 2016. Pacific Possible <https://documents1.worldbank.org/curated/en/168951503668157320/pdf/ACS22308-PUBLIC-P154324-ADD-SERIES-PPFullReportFINALSscreen.pdf>

¹⁰ UNEP, 2020. Adaptation Gap Report <https://www.unep.org/resources/adaptation-gap-report-2020>

¹¹ Initial estimations undertaken by Pollination Frontier Asset Management, 2020 as part of the design of the Pacific Energy Access Fund

¹² Lowy Institute, 2019. <https://www.lowyinstitute.org/the-interpreter/follow-money-how-foreign-aid-spending-tells-pacific-priorities>. It should be noted that some of this may relate to climate resilience spend, depending on the accounting methodology

¹³ ODA data reported by OECD DAC indicates that climate-related ODA to the Pacific has increased by 22.5% from 2016 to 2019.

¹⁴ with the smallest GCF allocation being in the order of USD\$17 million



Climate finance cannot be about loans. Loans transfer the risk on to the beneficiaries. We cannot give our children the burden of serving our loans...

Rajjeli Nicole, Regional Director, Oxfam in the Pacific



Large-scale programmatic grants provide an important part of financing for the Pacific, if provided in a flexible way that would reduce the administrative burden on PICs and their national systems. Nevertheless, this scale characteristic means that the GCF (as it currently operates) will not be suitable for all climate financing needs in the Pacific, especially for micro-states wanting to implement national-level (as opposed to regional-level) projects in non-infrastructure related sectors.

So far, only one GCF project, out of a total of 16, is being implemented by a national implementing entity¹⁵ - despite significant interest and efforts by PIC governments to gain accreditation to be a national implementing entity and directly access GCF funds. This issue is mirrored globally with 80% of approved GCF projects still being delivered through international accredited entities.¹⁶ Regional accredited entities including the Micronesian Conservation Trust (MCT), the Secretariat of the Pacific Regional Environment Programme (SPREP) and the Pacific Community (SPC) also play an important role in the Pacific, representing a more localised approach in comparison to some international entities. They present an opportunity for ensuring scalability for a Pacific context, if adequately supported through GCF processes (as per recent recommendations in the Independent Evaluation Report). The MCT and the Cook Islands Ministry of Finance and Economic Management have both been successful with directly accessing Adaptation Fund projects. MCT have also recently has a GCF project approved for the North Pacific region.



Consider channeling climate finance into direct budget support that can be aligned to achieving national development priorities...

Honourable Seve Paeniu, Minister of Finance, Tuvalu

The vast majority of all climate finance flows to the Pacific (i.e. from all sources) are provided through project-based modalities (estimated at 86% by PIFS in 2019¹⁷), with only minimal amounts provided as general budget support and sector support.¹⁸ Project-based modalities in the Pacific are widely reported to be burdensome to administrate and are often poorly integrated with other sectoral and national development interventions. This can be attributed to smaller amounts being accessed from numerous donors and sources, with little coordination and efficient integration into national systems. PICs have called for greater budget support, to strengthen ownership of funding, in order to better meet national priorities, including identified adaptation needs.

The clear climate-related needs and priorities expressed by PICs pertain to adaptation. The share of climate finance allocated to projects with mitigation-related objectives (estimated at 36% by the Stockholm Environment Institute SEI in 2017)¹⁹, need to be reviewed to ensure necessary resourcing is not being diverted from providing adequate adaptation support. Providing access to affordable, clean energy, is certainly critical, but relatively speaking a lower priority. Similarly, there is a call from the Pacific to ensure that climate financing is provided as grants and not as loans, which add economic burden on the region.

¹⁵ This is the Fiji Development Bank

¹⁶ World Resources Institute, 2021. Improving Access to the Green Climate Fund: How the fund can better support developing country institutions. Working Paper

¹⁷ PIFS & SPC, 2019

¹⁸ See <https://www.forumsec.org/>

¹⁹ SEI, 2017.

The above-mentioned patterns of climate financing in the Pacific raise a number of concerns. They are some of the reasons why **climate finance effectiveness is emerging as an issue of priority** for the Pacific.²⁰ The process of direct access accreditation²¹ (to vertical funds) in particular has been highlighted as a key issue for the Pacific. Evidence emerging from Pacific entities undertaking the process of applying for accreditation have emphasised the time frames required for the process and the intense resource allocation required to meet the criteria as significant considerations. SPREP's report on their accreditation to the Adaptation Fund outlines this as a 3-year process and that a "substantial commitment of staff time and resources was required"²². PIFS is currently undertaking research to provide more substantive evidence from the region on the accreditation process. Challenges associated with direct access accreditation were highlighted recently by both the World Resource Institute (WRI)²³ and the Independent Evaluation Unit of the GCF, on its investments in Small Islands Developing States (SIDS)²⁴, amongst others. These reports generally point to the fact that GCF still needs to consider options for making it easier for SIDS to access directly, rather than SIDS continuing to dedicate resources and capacity to 'unreachable' goals. (See Box 1 below for key conclusions from the report by the Independent Evaluation Unit of the GCF). Importantly, lessons can also be learnt from funds such as the Adaptation Fund and the Global Environment Facility that have been providing financing to the Pacific for a much longer period of time than the GCF.

BOX 1: Key conclusions on GCF effectiveness for SIDS

A recent evaluation by the Independent Evaluation Unit of the GCF, of the relevance and effectiveness of the Green Climate Fund's investments in small island developing states came to the following conclusions²⁵:

1. GCF modalities and processes are **not sufficiently effective** to address the specific challenges of climate change in SIDS and the urgency for climate action;
2. GCFs **model for accreditation and access is disadvantaging SIDS** with low capacity, experience or confidence;
3. The most significant barrier that SIDS face in accessing the GCF is **lack of capacity to develop concept notes and funding proposals** to GCFs standard;
4. There is **space for more innovation** related to financial structures and instruments;
5. GCFs approach to private sector in SIDS is **not efficiently articulated or coordinated**;
6. Certain **policy and governance issues important to SIDS** require further GCF Board discussion and decisions.

²⁰ PIFS, 2019. FEMM Paper - Triple Dividends of Resilience; PIFS & SPC, 2019.

²¹ PIFS, 2021. Draft report on NIE Accreditation

²² SPREP, 2014. Gaining Access to the Adaptation Fund in the Pacific https://www.sprep.org/attachments/Publications/CC/AFB_Report.pdf

²³ WRI, 2021. Improving access to the Green Climate Fund: How the fund can better support developing country institutions. Working Paper. <https://www.wri.org/research/improving-access-green-climate-fund-how-fund-can-better-support-developing-country>

²⁴ <https://ieu.greenclimate.fund/evaluation/sids2020>

²⁵ <https://ieu.greenclimate.fund/evaluation/sids2020>



PART B:

‘SURFACING’ THE ISSUES

KEY MESSAGES

- The requirements for access and accreditation of climate financing in the region is a distraction for country systems in achieving better quality results.
- Climate finances appear to be disconnected from the priorities of the people most impacted by climate change. Longer-term community resilience needs to be the key driver, rather than simply filling in financing gaps.
- Attracting and incentivising private sector investment in the Pacific remains a missed opportunity and solutions need to be cognisant of the specific context and size of private enterprises in the Pacific.

The previous section provides an indication of the financing trends in the Pacific to date and suggests that current approaches focus largely on ‘accessing’ more climate finance. Multilateral mechanisms and bilateral partners present climate finance as a vehicle for bringing about paradigm shifts and transformation, especially for those that are vulnerable to the impacts of climate change. This section takes a deeper dive into some of the enablers of the current financing approach but also some of the resulting challenges for PICs in ensuring all quantities of finance contribute to this ‘paradigm shift’ and achieving high quality results. It is out of the scope of this discussion paper to look at the effectiveness of the funding provided to date, such as project impacts. Similarly, an evaluation on the effectiveness of existing climate financing mechanisms has not been undertaken. These areas are recommended for further research and analysis, especially for the Pacific.



While improved access remains a priority, the other key element is the effectiveness of climate finance in the Pacific. Climate finance effectiveness should result in improved resilience for our Pacific communities and people...

Henry Puna, Secretary General, Pacific Islands Forum



BOX 2: Parameters for effectiveness

As laid out in the Paris Declaration on Aid Effectiveness (2005), the Accra Agenda for Action (2008) and the Busan Declaration of Effective Development Co-operation (2011), effectiveness of any development finance entails:

1. Country ownership over the development process;
2. A focus on results;
3. Inclusive partnerships; and
4. Transparency and mutual accountability among partners.

Box 2 outlines internationally agreed best-practice principles for sound development. They focus on the quality of processes and partnering that takes place to deliver development results and outcomes (rather than on the results themselves). Yet, in certain financing spaces, such as climate finance, the trends and patterns of delivery (as described below) have diverged from these principles. In any approach being undertaken for accessing and delivering climate finance in the Pacific, these principles provide the underlying framework for how effectiveness can be improved.

This section takes the trend analysis a step further and undertakes a deeper dive into the enablers and inhibitors that currently exist within the climate finance ecosystem. These enablers and inhibitors are influencing the current approaches to financing.

Figure 1. Iceberg tool for guiding systemic thinking

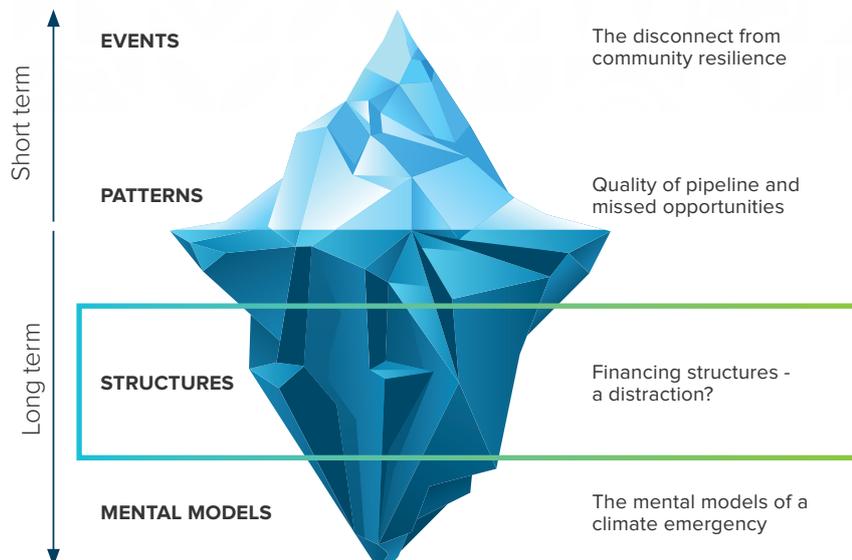


Figure 1 presents the iceberg model for systems thinking²⁶ which has been applied to climate financing for this analysis. This model provides a framework to consider the whole climate finance system and to discover the patterns of behaviour, supporting structures, and mental models (or attitudes and values) that underlie current climate financing approaches.

²⁶ <https://ecochallenge.org/iceberg-model/>

The iceberg model helps to determine where elements in the system influence each other and identify where the root causes are. A sense-making session with UNDP, PIFS and the UK Government was undertaken to identify key themes and components at each of the iceberg layers. Four key themes which encompass the enablers and inhibitors of climate finance effectiveness are proposed. These have been set out in a way that loosely follows the iceberg logic, however, it should be noted that each of these themes have components which would sit across the different layers of the iceberg. Furthermore, there are loops and linkages that run through and across each of the iceberg layers.

The mental models of a climate emergency

International and regional dynamics dominate the framing of climate finance and its working definition, which has influenced the way it is currently delivered. Climate change and climate finance are international issues with high political visibility. Climate change and disaster risk is widely understood to be the greatest challenge affecting sustainable development of PICs with Pacific Island Leaders reaffirming that “climate change remains the single greatest threat to the livelihoods, security and well-being of the peoples of the Pacific”.²⁷ (Box 3 below outlines the implications of the current COVID-19 context). Pacific Island leaders regularly emphasise the urgent need for action on reducing emissions globally and for provision of financing that effectively supports necessary adaptation action in the region. This is strongly reiterated in the *Kainaki II Declaration for Urgent Climate Change Action Now*,²⁸ which included calls for financing that can be directly accessed by PICs.

BOX 3: COVID-19 and climate change

In the context of the COVID-19 pandemic, countries across the Pacific have had to contend with wide-ranging impacts of the pandemic on economic and social systems, as well as the impacts of climate change induced disasters. Severe Tropical Cyclone (TC) Harold, TC Yasa, TC Ana and Typhoon Surigae are just some of the significant weather events to have hit a number of Pacific countries since the onset of the global pandemic in early 2020. The interconnectivity of these issues has been emphasised by the Secretary General of the Pacific Islands Forum,²⁹ and holistic “build back better” approaches are now more relevant than ever before. COVID response financing has been mobilised quickly and at a significant scale globally,³⁰ providing potential lessons for faster mobilisation of climate financing. Investments in COVID-19 response, in climate change resilience and in achieving national development priorities must be aligned and reinforce each other. As such, ongoing COVID response measures present key opportunities for ensuring resilience is embedded.

²⁷ PIFS, 2018. BOE Declaration <https://www.forumsec.org/2018/09/05/boe-declaration-on-regional-security/>

²⁸ PIFS, 2019. <https://www.forumsec.org/wp-content/uploads/2019/08/50th-Pacific-Islands-Forum-Communique.pdf>

For example, the World Bank Group Country Partnership Framework for Fiji announced in January 2021 is intended to support Fiji's recovery from the economic and social impacts of COVID-19, as well as severe TCs Harold and Yasa, in addition to the ongoing impacts of climate change. It will focus on fostering private sector-led growth and inclusive economic opportunities at the same time as building resilience.³¹



It was quite a politically charged process to establish the fund...The GCF has evolved a lot. Since I joined in November 2016, we've gone from 80 staff to 250 staff, doubled in size and our systems are now being built around this...

Diane McFadzien,
Regional Manager for Asia
Pacific, GCF



The international dynamics and politics of climate change are creating complexity and uncertainty and leading to a focus on rapid resource mobilisation through specific mechanisms.

Under the 2015 Paris Agreement, developed countries have committed to providing international public finance to vulnerable developing countries, including PICs, to help them better manage climate-related risks. The Paris Agreement and its associated structures, including the GCF and policy instruments such as NDCs have all gained momentum since 2015. This has resulted in relatively rushed establishment of systems, processes and structures that may not be quite fit for purpose, especially in the Pacific.

It has also created a huge resourcing burden, as countries rush to meet the necessary requirements. This is evidently placing pressure on systems and capacities at the national level across the Pacific region. This is further exacerbated by climate funding mechanisms (including the AF and GCF) establishing a line in the sand between business-as-usual development and climate change adaptation measures.³² This adds complexity, especially in project proposal development but also national development planning processes, for regions such as the Pacific where adaptation is inherently linked to good development. Finally, the global push for private sector financing to fill the international public finance gap is also not cognisant of the specific size, context and challenges for Pacific private enterprises. Box 4 outlines a number of barriers for private sector engagement.

These political dynamics compound the financing systems and resulting financing patterns (explained in the following sections) and may be limiting the ability of PICs to achieve more effective outcomes for their communities.

²⁹ <https://www.forumsec.org/2020/04/17/covid-19-and-climate-change-we-must-rise-to-both-crises/>

³⁰ Andrijevic, M et al., 2020. COVID-19 recovery funds dwarf clean energy investment needs, *Science*, vol 370, Issue 6514.

³¹ <https://reliefweb.int/report/fiji/new-world-bank-group-plan-fiji-focus-recovery-and-resilience-covid-19-and-cyclones>

³² Hammill A. & McGray, H., 2018. Is it Adaptation or Development? <https://www.iisd.org/story/is-it-adaptation-or-development/>

WRI, 2013. The Difficulty of Defining Adaptation Finance. <https://www.wri.org/insights/difficulty-defining-adaptation-finance>



The requirement of accountability is so huge, you are suffocating the guy in the middle...

Aholotu Palu, CEO,
Pacific Catastrophe Risk
Insurance Company



BOX 4: Barriers for private sector engagement in climate investments³³

- Lack of appropriate incentives and enabling environment to boost private sector climate proofing investments;
- Lack of national initiatives and interaction by government with the private sector such as country programmes, pipeline projects, planning and implementation;
- Limited understanding by the private sector of their role and how to maximise their role to access climate change resources;
- Burdensome requirements and fiduciary agencies regardless of size, capacity or need;
- Limited understanding by the private sector on available sources and how to access them for climate change projects; and
- Limited capacity and ability to prepare bankable projects that contribute to mitigating the impacts of climate change and building resilience to business operations

Financing structures, a distraction?

The structures that have been built to deliver climate finance, particularly dedicated vertical climate funds, are proving to be cumbersome, costly (in terms of transaction costs) and inefficient, especially for Pacific Island Countries. This is leading to a persistent focus on access, management and reporting and distracting from focusing on how to achieve better quality results.

The international and regional dynamics of climate finance have influenced structures on both the demand and supply side, which are causing inefficiency and exacerbating existing challenges. PICs face ongoing challenges with regards to capacity (systems, human and absorptive); systems strengthening (e.g. PFM and monitoring and evaluation (M&E)); ensuring policy coherence (across climate change policies, national development plans and sectors); and institutional arrangements and effective coordination.³⁴ Currently, approaches to providing climate finance in the Pacific are fragmented and complex.³⁵ National governments are responding to and having to manage multiple requirements of donors, climate funds and other multilateral partners.

³³ PIFS, 2021. Policy Brief: Opportunities for Private Sector Engagement in Climate Change Action in the Pacific

³⁴ Key references: PIFS & SPC, 2019; Zou and Okenden, 2016. What enables effective international climate finance in the context of development co-operation? OECD Working Paper; GPEDC, 2019. Making development co-operation more effective; GCF IAE, 2020. Independent evaluation of the relevance and effectiveness of the GCF's investments in SIDS.

³⁵ Key references: DFAT 2018. Investing in the future: Evaluation of Australia's climate change assistance; Zou and Okenden, 2016; OECD, 2019.

Calleja, R. 2021. How do Development Agencies Support Climate Action? <https://www.cgdev.org/publication/how-do-development-agencies-support-climate-action>



We faced key challenges accessing the GCF financing facility. It was a lengthy process, negotiation took 2 years, already there has been a number of years of cumbersome, extensive and multilayered processes...

Honourable Seve Paeniu,
Minister of Finance, Tuvalu



This has huge impacts on SIDS with small government administrations and may be distracting from achieving better quality outcomes.

Furthermore, despite being acknowledged as a cross-cutting issue, some argue climate change has become a sector in and of itself. This has resulted in a duplication of systems and processes and is putting additional pressure on the existing pressure points within national systems. PICs are being burdened by structures established for managing financing risks, rather than enabling better management of and response to climate change related risks. A summary of the structural barriers preventing effective climate finance delivery are summarised in Box 6.

BOX 5: A proliferation of Project Management Units

Increasing finance, particularly through project modalities, is resulting in the proliferation of Project Management Units across the Pacific. Instigated as a mechanism to effectively manage the requirements, particularly the reporting and fiduciary requirements, of bilateral and multilateral funded projects and provide necessary capacity to do so, Project Management Units also exemplify some of the inefficiencies of the current financing structures. Namely, that these Units are often time bound, in line with the project, sit within but outside the business-as-usual operations of an allocated Ministry and often do not support the integration of project activities or outcomes into the ongoing operations of the Ministry.

BOX 6: Summary of key structural barriers to effective climate finance delivery in PICs³⁶

1. Existing capacity and process limitations constrain effective integration of climate action into development and sectoral planning and decision-making processes, resulting in a **disconnect between climate change planning mechanisms (e.g. NDCs) and broader development strategies** in PICs;
2. Climate finance is **not adequately aligned to existing strategic plans** in PICs, exacerbated by the point above. This is particularly evident in multi-country regional project approaches, resulting in climate programmes and investments that do not truly address what is needed;
3. **Lack of mature pipeline projects**, due in large part to the issues of capacity and lack of coherence in policies, as outlined above;

³⁶ Key references: Zou and Okenden, 2016; OECD, 2019; DFAT, 2018; GCF IAE, 2020; GPEDC, 2019; Anantharajah, K., 2019. Governing climate finance in Fiji: Barriers, complexity and inter-connectedness, Sustainability, 11(2), 3414.



There is an absolute lack of capacity in country, in areas such as financial management, technical environment and social safeguards, engineering services etc. This is always an uphill battle for countries to engage in large scale projects as they always look overseas for technical support...

Iulai Lavea, former CEO,
Ministry of Finance, Samoa



4. There is **limited use of country systems** for climate finance and development finance more broadly – especially critical for small PICs due to the flows of external finance being received and their absorptive capacity challenges;
5. There is a lack of consensus on the circumstances and standards under which to use country PFM systems. PFM systems strengthening has been ongoing for many years in the region. However, there has not been a significant correlation with increase in budget support for PICs;
6. A similar situation exists for utilisation of country M&E systems, with climate funds and partners still **requiring separate reporting templates** that do not necessarily align with country results frameworks;
7. **Lack of sustained, appropriate, and coordinated capacity development.** Climate finance delivery is currently adding to existing human and absorptive capacity issues;
8. **Weaknesses in countries' development cooperation mechanisms**, exacerbating fractured national approaches;
9. **Lack of bona fide collaboration among different donor agencies** and hence the proliferation of procedural requirements and standards needing to be met; and
10. **Lack of integration of climate risk consideration into development providers own processes, systems and activities** across portfolios, leading to a lack of investment in climate action in some key areas (e.g. health).

This pressure on existing systems is particularly evident in the discussion around direct accreditation. While direct access continues to be a large focus of the financing approach for PICs and brings evident benefits for ownership of the finances, questions are starting to emerge due to the additional burden on national systems of meeting the necessary accreditation fiduciary and general project management requirements. This has come to the fore in the recent Independent Evaluation of GCF for SIDS, as per the summary in Box 1 on page 13. Streamlining and simplified access procedures across funding instruments could support more efficient allocation of climate finance resources.



Climate finance has been dominated by quantum mobilization, the default being the more money we get, the better...

Vineil Narayan, Acting Head of Division and Climate Finance Specialist, Ministry of Economy, Fiji



BOX 7: Fit for purpose financing mechanisms in the Pacific³⁷

Given the ongoing challenges for the Pacific region in accessing international climate funds directly and at a scale and scope relevant to the Pacific context, the region is working to establish a regionally focused, fit-for-purpose finance mechanism. The Pacific Resilience Facility (PRF) is a Pacific owned and led initiative aimed at mobilising up to USD 1.5 billion to allow the region to invest in upfront low-quantum and high impact community-level resilience building projects. For the PRF to achieve results, the approach it has adopted should be considered by all funding agencies in recognition of the development context of PICs.

The PRF, while useful in addressing the call for more simplified and context-relevant funding mechanisms, could also increase the risk of further fragmenting the regional climate finance landscape if it adds resourcing and capacity burden to PICs. It is therefore critical that in creating new regional funding mechanisms that the operational design is in line with the 'capacity realities' of PICs.

The focus of climate financing efforts in the Pacific region to date has been on accessing and increasing the volume of climate finance flows. Far less attention, however, has been allocated to understanding the quality of climate finance delivery, and whether existing approaches are ultimately successful in strengthening the resilience of development efforts in an efficient, effective and lasting way.³⁸

Recent global reports have emphasised the need for development that is more 'Paris Agreement aligned' with a focus on more effective mainstreaming of climate change across all development and development financing.³⁹ There is currently an identified disconnect between climate change planning mechanisms (for example NDCs and Long-term Strategies (LTSS) as required by the UNFCCC) and broader development strategies, associated sector policies and resource plans.⁴⁰ While efforts are underway, there still remains a lack of integration of climate risk considerations into many development providers own processes, systems and activities across portfolios.⁴¹

³⁷ <https://www.forumsec.org/pacific-resilience-facility/>

³⁸ SEI, 2017; PIFS & SPC, 2019; Anantharajah, K., 2019.

³⁹ OECD, 2019; Larsen et al., 2018. *Toward Paris Alignment: How the multilateral development banks can better support the Paris Agreement.*; World Bank, 2013. *Building Resilience: Integrating climate and disaster risk into development.*

⁴⁰ Planning for climate action is often siloed (i.e. still separate) from broader development and sector plans. As long as NDCs and LTSS [and JNAPs] do not reflect countries central planning tools, mechanisms and sector policies, implementing policies to bring about required structural change will be impossible. Evidence shows that the disconnect from country strategies, sector planning and resourcing was the main challenge to countries in formulating their NDCs (OECD, 2019).

⁴¹ Those with financial operating models, like development banks and development finance institutions, have largely led alignment efforts to date (OECD, 2019).

This is understood to be leading to a lack of investment in climate action in some key areas (e.g. health), and is likely to be hindering⁴² a shift towards climate-resilient development pathways in many cases.

Quality of pipeline and missed opportunities

Pacific Island countries have emphasised the challenges of the unpredictability of funding for climate change initiatives. Patterns of financing are currently very projectised, narrowly focused (particularly on vertical funds) and targeted at short-term investments, rather than bringing about the necessary long-term change and impacts at the community level. For PICs, accessing adequate and predictable climate finance continues to be a challenge. In the context of accessing vertical funds, countries are locked into competitive bidding for grants within short-term funding cycles. To effectively address climate change impacts, adequate and predictable long-term support is necessary. Short-term grant and project funding also influence the quality of pipeline being developed, with a bias towards “easy win projects”. There is a lack of quality pipelines with a long-term focus that are investment ready.

As such, most climate change interventions in the Pacific are still relatively short-term projects, falling outside the purview of national finance systems.⁴³ Apart from the issues of sustainability, the project-based modality does not allow implementing bodies to focus on interventions that are geared towards bringing about long-term social changes but rather on ‘easily’ observable changes.⁴⁴ Projectisation of climate change related interventions, particularly in relation to adaptation initiatives, often results in an over emphasis on outcomes or objectives rather than the process, resulting in failure to build long term resilience.⁴⁵

Similarly, there has been relatively little focus on ensuring that climate finance strategies and approaches are developed in such a way that there is coherence and linkage with other relevant areas such as disaster risk financing and development finance more broadly. The current patterns of funding have also caused a lack of engagement and possibly crowding out of the private sector.⁴⁶ For example, the continued reliance on external donor finance to fund large scale renewable energy projects disincentivises the domestic private sector from investing in renewable energy because there are minimal financial incentives to seriously pursue such endeavours, resulting in missed opportunities.

⁴² For example, reforms to financial sector that fail to also include measures to better account for climate risk may in fact enable further investment in maladaptive activities. Similarly, investment in a new school (utilising development finance) can increase risks to communities if it is located in a coastal flooding hazard zone.

⁴³ PIFS & SPC, 2019.

⁴⁴ CIVICUS, 2015. State of Civil Society Report

⁴⁵ Ayers et al., 2014. Mainstreaming climate change adaptation into development in Bangladesh. *Climate and Development*, 6(4), 293-305

⁴⁶ GCF IAE, 2020; Samuwai et al., 2019. Thinking Outside the Box: Deepening private sector investments in Fiji’s nationally determined contributions through scenario analysis. *Sustainability*, 11, 4161.



There is a disconnect from the policy framework and whether it gets to the right place...

Rajjeli Nicole, Regional Director, Oxfam in the Pacific

BOX 8: Renewable energy financing in Fiji

Fiji's private sector are generally reluctant to invest in renewable energy projects because of the perception that investments have been driven by external parties and hence there are minimal financial incentives to seriously pursue investment. There is therefore a danger that if the current renewable energy financing prioritisation persists, the uptake of renewable energy in Fiji will further lag behind global trends, and as a consequence Fiji's energy security aspirations as well as their NDC target may not be achieved.



The disconnect from community resilience

The current climate finance structures and patterns are disconnected from community and do not seem to be effective in bringing about improved and long-term resilience for people. There is a growing sense that climate change programmes and investments are not truly addressing the underlying causes of vulnerability or ensuring sustained impact for communities. Emerging evidence from Oxfam and others suggest that climate finances in the region are not working for vulnerable groups including women, particularly those in rural and remote communities.⁴⁷ In a recent report by Caritas⁴⁸ the organisation highlighted their shift in approach to assessing climate finance, focusing now on just one issue: the adequacy of support for the most vulnerable people. They emphasise:

We have based our assessment on the amount and quality of climate finance which offers tangible and practical support to the most vulnerable people affected by climate change, including women, children, Indigenous peoples and isolated communities. The Caritas assessment of the adequacy of climate finance support reaching the most vulnerable groups for 2017/2018 was woefully inadequate.

Caritas, 2018

The extent to which governments engage stakeholders, including local governments, NGOs, business, investors, and relevant experts affects the responsiveness of the finance. It is therefore critical that these stakeholders are formally represented in the funding decision making process to shape its legitimacy. More importantly, working with these stakeholders can ensure that finance is targeted to the needs of the poor and the most vulnerable to climate change.⁴⁹ Based on the current financing approaches, and despite the variety of gender policies and social safeguard mechanisms in place, communities are almost entirely removed from the source of funding.

⁴⁷ Samuwai et al., 2020.

⁴⁸ Caritas, 2018. State of the Environment for Oceania Report. <https://www.caritas.org/2018/10/climate-finance-failing-the-most-vulnerable-says-oceania-report/>

⁴⁹ Zou and Okenden, 2016.



Participation isn't about coming in to help design. It is about citizenship. We design with people for people. That is the paradigm shift that is needed...

Rajjeli Nicole, Regional Director, Oxfam in the Pacific

Concerns have been raised that even within the national context, there is a disconnect between national policies and the realities on the ground, resulting in climate programmes and investments that do not truly address what is needed.⁵⁰

The lack of meaningful and inclusive stakeholder engagement is often cited as the main driver for such disparity. At the national level, strategies and approaches on how national consultations are conducted are more often superficial and checkbox exercise. Perceptions of communities highlight that most national/local climate change consultations are already pre-determined, where the design of interventions have already been decided by implementing agencies/bodies.⁵¹

Furthermore, as the quantity of financing increases, there seems to be a shift in donors utilising CSOs as service delivery mechanisms rather than as genuine partners.⁵² Despite focused discussion and media play of the climate emergency and the impact on the peoples of the Pacific, the system is currently not providing effective financing solutions for communities.



The GCF project that Samoa is now engaged with – that project brings out the need to take into account priorities of the communities. It was useful that the consultation process, even at the planning stage, was inclusive. It is absolutely critical that communities affected are engaged in the discussion right from the start...

Iulai Lavea, former CEO, Ministry of Finance, Samoa



⁵⁰ Goundar et al., 2017. King Canute muses in the South Seas: Why aren't the Pacific transforming to low carbon sea transport futures. *Marine Policy*, 81, 80-90; Samuwai et al., 2020.

⁵¹ Samuwai et al., 2020.

⁵² CIVICUS, 2015. State of Civil Society Report



PART C:

‘SHIFTING’ APPROACHES TO FINANCING

KEY MESSAGES

- A development focused approach to climate financing will allow for a greater focus on the drivers of vulnerability, and more programmatic, evidence-based and inclusive interventions.
- Climate finance should demonstrate how to better integrate climate ambition at scale into wider development policies, plans and budget frameworks and be used to leverage broader development finance.

An optimal climate financing trajectory?

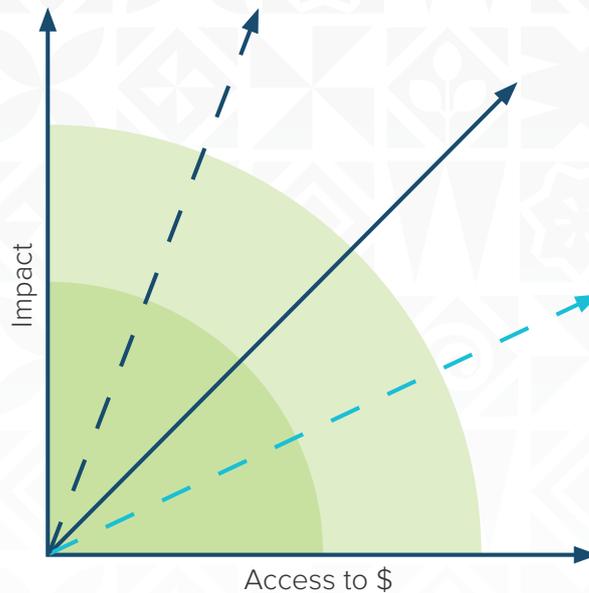
Efforts to gain direct access to increasing amounts of climate finances will remain an important focus in the Pacific. Nevertheless, considering the emerging challenges both in terms of achieving direct access for Pacific entities, as well as in relation to sustaining adaptation measures at the community level, other approaches to climate financing are proposed here. These are based on experiences of financing across the Pacific and other regions.

In this discussion paper more effective approaches to climate financing in the Pacific is proposed in terms of the right balance between two critical dimensions. First, the level of access and accreditation (direct access) to climate finances that countries can achieve. Second, the level of impact, defined as the extent to which climate finances are altering patterns of vulnerability to climate change for communities in the Pacific.

An optimal trajectory for climate finance can therefore be considered as the right combination between a) accessing higher levels of financing that lead to b) higher levels of impact (increased adaptation and reduced vulnerability). Given the current questions related to the effectiveness of

climate finance, it is timely for PICs to consider what impactful investments look like within specific national contexts and what sort of enabling environment is required to achieve these. Figure 2 provides a generic depiction of the kind of performance trajectories that countries could follow.

Figure 2. Climate finance performance trajectories



Moving across this trajectory will also require more focused adherence to and application of the development effectiveness principles. The general indicative financing trends described in the previous section highlight a possible divergence from achieving more effective country ownership, focus on results, effective partnerships, and strengthened transparency and accountability. These principles should be at the basis of all climate financing approaches, as they provide the conditions for all quantities of finance to achieve better quality outcomes.

While it is beyond the scope of this discussion paper, there is significant value to be gained in conducting a more robust and in-depth assessment on how the Pacific is tracking on these specific development effectiveness principles and conditions, as well as further specifying which climate finance delivery approaches are the most aligned. Such an exercise would establish a stronger evidence base which articulates the challenges and identifies concrete areas of reform, that would reach beyond just vertical climate change funds. This is a potential area for further research.

The structural challenges, outlined in Box 5 also persist, which are exacerbating effective delivery of climate finance, as well as broader development finance in the Pacific. Addressing these structural issues will require governments and development partners to work in tandem to reform both donor and national systems which would create an enabling environment for more effective financing. This is further explained in Part D.



I believe more can be done. Financing mechanisms can be better adapted to the Pacific context by allowing more scope for risk-taking, innovation and a diverse range of financial instruments...

Henry Puna, Secretary General, Pacific Islands Forum



The following section highlights the main characteristics of the two suggested financing approaches and how they vary based on the proposed objectives and scope for climate action, the potential sources and instruments for climate financing and the implications and opportunities for in-country systems.

Shifting the focus from access to implementation

Pacific Island countries are already pursuing several initiatives intended to enable more effective management, implementation, and integration of different sources of climate finance. In doing so, PICs have emphasised the importance of channeling climate finance through existing in-country systems. Comprehensive work undertaken on Pacific Climate Change and Disaster Risk Financing Assessments⁵³ provided practical recommendations for national stakeholders in this regard and a number of these recommendations are already being implemented.

A more effective implementation approach moves the dial towards more programmatic and longer-term initiatives (i.e. a 7 year or greater funding window⁵⁴) based on analysis of current and future impact patterns due to climate change. Financing is targeted at more programmatic adaptation measures and focused on drivers of vulnerability (as opposed to the impacts). Climate finance opportunities outside of international climate funds are considered strategically, based on identified priorities and long-term needs. Leveraging financing across a range of sources to provide optimal coverage of areas of priority should be a key element of this approach. This allows for a more holistic approach unlocking and linking other sources and instruments of financing. Box 9 provides an example of how short-term grant funding can be supported through longer-term investment mechanisms, as currently being pursued by the Global Fund for Coral Reefs.

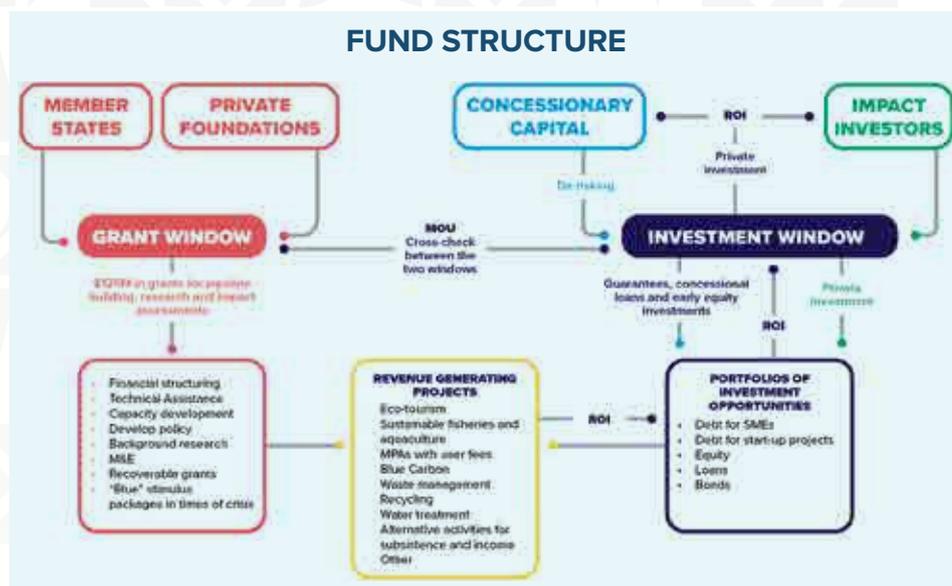
BOX 9: Blended financing

The Global Fund for Coral Reefs⁵⁵ has adopted a model of blended finance which utilises a traditional grants mechanism, alongside a longer-term investment window to catalyse a range of financing and improve predictability for recipient countries and investors alike. “The blended approach of the Fund creates efficiencies of scale, reduces dependence on limited and short-term grant funding, accelerates the investment readiness of projects, reduces commercial and environmental-social-governance risk through a diversified portfolio and works to establish local entities for improved representation and participation of local stakeholders”.

⁵³ PIFS & SPC, 2019. See also complimentary Climate Public Expenditure and Institutional Reviews (CPEIR)

⁵⁴ Soanes, M., et al., 2021. Principles for Locally Led Adaptation: A call to action. IIED Issue Paper. <https://pubs.iied.org/sites/default/files/pdfs/2021-01/10211IIED.pdf>

⁵⁵ <https://globalfundcoralreefs.org/how-we-work/>



There are also opportunities for climate financing in financing initiatives like remittances, which currently play a large role in supporting communities in the Pacific but have not been applied in this context. An example from Haiti is provided in Box 10 for consideration.

BOX 10: Remittance as a source of end-user finance for sustainable energy in Haiti

The Remitenergy Project in Haiti used remittances as a source of end-user finance for sustainable energy. Implemented between 2009 and 2013, migrant workers from Haiti, who lived and worked in Miami (US), were able to direct part of their remittance payments towards sustainable energy solutions for their communities and families at home.

The project developed a business model pilot which enabled Haitian emigrants to purchase solar energy products at a remittance agent affiliated with Food Express, a Haitian-owned remittance company with an extensive network. The products were sent directly to the receiver through the vast network of Sogexpress – a major Haitian Money Transfer Organisation with 56 flagship stores across Haiti. By the end of the two-year project implementation period, over 5,000 lanterns, lanterns with mobile charging and mini solar home system had been sold. By 2016, the model was already self-sustaining on the local market, and over 82,000 clean energy products were sold, benefiting 410,000 household members with a 30 percent reduction of their energy cost.⁵⁶

PICs have also called for new innovative risk financing products, and instruments to address risks, specifically looking at the intersection of climate change and disaster. The Fiji Drua Incubator aims to develop new sustainable financing instruments and a comprehensive risk financing package for Fiji and other PICs as detailed in Box 11.

⁵⁶ <https://energy-base.org/projects/remitenergy-in-haiti/>

BOX 11: The Drua Incubator

The Drua Incubator aims to help develop financing initiatives that are specifically tailored to the requirements of the Pacific context. The Drua Incubator is a small unit within Fiji's Ministry of Economy which is dedicated to developing innovative, affordable, profitable and durable climate financing instruments and risk-transfer-based products for Fiji and the Pacific. The Drua Incubator offers a space to innovate and establish a coherent multi-stakeholder approach to addressing urgent financial protection gaps and long-term financing requirements.

This specialised unit seeks to leverage new sources of finance and increase the engagement of the private sector in the support of Fiji's development priorities. The initiative is led by the Climate Change and International Cooperation Division and was established through financial support provided by the Grand Duchy of Luxembourg. With partner support, the Fijian Government through the Drua Incubator is currently in the process of developing innovative products including a parametric insurance product designed to support vulnerable communities, new regional blended financing facility for renewable energy, infrastructure, and exploring new ways to leverage resources for resilience building through engagement with capital markets.

Country-driven financing frameworks can be developed to help better identify, secure and manage climate finances using in-country systems. For instance, Climate Change Financing Frameworks (CCFFs) can cover: 1) options and strategies for financing and delivering on climate change national priorities; 2) identification of appropriate instruments and sources of climate finance; 3) institutional arrangements needed to integrate climate change effectively in planning and budgeting systems; 4) systematic tracking for instance through climate budget tagging (CBT) and public reporting of climate spending for greater transparency and accountability; and 5) costing of climate related initiatives. The Vanuatu experience in setting up its Green Energy Fund is a good example of this, as described in Box 12.

BOX 12: Vanuatu National Green Energy Fund

Established in 2018, the National Green Energy Fund (NGEF) is a national financing vehicle designed to assist the Government to achieve its National Energy Roadmap targets through both public and private investment in technology and infrastructure across Vanuatu.

The NGEF aims to boost households and public institutions' energy access, while also providing a pathway for local businesses and industries to invest in clean, climate-resilient energy that meets their economic needs, creating transformative opportunities for rural communities.

With the NGEF established and functioning, Vanuatu is well positioned to deliver renewable energy access and achieve energy savings across key economic sectors including water, agriculture, fisheries and tourism.

The NGEF is also helping to channel finance toward clean energy technologies and infrastructure on remote islands.

The operations and administration of the Fund are overseen by a Board that is represented by the Government and civil society and promotes gender inclusion to enable greater participation of women and other vulnerable groups in clean energy development in Vanuatu.⁵⁷

In this approach, deliberate efforts to build appropriate in-country systems for managing and effectively implementing climate financing are applied across the whole of government from planning, budgeting, implementation, monitoring, evaluation and greater scrutiny and transparency. Initiatives for PFM strengthening with a focus on climate finance are already emerging in the region. The PIFS Thematic Working Group on Climate Finance and PFM was established in this context. Similarly, initial processes for climate finance tracking and budget tagging, as well as a pilot of the new Public Expenditure and Financial Accountability (PEFA) Climate Module in Samoa in 2021 are evidence of this. Furthermore, countries are already in the process of developing climate finance roadmaps to identify priority areas for support in PFM, strengthened institutional arrangements and capacity building and development.

BOX 13: Vanuatu Climate Finance Roadmap

In 2016, with the support of several partners, Vanuatu held its first climate finance forum and as part of this developed its Climate Finance Roadmap. The Roadmap focuses on increasing access to climate finance, building capacity at all levels of society to adapt to the impacts of climate change, and enhancing coordination between the Government and other stakeholders, such as nongovernment organisations and the private sector. It identifies specific areas of PFM strengthening required, in the context of climate finance. The roadmap is part of an ongoing national process to drive more effective management of climate finance, which has also included a Climate Public Expenditures and Institutional Review (CPEIR) assessment in 2015 and its review in 2018.

⁵⁷ <https://doe.gov.vu/index.php/ngef/reports/23-ngef>



Fully integrating adaptation into development is among the most transformational processes we could wish for in the climate change space...

Anne Hammill and Heather McGray, IISD⁵⁸



A 'development-first' approach to climate finance

A 'development-first' approach is akin to the treatment of risk (such as climate change) as an integral part of development planning and financing. This approach is gaining traction across the region. A focus on development is already embedded in regional frameworks, such as the Framework for Resilient Development in the Pacific which puts the management of climate change and disaster related risk squarely in the context of economic development. In this same regard, some countries are already urging the international donor community to see climate finance as an integral component of all development financing in the context of achieving the Sustainable Development Goals.

Similarly, unchecked development can fundamentally drive vulnerability patterns in the region.⁵⁹ For example, development finance to fund a new school (or similar key public infrastructure) can either help or hinder a shift towards a climate-resilient pathway depending on whether it is located in a coastal flooding hazard zone area or in a less exposed area inland.⁶⁰ Donors and recipients need to closely collaborate in building climate risk considerations into wider development plans and financing strategies. As such, development finance⁶¹ can provide an opportunity in the Pacific for better integrating climate ambition at scale.

While development finance faces similar challenges to climate finance in a number of respects, the current siloed approach for tracking and pledging climate finance exacerbates these issues.⁶² Distinguishing between the two flows also creates barriers for effective programming and pipeline development, as some of the most appropriate and effective adaptation initiatives are traditional development measures, such as improved water harvesting, diversification of livelihoods, and women's empowerment. Similarly, there is some evidence to suggest that the delivery of climate finance has diverged from the principles of development effectiveness. Considering climate finance as part of the broader ODA being provided by donors means it should be subject to the same rigour and adherence to these principles and this would go some way in addressing the issue of effectiveness.

⁵⁸ Hammill, A. & McGray, H., 2018. Is it adaptation or development? <https://www.iisd.org/articles/it-adaptation-or-development-revisiting-continuum-10-years-later>

⁵⁹ ODI, 2015. Why all development finance should be risk-informed

Eriksen et. al., 2021. Adaptation interventions and their effect on vulnerability in developing countries: Help, hindrance or irrelevance? *World Development* 141, 105383

⁶⁰ This broader view is being termed by IDFC, OECD and others as a shift from a "climate finance paradigm" to a "Paris [Agreement] alignment paradigm".

⁶¹ Defined by the OECD DAC as financial instruments and resources provided by external development partners with an explicit development mandate. More specifically, it includes concessional and non-concessional official development finance (ODF). Refer OECD DAC, 2019. p.83-4.

⁶² The standalone approach of climate finance to ODA is due to the commitments made by countries that are Parties to the UNFCCC and the Paris Agreement, and it is critical that this approach be kept at the 'administrative level' rather than be treated as a programmatic issue as ideally these 'two flows' should ultimately be aligned to the objectives of the Paris Agreement.



You cannot separate the two. You cannot have a dichotomous approach and say no this sort of funding is only for climate finance and this one is for development finance...

Honourable Aiyaz Sayed-Khaiyum, Attorney General, Minister for Economy, Civil Service and Communications and Minister responsible for climate change, Fiji



BOX 14: Factors critical for development first approach to be successful

- Strong identification of national priorities that is based on meaningful and inclusive consultations with relevant stakeholders;
- Integration of risk informed development into national and subnational policies and processes;
- Clear budget allocations for implementation of climate related activities;
- Support for implementation in sectors with climate science and climate advisors/experts; and
- Monitoring and evaluating impacts of activities.

Source: Experience shared by DFAT

As such, there are several strategic advantages to taking a ‘development-first’ perspective⁶³ to financing responses to climate change. These can be summarised as follows:

1. First, development financing offers ‘access’ to larger financing sources (as per quantity of foreign aid currently flowing to the region, on average USD 2 billion per year) as well as a more diverse range of financing instruments (as depicted in Figure 3 below). Climate finance can be used to influence and leverage larger amounts of development finance.
2. Second, it provides better incentives for countries and partners to deal with the root causes of vulnerability, i.e. from ‘unchecked’ development, thus allowing for a broader range of adaptation measures.
3. Third, and perhaps most important of all, embedding climate adaptation into broader development allows for more programmatic approaches and thus the greater chances of sustainability.
4. Finally, climate finance should, in addition to delivering important programme level impact, demonstrate how to better integrate climate ambition at scale into wider development policies, plans and budget frameworks. This ‘development-first’ approach can also serve as an entry-point for informing and integrating the financing of other cross-cutting issues such as financing for sustainable blue and green economies.

⁶³ UNDP, 2016. Risk Governance: Building Blocks for Resilient Development in the Pacific. <https://www.pacific.undp.org/content/pacific/en/home/library/rsd/risk-governance-policy-brief.html>

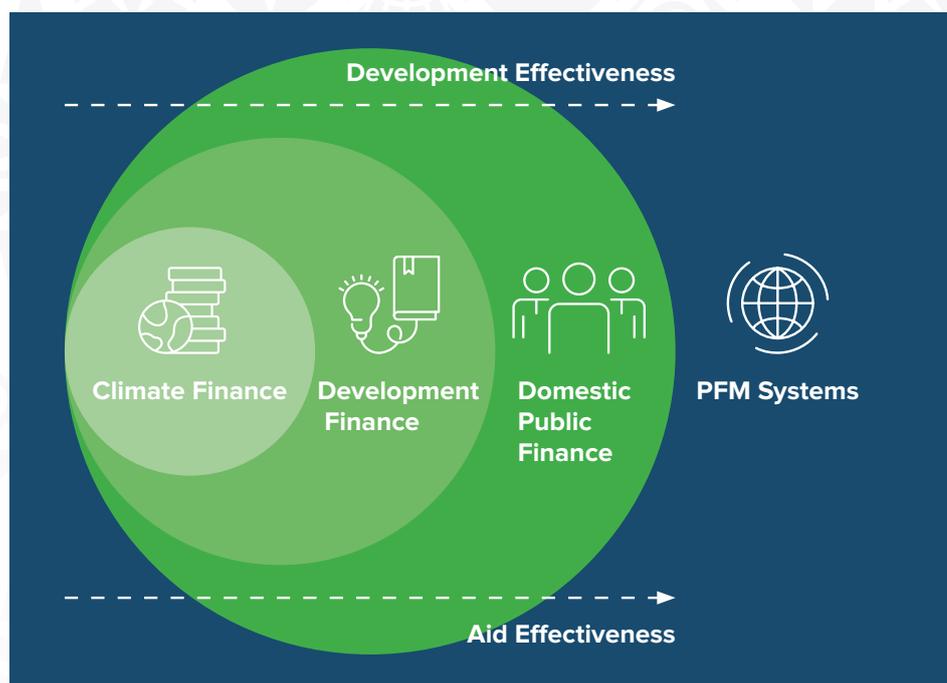


Climate change should be brought as a development issue. All policies, PFM, sector strategies need to be looked at through this lens. Climate finance needs to be channeled in a way that builds national capacity, national ownership...

Honourable Seve Paeniu,
Minister of Finance, Tuvalu



Figure 3. The financing ecosystem



Shifting towards a ‘development-first’ approach can be achieved through a number of existing mechanisms. **Integrated national financing frameworks (INFFs) offer suitable entry-points for mobilizing financing for climate change, not necessarily just from climate-specific vehicles.** Integrating climate change and disaster risks into systems for national planning and budgeting offer the opportunity to harness more resources for adaptation and minimising the damage of climate change on economic growth and development. This approach was also highlighted through the Group of Twenty (G20) Development Working Group, which will support the implementation of INFFs as well as other financial instruments to support sustainability in developing countries. Some countries in the region, for instance Vanuatu and Solomon Islands, are in the process of developing INFFs and are considering the integration of climate change into these.

Systems reform goes beyond ‘access’ of any specific funding mechanism, towards strengthening government planning and budgeting and improving country systems for the better management and implementation of development financing. These approaches should also include efforts to improve the transparency and accountability of financing for all types of development finance, for more genuine and sustained stakeholder engagement. These can also support development of a more effective pipeline of projects to address key development objectives.⁶⁴ Box 15 provides an example of the potential application of an existing sub-national funding mechanism in the Solomon Islands.

⁶⁴ WEF, 2019. 4 key ways countries can finance their SDG ambitions <https://www.weforum.org/agenda/2019/04/sdgs-sustainable-development-4-ways-countries-finance/>

BOX 15: Solomon Islands Provincial Capital Development Fund

The Provincial Capital Development Fund (PCDF) initiative is a performance-based grant mechanism to access and implement public finance to achieve community development objectives. It is managed by the Ministry of Provincial Government and Institutional Strengthening (MPGIS). The fund is also targeting climate change, disaster, gender, and social inclusion risks as an integral part of all provincial development financing processes, through use of its performance-based grants. It is an example of a mechanism that is nationally owned, has fiduciary criteria in place for Provincial Governments to meet, has supported financial management processes and capacity building at the provincial level and is now being positioned as a mechanism which can effectively channel external climate financing (as a top-up of the basic PCDF funding) to a community level.

The PCDF has enhanced the capacity and performance of Provincial Governments in core areas of PFM, governance, and accountability since its establishment in 2008, and is now ready to address the increasing challenges from climate change adaptation and to address the additional cost of adaptation and climate change proofing. A concept and design for this has been completed and is reading for funding.



PART D:

POSSIBLE AREAS OF REFORM

KEY MESSAGES

- Streamlining and simplifying access procedures across funding instruments could support a more efficient allocation of climate finance resources.
- In-country systems reform can help improve climate finance effectiveness through the integration of climate change considerations into Public Financial Management (PFM) systems and central planning and budgeting processes.
- Financing and support from the international community can be better adapted to the Pacific context by allowing more scope for risk-taking, innovation and a diverse range of financial instruments. Similarly, donor partners are urged to integrate climate change considerations more comprehensively into their mandates and performance systems.
- There is a need for stronger partnerships and greater collaboration. Learning networks can help to take more effective climate finance approaches to scale, within and across countries in the Pacific.

The analysis undertaken in this discussion paper has surfaced a range of issues in terms of the effectiveness of approaches to accessing, managing and implementation of climate finance in the Pacific region. It has also revealed other elements to approaches that countries and partners could consider in improving the management and achievement of more transformative results.

This paper, rather than setting out a series of recommendations, instead sets the scene for taking the discussion forward to determine an optimal trajectory for financing climate action in the Pacific region. The following areas are proposed for further dialogue and in-country testing to determine what can be done collectively between countries, implementing partners and the international community responsible for climate finances to help

We should ... outline what the international partners need to do or change, in addition to what our own PICs and partners working in the Pacific need to do...

Exsley Taloiburi, Climate Change Finance Advisor & Team Leader for Climate Change and Resilience, Pacific Islands Forum

progress along an optimal trajectory. A summary of proposed areas of reform and opportunities for taking the discussion forward is provided in the Table 1 below.

Conditions for better access and accreditation

Direct access and accreditation will continue to be a focus of the Pacific region. However, it is evident that, to date, there have been significant barriers for PICs in achieving direct access in a way that is cognisant of the context in the region and is responsive to the significant adaptation needs. Conditions for better access and accreditation are now thoroughly documented. Box 1 provides a summary of the key conclusions from the recent Independent Evaluation of GCF effectiveness for SIDS. The report also details four key recommendations on where GCF may look at improvements. Similarly, the World Resources Institute has recently released a report on improving access to the GCF for developing countries. This report also makes several practical recommendations around four of the GCF's policy and program areas (Readiness Program, Project Preparation Facility, Simplified Approval Process and Enhanced Direct Access program). Streamlining and simplified access procedures across funding instruments in general could support more efficient allocation of climate finance resources.

PIFS are currently developing a Regional National Implementing Entity (NIE) Guide to provide a more accessible and Pacific relevant document for entities considering accreditation. From the rapid research undertaken for this discussion paper and drawing on the initial findings of the PIFS Guide, two additional areas for the Pacific are proposed:

1. **Strategic consideration of direct access entities:** given the resourcing (time, staff and monetary) required for the accreditation process, ensuring that the entity is the most appropriate fit for the direct access needs of the country should be a priority consideration. Meeting the required fiduciary and project management criteria are also important, however targeted support can be sought/provided to the identified entity. The identified national entity should bring value add, where international and regional entities may not be able to focus their financing support. The focus in the region has recently been on the role of national development banks (e.g. Fiji and Tonga). However, this will be context specific and dependent on the strategic priorities and national financing needs. Furthermore, utilisation of regional entities may also be considered an optimal solution, especially for smaller PICs who identify that resourcing required for national accreditation outweighs the current benefits. Country Programming may provide the planning and prioritisation mechanisms for identifying national GCF funding needs and the best entity to achieve these.
2. **Development of pipeline:** linked to the above point, entities applying for accreditation should also be developing their project pipeline at the same time as an accreditation process is undertaken. This will help to ensure that the entity is "funding ready" on the approval of the accreditation application. Project pipelines must be integrated into the national priority settings to ensure complementarity and avoid 'pet' projects being funded. In addition, the pipeline should be focused on

the strategic value of the entity (as per point one) in supporting national priorities. The recommendations from both the GCF and WRI reports (mentioned above in Part A) on improving support for concept note and proposal development for developing countries should provide the enabling environment for this to be possible. Regionally driven proposals may also be another option, where similar priorities are identified across countries and utilise regional accredited entities for access. In this way, it would remain a regionally driven initiative. See also the next section on improving the quality of pipeline.

Financing pipelines, the ‘art of the possible’

As already noted in Part B, most climate change interventions that are financed in the Pacific are project-based, have issues of sustainability and are less geared towards bringing about long-term transformational changes. Key elements of a transformational approach include a focus upon using climate finance to demonstrate what is possible, including taking calculated risks, and creating an enabling environment for replication and scale up. These approaches will require innovation and risk-taking but may also bring about more prospect for taking these to scale and thereby contributing to broader sustainable development trajectories. The following aspects could help to improve the quality of pipelines. These also reflect emerging practices that are being observed in the region:

1. **Programmatic approach:** pipeline projects more firmly linked to medium-longer term climate and development aspirations and that are part of an overall programme of interventions rather than standalone projects (see Box 16 below).
2. **Evidence-base:** these should also be based on past and current climate risk and impact patterns but more importantly on future scenarios of climate change and socio-economic patterns. National governments have undertaken initiatives to strengthen GIS capacity and systems for data capture. Furthermore, support such as the UK CommonSensing project, the Pacific Community and Geoscience Australia can be accessed for data and remote sensing support.
3. **Inclusive approach to understanding and managing climate risk:** pipelines should be developed with gender and social inclusion aspects as central to the design of adaptation initiatives. For instance, in Fiji the Tukuraki relocation project, with the support of the Ministry of Women Children and Poverty Alleviation, defined the new location and alternative livelihood sources for communities to better adapt to their changing environment based on in-depth analysis and consultations regarding the various gender and social needs of the community.



National ownership is key to ensure that any climate financing or development financing is demand driven rather than dominated by donor priorities and conditionalities...

Jean-Paul Penrose, Pacific Development Director, UK FCDO



BOX 16: Ministry of Rural and Maritime Development and Disaster Management, Fiji

Fiji's Ministry of Rural and Maritime Development and Disaster Management are working to develop a pipeline of community and sub-national level development projects that are being 'risk-informed' to current and future threats of climate change. Development initiatives ranging from community water harvesting to farm access roads are being designed to be more sensitive to climate risks. These are being costed and financed primarily through domestic financing but will also be used as a basis for resource mobilization efforts by sub-national governments.

In-country systems reform

Countries will need to create an enabling environment to better attract and manage multiple sources of financing including private and other international sources that focus on climate change and development finance. This would include a range of activities going beyond relatively 'narrow' approaches of achieving externally driven accreditation requirements. Some countries are including these as part of their overall climate financing requirements, e.g. CCFFs. Some reform examples include:

1. **Integration of climate risk into planning and budgeting:** for instance, in Tonga, the Ministry of Finance has now included a requirement for development budget submissions to be screened for climate and disaster risk. As a result, the Tonga Project Proposal Application is used for all infrastructure projects, stipulating that all investments in the sector need to meet climate-resilience criteria.
2. **Capacity of central finance and planning functions to manage climate finances in government:** several countries in the region are creating new climate financing units within ministries of finance and planning. Whilst mainly focused on increasing access and accreditation possibilities, these units can also help to integrate climate risk into all of development planning and budgeting, and support resource mobilisation beyond vertical funds. For example, in Tonga the Ministry of Finance has created a new Resilient Development and Financing Division which has the dual purpose of increasing 'access' to climate finance but also integrating climate risk into planning and budgeting. In Fiji, the Ministry of Economy is developing a new Project Development Unit to attract other sources and instruments of financing including private and international sources that focus on both climate change and development finance.
3. **Oversight mechanisms:** these approaches cannot afford to overlook the national oversight, checks and control mechanisms as a mean to reinforce the confidence of the international community. Pacific Parliaments and Supreme Audit Institutions have shown an eagerness and capacity to enhance their oversight and review of climate-related finance and mechanisms. For instance, in Fiji, Solomon Islands, Tonga and Vanuatu scrutiny of the annual budgets includes specific briefs on climate-related finance. These climate budget briefs are produced by the Pacific Floating Budget Office, a flagship Parliamentary peer-to-peer

capacity enhancing mechanisms supported by New Zealand, Australia, Japan, and the European Union. One of the main findings from these briefs is the limited data and information available to Parliaments on climate-related finance, an issue which could be partially addressed by tools such as climate budget tagging or performance-based budgeting.

4. **Transparency and accountability mechanisms:** community participation will require enhanced and adapted transparency and accountability from both PICs and development partners. Simple mechanisms that utilise existing structures at the national and local level have proven the most accountable.

Recalibrating financing and partner support

There are also several ways that financing and support from the international community can be better adapted to the Pacific context. The following is based on emerging practices that are becoming evident in the region and can also provide opportunities for dedicated funding sources such as the GCF to explore in its climate finance approach in PICs:

1. **Adapting the size and scale of investments:** a key challenge in accessing external financing is the relatively large scale and scope of projects that are financed through international funding vehicles. At the regional level, the Pacific Resilience Facility is being designed as a financing vehicle for more appropriately sized initiatives in the Pacific context. Further, the GCF are piloting the Enhanced Direct Access modality, which incorporates greater focus on community-financing, as detailed in Box 17. Similarly, other international partners are beginning to adjust the scale of investments for community level adaptation.

BOX 17: GCF's Enhanced Direct Access pilot

The GCF's Enhanced Direct Access (EDA) pilot is a new GCF funding modality which aims to enhance country ownership of projects and programmes and channel climate financing to homegrown organisations. The EDA pilot has been designed to move beyond the financing of individual projects, towards a more comprehensive and stakeholder-driven programmatic approach. EDA pilot proposals can directly support communities or small and medium enterprises, targeting local actors and addressing gender aspects and the needs of vulnerable communities.⁶⁵ Several PICs are currently developing proposals for submission through the EDA pilot and the progress of these will be of interest to the region.

2. **Integrating climate risk into development financing portfolios:** development partners are also applying finance for development initiatives also as a vehicle for financing climate responses in the region. For instance, the Australia Pacific Climate Partnership was set-up by Australia to integrate climate change and disaster resilience more deliberately into its own bilateral and regional programming across all aid investments on all sectors, such as infrastructure, education, and health.

⁶⁵ <https://www.greenclimate.fund/eda>

In addition to this, the AUD2 billion Australian Infrastructure Financing Facility for the Pacific is being designed to finance infrastructure in the Pacific which will withstand the impacts of climate change and disasters.

3. ***Supporting community-based financing for adaptation activities that are better suited to the community context in the Pacific.*** there is increasing evidence that small scale financing can be just as effective as large-scale investments at achieving resilience outcomes.⁶⁶ As such, community-focused financing mechanisms could be considered as part of other approaches, and there are already several examples active at the country-level. For example, the Tonga Climate Change Trust Fund draws on proposals from communities and civil society organisations, for community level work on adaptation. These are also heavily based on community development planning covering all development aspirations of communities. Box 18 provides another example from Tuvalu of utilising and strengthening local government systems.
4. ***Allowing more scope for risk-taking and innovation:*** for transformative change to occur, spaces to enable risk-taking and innovation need to be provided and fostered. Fiji's Drua Incubator provides an example of how this is being done in a Pacific context.

BOX 18: Local government financing in Tuvalu

Since 2016, the Government of Tuvalu with the support from the UN Capital Development Fund Local Climate Adaptive Living Facility (LoCAL) has introduced a performance-based climate resilience grant mechanism to the local governments (Kaupules). This initiative has seen improvement in PFM procedures and execution capabilities of the targeted Kaupules, as well as providing targeted funding for relevant climate change adaptation investment at the local level. The initiative has promoted a high level of involvement of communities from planning to monitoring, and strong incentives for Kaupules to use the funds for targeted, cross-sectoral investments. Application of the performance-based mechanism supports improvement of the existing local government systems and procedures.

Three external annual performance assessments of the Kaupules have been undertaken, which have shown significant improvements on all critical indicators of performance. Based on these positive results the Government is considering how to upscale LoCAL as well as use the principles for other development grants.⁶⁷

⁶⁶ IIED, 2014. Reconfiguring urban adaptation finance. Working Paper

⁶⁷ LoCAL Tuvalu, Annual Report, 2019 and UNCDF, 2018 as well as the annual performance assessment of Kaupules, 2018.



There is a need for a lot more collaboration and don't ignore the lessons that have been learned. We want to see countries in the driver's seat, driving to their own destinies...

Diane McFadzien,
Regional Manager for Asia
Pacific, GCF



In addition to the above recommendations, donors and development cooperation providers are being urged to recognise and accept that investing in activities that mitigate and adapt to climate change is the only way that they can carry out their mandates to support just, inclusive development and protect the natural systems that underpins life on earth. In aligning their mandate with the objectives of the Paris Agreement it is critical that development cooperation providers:

- Integrate the climate imperatives into their mandates and performance systems and establish the right tools to deliver in order to adequately address the climate emergency at hand;
- Eliminate policy conflicts between their international activities and their commitments under the Paris Agreement;
- Support the leadership and capacity of central actors and systems in developing countries to drive integration of climate change into policy and planning; and
- Incorporate ambitious climate objectives through their financial and budgetary systems.⁶⁸

Ultimately, this paper speaks to the need for a holistic approach to climate governance reforms for both donors, development partners and PICs. Adhoc evidence in the Pacific seems to indicate that climate finance has been primarily used to enable 'band aid' solutions which are not sustainable. A systematic approach to programming and governance reform is critical to ensure that the 'system delivers the finance' before translating it to real results. With the COVID-19 pandemic, these issues are further amplified and as a consequence are increasing PICs dependence on external financing and support. If radical reforms by both PICs and donors are not forthcoming urgently, PICs may face fundamental roadblocks to any kind of substantive progress on climate-resilient development.

Agile learning platforms, partnerships and collective action

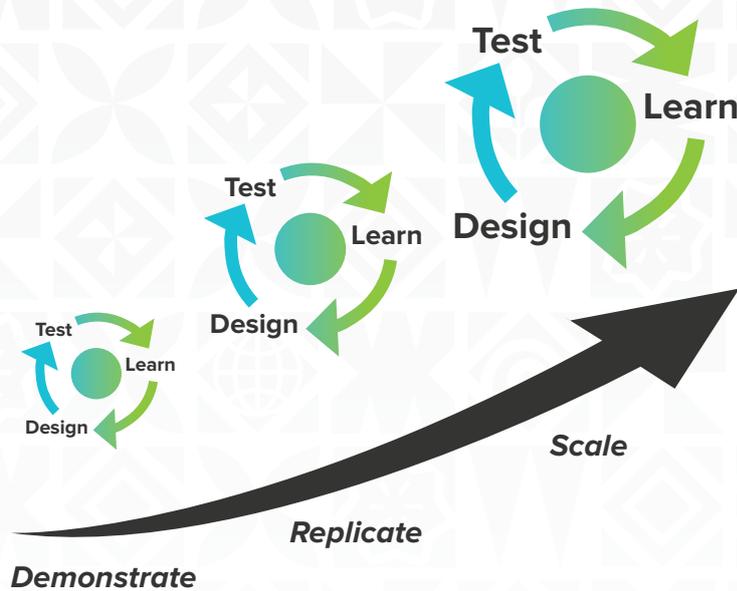
Adapting to climate change and orienting climate finances appropriately, is a vastly complex and ambitious process. As such, space should be provided for continuous testing of approaches, with a greater emphasis on dedicated learning from these experiences. This approach is akin to the concept of 'agile' development which involves a continuous cycle of testing, learning and design of approaches to climate finance. This allows for the evolution of approaches that can be designed and tested over time instead of relying on pre-determined and externally driven approaches. See Figure 4 for an illustration of continuous learning and how this can take initiatives to scale.

In this regards, the establishment of **country-led platforms** for continuous knowledge sharing and learning can provide the following benefits: 1) generate and diffuse knowledge across countries in the Pacific; 2) facilitate peer-to-peer cooperation between countries and better organise technical assistance and capacity building initiatives from partners; and 3) allows space for determining common positions across countries in the Pacific to further substantiate the Pacific's position in the regional and global arena, including: the Forum Economic Ministerial Meeting (FEMM); the Coalition

⁶⁸ OECD, 2019. Aligning Development Co-operation and Climate Action: The Only Way Forward

of Finance Ministers for Climate Action;⁶⁹ the formulation of principles and recommendations by a new global Taskforce on Access (and Effectiveness) to Climate Finance backed by the UK and Fiji governments; the Pacific Resilience Partnership and the UNFCCC COP process.

Figure 4. Agile learning loops for scale⁷⁰



It is envisaged that these networks are initially targeted at central financing and planning agencies but could draw on other stakeholders as well as work in other regions, such as the Climate Finance Network for Asia and Pacific.⁷¹ Dialogue and learning could revolve around (but not limited to) the following themes:

1. Direct Access to International climate finances
2. Climate Sensitive Budgeting and Planning
3. Transparency and Accountability
4. Gender and Social Inclusion
5. Innovative financing; and
6. Evidence base and analytics.

Bringing about the necessary reform requires strengthened partnerships and collective action. There is a need to harness a broader coalition of partners, especially non-government organisations and the private sector. There is strong desire in the region for ongoing dialogue on this topic, as well as creating the necessary spaces for identifying the way forward for climate finance effectiveness for the Pacific.

⁶⁹ <https://www.financeministersforclimate.org/>

⁷⁰ UNDP, 2018. Blog: How to programme for uncertain results? The innovation journey of the Pacific Risk Resilience Programme. <https://www.asia-pacific.undp.org/content/rbap/en/home/blog/2018/2/19/how-to-programme-for-uncertain-results-.html>

⁷¹ <https://climatefinancenetwork.org/>



The newly installed solar panel system at Nayarabale village in Vanua Levu, Fiji that was community-funded and later reimbursed by the Government. (Photo: UNDP)

Table 1. Summary, areas of reform

POSSIBLE AREAS FOR REFORM

STAKEHOLDER FOCUS

Conditions for better access and accreditation

- a) Streamlined and simplified access procedures across funding mechanisms such as GCF, AF and other multilateral mechanisms. Specific recommendations have been made in recent reports including by WRI, Independent Evaluation of GCF and through PIFS NIE Guidance analysis and report
Climate funds
- b) Support for countries to undertake strategic assessment of national entities to be considered for accreditation. This should be based on planning and prioritisation (including through Country Programming) of GCF/AF funding priorities and the most suitable entity for delivering on these
PICs, Climate funds, Development partners
- c) Analysis and support for diversification of funding sources, instruments and modalities and identifying the role of each in supporting national climate change priorities e.g. Drua Incubator
PICs, Climate funds, Development partners

Improving the quality of pipeline

- d) Support for development of quality national and regional adaptation pipelines, with a programmatic focus linked to medium to longer term climate and development aspirations
PICs, Climate funds, Development partners
- e) Utilisation and support for building up stronger national evidence base for adaptation needs. Opportunities for external programmes such as UK Common-Sensing project, as well as internal strengthening and utilisation of GIS capacity and systems in government
PICs, Development partners
- f) Support for development of pipelines that are more human centred, utilising inclusive consultation processes and available national and external GESI expertise to design quality initiatives
PICs, Development partners
- g) Utilising stronger evidence-base and GESI analysis, support for development of proposals addressing the drivers of vulnerability at different scales e.g. could be regional or community-based
PICs, Development partners

In-country systems reform

- h) Taking change to scale at a systems level through integration of climate risk into planning and budgeting processes e.g. risk-screening processes adopted for budget submissions (as undertaken in Tonga)
PICs and development partners
- i) Strengthened capacity of central finance and planning functions through establishment of specific risk / climate change units to support systems change
PICs and development partners
- j) Support for oversight institutions and mechanisms to review and fully engage on both design of financing mechanisms and their control (notably Parliaments and Supreme Audit Institutions)
PICs and development partners

POSSIBLE AREAS FOR REFORM

STAKEHOLDER FOCUS

- k) Support to enhance transparency, accountability and participation of financing models and decisions in an inclusive manner, mindful notably of the most climate-vulnerable communities
- l) Supporting enhanced consideration of climate and disaster risks at national, sub-national and sectoral level through support for greater budget and policy coherence; processes and capacity for implementation as well as monitoring on the impact of measures e.g. climate change focal points supported in sectoral ministries; improved policy tools and guidance mechanisms

Recalibrating financing and partner support to Pacific context

- m) Adapting size and scale of investments as appropriate to the Pacific context e.g. Pacific Resilience Facility or the setting up of dedicated tranche facility, targeting small-scale community focused initiatives within the GCF
- n) Ensuring large-scale initiatives (especially infrastructure) are appropriately risk-informed and implemented in a way that does not increase burden on country systems
- o) Development partners to strengthen integration of climate risk across their whole development financing portfolios e.g. Australia's Pacific Climate Partnership
- p) Seek opportunities for initiating or strengthening community-based financing mechanisms that bring about targeted but long-term resilience outcomes
- q) Identify opportunities to support and strengthen in-country systems and existing mechanisms e.g. PCDF Solomon Islands

Platforms for testing, learning and collective action

- r) Establishment and support for country-led learning networks that can take reforms to scale e.g. Ministry of Finance regional network
- s) Identification and support for relevant policy and advocacy networks that will enable stronger negotiation positions for bringing about more effective climate financing e.g. FEMM, UK Taskforce of Climate Finance Access, Pacific Resilience Partnership

ANNEX 1. GCF and AF pipeline of projects

Green Climate Fund

| PROGRAMME | COUNTRIES | THEME | TOTAL PROGRAMME VALUE (includes co-financing) |
|---|--|---------------|--|
| Pacific Islands Renewable Energy Investment Program | 7: Cook Islands, Tonga, RMI, FSM, PNG, Nauru, Samoa | Cross-cutting | 29.2m |
| Enhancing Climate Information and Knowledge Services for resilience in 5 PICs | 5: Cook Islands, Niue, Palau, RMI, Tuvalu | Adaptation | 49.9m |
| Global Subnational Climate Fund – Equity | 42 countries: Fiji only PIC | | TBC |
| Global Subnational Climate Fund – Technical Assistance Facility | 42 countries: Fiji only PIC | | TBC |
| Fiji Agrophotovoltaic Project in Ovalau | Fiji only | Mitigation | 10.0 |
| Fiji Urban Water Supply and Wastewater Management Project | Fiji only | Adaptation | 405.1 |
| Integrated Flood Management to Enhance Climate Resilience of the Vaisigano River Catchment in Samoa | Samoa only | Adaptation | 65.7 |
| Tina River Hydropower Development Project | Solomon Islands only | Cross-cutting | 241.9 |
| Tonga Renewable Energy Project under the Pacific Islands Energy Investment Program | Tonga only (but this is under the Energy Investment Program) | Mitigation | 47.6 |
| Climate Information Services for Resilient Development Planning in Vanuatu | Vanuatu only | Adaptation | 26.6 |
| South Tarawa Water Supply Project | Kiribati only | Cross-cutting | 58.1 |

| PROGRAMME | COUNTRIES | THEME | TOTAL PROGRAMME VALUE (includes co-financing) |
|--|-----------------------|---------------|--|
| Tuvalu Coastal Adaptation Project (TCAP) | Tuvalu only | Adaptation | 38.9 |
| Sustainable and Climate Resilient Connectivity for Nauru | Nauru only | Cross-cutting | 65.2 |
| Addressing Climate Vulnerability in the Water Sector (ACWA) in the Marshall Islands | Marshall Islands only | Adaptation | 24.7 |
| Pacific Resilience Project Phase II for RMI | Marshall Islands only | Adaptation | 44.1 |
| Climate resilient food security for farming households across the Federated States of Micronesia (FSM) | FSM only | Adaptation | 9.4 |
| TOTAL (including co-financing) | | | USD 1,116.4m |

Adaptation Fund

| PROJECT TITLE | COUNTRY | PROJECT STATUS | AMOUNT DISBURSED (USD) | GRANT AMOUNT (USD) |
|---|---------------------------------|----------------------|------------------------|--------------------|
| Practical Solutions for Reducing Community Vulnerability to Climate Change in the Federated States of Micronesia | Micronesia, Federated States of | Under Implementation | 776,883 | 970,000 |
| Pa Enua Action for Resilient Livelihoods (PEARL) | Cook Islands | Under Implementation | 2,465,122 | 2,999,125 |
| Increasing the resilience of informal urban settlements in Fiji that are highly vulnerable to climate change and disaster risks | Fiji | Under Implementation | 599,127 | 4,235,995 |
| Enhancing urban resilience to climate change impacts and natural disasters: Honiara | Solomon Islands | Under Implementation | 813,750 | 4,395,877 |
| Enhancing the Climate Resilience of vulnerable island communities in Federated States of Micronesia | Micronesia, Federated States of | Under Implementation | 3,248,396 | 9,000,000 |
| Technical Assistance Grant for Gender | Micronesia, Federated States of | Readiness Grants | | 10,000 |
| Technical Assistance Grant for ESP | Micronesia, Federated States of | Readiness Grants | | 20,000 |
| Enhancing adaptive capacity of communities to climate change-related floods in the North Coast and Islands Region of Papua New Guinea | Papua New Guinea | Project Completed | 6,530,373 | 6,530,373 |
| Enhancing Resilience of Samoa's Coastal Communities to Climate Change | Samoa | Project Completed | 8,732,351 | 8,732,351 |
| Strengthening the Resilience of our Islands and our Communities to Climate Change | Cook Islands | Project Completed | 5,381,600 | 5,381,600 |
| Enhancing resilience of communities in Solomon Islands to the adverse effects of climate change in agriculture and food security | Solomon Islands | Project Completed | 5,533,500 | 5,533,500 |
| TOTAL | | | USD 34.1m | USD 47.8m |



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