

# **Understanding the Climate Finance Landscape and How to Scale It Up in Pacific Small Island Developing States**

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# Abstract

Climate Finance is an important catalyst for providing and leveraging actions necessary for mitigation and adaptation to climate change impacts. Pacific small island developing States (SIDS) are some of the most vulnerable countries in the world to the impacts of climate change yet accessing climate finance for most of these countries continue to be an ongoing challenge. Pacific SIDS also continue to lag behind other developing countries in scaling-up their climate

finance from other sources, particularly from the private sector. This paper seeks to shed light on the climate finance architecture and experience of the Pacific SIDS as well as provide some way forward that donors and development partners in the region could consider in strengthening Pacific SIDS' abilities to scale-up climate finance. This study adopts a desk review approach, synthesizing relevant climate finance related literature from within the Pacific and as well as external sources.

**Keywords:** Pacific SIDS, Climate finance, Climate change, 1.5 degrees, GCF.

# Executive summary

There is still no agreed definition of climate finance which makes it difficult to accurately track climate finance flows from source to recipient countries. Multiple definitions and methodologies on how to count and track climate finance currently exist. Keeping in mind this caveat, there is strong evidence that the current level of climate financing effort falls short in putting the global climate change pathway towards a scenario of an additional 1.5°C.<sup>1</sup> That 1.5°C target is the redline for Pacific small island developing States (SIDS), who have contributed the least to climate change but are already experiencing its impacts at the frontline. To achieve the 1.5°C target, urgent scaling up of global climate finance must be complemented with a similar scaling down of global investments in fossil fuels. Time is of the essence, as the window for achieving the 1.5°C target is rapidly diminishing.

The patterns of global climate finance flows are not tailored to SIDS' needs. For instance, SIDS need mostly adaptation initiatives but there is still a major imbalance at the global level between mitigation and adaptation. Global climate finance flows (95 per cent) are mitigation-centric. Furthermore, the majority of global climate finance is sourced from the private sector rather than public finance, being raised through debt instruments (both at market and concessional rates), while grants account for only 5 per cent of global climate finance. Asia and the Pacific is the largest recipient region of global climate finance with more than 40 per cent of global climate finance, and the global features are visible in the region: most of climate finance flows are in the form of concessional loans, and over 60 per cent of

climate finance channeled to Asia-Pacific goes to investments in mitigation opportunities, most of it to the energy sector. Moreover, access to adaptation finance is very competitive and most funding goes to larger Asian countries, which tend to have higher institutional capacity.

Pacific SIDS only account for 4.6 per cent of the adaptation finance channeled to Asia-Pacific, channeled primarily through grants from bilateral and multilateral donors. Indeed, domestic private sector investments in adaptation initiatives are very limited. Like for the entire Asia-Pacific, private sector investments in SIDS are mainly channeled towards renewable energy initiatives.

Despite these caveats, Pacific SIDS know the importance of climate change-related expenditures, and their allocations in national budgets have been gaining importance, from 4 per cent to 10 per cent for the period 2012 to 2019<sup>2</sup>. These figures tend to rise significantly after events of natural disasters where Pacific SIDS have to spend more on post-disaster recovery and rehabilitation process. Domestic resources are clearly insufficient and highlights the vital role of international support. However, accessing climate finance directly from dedicated multilateral funds such as the Green Climate Fund (GCF) is very challenging for most Pacific SIDS. Only five Pacific-based institutions have been accredited to the GCF: two national accredited entities and three regional accredited entities. This is due to the challenge of getting accreditations, in turn consequence of countries' limited technical and administrative capacity, high co-financing requirements and institutional capacity to develop quality bankable projects. Scaling up external

heating point which will push many natural systems that sustain us past a dangerous turning point.

<sup>2</sup> Fiji, FSM, Kiribati, Nauru, Palau, RMI, Tonga, Samoa, Solomon Islands, Vanuatu (SPC, 2019).

<sup>1</sup> The 1.5°C as per the various IPCC reports serves as the general indicator of where many climate change impacts-on balance- go from destructive to catastrophic. It is the

climate finance is difficult because SIDS tend to lack the robust enabling environment needed to plan, access, manage, and report on climate finance from multiple sources.

In addition to poor capacity, the climate finance architecture of Pacific SIDS is complex due to the multiple stakeholders involved at regional and national levels. Most climate finance is typically delivered through small and often-uncoordinated projects which burden even more the already limited in-country capacities. These challenges are exacerbated by the Pacific SIDS small-sized and undiversified economies, remote locations,

underdeveloped private sector, and high dependence on donors' finance.

Against all these obstacles, Pacific SIDS are trying to emerge as pioneers in establishing innovative financial mechanisms to source climate finance, although most of these are still heavily dependent on external sources for initial resourcing and sustainability. The main areas where Pacific SIDS must invest to sustainably scale up climate finance are policy and planning, institutional capacity, public financial management and expenditure, human capacity, social inclusion, and development effectiveness.

# 1. Introduction

Small island developing States (SIDS) bear minimal responsibilities to the current global climate crisis. The aggregate global emission contributions of SIDS account for just 1 per cent (Watson and Schalatek, 2019a). Yet, their geographical locations, socio, economic and climate profiles make them particularly vulnerable to the extreme impacts of climate change. There are 16 SIDS in the Asia-Pacific region who are UN members; 14 in the Oceania subregion; and two in the South Asia subregion<sup>3</sup>. These SIDS are considered to be “canary of the climate change coal mine”; the frontline victims of climate change. The Asia-Pacific region as a whole is considered to be the most disaster-prone region in the world. The population of the Asia-Pacific region are twice likely to be affected by climate-induced disasters and other natural disasters compared to Africa, six times higher relative to Latin America and the Caribbean, and 30 times higher when compared to North America and Europe (Carrozza, 2015).

SIDS are characterized by a high degree of economic vulnerability due to their relatively small size of their economics, often with a narrow economic base that is heavily dependent on just a few industries such as tourism, agriculture, and fisheries. These vulnerabilities are further exacerbated by climate change impacts such as cyclones, flooding, droughts, etc. Confronted with multiple economic and social priorities and chronic resources, most SIDS find it a constant challenge to build the needed resilient to insulate their economies from the compounding externalities of climate change. Climate change for SIDS is not a mere environmental problem; it is a major development problem. For some SIDS, especially those in the Oceania subregion, climate change is more than just a development challenge, it is a crisis that threatens their very existence. Mobilizing resources in a vulnerable environment is a major hurdle for many SIDS. They face high

costs of capital because of their geographic isolations, small markets, and economies of scale (Samuwai and Hills, 2018; SPC, 2019). For most SIDS, the domestic private sector lacks substantial pools of domestic savings in the form of bank deposits, pensions funds or insurance funds, while in other cases local banks tend to accumulate their cash holdings as there are relatively few bankable investment opportunities given the risk profile of the local private sector (ESCAP, 2021). In addition, domestic capital markets have small credit lines for SIDS due to the small size of their economies. Compared to other developing countries, SIDS have lower shares of external private financing flows from international lending and foreign direct investments (FDI) (ESCAP, 2021). As a consequence, many SIDS are heavily reliant on bilateral and multilateral official development assistance (ODA) (ESCAP, 2021).

Simplified and expedited access to climate finance from multiple sources is critical and urgent in light of the “threat level” climate change now poses to SIDS as highlighted in the 2021 IPCC Sixth Assessment Report (AR6) (IPCC, 2021). Urgent, predictable, and scaled-up access to climate finance will be pivotal to SIDS to ensure a fighting chance of survival (IPCC, 2018).

This paper provides a review of the climate finance mobilization situations of the Asia-Pacific SIDS. It will evaluate the current states of access to climate finance of SIDS in the region, with the intention of identifying practical ways to improve access to climate finance. The paper will draw mainly from the experiences and the context of the 14 Pacific SIDS in the Oceania subregion, with the hope that lessons learnt could also be of practical use for SIDS in general.

This rest of the paper is structured into six sections. Section Two defines the parameters of climate finance and provides an overview of the scene of the

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<sup>3</sup> Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Samoa,

Solomon Islands, Tonga, Tuvalu, Vanuatu, Timor Leste, Maldives and Singapore.



global climate finance architecture. Section Three provides an overview of the Pacific SIDS climate finance architecture. Section Four highlights case studies of various climate finance mechanisms implemented in the Pacific SIDS and lessons learnt. Section Five tabulates recommendations on areas that needs strengthening for Pacific SIDS to scale up climate finance. Section Six concludes the paper.

# 2. Overview of climate finance

## 2.1 DEFINING CLIMATE FINANCE

The definition of climate finance is still contested. Numerous understandings of the concept have been promoted by various stakeholders. The 1992 United Nations Framework Convention on Climate Change (UNFCCC) did not explicitly define what climate finance is; however, set some parameter of what it envisioned as climate finance, which is 1) “new and additional financial resources that meet the agreed full costs incurred by developing country parties” and 2) developed country Parties and other developed Parties included in Annex II<sup>4</sup> “shall provide such financial resources” (UNFCCC, 1992, Article 4, paragraph 3). Somewhat narrower definition of climate finance has been advocated by organizations, such as Oxfam, to perceive climate finance as the “net climate-specific assistance” provided by developed countries (Carty and Comte, 2018). The Oxfam definition emphasizes the accounting of only grant and grant equivalents as climate finance. A much narrower definition of climate finance was adopted by (Dasgupta, 2015) in penning India’s response to the 2015 OECD USD 100 billion finance goal pathway progress report. As per Dasgupta (2015), climate finance consists of only cross-border flows that have been “actually disbursed”, “new and additional”, “climate specific” and in the form of grant/grant equivalent. Developing countries tend to advocate for a narrower definition of climate finance in the UNFCCC negotiation process.

The broader definition of climate finance, which reflects the position of developed countries, promotes the perspective that climate finance encompasses “local, national or transnational financing - drawn from public, private and alternative sources of financing—that seeks to

support mitigation and adaptation actions that will address climate change” (UNFCCC, 2018). This general definition counts climate finance as any finance flow from any source, that is directed towards initiatives that reduce emissions or/and initiatives that enable communities to adapt to climate change and posits that climate finance is the totality of finance flows directed towards mitigation and adaptation initiatives (Buchner and others, 2017).

For the purpose of this report, the broader definition of climate finance as stipulated above will be adopted. This broad approach is also reflected in Article 9 of the 2015 Paris Agreement. The Paris Agreement, while reaffirming the obligations of developed countries to take the lead in providing climate finance, calls for innovative sources, instruments, and channels of financing to be implemented as a veiled reference to private sector financing. Climate finance as per the Paris Agreement encompasses external or internal financial flows from any source as long as it is channeled towards advancing global mitigation and adaptation efforts.

## 2.2 SIDS EXPERIENCE WITH THE GLOBAL CLIMATE FINANCE ARCHITECTURE

Climate finance is a critical tool in the fight against climate change. It is central in transitioning the global economy towards a low carbon and climate resilient pathway (Watson and Schalatek, 2019b). The 2015 Paris Agreement aims to make all climate finance flows consistent with a development pathway towards low emission and climate resilient development and has re-affirmed the finance target set in Copenhagen in 2009 to mobilize up to USD

enable developing countries to undertake emissions reduction activities under the Convention and to help them adapt to climate change impacts. Funding provided by Annex II countries is channeled mostly through the Conventions financial mechanism. Non Annex I countries are mostly developing countries.

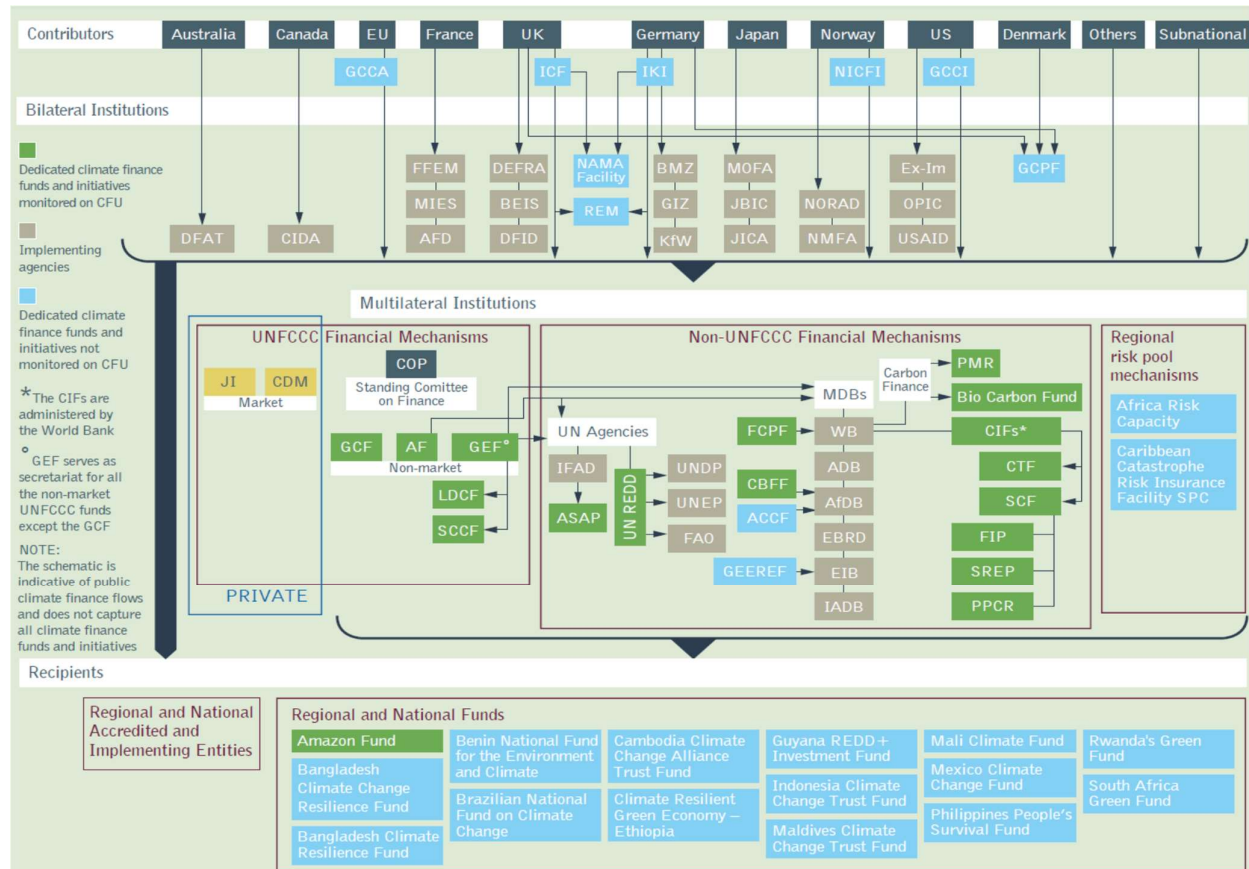
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<sup>4</sup> The 1992 UNFCCC categorize developed country parties into 2 groups Annex I and Annex II. Annex I countries include the industrialized countries that are members of the OECD plus countries in transitions. Annex II countries are those that consists of the OECD members of Annex I and they are required to provide financial resources to

100 billion<sup>5</sup> of climate finance to developing countries each year by 2020 (UNFCCC, 2015). However, tracking and accounting on the progress towards this ambitious goal is difficult given the

complex, fragmented and fluid nature of the current global climate finance architecture (Watson and Schalatek, 2019b). Figure 1 presents a snapshot of the global architecture of public sourced climate

**Figure 1: Global climate finance architecture**



Source: Watson and Schalatek (2019b).

The fragmented, complex, and highly fluid nature of the climate finance architecture complicates developing countries access to climate access. A 2014 stock take of climate finance sources highlighted that there were more than 50 international public funds, 60 carbon markets, and

6,000 private equity funds actively mobilizing climate finance globally (Vandeweerd, Glemarec, and Billett, 2014). The number of climate finance mechanisms has increased significantly till to date (Watson and Schalatek, 2019b).

<sup>5</sup> It is important to note that the USD 100 billion climate finance goal is very ambiguous and lack concrete details on how it is going to be sourced (public or private) and delivered (grants, loans, equity, insurance etc.). The amount was conjured up by developed countries during the Copenhagen Meeting as a baseline (floor) for financing global actions. No empirical analysis was done when determining this amount and developed countries have successfully managed to keep this financial goal in the Paris Agreement during the negotiations. The progress towards this financial goal will be reviewed in 2025.

It is also important to note that the question of whether the USD 100 billion goal will be achieved or not is still a matter of debate. Developing countries have argued that the goal will not be achieved and that there will be gaps comes 2020, however, developed countries parties through their report titled the Roadmap to the US100 Billion argue that they are on track on delivering this obligation. The lack of an agreed definition to climate finance is the major reason of such disagreement.

Mapping such a fragmented finance landscape to country needs requires specialized knowledge and expertise as most of finance sources and donors have different objectives and access requirements (Robinson and Dornan, 2017; Samuwai and Hills, 2018). With chronic capacity and resource limitations, Pacific SIDS find it challenging to effectively engage such complex financial architecture (Samuwai and Hills, 2018). Their lack of awareness and knowledge of the climate finance architecture has not only resulted in missed opportunities for funding, but also contributed to the financial burden of Pacific SIDS as they are forced to pursue the traditional, yet expensive modality of securing finance (i.e., loans) to support their national climate initiatives (Goundar and others, 2017; Samuwai and Hills, 2018).

Parties to the UNFCCC tried to consolidate the fragmented climate finance landscape by establishing the Green Climate Fund (GCF) as the primary vehicle through which a majority of the climate finance efforts are to be channeled. In addition, the GCF has been earmarked to mobilize a significant portion of the USD 100 billion climate finance goal per year by 2020. While such a figure seems ambitious, reputable assessments have consistently argued that a massive funding gap exists in the global climate finance commitments relative to existing developing countries' needs (IIED, 2017; World Bank, 2017). There is also a realization that public finance alone will not be sufficient to cover such funding gaps, and the need to leverage private sector finance using limited public climate finance (i.e., blended financing) has become critical.

It is therefore evident that, in the light of the aforementioned challenges, only countries with strong political commitments to tackling climate change, strong institutions, and proven financial management capacity will receive greater volumes of climate finance in the future (Steinbach and others, 2014). Most sources of climate finance, such as the GCF, have dedicated a significant portion of their resources to specifically target the capacity, policies, and institutions of developing countries, to bring them in line with its expectations. In other words, developing countries must be able to show

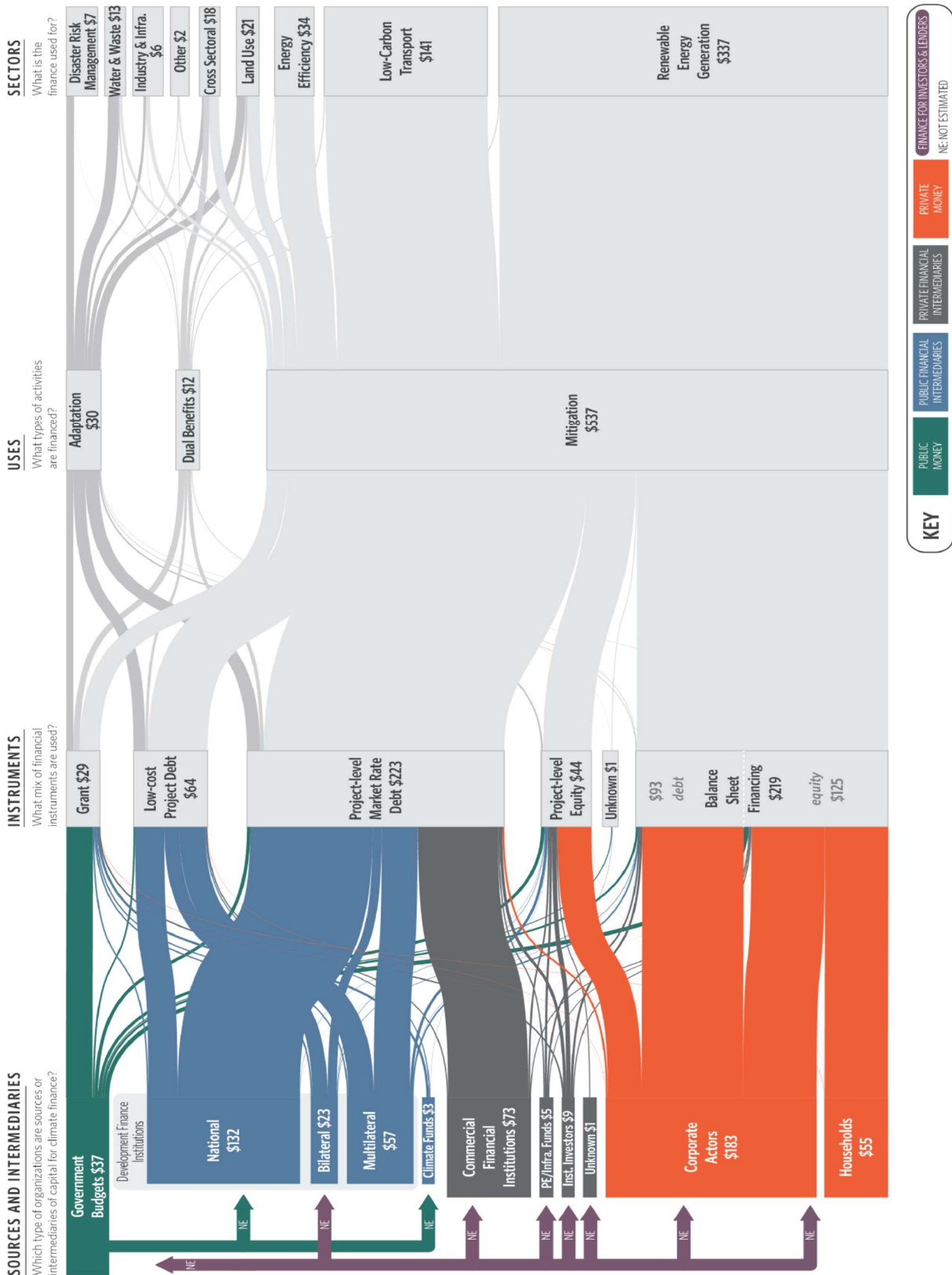
that they can comply with the robust fiduciary, gender, and social standards demanded by specific sources of climate finance. Compliance with these standards is critical as it serves as a safeguard to ensure that the finances accessed will be deployed as intended and have transformative impacts.

### **2.3 THE CURRENT CLIMATE FINANCING LEVEL**

Recent broad estimates indicate increasing trend of global climate finance flow. The 2019 Climate Policy Initiative (CPI) on Global Climate Finance indicated an increasing trend. The 2017/2018 annual average flows stand at USD 579 billion, representing an increase of USD 116 billion (25per cent) from the 2015/2016 average (Buchner and others, 2019). The annual average baseline of 2013/2014 was USD 365 billion (ibid.). The increasing trajectory of the global climate finance trend is driven by the steady increase in financing across all types of investors in mitigation and adaptation initiatives (ibid.).

Figure 2 below provides the latest snapshot of the 2017/2018 global climate finance landscape.

Figure 2: Global climate flows trends as per the period 2017 to 2018



Source: Buchner and others (2019).

The majority of global climate finance is sourced from private sources, which account for USD 326 billion during the 2017/2018 period (~56 per cent). Public finance accounted for an estimated annual average of USD 253 billion (~44 per cent) (Buchner and others, 2019). Sixty six per cent of global climate finance (~USD 380 billion) was raised via debt instruments. Of this total USD 316 billion was issued at market rate, while USD 64 billion was issued as concessional (ibid.). The next largest instrument of raising climate finance is through equity investments (~29 per cent), while grants only accounted for 5 per cent of the total climate in 2017/2018 (ibid.).

The 2019 CPI data indicates that 93 per cent of global climate finance is invested in mitigation initiatives, 5 per cent for adaptation and 2 per cent for cross cutting initiatives (i.e., both mitigation and adaptation benefits) (Buchner and others, 2019). Renewable energy accounts for the majority of mitigation finance (i.e., 58 per cent of global climate finance) while water related projects accounted for the largest share of adaptation finance (ibid.). The CPI analysis also found a strong domestic preference for climate finance investments where the majority of global climate finance (~76 per cent) is spent in the same country in which it is sourced (ibid.). This trend indicates the critical role of the domestic enabling environment in attracting climate related investments.

The global annual average of externally sourced climate finance that flowed to developing countries was USD 356 billion (Buchner and others, 2019). It is estimated that USD 72 billion of international climate finance flow to developing countries was sourced from the OECD countries, while south-to-south cooperation flows accounted for USD 19 billion (ibid.).

## 2.4 ACCESS TO CLIMATE FINANCE IN ASIA-PACIFIC REGION

Fair and equitable access to climate finance continues to be priority for developing countries particularly for SIDS. Article 9.9 of the Paris Agreement explicitly affirmed that “institutions

serving this Agreement, including the operating entities of the Financial Mechanism of the Convention, shall aim to ensure efficient access to financial resources through simplified approval procedures and enhanced readiness support for developing country Parties, in particular for the least developed countries and small island developing states, in the context of their national climate strategies and plans” (UNFCCC, 2015, p. 27).

The East Asia and Pacific region remains the largest recipient of external climate finance flows, accounting for USD 238 billion or 41 per cent of global climate finance flows (Buchner and others, 2019). However, the access per country to climate finance available in the region is still largely uneven, with the bigger and fast-growing Asian economies accounting for the largest recipient of such finance. China, India, Indonesia and Vietnam are the four largest country recipient of climate finance receiving 58 per cent of the funding mobilized in the region (Watson and Schalatek, 2019c).

Climate finance to the Asia-Pacific region is primarily channeled through multilateral funds and are mostly delivered in the form of concessional loans (Watson and Schalatek, 2019c). Mitigation projects particularly those in the renewable energy, energy efficiency and the transport sector account for 62 per cent of climate finance in the region (ibid.).

Investments in adaptation initiatives are increasing, however, the amount is relatively small when compared to mitigation. Adaptation investments in the region is only about a third of the total mitigation finance channeled to the region (Watson and Schalatek, 2019c). Countries like Bangladesh, Cambodia and Nepal are the largest recipient of adaptation finance in the region (ibid.).

The Pacific SIDS on the other hand continue to find it a constant challenge to effectively access climate finance channeled to the region (Samuwai and Hills, 2018). Barnard and others (2013) estimated that only 4.6 per cent of the climate finance channeled to the region are accessed by the Pacific

SIDS, mostly for investments in adaptation projects/programmes. The climate finance needs of Pacific SIDS are primarily geared towards adaptation initiatives rather than mitigations due to their high vulnerability to climate change impacts. Most of the adaptation finance to the Pacific SIDS are channeled through multilateral funds, with the Green Climate Fund (GCF) being largest source (Watson and Schalatek, 2019c). The majority of climate finance delivered to the Pacific SIDS are in the form of grants (80 per cent) while concessional loans accounts for the remaining 20 per cent (ibid.).

The level of climate finance flows to Pacific SIDS when compared to the wider regional trend indicates that the degree to a country's vulnerability to climate change impacts is not the only key criteria for accessing climate finance. Factors such as total population, level of gross national domestic product (GDP) per capital, aid dependence level, quality of governance (Robinson and Dornan, 2017), level of country's implementation capacity, adaptive capacity, and experience with climate change (Barr, Fankhauser and Hamilton, 2010), high level of carbon intensity and carbon sink (Halimanjaya, 2016) for example have been established by climate finance literature as key criteria of climate finance flow to developing countries.

“Readiness” is now the buzz concept for improving climate finance amongst developing countries. Within the context of this study, readiness refers to a country's capacity to plan for, access, deliver and monitor and report in climate finance from multiple sources in ways that are align to their national development priorities and the Sustainable Development Goals. The notion of country capacity as per the concept of readiness is holistic in nature and refers to robustness of the country's enabling environment. As per this paper, the enabling environment consists of the robustness level of countries' policy and planning capacities, institutional capacities, its public financial management and expenditure capacities, human capacities, gender and social inclusion capacity and development effectiveness. Being perceived as “ready” is now a critical prerequisite

for directly accessing climate finance from big multilateral climate funds, particularly the GCF (Samuwai and Hills, 2018).

Direct access to multilateral climate funds has historically been a privilege limited only to international institutions such as the UN agencies and the Multilateral Development Banks (MDBs). These external intermediaries who access funds on behalf of countries are referred to accredited entities. Since 2008, developing countries have made significant head waves in pushing to diversify the modalities of access to climate finance and for developing countries-based institutions to directly access such financial sources. Direct access ensures that project ownership by developing countries, elevates climate change issues to national level, ensures inclusivity, and helps to strengthened institutional knowledge. Moreover, directly accessing climate finance reduces transactions costs, ensuring that the maximum amount of finance is dedicated to addressing climate risks in country. For example, 5 per cent to 10 per cent of the project funding secured by country is charged by the accredited entities (GCF, 2018).

The process of readying a country for direct access is not only complex, but can also be a painful endeavor, especially for SIDS (Samuwai and Hills, 2018). To be perceived as ready, recipient countries must first exhibit a reasonable degree of knowledge to navigate the complex international climate finance environment, so that they can identify those potential sources of funds relevant to their circumstances (ibid.). Once the sources of funds are identified, developing countries must show that they have the necessary capacities, institutions, systems, and processes to be able to meet the stringent and robust fiduciary standards, and social and environmental safeguards, demanded by international sources of finances (Ford and King, 2015).

Considering the chronic resource and capacity constraints of SIDS, attaining such specialized knowledge, and investing additional resources to comply with climate funding sources' robust expectations can be overwhelming (OECD, 2015). Moreover, major reforms in the national and sub-

national political, economic, and social environment will need to be undertaken. If not done right, the changes can further exacerbate existing vulnerability as a consequence of resource misappropriation (Nakhooda, 2012).

In recognizing the aforementioned readiness challenges amongst SIDS, there is a growing global effort, both within and outside the UNFCCC, to provide readiness support. At the heart of this readiness support is the objective of levelling the playing field by ensuring all developing countries have an opportunity to access international climate finances to fund their climate change efforts. To date, a significant amount of resources has been channeled into supporting the readiness projects currently being undertaken by developing countries (GCF, 2019a). The GCF for instance have approved 226 readiness requests from 127 countries amounting to USD 156 million (GCF, 2019b).

## 2.5 THE INDICATIVE CLIMATE FINANCE GAP

SIDS won a significant political victory during the 2015 UNFCCC Conference of the Parties (COP) when they successfully included reference to limit global warming to 1.5°C as part of the Paris Agreement temperature goal. SIDS insisted on limiting warming to 1.5°C was a matter for their survival. Developed countries also made a commitment to mobilized USD 100 billion each year by 2020 to support developing countries, especially vulnerable countries, in their efforts to mitigate and adapt to climate change while pursuing economic development. However, concerns are growing that the current level and the pace of mobilizing climate finance resource falls significantly short to address the growing crisis at hand (IPCC, 2018).

Limiting the global temperature at 1.5°C requires a different level, as well as well pace of investments in mitigations and adaptations. The 2018 Intergovernmental Panel on Climate Change (IPCC) Special Report (SR) on 1.5°C forewarns that the world has less than 10 years to reach the 1.5°C mark and that global emission trajectory shows no

sign of peaking by 2030. The world based on the current trajectory is in fact on par to a 3.4°C trajectory by 2100 (IPCC, 2018). The 2019 UN Environment Programme (UNEP) Emission Gap Report indicated that countries must urgently increase ambitions (i.e., in terms of emission reductions and financing) as per their Nationally Determined Contributions (NDC) five folds if the 1.5°C pathway is to be attained (UNEP, 2019). The IPCC 1.5°C SR estimated that the global economic costs of a 1.5°C warming is estimated to be USD 54 trillion by the end of the century compared to USD 69 trillion in a 2°C warming scenario (IPCC, 2018). Failure to adequately address the current emission gap will not only compound the cost of addressing climate change in the future, but it will also threaten the very existence of many vulnerable communities, particularly SIDS (ibid.).

The current level of climate finance still falls far short of what is needed to keep warming below a 1.5°C scenario (Buchner and others, 2019). The IPCC 1.5°C SR estimated that the total investments required to achieve the low-carbon transition needed to keep warming below 1.5°C ranges from USD1.6 trillion to USD 3.8 trillion annually between 2016 and 2050 (i.e., for supply-side energy investment alone) (IPCC, 2018). The Global commission on Adaptation estimated that adaptation costs alone to be around USD 180 billion annually from 2020 to 2030 (GCA, 2019). Compared against CPI data, *ceteris paribus* this would suggest an indicative mitigation finance gap of USD 3.26 trillion yearly and an indicative adaptation finance gap of USD 150 billion yearly.

The phasing out of investments in the fossil fuel supply chain from exploration to generation is also critical as increasing climate finance commitment on its own will not be sufficient to urgently transform the global economy towards a 1.5°C development pathway (Buchner and others, 2019). The UNFCCC Standing Committee on Finance (SCF) estimated that the 2016 total investments in fossil fuel was USD 742 billion, while the fossil fuel subsidies in 2015 alone was USD 373 billion (SCF, 2018). Global fossil fuel related investments are still increasing. It is estimated that commercial banks alone still give USD 650 billion annually in loans to



fossil fuel companies (Rainforest Action Network and others, 2019). It is also estimated that the level of emission attributed to the existing global stock of fossil fuel energy infrastructure today surpasses the entire carbon budget needed to limit warming to 1.5 °C (Tong and others, 2019). Continued investments in fossil fuel related initiatives not only increase the risks of missing emission reduction targets of countries, it increases risk of stranded assets, and will also “kill” any realistic window of achieving the “below” 1.5°C goal.

Strengthening the global response to the climate crisis will require ambitious and urgent scaling up of climate finance from all sources of climate finance. More importantly, the scaling up of climate finance must be reciprocated with the scaling down of fossil fuel investments to ensure that all financial flows are consistent with the long-term goal of keeping temperature below the 1.5°C.

## 2.6 PRIVATE FINANCING AS THE PANACEA OF CLIMATE FINANCE

Private financing has been advocated as the panacea for the shortfall and the uncertainty of climate financing (IRENA, 2017). There are two major factors that drive the focus on the private sector. Firstly, the private sector is the custodian of a large pool of capital which could be directed towards climate change activities (UNEP, 2014; Buchner and others, 2017). The market value of assets, corporate and government bonds, and loans managed by the global financial sector alone has an estimated worth of USD 225 trillion (SCF, 2018). Secondly, private finance has catalytic properties that could effectively scale-up the “reach” and the scope of influence of public financing (ibid.).

Private finance tends to be biased towards the energy sector, specifically investments in renewable energy sources because of the proven track record of return on investments with such initiatives. Private sector investments on the other hand have gained little traction in financing adaptation opportunities. Short-termism (i.e., the need to achieve return from investments quickly) versus the slow and long-term benefits derived

from adaptation initiatives is the major barrier for private investments in adaptation (Fayolle and others, 2019). Other major barriers include lack of access to finance, weak institutional capacity/governance arrangements, lack of climate related information available, weak political and regulatory environment, lack of access to technology and social and cultural aspects dominant in countries (ibid.).

Co-financing is important for mobilizing private finance. Multilateral funds have been instrumental in catalyzing climate related investments from various sources. Available data from four multilateral funds indicated that total project level co-financing in 2016 amounted to USD 740 million (SCF, 2018). Data gaps remain a constant challenge in tracking and measuring of private finance mobilized. A number of multilateral funds are specifically mandated to mobilize private investments, but very little information still exists because of the lack of a harmonized methodology for estimating finance flows and systematic reporting amongst these multilateral funds (ibid.).

The alignment of all global finance flows towards the temperature goals of the Paris Agreement (i.e., both public and private finance) is as articulated in Article 2.1 (c) of the Paris Agreement. Within the UNFCCC negotiation process, Article 2.1 (c) is referred to as the “mobilization of the billions/trillions” of global finance to be consistent with low carbon emissions and climate resilient pathway. The UNFCCC SCF 2018 biennial report of climate finance flows have attempted to capture the global effort as per Article 2.1 (c) by measuring private financial flows from bank lending, bond issues, listed equity, private equity, insurance and reimbursement, assets under management and financial services (SCF, 2018).

### **Bank lending**

With regards to how global bank lending is aligned with the Paris Agreement, reported data estimated that the global loan portfolio channeled to “green” initiatives amounted to USD 70 billion in 2016 (SCF, 2018). It has also been reported that 49 per cent of the largest global banks have incorporate climate risk assessments and the below 2°C risk

scenario in their loan approval processes and 71 per cent of banks globally have also adopted public exclusion policies linked to carbon intensive practices (ibid.).

### **Bond Markets**

Trends from the global bond market indicated that a total of USD 221 billion in green bonds and an additional USD 674 billion in unlabeled bonds deemed to be climate aligned were outstanding in 2017 (SCF, 2018). There is also an increasing appetite amongst global stock exchange to list green bonds with 11 out of the 84 global stock exchanges having already implemented rules and procedures for listing green bonds (ibid.).

### **Listed equity**

The integration of climate change considerations into the stock market is also gaining momentum. Data revealed that 68 stock exchanges which accounts for 80 per cent of the global market capitalization have been designated as Partner Exchange were designated as Partner Exchange under the UN-led Sustainable Stock Exchanges (SSE) initiative (SCF, 2018). The SSE initiative is a peer to peer learning platform for exploring how exchanges, in collaboration with investors, regulators, and companies, can enhance corporate transparency – and ultimately performance – on environmental, social and corporate governance (ESG) issues and encourage sustainable investment (SSE, 2019). The SSE aims to align global capital market signals with public policy goals on sustainable development.

### **Private equity**

Available data on private equity funds and venture capital flows indicated that USD 13.3 billion of such fund was channeled towards clean energy technology projects (SCF, 2018). A total of USD 13.9 billion of private investments were raised in emerging market funds and were dedicated to climate related investments in 2018 (ibid.). An additional USD 18.5 billion in deployed capital was channeled to climate related projects and portfolio companies in 2018 (ibid.).

### **Insurance**

The global integration of climate change

considerations into the provision of insurance remains unclear. Reported data seems to indicate that the integration of climate change into the insurance premiums across various insurance covers, is lacking (SCF, 2018). Data on climate risk disclosures across global insurance providers is still relatively unavailable. Out of all the various providers of insurance policies, health insurance providers are singled out as lacking understanding of climate risks despite of the growing evidence linking climate change to health (mortality/morbidity) (ibid.).

### **Asset under management and financial services**

Akin to insurance, data on the progress of climate integration into assets under management and the provision of financial services is sparse and fragmented. Available reported data are mainly qualitative in nature reflecting the number of financial entities and institutions that have made commitments to align their various processes with the Paris Agreement. Hard financial data on the climate change efforts is still not available.

## **2.7 SIDS EXPERIENCE WITH THE PRIVATE SECTOR FINANCING**

Strategies on how to mobilize private investments, specifically the domestic private sector towards climate related investments, are well established (Stewart, Kingsbury and Rudyk, 2009). The involvement of the domestic private sector in countries' development efforts is an important bulwark against the "resource curse" plaguing many developing countries (Luong and Weinthal, 2010). While foreign private investments flowing to host countries is beneficial in speeding up economic growth and development, the domestic private finance has a much greater multiplier/catalytic effect (i.e., USD 2 to USD 5 dollars in additional domestic private investment for every direct USD 1 invested (World Bank, 2015), underscoring the need to strengthen the participation of the domestic private sector in climate actions (Kalu and Onyinye, 2015).

However, the suitability and the success of strategies that stimulate the domestic private

climate investments have been a “mixed bag” across developing countries because of the heterogeneous nature of countries’ climate change and economic context (Dornan and Shah, 2016).

SIDS, whose circumstances are recognized as special and unique (Keeley, 2017), face a continuous challenge of mobilizing the domestic private investments towards national climate actions despite developing some of the most

ambitious NDC globally. Efforts to strengthen SIDS’ abilities to mobilize domestic private finance have been ongoing, but with limited success (IRENA, 2015). Private investments in SIDS are primarily geared towards mitigation opportunities, specifically the renewable energy sector, with little to no involvement in adaptation opportunities.

# 3. Climate finance landscape of Pacific SIDS

## 3.1. OVERVIEW OF PACIFIC SIDS

This section provides the context of this paper. It will provide an overview of the Pacific SIDS as well as a high-level assessment of its existing climate finance architecture and access experiences.

The Pacific is the largest oceanic continent in the world, covering 15 per cent of the global surface. It is made up of 14 UN member SIDS that are spread over the Pacific Ocean. The boundaries of the Pacific extend from the Arctic Ocean in the North to the Southern Ocean in the South and is bounded by Asia and Australia in the West and the Americas in the East. The region's population stands at over 10.2 million. All the 14 Pacific SIDS are Parties to the UNFCCC and have ratified the Paris Agreement.

The countries and territories of the Pacific are culturally diverse. They also differ greatly in terms of topography, economic size, level of development, population size as well as vulnerabilities to climate change. The Pacific is one of the most natural disaster-prone regions in the world, with five of its countries being listed in the top 10 most at risk countries in the world (Heintze and others, 2018). Three Pacific SIDS make up the top four at risk countries; Vanuatu and Tonga are ranked 1<sup>st</sup> and 2<sup>nd</sup>, respectively, with the Solomon Islands ranked 4<sup>th</sup> (ibid.).

Climate change is a lived reality for Pacific Islanders as they are already experiencing its impacts. For the majority of the Pacific SIDS, large proportions of their population live in coastal areas. Most of these communities now face increasing threats associated with sea level rise such as increased inundation, coastal flooding and erosion, saltwater intrusion into rivers and underground aquifers, and changes in sediment deposition patterns. These risks are forcing coastal

communities to re-locate further inland, while others are now contemplating the real possibility of migrating entire populations to a different country. Fiji and Kiribati are two examples of Pacific SIDS which have relocated or are seriously contemplating relocating significant portions of their population. Fiji became the first country in the world to relocate a community due to increasing coastal erosions and saltwater intrusion. It has also indicated 830 vulnerable communities to be at risk of relocations from climate related impacts, of which 48 communities identified as urgent cases (Fiji, Ministry of Economy, 2017). Kiribati on the other hand has already procured a 5,500-acre land worth USD 8.8 million in Fiji in anticipation for a mass relocation of its population because of climate change. The rate of sea level rise in some parts of the Pacific is estimated to be four times the global average of 3.2 mm rise per year (SPREP, 2019a). Increased coral bleaching as the consequence of ocean acidification, prolonged drought and erratic rainfalls also pose increasing threats to the food and water security of Pacific island communities.

Extreme weather events, especially category 5 cyclones (i.e., equivalent to that of Hurricane Katrina that devastated the USA in 2005), are a common occurrence in the Pacific region, which not only threatens lives and livelihood but also rolls back development gained in the past. A total of 27 category 5 cyclones and 32 category 4 cyclones have ravaged the Pacific between 1981 and 2016 (World Bank, 2016). The Pacific is now on a constant “recovery and rebuild” mode due to the frequency as well as the high intensity of climate induced disasters it has experienced.

The consequences of climate-induced disasters are especially dire for the poor who tend to live in high-risk areas and typically have fewer options in terms of protection or risk mitigation. It is estimated that 4 million people (almost half) of the Pacific

population live in poverty where an estimated 2.7 million people (i.e., 1/3 of the population) do not have income or subsistence production to meet their basic needs (Samuwai and Fihaki, 2019). Six Pacific SIDS are ranked in the top 40 poorest

countries in the world (Ventura, 2021). Many of the poor in the Pacific live on the remote outer islands and communities far from the nation's economic centers where poverty is structural and persistent (World Bank, 2016).

### Box 1: Factors that exacerbate vulnerability of the Pacific poor in the event of disasters

1. Inadequate financial means to deal with disasters.
2. Limited access to insurance, cash reserves and alternative income sources that provide the mechanisms to recover quickly.
3. Tendency to ignore or underestimate the risks of living in hazard prone area in light of immediate challenges such as threat of hunger, access to water or livelihood opportunities.
4. Those who already living in poverty and vulnerable can be pushed into transient poverty when disaster hits as their livelihood are destroyed.
5. Repeated exposure to disasters and shocks reduces the chances of poor people to rebuild their livelihood and invest in human capital, becoming trapped in the to a deeper poverty cycle.

*Source:* Adapted from World Bank (2016).

## 3.2 TOTAL COST OF CLIMATE CHANGE IN THE PACIFIC

Accurately estimating the financial cost of climate change in the Pacific is difficult given the futuristic nature and degree of risks associated with climate change. In addition, most of the disasters related to climate change are complicated by other development externalities and thus directly attributing them to climate change alone is also difficult. The average annual direct losses by natural disaster in the South Pacific region are estimated at USD 284 million with some countries at risks of facing losses from a single event that would exceed their GDP (World Bank, 2012). Since 1950, natural disasters have affected 9.2 million people in the region, causing 10,000 reported deaths and costing economic loss of around USD 3.2 billion (World Bank, 2016). Based on the best available data, there is a huge gap in the current level of climate financing to the Pacific. In an attempt to quantify the cost of adaptation in the Pacific, World Bank have posited two possible scenarios, estimating that in a best case scenario, the Pacific will require up to USD 234 million/year by 2020 and USD 285 million/year by 2040, while in a worst case scenario the costs would likely to be around USD

796 million/year by 2020 and USD 1.044 billion/year by 2040 (ibid.). Indicative mitigation costs from Pacific SIDS NDC also highlight that the level of mitigation financing is not sufficient to meet current needs (table 1)figure 4.

**Table 1: Indicative figures of the climate finance needs for NDCs**

Pacific SIDS that have costed NDC	Amount assessed (USD) 2010-2014	NDC conditional amount (USD) till 2025*/ 2030
Fiji	32 million	1.67 billion
Nauru	5 million	50 million
Palau	6 million	5.5 million*
Vanuatu	49 million	429.7 million
Solomon	42 million	200 million

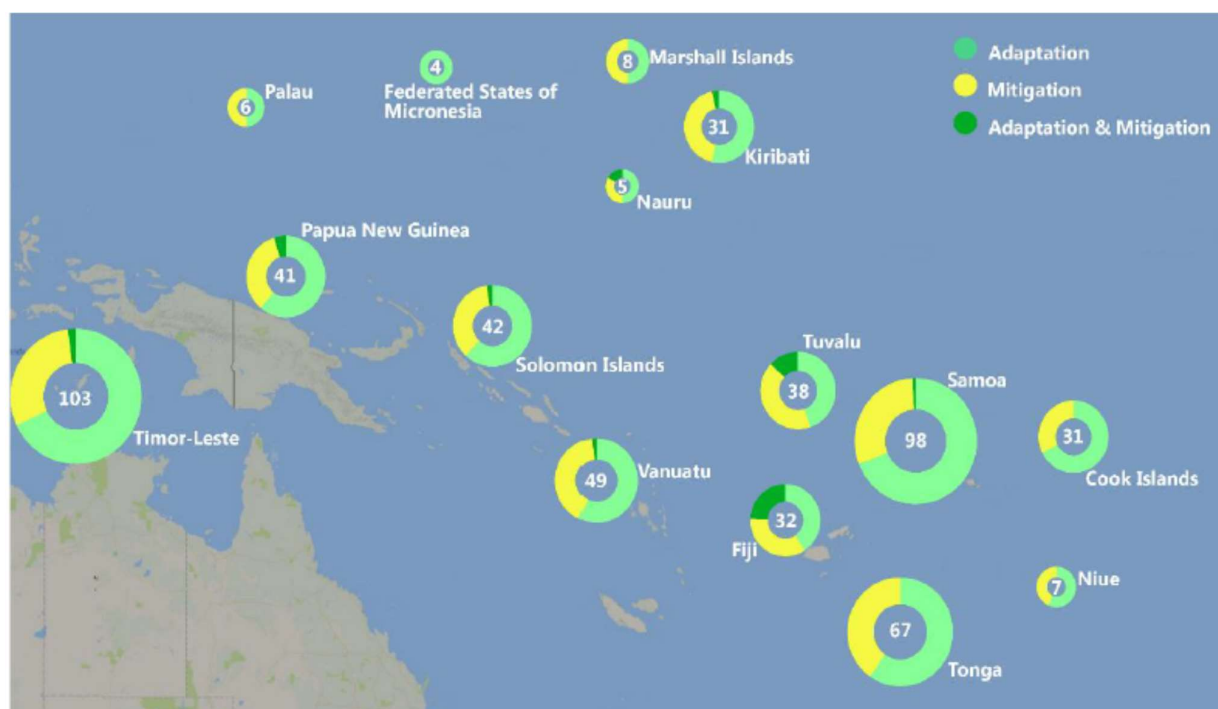
Source: Atteridge and Canales (2017).

### 3.3 HOW MUCH CLIMATE FINANCE HAVE THE PACIFIC RECEIVED?

It is difficult to accurately determine how much climate finance has been received by the Pacific but current trend indicate that it is increasing. A general assessment by the PIFS estimated that the Pacific has so far received USD 2.2 billion of climate related finance in the past decade (Taloiburi, 2021). The absence of a uniform

definition of climate finance is the underlying cause of this challenge. According to Atteridge and Canales (2017), from 2010-2014 a total of USD 748 million has flowed to the Pacific. Figure 3 below shows the allocation of funds per Pacific SIDS as per Atteridge and Canales (2017) assessments.

**Figure 3: Total climate finance accessed by Pacific SIDS from 2010 to 2014**



Source: Atteridge and Canales (2017).

Due to their very small populations, the Pacific SIDS are regarded as the highest receivers of climate finance on a per capita basis (PCB) (Betzold

and Weiler, 2017). However, critics of the PCB argued that it does not reflect countries' realities (Dirix, Peeters and Sterckx, 2012). The Pacific SIDS, unlike

SIDS in the Caribbean, are scattered across 15 per cent of the globe's surface, and are some of the remotest countries from major global markets. As a consequence of their geographical location, mobilizing climate finance is not only challenging, but also very costly (MacLellan and Meads, 2016). It also has been estimated that, out of the USD 1.3 billion for adaptation finance mobilized to the greater Asia-Pacific region, only 4.6 per cent was channeled to the Pacific, with the lion's share being channeled to larger Asian countries (Caravani, Watson and Schalatek, 2015). In other words, while Pacific SIDS might be portrayed as "receiving more", the cost of delivering climate finance is also more (on a PCB) considering their remote and highly dispersed locations.

Adaptation finance accounts for the majority of climate finance to Pacific SIDS given their "frontline" status to climate change impacts (Watson and Schalatek, 2019a). It is estimated that domestically, adaptation related expenditures accounts for 41 per cent to 90.5 per cent of Pacific SIDS recurrent budget expenditure (SPC, 2019). In addition, of the external climate finance accessed by the Pacific in 2010-2014, adaptation finance accounted for 59 per cent, 36 per cent was for mitigation initiatives and the remaining 5 per cent were crosscutting in nature (Atteridge and Canales, 2017). Betzold (2016), found that the 2010-2014 adaptation finance flows to the Pacific have steadily declined, due to the reduction of adaptation support from Australia, which is the primary source of bilateral finance in the Pacific. This figure will likely increase again in light of the AUD 300 million (~USD 205 million) climate and disaster "Step Up" package for the year 2016-2020 as well as the recent AUD 500 million (~USD 342 million) climate finance package pledge to the Pacific for the next five years starting in 2020. The USD 342 million package is however, not "new finances" but rather a reshuffling of Australia's existing aid commitment to the region.

### 3.4 MODALITIES FOR DISPENSING FINANCING

Climate finance delivered to the Pacific are largely short-term project-based. This modality has been

strongly criticized for stifling long-term capacity building in the Pacific, as projects are mostly managed by costly, external consultants rather than local experts, thus increasing administration costs (Samuwai and Hills, 2018). Other issues include lack of flexibility and sustainability, susceptibility to donor influence, and lack of country ownership (Barnett and Campbell, 2010; Pasisi and others, 2013). Recent assessment by PIFS indicate that 98 per cent of climate finance in the region are delivered through projects, 2per cent in general/sector budget support and technical assistance (Taloiburi, 2021).

However, tracking these climate finance flows to the Pacific SIDS is complex given the multilayer architecture that exists. Figure 4 depicts the "spaghetti" like flows of how climate finance is channeled to the Pacific. The main sources of climate finance are also detailed below.

#### **Bilateral sources**

Bilateral sources account for the majority of adaptation flows to the Pacific (84 per cent), followed by multilateral agencies (16 per cent) (Betzold, 2016). Grants are the most common instrument used to deliver adaptation finance in the region (Betzold 2016; Atteridge and Canales, 2017). Australia is the largest bilateral source of climate finance, particularly adaptation finance to the Pacific, followed by Japan and New Zealand. It is also important to note that Australia has been refocusing its climate related aid away from the Pacific to other regions in the world, especially East and South East Asia (Betzold, 2016). The "Pacific Step Up" however, can be perceived as Australia re-orienting its focus back to the Pacific.

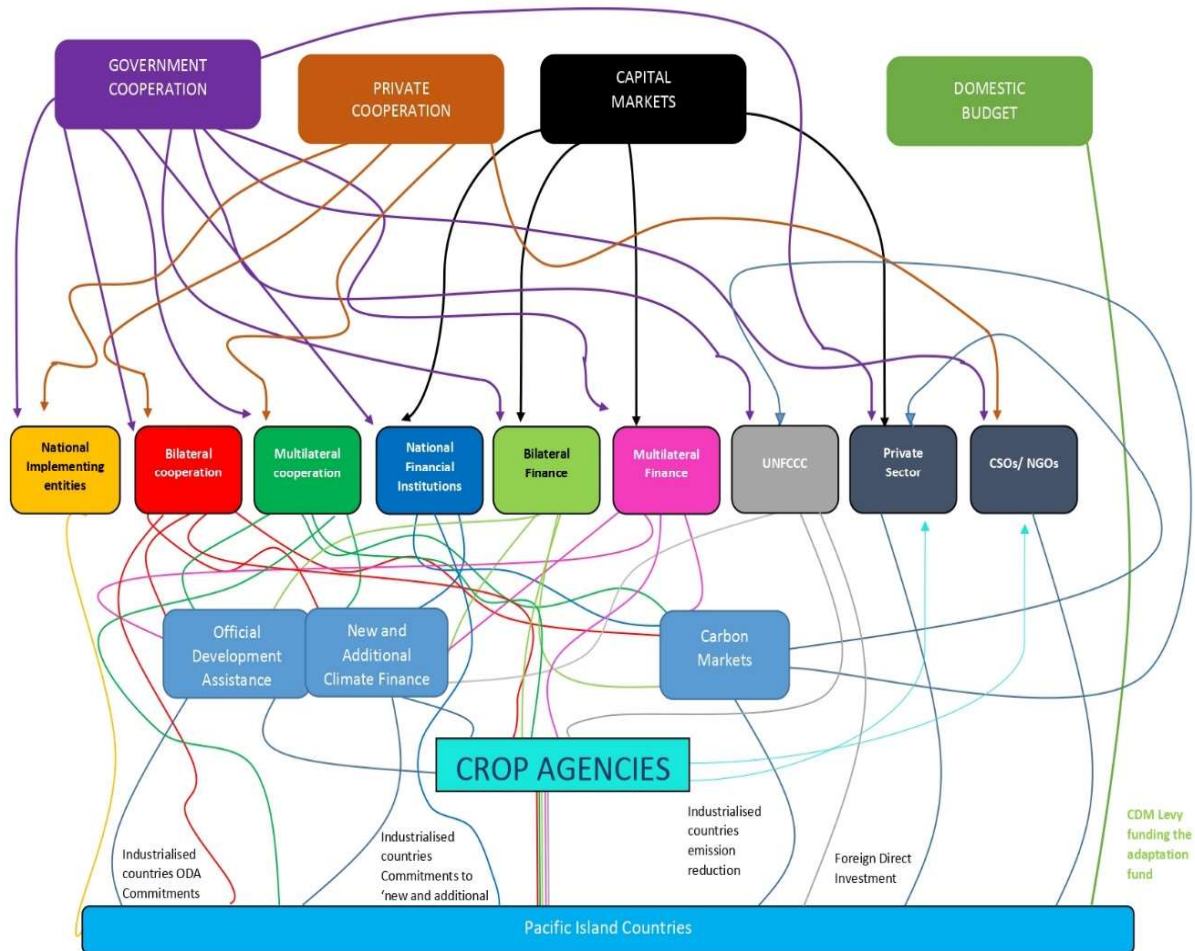
#### **Multilateral sources**

Compared to other SIDS, the Pacific region has received the largest share of climate finance (47 per cent) from multilateral sources (Watson and Schalatek, 2019a). Including the EU, there are 13 multilateral funds that provides support to the Pacific (ibid.). The EU is the largest provider of adaptation finance in the Pacific (Betzold, 2016) while the GCF is the largest provider of multilateral climate finance in the Pacific. The GCF has so far approved to co-finance USD 690 million for 16 projects in 14 Pacific SIDS (GCF, 2021a). The total GCF readiness financing approved for the Pacific so far is USD 20 million (ibid.). Fiji and the

Cook Islands are the only two countries that have attained national accreditation to the GCF. The Micronesian Conservation Trust (MCT), Secretariat of the Pacific Regional Environment Programme (SPREP) and the Pacific Community (SPC) functions as regional accredited entities. International accredited entities such as the Asian Development Bank (ADB), United Nations

Development Programme (UNDP), United Nations Environment Programme (UNEP), International Union for Conservation of Nature (IUCN), Food and Agriculture Organization of the United Nations (FAO) and World Bank, etc. also access the GCF funding on behalf of the Pacific. The Appendix illustrates the GCF funding accessed so far by the Pacific.

**Figure 4: Pacific climate finance architecture**



Source: Adopted from Flynn (2011).



## Box 2: Multilateral funds supporting SIDS including the Pacific

1. The Green Climate Fund (GCF)
2. Least Development Countries Fund (LDCF)
3. Pilot Program from Climate Resilience (PPCR)
4. Global Environment Facility (4,5,6)
5. Adaptation Fund (AF)
6. Global Climate Change Alliance (GCCA)
7. Scaling-Up Renewable Energy Program for Low Income Countries (SREP)
8. Forest Carbon Partnership Facility
9. Clean Technology Fund (CTF)
10. Special Climate Change Fund (SCCF)
11. UN REDD Programme
12. Adaptation for Smallholder Agriculture Programme (ASAP)

Source: Adapted from Watson and Schalatek (2019a)

### National climate finance

Pacific SIDS are also increasingly sourcing climate finance from their national budgets (table 2). Compared to other developing countries, Pacific SIDS are allocating more of their domestic resources towards climate related expenditure (CPEIR, 2019). The Pacific SIDS' climate related expenditure on average accounts for 3 per cent of their GDP (ibid.). Moreover, as a portion of total government expenditure, climate related expenditure on average accounts for 43 per cent (ibid.). Data also revealed that Pacific SIDS' average annual climate expenditure to be around USD 28 million (ibid.). This figure, however, increases significantly after event of climate induced disasters.

**Table 2: Snapshot of the climate change expenditure sourced from national budgets**

Country	Climate expenditure sourced from domestic budget (per cent)
Kiribati	43
Marshall Islands	20
Nauru	14
Samoa	49
Vanuatu	91

Source: CPEIR (2019).

### 3.5 PACIFIC EXPERIENCE IN ACCESSING CLIMATE FINANCE

For Pacific SIDS, accessing global climate funds to address their rapidly growing adaptation needs is challenging due to the robust fiduciary and accountability requirements expected by global climate funds (Samuwai and Hills, 2018). So far, accessing global climate funds in the region has been done through an international accredited entity, or a regional accredited entity. These organizations charge a management fee that ranges from 7 per cent-20 per cent of the funding secured, in turn reducing the amount available for productivity, and exacerbating the Pacific dependency on costly external support (ibid.).

Direct access to multilateral sources of funds especially the GCF through nationally accredited entities is still illusive. While the Asia-Pacific region as a whole accounts for 37.51 per cent (the largest) of the GCF funding, it has 29 direct access entities, five of which are from the Pacific (GCF, 2021b). Of these two are national accredited entities and three regional entities (ibid.). Large international entities continue to “gate-keep” access to climate finance to multilateral sources. The process of attaining accreditation is not only complex but can also be a very painful endeavor for Pacific SIDS (Samuwai and Hills, 2018). It took Fiji nearly four years to gain accreditation to the GCF. The chronic lack of resources compounded by weak enabling environment hinders Pacific SIDS abilities to directly access multiple funding sources via multiple

modalities. Loans and grants are the two primary instruments used in the Pacific to deliver climate finance.

Climate finance in the Pacific is likely to increase in the future due to collaborative efforts invested in understanding the mechanics of climate finance, the implementations of National Determine Contributions and as more regional and national institutions get accredited to the AF and the GCF (Samuwai and Hills, 2018). The region is experiencing an increase in climate finance capacity building activities such as conferences, workshops and trainings supported by various climate donors that are active in the region. Samuwai and Hills

(2018) concurred that there is growing readiness assistance rendered to the region, increasing the possibility of effective accessibility to climate financing. Continued institutional overhauling, policy reviews and public finance management systems strengthening, and increased private sector engagement are other notable efforts towards increasing climate finance flow to the region.

# 4. Current initiatives for enhancing climate finance mobilizations in Pacific SID

This section outlines some of successful case studies of alternative financing mechanisms that have been successfully implemented by Pacific SIDS. These financing mechanisms supplements and scale-up finance flows from bilateral and multilateral sources.

## 4.1 NATIONAL CLIMATE FUNDS (NCFs)

NCFs are mechanisms designed to support countries to direct climate finance towards its climate change priorities. The key goal of a NCF is to collect, blend, coordinate as well as strengthen national ownership of climate finance. A NCF can also enhance capacity building and knowledge sharing amongst stakeholders.

Successful cases will be discussed below.

### **The Micronesian Conservation Trust Fund (MCT)**

The Micronesian Conservation Trust (MCT) was incorporated by local stakeholders from the four Federated States of Micronesia (FSM) states and the national government with assistance from The Nature Conservancy (TNC) in 2002 as a charitable and irrevocable corporation organized to manage and provide funds to support biodiversity conservation and related sustainable development for the people of Micronesia by providing long term sustained funding.

The MCT is the Micronesian region's only conservation trust fund, and works with local resource owners, traditional leaders, and local governments to develop and fund project proposals that focus on improving management and addressing key threats to the highest priority

ecological sites designated through science-based and collaborative planning processes, such as National Biodiversity Strategy and Action Plans and National Climate Adaptation Policies (PIFS, 2018).

The MCT currently manages three endowment funds, namely the Micronesia Challenge Endowment Fund, the MCT Endowment Fund, and the Yela Conservation Easement Endowment Fund. These funds provide ongoing support to the MCT's annual operations and direct grant making programme, as well as to the operations of the Micronesia Challenge and the Yela Conservation Easement's initiatives (PIFS, 2018).

MCT supports conservation across Micronesia by providing long-term, sustained funding through grant programmes; building the capacity of Micronesians and Micronesian organizations to design and manage conservation programmes; and providing a regional forum to bring people from government, private enterprise, the wider community, and non-profit organizations together to collectively address the challenges of natural resource management in Micronesia. The MCT focus particularly on small grants programmes, to ensure funding is channeled to the local level and to support the capacity of NGOs and CSOs to also manage finance and projects. MCT has administered over 50 projects across Micronesia and is funded by over 15 funding sources (PIFS, 2018). MCT is a Regional Implementing Entity to the Green Climate Fund for projects up to USD 10 million, and a National Implementing Entity (NIE) to the Adaptation Fund (ibid.).

**Table 3: Lessons learnt from the MCT**

Benefits	Challenges
<ul style="list-style-type: none"> <li>▪ The MCT provides a foundation to scale up effort climate change efforts in Micronesia.</li> <li>▪ MCT provides high level commitment and support for conservation and climate change.</li> <li>▪ MCT creates opportunity for major commitment of funds and enhances collaboration to maximize resources and learning and leverage additional initiatives.</li> <li>▪ The Micronesian Challenge and MCT showcased Micronesia on the global stage as an innovative collaborative approach to implementation and financing conservation and climate change initiatives.</li> <li>▪ The MCT reduces administration costs as only one entity is being used to blend and implement a number of sources of finance.</li> <li>▪ MCT and its networks continue to provide good opportunities for coordination, exchange, learning and collaboration.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Coordination among small jurisdictions across such a large region is challenging and some stakeholders are less engaged than others.</li> <li>▪ Still need to build greater support among some government resource agencies, particularly mid-level managers and identify ways of sustaining regional interest in the MCT and the MC.</li> <li>▪ Different visions/goals/approaches between various MCT partners/stakeholders.</li> <li>▪ Some local communities and stakeholders feel some distance from MCT and some apprehension applying for funding from MCT.</li> </ul>

Source: PIFS (2018).

### **Tuvalu Climate Change and Disaster Survival Funds**

The Tuvalu Climate Change and Disaster Survival Fund (TCCDSF) is an ex-ante financing instrument that was set up in 2015 to finance recovery and rehabilitation from climate change and disaster impacts and climate change investments in adaptation projects (PIFS, 2018). The TCCDSF was designed to channel climate change funds that can be rapidly disbursed in case of a disaster but also support resilience building activities and has two main objectives: the provision of immediate vital services to the people of Tuvalu to combat the impacts of climate change and disasters; and to enable the Government and people of Tuvalu to respond to future climate

change impacts and natural disasters in a coordinated, effective and timely manner (ibid.). The fund supports response to natural disasters following the declaration of a “state of emergency” and provides financial assistance for post disaster recovery and resilience building.

The TCCDSF was initially capitalized through an AUD 5million (~USD 3.4 million) contribution by the Government of Tuvalu. A further contribution of AUD 2million (~USD 1.4 million) was made in 2016 and again in 2017 (PIFS, 2018). Further capitalization is expected through channeling of donations for disaster funds and climate change finance. The funding allocation is 30 per cent for recovery, 50 per cent rehabilitation and 20 per

cent for climate change adaptation, including AUD 100,000 (~USD 68,000) for small-scale projects. The other half of the funds are invested

to replenish and grow the fund (PIFS, 2018). The TCCDSF architecture is similar to the People’s Survival Fund of the Philippines.

**Table 4: Lessons learnt from the TCCDSF**

Benefits	Challenges
<ul style="list-style-type: none"> <li>▪ Provides new and expanded opportunities to finance Climate Change and Disaster Risk Management (CCDRM) activities.</li> <li>▪ Provides a sustainable, predictable, and accessible source of finance for CCDRM activities.</li> <li>▪ Greater predictability also allows for longer term planning of investments.</li> <li>▪ Nationally driven and nationally owned. Tuvalu makes all the decisions such as collecting finance, coordinating, blending, and making informed choices for how resources are directed towards climate change activities and accounting for the funds.</li> <li>▪ Provides a mechanism for shifting the balance of power from traditional top-down fund management of international funds to country/ local level management. Climate change objectives are nationally managed and supported enabling greater alignment and more targeted resourcing for national country priorities.</li> <li>▪ Having a single sovereign structure reduces the operational fees and the burden of reporting and subsequently streamlines the process. It also facilitates greater harmonization with country priorities and plans by minimizing external influence on the Fund.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Requires high upfront start-up investment capital.</li> <li>▪ The sustained viability of the fund is dependent on adequate investments over a long timeframe as insufficient investments can lead to unsustainability.</li> <li>▪ Attracting direct investments from development partners whose conventional preference is to provide disaster or project specific funds.</li> <li>▪ Channeling funds into a common funding pool with limited control and predictability on the use of funds is a new approach for donors.</li> <li>▪ Having clear objectives for the fund as well as an effective governance structure and strong financial management mechanisms to ensure sound financial management and accountability is essential. A weak or unclear governance structure and financial management and accountability mechanisms poses governance and macroeconomic risks.</li> <li>▪ Corresponding capacity building of the general populace in proposal writing and project design and management needs to take place to enable community or local level access to intended beneficiaries.</li> </ul>

Source: PIFS (2018).

### **Tonga Climate Change Trust Fund**

The Tonga Climate Change Trust Fund (CCTF) was the Pacific first national fund with a special focus on climate change. The CCTF was

established in line with the Tongan’s government vision of mainstreaming climate resilience into the government’s planning and establishes a sustainable financing mechanism to support

community-based climate change mitigation/adaptation responsive investments (PIFS, 2015).

The CCTF used an ADB Grant of USD five million as a capital investment, channeled through the Climate Investment Fund. The CCTF was established as two separate bank accounts, these being the Endowment Fund of USD four million and Operational Imprest Account of USD one million. Interest and capital gains earned from the USD four million endowment account are transferred to the operational account. The CCTF also supplements funding from other sources including multilateral donors and development

partners.

The operational account is used to provide projects with small grants, up to a maximum of USD 50,000, and medium sized projects up to USD 250,000. The total funding is allocated into a 30 per cent:70 per cent funding ratio for small and medium size grants respectively (PIFS, 2015). Of the 70 per cent allocated for medium size grants, only 25 per cent is available to Government’s Ministry projects and public service projects. Also 30 per cent of total funds are to be allocated to outer island projects, but no single outer island project can be awarded more than 15 per cent of the total allocation for outer islands (ibid.).

**Table 5: Lessons learnt from the Tonga CCTF**

Benefits	Challenges
<ul style="list-style-type: none"> <li>▪ The Climate Change Trust Fund will offer direct access to much needed climate change funds by community groups, outer islands, and other relevant stakeholders to implement concrete adaptation actions.</li> <li>▪ Provides a good mechanism for sustainable, long term, transparent and predictable sources of climate change finance.</li> <li>▪ Can harmonize many different sources of funds and accommodate “one off” contributions and non-traditional partners without significant disruption.</li> <li>▪ Can be planned and blended with national and sector budgets, or be project based for access by other stakeholders e.g., NGOs, communities, and others.</li> <li>▪ Accumulation of funds over time provides security and reduces risk from the impacts of increased frequency and intensity of climate disasters into the future.</li> <li>▪ Climate change funds can be matched with core development activities of governments, against their own timeline of implementation and availability of budget resources.</li> </ul>	<ul style="list-style-type: none"> <li>▪ A national climate change trust fund requires high initial investment, or if contributions are drip fed, it will take time to operationalize.</li> <li>▪ Requires significant donor engagement and consultation in early stages.</li> <li>▪ Requires clear objectives, a strong and effective governance structure that protects the investments, and measures to ensure volatile returns are managed. Without strong governance and accountability mechanisms, as well as prudential financial management practices, macroeconomic and governance risks are high.</li> <li>▪ Funds investment portfolio is subject to fluctuations in market returns.</li> <li>▪ The sustainability of a trust fund is reliant on adequate investment. If the investments are too small, this may jeopardize the long-term sustainability of the fund.</li> <li>▪ Need to build the capacity of community groups to develop proposals, manage projects and provide acceptable reporting on funds accessed.</li> </ul>

<ul style="list-style-type: none"> <li>▪ Management, legal structures, and governance arrangements can be varied over time to reflect changes in capacity of the country and the level of confidence that donors and development partners have in reforms to climate change strategies and public financial management systems.</li> <li>▪ A positive track record from the financial management and administration of the Climate Change Trust Fund will support Tonga’s goal to be a National Implementing Entity and to apply for future funds such as the Green Climate Fund.</li> </ul>	
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Source: PIFS (2015).

### Vanuatu’s National Green Energy Fund

The National Green Energy Fund (NGEF) is an initiative of the Government of Vanuatu to have a financial mechanism that will provide sustainable funding for the provision of accessible, affordable, secure, and sustainable energy, while at the same time promote a paradigm shift to low emission and climate resilient development (PIFS, 2018). The Fund was launched in 2018, and its main objective is to extend electricity access to rural areas using renewable energy sources and facilitate more efficient end use of energy.

The NGEF will support both financial intermediaries (commercial banks and micro-lenders) and nonfinancial intermediaries (energy service providers, renewable energy equipment

supplier) with a range of financial instruments to enable the provision of affordable energy supply to target beneficiaries – households, communities, micro/small/medium enterprises, and public institutions (PIFS, 2018). The range of financial instruments include guarantees to provide subsidies (grants), concessional loans for lending and credit lines. Financial products will vary but would include examples such as grants for technical assistance; guarantee to financial intermediary; equity to microfinance institutions or an energy service provider (ibid.). The NGEF will not provide direct access for target beneficiaries but will require the use of an intermediary such as a financial institution, energy provider or a renewable energy equipment supplier (ibid.).

**Table 6: Lessons learnt from the Vanuatu NGEF**

Benefits	Challenges
<ul style="list-style-type: none"> <li>▪ Enables targeted support for the use of renewable energy and energy efficient products.</li> <li>▪ Increases zero carbon electricity production and help build a low carbon, green energy economy.</li> <li>▪ Enables the introduction and demonstration of new clean energy technologies and facilitates clean energy</li> </ul>	<ul style="list-style-type: none"> <li>▪ Requires substantial amounts of start-up investment capital.</li> <li>▪ Long-term political stability and support is vital.</li> <li>▪ Investors prefer to base decisions on longer term policy and so a policy regime instability can dampen further investment in clean energy.</li> <li>▪ The provision of subsidies is a short-term</li> </ul>

<p>start-ups to maximize exposure to receptive venture capital, corporate investors and strategic partners and takes up some of the start-up risks until the private sector is comfortable with the new technologies and established a market base.</p> <ul style="list-style-type: none"> <li>▪ Accessible public capital can be used strategically to attract private capital (private sector investment).</li> </ul>	<p>measure and in the long run, also vulnerable to policy change.</p>
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Source: PIFS (2018).

### **Fiji Climate Relocation and Displaced People’s Trust Fund for Communities and Infrastructure (CRDPTF)**

The Fiji CRDPTF is an NCF type initiative of the Fiji government supported by the Government of Norway (Fiji Government, 2021). The CRDPF is specifically designed to assist the Fijian Government in dealing with the cost of relocating communities due to impacts of climate change. Fiji was the first country in the world to relocate a community due to sea level rise, with another 45 communities being identified as high risk to relocations (ibid.).

The CRDPTF will be seeded through a percentage of the revenue from Fiji’s Environment and Climate Adaptation Levy which is expected to be USD 5 million/year. The Fund is also designed as a mechanism where international donors can direct their support for Fiji’s adaptation efforts (Fiji Government, 2021). The Fund is still yet operational.

## **4.2 GCF ACCREDITATION**

National direct accreditations to the GCF have become a priority for many Pacific SIDS because of the need for more national ownership of the

funding being channeled from the GCF for country projects. It is the most preferred access modality to the GCF by Pacific SIDS, and most Pacific SIDS have secured resources to build the necessary environment to attain such accreditation. So far only two Pacific SIDS have received national direct accreditation from the GCF.

### **Fiji National Development Bank (FDB)**

The FDB was accredited to the GCF in 2017. The FDB was nominated to become an accredited entity to the GCF by the Fiji Government as part of the government’s strategy to climate-proof infrastructure development and boost the resilience of the economy (Fiji Development Bank, 2018).

The FDB is categorized by the GCF as a “micro” entity which means it can only access project funding from the GCF for only up to USD 10 million. As per the accreditation, the modalities available for the FDB to mobilize GCF finance are loans, equity and guarantees. In 2020, the GCF approved 50 per cent co-financing of FDB’s first mitigation project worth USD10 million (GCF, 2021c).



**Table 7: Lessons learnt from FDB’s accreditation experience**

Benefits	Challenges
<ul style="list-style-type: none"> <li>▪ Allows the country to be in the driver’s seat to apply to GCF for Climate Change programmes they want funded based on country priorities and climate change needs.</li> <li>▪ Allows country to be in direct communication with the fund as opposed to through an accredited entity to access funds</li> <li>▪ Allows the country to benefit from the management fees that accredited entities gain for implementing programmes on their behalf. Management fee is usually approximately 5-10 per cent of the total project amount.</li> <li>▪ Proves that country’s systems are credible, reliable, and recognized at the international level with the accreditation status</li> </ul>	<ul style="list-style-type: none"> <li>▪ Political Decision – No mapping and assessment of Fijian national entities that could access finance from GCF</li> <li>▪ Limited human resources to coordinate and respond effectively to the accreditation process - change of national designation authority (NDA)/Focal Point, non-commitment and urgency from senior management, accreditation not accorded priority, engagement of junior staff who lack institutional practice, lack of knowledge sharing acquired from training, little experience with environmental and social safeguards (ESS) at national level</li> <li>▪ Requirements by GCF were at times deemed and communication with GCF were at times unclear and inconsistent. Limited time allocated in uploading documents, limited capacity to upload, and duplication of information provided.</li> <li>▪ Governance is state centric which emphasis the status of national governance at the heart of its process.</li> <li>▪ Emphasis of bankability of projects generates a bias towards mitigation projects rather than adaptation.</li> <li>▪ Sustainability and predictability of the funds is an issue.</li> <li>▪ Rejection of projects on technical grounds is a major issue and concern.</li> <li>▪ Funding imbalance that favors mitigation projects and international accredited entities (IAEs).</li> </ul>

Source: PIFS (2018).

**The Cook Islands Ministry of Finance and Economic Management (MFEM)**

The MFEM was accredited to the GCF in 2018. The MFEM is the only government ministry in the Pacific that have attained such accreditation.

The MFEM is categorized by the GCF as a “small” entity which means it can access project funding from floor of USD10 million to a ceiling of USD 50 million (GCF, 2021d). MFEM can manage project as well as disbursed grants as per the GCF accreditation conditions.

While the MFEM has yet to access funding project, it has already requested a country programme worth NZD 203 million (~USD 133 million) to the GCF (GCF, 2021d). This included projects covering a wide range of areas such as

energy efficiency, renewable energy, building resilient infrastructure, coastal management, and water resources, as well as boosting the involvement of the private sector.

**Table 8: Lessons learnt from MFEM accreditation experience**

Benefits	Challenges
<ul style="list-style-type: none"> <li>▪ Possible direct access to global climate change funds once accreditation has been achieved.</li> <li>▪ The focus on strengthening relevant policies, systems, processes, documentation, and examples of good practice is a useful and beneficial exercise at the national level, and not just for the purpose of achieving national implementing entity (NIE) accreditation alone. Defining processes that may already be working and improving others can support the achievement of better development outcomes.</li> <li>▪ The learning throughout this exercise was beneficial in building institutional capacities.</li> <li>▪ Effectively communicating the strengths and weaknesses identified from the NIE application exercise with local and international partners can assist to build confidence of development partners in national systems and processes, as well as tailoring of appropriate access modalities.</li> <li>▪ Because direct access allows a country to obtain and retain funds locally, NIE accreditation helps to build national ownership by allowing a country to continue to invest in building existing country systems and capacity whilst driving national priorities.</li> </ul>	<ul style="list-style-type: none"> <li>▪ A key challenge was around both the quantity of information required to support the application, and the lack of specific examples of paperwork or past examples of a successful NIE application. The background research often relied on multiple government departments working together and can raise questions regarding which department should be the nominated NIE.</li> <li>▪ NIE accreditation is time consuming and requires a significant amount of resources and technical expertise, which is an added burden on smaller island state government ministries that already lack adequate staffing and financial resources.</li> <li>▪ Managing the expectations of stakeholders regarding the application process, access to funds and when money could realistically be received is a huge challenge.</li> <li>▪ The process of seeking NIE accreditation requires political will, institutional reforms, and innovation.</li> </ul>

Source: PIFS (2018).

### The Micronesia Conservation Trust

The MCT was accredited to the GCF in 2017. Details of the MCT are as explained in NCF section. The MCT is categorized by the GCF as a micro entity. The total project funding that it can directly access from the GCF is USD10 million

(GCF, 2021e). The MCT can manage project as well as disbursed grants as per the GCF accreditation conditions. In 2019, the GCF approved to co-finance 91.4 per cent of an adaptation project worth USD 9.4 million to be implemented by the MCT (ibid.).

**Table 9: Lessons learnt from MCT accreditation experience**

Benefits	Challenges
<ul style="list-style-type: none"> <li>▪ The application process can drive NIE or RIE applicants to reassess their operational frameworks and strengthen internal control mechanisms, including structural reorganization with more clearly defined roles and responsibilities and better institutional coordination. This enhances coordination and reduces duplication.</li> <li>▪ Strengthened internal controls and mechanisms and robust operational frameworks create an upgraded level of accountability and transparency, thereby increasing trust and confidence in country systems and enabling countries to negotiate and bargain harder for other mediums of climate finance such as budget support from bilateral donor partners in the future.</li> <li>▪ Complying with environmental and social safeguards and gender policy requirements of global climate funds will strengthen project development capacities, which ensure that projects are inclusive and environmentally and socially responsible.</li> <li>▪ Increased national ownership and control. Greater national ownership is created as national entities prepare to bear responsibility for financial management, monitoring and overall programme/project management.</li> <li>▪ There is also greater control of funding and how they are being directed to national priorities.</li> <li>▪ Reduces transaction costs and could</li> </ul>	<ul style="list-style-type: none"> <li>▪ Rigorous accreditation process to meet the fiduciary principles and standards, environmental and social safeguards, and gender policy of the GCF can be burdensome as well as time and resource consuming for the limited capacities of Pacific SIDS.</li> <li>▪ Direct access is more favorable to countries with relatively well-established institutions and not necessarily the most vulnerable. Many Pacific SIDS are highly vulnerable yet have low levels of institutional capacity.</li> <li>▪ Direct access does not necessarily guarantee increased levels of funding.</li> <li>▪ Absorbing the scale of financing available through the Green Climate Fund can be challenging for the limited and already stretched levels of human and institutional capacity that are available in Pacific SIDS.</li> <li>▪ Maintaining the strength of the organization as a private corporation working with local partners and balancing it with the expectations of being an RIE to access and manage bigger amounts of money can be strenuous on the limited capacity of the organization.</li> </ul>

<p>potentially lead to greater alignment and better targeting of national priorities.</p>	
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Source: PIFS (2018).

**The Secretariat of the Pacific Regional Environment Programme (SPREP)**

The SPREP was accredited to the GCF in 2015. The SPREP is a regional entity based in Samoa and is focused on climate change and environmental issues affecting Pacific SIDS.

The SPREP supports action on climate change in the key areas of adaptation, mitigation, policy, and science. Key activities include; assisting Pacific SIDS to integrate climate change considerations into national planning and development processes; supporting and building capacity at the national and subnational levels through technical training on meteorological services, cost benefit analyses, vulnerability assessments and monitoring and evaluation; providing support to coordinate integrated adaptation measures; and implementing mitigation activities such as renewable energy projects (solar and biomass) (GCF, 2021f).

The SPREP is categorized as a “small” entity by the GCF and can access project funding from a floor of USD10 million to a ceiling of USD50 million. Through the SPREP, the Vanuatu government have managed to access direct funding to the GCF for the Climate Information Services for Resilient Development in Vanuatu (GCF, 2021f). Refer to experience of MCT for lessons learnt.

**The Pacific Community (SPC)**

The SPC gained accreditation in 2019. Akin to SPREP, SPC is also a regional entity whose headquarters is based in New Caledonia. The SPC vision is to help the Pacific people achieve their development goals by delivering technical, scientific, research, policy, and training services.

It works in the area of agriculture, public health, applied geosciences, education, statistics, energy, transport, fisheries and marine ecosystems and climate change (GCF, 2021g).

The GCF categorizes the SPC as a “small” accredited entity, allowing it to access project funding of more than USD 10 million and up to USD 50 million (GCF, 2021g). Refer to experience of MCT for lessons learnt.

**4.3 GREEN FEES**

For the purpose of this paper green fees refers to the tax/levies paid consumers for products or services designed to support national climate change mitigation and adaptation incentives. Pacific SIDS are introducing these “green fees” as a modality of raising domestic public climate finance. Green fees are tagged to luxury items, activities and services that are considered by governments as drivers of climate change.

**Palau Pristine Paradise Environmental Fee (PPPEF)**

Palau’s green fee is an added departure tax of USD30 per person which is funneled towards financing local community conversation efforts under the Protected Area in Palau. The initiative began in 2009 from USD 15 per person and increase in 2018 to the current USD 30 rate and has since raised approximately USD 10 million of revenue in 2018 (von Saltza, 2019). The green fee is part of the overall fee visitors are required to pay when visiting Palau. This USD 100 fee is included in the price of all international airline ticket into Palau. Table 10 provides the breakdown of the USD100 visitor fee.

**Table 10: PPPEF revenue allocation per \$100 visitor fee**

Particulars	Fees (USD)
Fisheries Protection Fund	10.00
State Government	12.50
Operations of Palau International Airport	25.00
National Treasury	22.50
Protected Areas Network (PAN)	30.00

Source: von Saltza (2019).

The USD 30 fee is managed by the Protected Area Network (PAN) Fund, a non-profit organization established by the Palau Government to act as financial trustees for the monies acquire from the green fees to support the 15 PAN sites existing in

Palau (von Saltza, 2019). The money raised through the green fee also contributes to the Endowment Fund to support Palau’s promise under the Micronesia Challenge (ibid.).

**Table 11: Lessons learnt from the PPPEF**

Benefits	Challenges
<ul style="list-style-type: none"> <li>▪ Provides a regular stream of funding to support the national efforts of the Palau Protected Areas Network (PAN).</li> <li>▪ The green fee supports the implementation of conservation programmes and economic development for the 13 States in Palau in line with their Management Plans.</li> <li>▪ A source of economic subsidy to further the cause of conservation programmes, including, but not limited to job creation, institutional capacity building, capacity building to train and build the workforce for effective conservation management programmes in areas of programme management, public awareness, surveillance, enforcement programmes and biological monitoring programmes to achieve the Micronesia Challenge 30 per cent/20 per cent goal by 2020.</li> <li>▪ Works on the “user pays” principle through the “green fee” or environmental impact fee charged to non-Palauan passport holders visiting Palau upon departure at the airport or by sea.</li> <li>▪ National ownership as Palau is</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increase in the PPPE could have negative impacts on the number of visitors’ arrival to Palau.</li> <li>▪ The high cost of fuel and technology creates higher operational costs for geographically isolated outer island States.</li> <li>▪ Limited pool of skilled labour and expertise in small island countries like Palau to manage and implement conservation activities accessed from the PAN Fund derived from the green fee.</li> <li>▪ Rapid growth of new areas being identified and expansion of existing protected areas which correlates to higher cost of management.</li> <li>▪ The direct annual management cost to operationalize the existing 13 PAN Member States was estimated at USD 2.5 million in 2012. Factoring in the USD1.8 million annual green fee revenue in 2012, there would have been a financial shortfall gap of USD 0.7 million needed for an effective management programme for PAN Member States per year.</li> </ul>

responsible for collection of the Fee, and any decisions on actions or priorities to support with the PAN Fund raised from this green fee and other sources of funding.	
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Source: PIFS (2018).

### Fiji's Environment and Climate Adaptation (ECAL) Levy

Fiji introduced the ECAL in 2017. The ECAL refers to a consortium of taxes on prescribed services, items, and income. It is designed to support the protection of Fiji's natural environment, reduce carbon footprints, and adapt the economy, communities, and infrastructure to the impacts of climate change. Since its introduction in the 2017-2018 period, the ECAL has managed to raise FJD 270.2 million (~USD 93 million) in revenue of which FJD 255.9 (~USD 118

million) has been used to finance 102 climate change and environmental conservation projects through the National Budget (Fiji, Ministry of Economy, 2019). As of 30 April 2019, ECAL has collected FJD 119.7 million (~USD 55 million) of which FJD 105.5 million (~USD 48.5 million) has been used to fund 56 new projects (ibid.). A certain percentage of the ECAL will be allocated to the newly launched Climate Change Relocation Trust Fund. Table 12 lists the taxes and levies under the ECAL.

**Table 12: Consortium of fees making up the ECAL**

Particulars	Fees
Luxury vehicles	10 per cent tax on importation
Miscellaneous-super yacht charters and docking fees	Inclusive of 10 per cent charge
Individual earnings more than FJD 270,000 (~USD 124,000)	10 per cent income tax
Plastic bags	FJD 0.20 cents (~USD .10 cents)
Business with turnover of FJD1.5 million (~USD 68, 000)	10 per cent on prescribed services offered

Source: Fiji, Ministry of Economy (2019).

ECAL is collected by the Fiji Revenue and Customs Services and is administered by the Ministry of Economy in accordance with the 2004

Finance Management Act and the 2010 Financial Instructions.

**Table 13: Lessons learnt from Fiji's ECAL**

Benefits	Challenges
<ul style="list-style-type: none"> <li>▪ Regular stream of proceeds to the government national budget to support Fiji's climate change adaptation efforts.</li> <li>▪ Have so far raised more than FJ200 million in 2018 which funded 102 climate related projects as per national budgets.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increase cost of products and services.</li> <li>▪ Potential to impact the performance of other critical economic sectors in Fiji especially the tourism sector.</li> <li>▪ Reduce incentives for investors to invest in the local economy.</li> <li>▪ Increase in administrative costs to the Tax</li> </ul>

<ul style="list-style-type: none"> <li>▪ National ownership as government is responsible for the collection and the decision on how the fund are to be used.</li> <li>▪ An alternative source of raising climate finance from public sources.</li> <li>▪ Can address the market failure to take environmental impacts into account by incorporating these impacts into prices.</li> <li>▪ Provides the flexibility to consumers and businesses to determine how best to reduce their carbon footprints.</li> <li>▪ Can improve competition amongst business for low emission alternatives.</li> <li>▪ Provide strong incentive to innovate.</li> </ul>	<p>department.</p>
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Source: PIFS (2018).

#### 4.4 CREDIT MARKET – GREEN BONDS

Fiji is the only Pacific SIDS that has explored the potential of the credit market to source additional finance to support its growing climate finance needs. The Fiji government deemed green bond as an effective mechanism to minimize climate induced fiscal shocks and crowd in sufficient climate finance, particularly from the private sector (PIFS, 2018).

A green bond is a form of debt finance or debt security issued to raise capital for climate change or environmental related projects. Green bonds provide investors with an attractive investment

proposition and an opportunity to support climate friendly and environmentally sound projects (PIFS, 2018).

In 2017 Fiji issued a sovereign green bond valued at FJD 100million (~USD 50 million). Fiji’s sovereign green bond focuses largely on climate adaptation and the country has chosen to use its green bond proceeds to exclusively finance projects that were programmed in its 2017-2018 national budget (PIFS, 2018). Fiji’s green bond initiative was awarded the Green Bond Pioneer Award at the Climate Bonds Initiative Conference in London in 2018 (ibid.).

**Table 14: Lessons learnt from Fiji’s Green Bond**

Benefits	Challenges
<ul style="list-style-type: none"> <li>▪ Green bonds provide an additional source of green financing as green investment needs increase and traditional sources of debt financing become insufficient.</li> <li>▪ The sovereign green bond presents countries with an opportunity to demonstrate national leadership in the green financing agenda while giving exposure to a new investor base and solidifying a country’s commitment to comply with the Paris Climate Change</li> </ul>	<ul style="list-style-type: none"> <li>▪ Upfront and ongoing transactional costs can be substantial – such as costs related to labelling, certification, reporting, verification, and monitoring requirements and associated administrative costs.</li> <li>▪ As the green bond market is underpinned by voluntary guidelines and standards (the Green Bond Principles are voluntary) a lack of unified standards can raise confusion</li> </ul>

<p>Agreement.</p> <ul style="list-style-type: none"> <li>▪ An option to encourage private sector investment in climate finance.</li> <li>▪ For issuers, green bonds help to communicate the sustainability strategy; improves relationships with debt providers and broadens the “investor base”; and creates internal synergies between financing and sustainability.</li> <li>▪ For investors, green bonds help to develop better informed green investment strategies; facilitates the smooth implementation of long-term climate strategies; and helps responsible investors to broaden their restricted investment portfolios.</li> <li>▪ For policy makers green bonds indirectly support the implementation of the low carbon transition by better matching green issuers and investors.</li> </ul>	<p>and possibility for reputational risk if the green integrity of the bonds is questioned.</p> <ul style="list-style-type: none"> <li>▪ This option is not feasible to all Pacific SIDS, except countries with high liquidity.</li> </ul>
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Source: PIFS (2018).

## 4.5 REDD + FINANCING

REDD refers to countries efforts to reduce emissions from deforestation and forest degradation, and foster conservation, sustainable management of forests, and enhancement of forest carbon stocks (UNFCCC, 2021). REDD+ financing is treated as a subcomponent of climate financing and is categorized as mitigation financing. While mechanics of REDD+ is complex and technical, the concept it promotes is rather quite simple where governments, or owners of forests are rewarded for keeping their forest intact instead of cutting them down (ibid.).

REDD+ provides a unique opportunity to achieve large-scale emissions reductions at comparatively low abatement costs. By economically valuing the role forest ecosystems play in carbon capture and storage, it allows intact forests to compete with more lucrative, alternate land uses (UNFCCC, 2021).

The concept of REDD+ is still at its infant stage in the Pacific. Currently the programme is underway

in four largely forested Pacific SIDS, Fiji, Papua New Guinea (PNG), Solomon Islands and Vanuatu.

### **Fiji - REDD+ Financing**

Fiji started developing its national REDD+ programme in 2009 and completed a national REDD+ policy in 2010. In 2013, Fiji submitted a Readiness Preparation Proposal (R-PP) to the Forest Carbon Partnership Facility (FCPF). In December that same year Fiji received a readiness grant of USD 3.8 million to implement the R-PP and develop a REDD+ strategy (Fiji, Ministry of Forest, 2021). In January 2021, Fiji have signed an agreement with the FCPF that will lock up to USD 12.5 million in result-based payments for increasing carbon sequestration and reducing emissions from deforestation and forest degradations (World Bank, 2021).

### **Papua New Guinea – REDD+ Financing**

PNG already has an approved 2017-2027 National REDD+ Strategy (NRS). The NRS details the country’s vision for REDD+, the objectives and key action areas (SPREP, 2021). The total budget



for PNG's five years Redd plus programme is worth USD 6.4 million of which USD 4.4 million has been implemented (UN-REDD, 2021).

### Solomon Islands – REDD+ Financing

Solomon Islands has taken early steps to engage with REDD+ at the national, regional, and international level and has since then in addition to the UNFCCC signed up to other frameworks such as the Regional Pacific REDD+ Policy Framework (Solomon Islands, Ministry of Forests and Research, 2021).

In 2010 the Solomon Islands joined the UN REDD Programme as a partner country. In November, the same year the country received a total of USD 550,000 grants from the UN-REDD Programme Fund thus the National UNREDD Programme was rolled out. The key outcome of the programme was the formulation of the Solomon Islands National REDD+ Readiness Roadmap 2014-2020 (Solomon Islands, Ministry of Forests and Research, 2021).

There is currently 1 REDD+ project and seven readiness initiatives underway in the Solomon Islands (Solomon Islands, Ministry of Forests and Research, 2021).

### Vanuatu – REDD+ Financing

The REDD+ readiness process in Vanuatu began in 2007 with the establishment of the Vanuatu Carbon Credits Project (NAB, 2021). Vanuatu

became a participant country of World Bank's Forest Carbon Partnership Facility. Vanuatu's REDD+ Readiness Preparation Proposal (R-PP) has been developed and accepted by the FCPF Participants Committee, enabling Vanuatu to access up to USD 3.6 million from the Readiness Fund (ibid.). The R-PP details how Vanuatu plans to develop its national REDD+ programme, which is referred to as the "National REDD+ Scheme". This is expected to adopt a programmatic approach involving the implementation of subnational policies and activities rather than area-based REDD+ projects. It is planned that provinces and/or islands demonstrating changes in forest carbon stocks will be eligible to receive REDD+ funding, which will form the basis for further investments into sustainable land use activities (ibid.).

The main stakeholders of the REDD+ programme in Vanuatu is the Government and the CSOs. The focal point and the lead implementing agency of REDD+ programme in Vanuatu is the Vanuatu Department of Forests with the oversight of the National Advisory Board for Climate Change & Disaster Risk Reduction and the Vanuatu Geo-Hazard and Meteorological Department. Vanuatu has established a specialized National REDD+ Unit within the Department of Forest (NAB, 2021).

There is currently 1 REDD+ project and six readiness initiatives underway in Vanuatu (NAB, 2021).

**Table 15 Lessons learnt from REDD+ financing**

Benefits	Challenges
<ul style="list-style-type: none"> <li>▪ Protect and enhance services produced by forests and its associated ecosystems by preventing loss, degradation of forest ecosystems.</li> <li>▪ Improved economic and livelihoods of communities through carbon payments and other social benefits such as improved water and food security.</li> <li>▪ Clarification of land tenure and stronger forest governance.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Lack of sufficient finance: there is a significant gap between what is available and what countries need to undertake each REDD+ phase to slow deforestation and forest degradation and enhance forest carbon stocks and sustainable management of forests to achieve the Paris Agreement target.</li> <li>▪ Low price of carbon which is not providing enough of an incentive to spur action.</li> <li>▪ Demanding requirements: eligibility</li> </ul>

<ul style="list-style-type: none"> <li>▪ Potential for development of new economic sector such as eco-tourism.</li> <li>▪ Promotes scientific as well as traditional knowledge.</li> </ul>	<p>requirements to access funds are often ambiguous or too demanding and difficult to meet.</p> <ul style="list-style-type: none"> <li>▪ Limited private sector engagement: although the private sector has been engaging with funding REDD+, the risks and factors necessary to create an enabling environment for private sector investments in reducing deforestation in many developing countries have yet to be sufficiently explored.</li> <li>▪ Redirecting private sector interest and funds to the actual implementation of national and policy approaches for implementing REDD+, including through markets when national legislation and NDC priorities permit, remains a prominent challenge.</li> <li>▪ Costs for implementing other REDD+ results-based activities: forest landscape restorations approaches, including activities for addressing degradation, conservation, and enhancing carbon stocks through restoration or sustainable forest management, are viewed as costly when compared to activities for reducing emissions from avoided deforestation through REDD+, which could present a challenge to funding opportunities.</li> <li>▪ Practitioners and actors operating at different political levels seem to lack a “common” language, which can prevent understanding of technical processes and implications among policy makers and decision-makers.</li> <li>▪ REDD+ countries continue to face limitations in terms of technical capacities, such as securing sufficient personnel and institutional resources (including monitoring capacities) to access and use REDD+ finance.</li> <li>▪ Need for a cohesive vision: REDD+ strategies are often the last element developed by countries, and in some cases the least understood. As a result, REDD+ countries often lack cohesive REDD+</li> </ul>
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	<p>strategies—which specify what type of finance is most needed, where to access funds, and where finance should be applied—that can be translated into usable investment plans.</p> <ul style="list-style-type: none"> <li>▪ Many forest actors are unfamiliar with newer finance tools and options (i.e., credit guarantees, equity investments, concessional loans etc.). Due to this lack of familiarity, countries are uncomfortable with seeking these types of support and choose to forego potential sources of finance.</li> <li>▪ In some cases, such as for project or jurisdictional level activities, REDD+ funding is not funneled directly to governments. As a result, keeping track of funds and how they are applied can be challenging and result in duplication of activities and double accounting of financing.</li> <li>▪ Time consuming processes to access finance.</li> </ul>
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Source: Norman and Nakhooda (2014) and Forest Carbon Partnership Facility (2010)

## 4.6 INSURANCE

Insurance is still a relatively unexplored modality of financing in the Pacific. Nevertheless, insurance can serve as both an ex-ante and ex-post financing for communities in case of climate induced disasters.

### **Pacific Climate Finance and Insurance- “Drua Incubator” Experience**

In 2017, the Fijian Government launched an initiative to develop insurance products that are tailor-made to the needs and circumstances of vulnerable and low-income households in Fiji and other Pacific Island Countries. The Government of Luxembourg provided initial funding of 1 million euros (~USD 1.1 million) for the initiative (COP23, 2017).

The Pacific Climate Finance and Insurance Incubator – known as the Drua Incubator – this initiative aims to bring together leaders in finance, investment, and insurance to develop and “incubate” transformational and scalable financial and insurance products that meet the specific requirements of Pacific SIDS (COP23, 2017).

The objective of the Drua incubator is to encourage more private sector participation in the climate change space and to allow for new innovative and affordable insurance products to Pacific SIDS communities (COP23, 2017).

The incubator is working to ensure the efficient allocation of risk, and achieving affordable, profitable, and durable insurance products/scheme for the Pacific SIDS (COP23, 2017).

**Table 16: Lessons learnt from the Drua Incubator**

Benefits	Challenges
<ul style="list-style-type: none"> <li>▪ Stimulates the economy.</li> <li>▪ Conduit for private sector investment in climate change activities.</li> <li>▪ Mitigate risk and offer financial protection to individuals and business during time of disasters.</li> <li>▪ Continuity of operation during time of disasters.</li> <li>▪ A critical source of funding for Recovery.</li> <li>▪ Insurance companies are a key driver for economic growth.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Climate change, rainfall patterns and temperature patterns are some of the new challenges, which are not that common in historical contexts. The risk is not going to get less, but it is probably going to get worse.</li> <li>▪ Small economies of scale.</li> <li>▪ Lack of awareness on the importance of insurance in the Pacific especially amongst communities.</li> <li>▪ Potential to widen poverty gap and marginalization if not designed properly.</li> <li>▪ Lack of interest from private sector.</li> <li>▪ The Pacific is highly exposed to natural disasters.</li> <li>▪ Lack of data available.</li> <li>▪ Capacity of existing insurance industry is too small.</li> <li>▪ Lack of proper legislations in place.</li> <li>▪ Political will required as government will need to subsidize the cost.</li> </ul>

Source: CTA and others (2018).

### **Pacific Catastrophe Risk Assessment and Financing Initiative**

The Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) is a regional effort to increase financial resilience to climate and disaster risks in the Pacific through the development of a regional catastrophe risk pool and technical assistance. The PCRAFI provided the foundation work that established the Pacific Catastrophe Risk Insurance Company (PCRIC), which is a captive insurance company (Ramachandran and Masood, 2019). The Pacific Disaster Risk Assessment project which provides 15 Pacific SIDS with disaster risk assessment tools to assist in modelling of natural disaster vulnerabilities is also associated with the PCRAFI (SPREP, 2019b). The PCRIC is based in the Cook Islands. Only four Pacific SIDS (i.e., Cook Islands, Samoa, Tonga, and the Marshall Islands) have

subscribed to PCRIC. The Solomon Islands, an original member of the PCRIC initiative withdrew from the test phase (Ramachandran and Masood, 2019).

Three payouts totaling USD 6.7 million each within 10 days of the disaster event have been made under the PCRAFI (Ramachandran and Masood, 2019). Tonga have so far received two payments: USD1.3 million in 2014 after the Tropical Cyclone Ian; and USD 3.5 million in 2018 after Cyclone Gita (ibid.). Vanuatu received USD 1.9 million in 2015 after Tropical Cyclone Pam (ibid.). These payouts have provided rapid-response financial instruments to support affected Pacific SIDS’ government’s ability to quickly respond when disaster strikes.

**Table 17: Lessons learnt from the PCRAFI experience**

Benefits	Challenges
<ul style="list-style-type: none"> <li>▪ Rapid financial responses to disaster events.</li> <li>▪ Access to urgent finance needed during events.</li> <li>▪ Countries pool risks in a diversified portfolio.</li> <li>▪ Creates a more stable and less capital intensive portfolio which is cheaper to reinsure.</li> <li>▪ Incentive investments in risk reduction initiatives.</li> <li>▪ Complements countries risk reduction strategies.</li> <li>▪ A more proactive approach on planning financial responses in advance rather than relying on fundraising efforts after the events.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Low demand for PCRIC amongst Pacific SIDS.</li> <li>▪ High premiums vs low quantum pay-outs to countries.</li> <li>▪ Most Pacific SIDS are heavily aid-dependent to invest in market-based insurance model.</li> <li>▪ Parametric triggers in the Pacific are very limited and are often set too high to enable pay-outs.</li> <li>▪ Basis risks where all disaster losses are not covered.</li> <li>▪ Logistical constraints of operating in a widely dispersed location.</li> </ul>

Source: Ramachandran and Massod (2019).

## 4.7 NATIONAL BANK INITIATIVES

The role of development banks as a conduit for national development offers potential for climate financing in the Pacific. Eleven of the fourteen Pacific SIDS that are signatory to the UNFCCC have their own national development banks that are specifically mandated to provide financing for key priority sectors that are critical for countries' economic development. However, their role as source for climate financing in the Pacific have been largely unexplored by Pacific SIDS.

### Sustainable Energy Financing Facility of the Fiji Development Bank

The FDB's *Sustainable Energy Financing Facility* (SEFF) was approved and launched in 2010. The FDB through the Department of Energy was designated as a participating financial institution by World Bank for its Sustainable Energy Financing Facility which provides partial loan guarantee of 50 per cent (FDB, 2019). The SEFF is in line with Fiji government's initiatives to reduce imports of fossil fuels (ibid.). The SEFF is targeted

towards the Agriculture and Business sectors and is designed to incentivize farmers and business to adopt sustainable energy technologies in place of fossil fuel for their power generation (ibid.).

#### Box 3: Incentives of the SEFF

- 20 per cent equity required
- Interest of 5 per cent per annum
- Flexible terms offered
- Reasonable fees and charges
- Reduced administrative requirement

Source: FDB (2019)

#### Box 4: Investment opportunities under SEFF

- Hydro
- Solar
- Coconut
- Energy efficient equipment
- Wind, biomass, biogas, tide and feasible geothermal systems

Source: FDB (2019)

**Table 18: Lessons learnt from the FDB SEFF experience**

Benefits	Challenges
<ul style="list-style-type: none"> <li>▪ Incorporating energy efficient measures into the bank’s policies in new home construction created a market for energy efficient products that would not have been able to develop on its own when existing non energy efficient products were cheap and readily available in the local market.</li> <li>▪ Facilitated blending of finance that ease the added cost incurred due to incorporating more expensive energy efficient products in business and the agriculture sector.</li> <li>▪ Increased public awareness of the benefits of energy efficient products as new homes are being built under the programme.</li> <li>▪ Fund accountability is transparent given that the funds are managed by a banking agency, and they usually have good relationships and experience with donors for loans, grants, technical assistance, and reporting requirements.</li> <li>▪ Banks are seen as trustworthy agents of government and private sector representatives often work with many businesses directly and frequently.</li> <li>▪ Banks usually follow business style operations and are efficient and effective at programme delivery.</li> <li>▪ Development banks specialize in policy-based financing and already have existing programmes such as housing loans, thus training them on the energy efficiency measures should be uncomplicated. Therefore, using banks is cost effective and reduces transaction costs to the government and development partners.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Lack of local technical expertise in the area of Energy Efficiency and Renewable Energy when developing innovative and bankable programmes.</li> <li>▪ Need for capacity training.</li> <li>▪ Sustainability of efforts implemented through the bank on energy efficiency programmes depends significantly on development of in-country technical expertise.</li> <li>▪ Developing measures and strategies to sustain the programmes after the grant and donor funds are exhausted.</li> <li>▪ Some bank decisions are not always independent of political interference.</li> <li>▪ Not all banks are financially strong or developed to undertake complicated programmes/projects. Some banks require government approval or endorsement which is not always available. Sometimes, governments also compete for donor funds causing friction between banks and the government.</li> </ul>

Source: FDB (2019)

## 4.8 REGIONAL CLIMATE FINANCE FACILITIES

There are also ongoing efforts to create regional mechanisms to support Pacific SIDS in accessing climate finance. However, most of these facilities are still at their preliminary stages and yet to be operational.

### **Pacific NDC Hub**

The Pacific NDC Hub was launched in 2017. It is a facility that is designed to support the Pacific SIDS NDC ambitions of limiting global temperature to 1.5°C. The purpose of the Hub is to leverage further resources required to fully service Pacific SIDS' NDC needs (Regional Pacific NDC Hub, 2020). While the Hub might not necessarily channel climate finance, it will provide non-financial support towards the implementations of the NDC through technical expertise and facilitated partnerships to enhance the region's NDC implementations (ibid.). A critical part of its function is to help Pacific SIDS match its NDC enhancement and implementation needs to relevant climate financing sources (ibid.).

The Pacific NDC Hub is currently administered by GIZ with implementation partners as Global

Green Growth Institute (GGGI), SPC and SPREP. Pacific SIDS that are currently supported by the Hub are Cook Islands, FSM, Fiji, Kiribati, Marshall Islands, Palau, PNG, Nauru, Niue, Samoa, Solomon Islands, Tonga, Tokelau, Tuvalu and Vanuatu (Regional Pacific NDC Hub, 2020).

### **Pacific Resilience Facility**

In May 2021, PIFS launched the Pacific Resilience Facility (PRF) with the goal of USD 1.5 billion to support Pacific SIDS build resilience to more frequent and severe climate induced disasters (PIFS, 2021). The PRF is designed to provide full grant financing and is envisioned to be Pacific owned and fund Pacific lead solutions (ibid.). The PRF will offer grants to governments and community level projects that are:

- Crucial for disaster reductions.
- Small scale, ranging from USD 50k to USD 200k.
- Community level (ibid.).

The PRF is centered around building community resilience with a particular focus on vulnerable Pacific people particularly women and girls, children, the elderly, and people with disabilities (ibid.).

# 5. Possible areas for strengthening for scaling-up of climate finance

While the Pacific SIDS have been active in pursuing and implementing financing mechanisms and vehicles to supplement climate finance flows from bilateral and multilateral sources, their major drawback in scaling up climate finance is their weak readiness environment (Samuwai and Hills, 2018; SPC, 2019). The key prerequisite for scaling-up climate finance to Pacific SIDS is increasing targeted investments from sources of funds that will strengthen the “enabling environment” of Pacific SIDS (Samuwai and others, 2019).

This section builds on the “enabling environment components” of the Pacific Climate Change and Disaster Risk Finance Assessments which are (SPC, 2019):

1. Policy and planning.
2. Institutions

3. Public financial management and expenditure.
4. Human capacity.
5. Gender and social inclusions.
6. Development effectiveness.

## 5.1 POLICY AND PLANNING

Policy and planning refer to the existing policy mix, and processes for development, review and implementation of these policies and plans. The policy environment is critical to effectively accessing and managing climate change and disaster risk financing. It should ideally outline the key priorities of the government in effectively responding to climate change adaptation and mitigation, and the timeframes over which these efforts should be deployed and thus resourced (see table 19 for more details).

**Table 19: Analysis and recommendations on how to strengthen policy and planning in Pacific SIDS**

General analysis	Recommendations
<ul style="list-style-type: none"> <li>▪ Pacific SIDS continue to show leadership in international and regional climate change forums.</li> <li>▪ There is a relatively strong policy landscape for climate change across Pacific SIDS.</li> <li>▪ While countries have developed national climate change policies, there is an increasing move towards legislating climate change and Disaster Risk reduction (CCDRR) in the region. Having national climate change legislations will provide a strong legislative and regulatory basis for climate change activities and the institutions that implement and coordinate these activities.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Develop mainstreaming guidelines for integration of climate change across sectoral policies, plans and activities.</li> <li>▪ Ensure vertical integration and alignment of climate change policies and plans at all levels.</li> <li>▪ Actions, targets, indicators, and costings should always be included in policy developments and updates.</li> <li>▪ Develop national M&amp;E frameworks to assist in tracking and reporting progress of implementation of climate change policies. Such frameworks should be linked to National Development Strategies or their equivalents.</li> <li>▪ Establish mechanisms to capture climate</li> </ul>



<ul style="list-style-type: none"> <li>▪ Mainstreaming climate change into national and sectoral policies and plans remains weak in Pacific SIDS. Progress on this is constrained by the perception that climate change is the responsibility of only a few line ministries.</li> <li>▪ Vertical integration of climate change is still lacking for most of the Pacific SIDS. While the link between national and international policies and frameworks on climate change are clear, there is limited integration of climate change into provincial, state and community level plans. This mismatch makes it difficult to address community adaptation needs.</li> <li>▪ A lot of policies still lack actions, targets, indicators, and costings. Integrating actions, targets and indicators are important to guide policy implementation and achieve intended outputs. Costing policies will ensure resources are sufficiently allocated and managed for identified activities.</li> <li>▪ There is a general lack of M&amp;E frameworks to monitor and evaluate the impact of policy implementation amongst Pacific SIDS. Without national M&amp;E tools and systems, it is difficult to monitor progress and evaluate the effectiveness of climate change activities in Pacific SIDS.</li> </ul>	<p>change-related traditional knowledge and community level data and feed them back to policies, to ensure community priorities and existing adaptive capacity is recognized at the center of these policies.</p>
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Source: SPC (2019).

## 5.2 INSTITUTIONS

Institutions refer to the rules, organizations and social norms that facilitate progression toward a country’s climate change goals. These include the internal mechanics of a country such as its organizational structure and processes; political, legal, and cultural frameworks; coordination and collaboration with external stakeholders; clarity of roles and responsibilities, and infrastructure.

Effective institutions are critical to driving a country’s response to climate change and disasters. The competencies of pre-existing institutions and processes have an impact on planning, access, and management of climate finance. Where the status quo is inadequate for accessing and managing climate finance, institutional reforms will have to be executed to ensure the maximization of available funding opportunities and management of climate finance (table 20 for more details).

**Table 20: Analysis and recommendations on how to strengthen Institutions of Pacific SIDS**

General analysis	Recommendations
<ul style="list-style-type: none"> <li>▪ The ministry/departments responsible for climate change and disaster risk management are primarily responsible for all climate change activities. Other line ministries provide assistance. This arrangement is often effective with proper coordination. Due to the cross-cutting nature of climate change, there is an ongoing need to involve more ministries in climate change planning and reporting processes.</li> <li>▪ Most countries have attempted to establish structures and platforms within line ministries intended to oversee climate change programmes; however, coordination is relatively weak across Pacific SIDS. Where coordination mechanisms exist, roles and responsibilities of different actors are often not clearly delineated. Lack of a centralized coordination mechanism impedes other important processes that effectively address development and climate change in Pacific SIDS, including reporting and monitoring processes.</li> <li>▪ Substantial progress has been made in identifying potential NIEs to the GCF and AF, although most countries need to further strengthen national systems and institutions to meet NIE accreditation requirements and standards.</li> <li>▪ International, regional, and local NGOs play significant roles in terms of implementing climate change activities across Pacific SIDS. The private sector plays an important role in terms of mobilizing climate investment and meeting countries' emission targets. However, both these sectors are often left out of national coordination mechanisms, and the private sector currently has very limited engagement with climate change activities.</li> <li>▪ There is very limited progress towards achieving greater access to and dissemination of climate change information. Most Pacific SIDS do not have established central</li> </ul>	<ul style="list-style-type: none"> <li>▪ Establish and strengthen coordination institutions and mechanisms for greater stakeholder engagement, monitoring of climate change activities and dissemination of information.</li> <li>▪ Institutionalize M&amp;E of climate change activities as part of National Development Strategies and Plans across Pacific SIDS.</li> <li>▪ Strengthen institutions and build capacities of entities that have the potential of becoming NIEs for countries aspiring to get NIE accreditation.</li> <li>▪ Strengthen engagement with NGOs and CSOs who are already engaging, as well as with potential implementers of climate change activities.</li> <li>▪ Need for more cross learnings from financial mechanisms that are already operating in other Pacific SIDS.</li> </ul>

mechanisms for the collection and dissemination of information.	
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Source: SPC (2019).

### 5.3 PUBLIC FINANCIAL MANAGEMENT AND EXPENDITURE

The Public Financial Management (PFM) and Expenditure refers to the country’s public financial management systems and the extent to which fiscal policy is sustainable, whether expenditure is having the desired effect on achieving policy objectives and whether there is value for money in service delivery.

Direct access to global climate change funds such as the GCF and the AF requires strong PFM systems in order to meet the necessary fiduciary standards. Strengthening PFM is also key to increasing donor confidence in country systems and therefore enabling direct budget support/other modalities that provide more control by national governments/programmatic approaches and moving away from fragmented project approach (see table 21).

**Table 21: Analysis and recommendations on how to strengthen the PFM of the Pacific SIDS**

General analysis	Recommendations
<ul style="list-style-type: none"> <li>▪ There have been significant reforms to PFM systems across Pacific SIDS as a result of the Public Expenditure and Financial Accountability (PEFA) assessments. These reforms were undertaken to further strengthen PFM systems. Improvements in PFM systems have been observed as a result of past and ongoing reforms. In Pacific SIDS, Kiribati and Samoa are exemplars of improved systems resulting from PFM Reforms.</li> <li>▪ The Pacific climate change and disaster risk finance (PCCDRF) assessment indicated that the Pacific SIDS are spending their own domestic resources (10per cent-14per cent) to address climate change and disaster impacts. Pacific SIDS are also spending more on post-disaster recovery and the rehabilitation processes.</li> <li>▪ Adequate and timely funding arrangements required for emergency purposes are still lacking in most countries. For a region that is highly vulnerable to natural hazards and prone to disasters, having dedicated and flexible funding mechanisms for disaster response and recovery is essential. A number of disaster risk financing mechanisms exist however, Pacific SIDS need to have more information on the different mechanisms to ensure the most appropriate financing instruments are being used.</li> </ul>	<ul style="list-style-type: none"> <li>▪ There is a need to further strengthen PFM systems. Well-organized countries with strong PFM systems are likely to access more climate change and disaster risk financing than those countries most in need. To this end, improving the PFM system should be seen as a whole-of-government effort that will bring whole-of-government benefits.</li> <li>▪ Regular monitoring and reporting of total climate change expenditure should be institutionalized in respective countries.</li> <li>▪ Efforts should be pursued at the national level to capture climate change expenditure outside the government budget (including in-kind support) in centralized databases.</li> <li>▪ Setting expenditure targets is required for effective policy implementation. Countries should also consider allocating more resources for climate change given the high vulnerabilities of communities.</li> <li>▪ Regulations to establish disaster-specific funds that are readily available at the declaration of emergencies should be developed and implemented. In doing so, countries should consider options for sustaining climate funds.</li> <li>▪ Specifying actions and associated costings will allow for effective, controlled, and targeted resource allocation for climate change</li> </ul>

<ul style="list-style-type: none"> <li>▪ Although climate change is well articulated in the policy space, national budget allocations for climate change are still relatively low across Pacific SIDS. The main reason behind this is that a lot of policies still lack actions, targets, indicators and associated costings, and these actions and budgets are not operationalized through inclusion in corporate plans.</li> <li>▪ Significant progress has been made in gaining GCF NIE accreditation and accessing GCF funds. Nearly all the Pacific SIDS have managed to access GCF funding.</li> <li>▪ Accounting for in-kind support and external assistance being delivered using donor systems (instead of country systems) remains a challenge for the region.</li> </ul>	<p>activities.</p>
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Source: SPC (2019).

## 5.4 HUMAN CAPACITY

The Human Capacity refers to the ability of individuals to manage programmes and projects; individual attitudes, knowledge, behavior, and actions; and how a country manages and develops the awareness, understanding and skills of its human resources.

Pacific SIDS will be able to effectively respond to climate change and disaster impacts if there is

adequate institutional capacity. Capacity building is particularly important to fully implement the Paris Agreement at the national level and to fulfil other monitoring and reporting obligations under the various climate change related agreements and treaties that the Pacific SIDS are parties to. Human capacity is crucial to be able to carry out the full cycle of a climate financing funding and maintain a good reputation with donors as a low-risk, good investment destinations (table 22).

**Table 22: Analysis and recommendations on how to strengthen human capacity in Pacific SIDS**

General analysis	Recommendations
<ul style="list-style-type: none"> <li>▪ There is evidence of ongoing efforts to improve technical capacity for climate change through the provision of scholarships and training across Pacific SIDS.</li> <li>▪ While a few countries are adequately capacitated, the majority of Pacific SIDS have limited technical capacity to effectively plan, access, manage, disburse, monitor, and report on international climate finance. Having the right balance of capacities in-country is crucial for accessing and effectively managing climate finance as well as implementing and executing climate change activities.</li> <li>▪ There continues to be a large number of expatriate staff managing climate projects in many Pacific SIDS. Local expertise in climate is limited across the Pacific. Where technical capacities exist, a lot of staff are project-based. This has led to high staff turnover and difficulty in retaining technical staff. Lack of coordination also hinders pooling of technical capacities to address capacity limitations.</li> <li>▪ NGOs and research institutes provide added capacities that governments throughout the region can benefit from.</li> <li>▪ Existing capacity limitations in line ministries responsible for climate change continue to hinder access and effective management of climate finance.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Future climate change projects must have an embedded component related to capacity development and the transfer of knowledge. This will ensure that external consultants provide an added value to government. Short-term capacity supplementation is also recommended where needed, although such arrangements should also include capacity development and knowledge transfer to local staff.</li> <li>▪ Governments across Pacific SIDS should consider developing capacity-building strategic plans that will address capacity needs in both the short and long term. This is particularly important for change where knowledge keeps evolving and innovative solutions to addressing impacts are needed.</li> <li>▪ Governments should consider including officers from other ministries, NGOs and the private sector in climate finance meetings and international negotiations. The inclusion of a wide range of stakeholders in the negotiation process will assist in capacity-building on key negotiations surrounding climate change financing.</li> <li>▪ Donors providing scholarship opportunities to Pacific SIDS must target the needs of the governments. Observed capacity limitations to address climate change issues, should encourage governments and donors to consider allocating more scholarships for climate change and related fields.</li> </ul>

Source: SPC (2019).

## 5.5 GENDER AND SOCIAL INCLUSION

Gender and Social Inclusion (GSI) considerations are important because climate change and disaster impacts on different sections within a society are different. GSI is a key ingredient for accessing project funding for global funds such as the GCF and the Adaptation Fund and supports efforts to seek NIE accreditation.

The Gender and Social Inclusion Analysis assesses how gender elements have been integrated into the daily functioning of different government and community organizations, especially when it comes to climate change adaptation and disaster risk reduction functions, as well as into externally funded projects and programmes (see table 23).

**Table 23: Analysis and recommendations on how to strengthen GSI in Pacific SIDS**

General analysis	Recommendations
<ul style="list-style-type: none"> <li>▪ Analysis of GSI considerations within existing Climate Change and Disaster Risk Management (CCDRM) policies, plans and activities reveal mixed outcomes. While considerable progress has been made in the inclusion of GSI considerations in both national development strategies and climate change policies and plans in some countries, mainstreaming of GSI remains relatively weak in most Pacific SIDS.</li> <li>▪ Technical skills on gender and social inclusion mainstreaming are limited within key government ministries across Pacific SIDS. For the most part, there are few personnel responsible for gender and social inclusion and often their focus is limited to advocacy and social policy matters. Most funding mechanisms for climate change have a gender policy. The GCF, for example, require an initial gender and social assessment in proposals for funding and a gender and social inclusion action plan at the project preparation stage. These require technical capacity that is mostly lacking in key ministries across the Pacific SIDS.</li> <li>▪ NGOs have a track record of promoting GSI in their undertaking and therefore have technical capacity that governments could benefit from.</li> <li>▪ There has been very limited assessment across Pacific SIDS in terms of resource allocation for GSI. Where data is available, it is evident that very limited funding is allocated for GSI.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Mainstreaming processes for both climate and GSI should be done simultaneously rather than in isolation.</li> <li>▪ Gender mainstreaming can be supported through a variety of mechanisms including through Gender Responsive Planning and Budgeting process, linked to tagging and tracking climate change flows and specific inclusion of GSI actions within Joint National Adaptation Plans and national climate change policies. Governments should also consider increasing resource allocation for GSI and GSI specialists.</li> <li>▪ Build sufficient technical expertise and human resource capacity across all sectors, for gender and social inclusion, to ensure effective development of programmes across relevant ministries and departments. Establishing gender and social inclusion focal points across relevant ministries will help facilitate mainstreaming; however, it is also important to ensure these focal points are adequately resourced.</li> <li>▪ Establish systemic processes to collect, evaluate and report on GSI benefits/impacts recorded through project implementation. Governments should work closely with NGOs who are already engaged in GSI as they may have important lessons to share and build on.</li> <li>▪ There is a need to increase collection and dissemination of gender and vulnerable group disaggregated data. Climate change and disasters have differential impacts on gender and other social groupings. The availability of disaggregated data will assist governments and other development partners design policies and programmes that are responsive to the needs of specific and vulnerable groupings and allocate resources where they are most needed. The availability of disaggregated data will also strengthen proposals for climate change funding.</li> </ul>

	<ul style="list-style-type: none"> <li>▪ Similarly, there is a need for ensuring representation of a diversity of groups in consultations and decision-making roles for projects and programmes. There is increasing evidence for responses being more effective if the diversity of the affected population is included.</li> </ul>
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Source: SPC (2019).

## 5.6 DEVELOPMENT EFFECTIVENESS

The principles of development effectiveness and the need to ensure that aid is delivered in an effective way that maximizes impact and achieves value for money remain relevant and central to climate change response. National ownership of development strategies, alignment of development assistance with national priorities, and harmonization of development efforts all

contribute to better, more sustainable development outcomes.

The Development Effectiveness component considers the link between climate change and broader development effectiveness efforts. It considers issues such as ownership, leadership, alignment, harmonization, managing for results and mutual accountability (table 24).

**Table 24: Analysis and recommendations on how to strengthen development effectiveness in Pacific SIDS**

General analysis	Recommendations
<ul style="list-style-type: none"> <li>▪ Efforts have been made in some countries to establish forums and round-table meetings for development partners, stakeholder dialogues and climate information sharing and exchange, although more systematic government-led processes are needed for greater stakeholder dialogue and engagement.</li> <li>▪ In countries with particularly small administrations, multiple country missions by development partners have proven to be overwhelming.</li> <li>▪ The lack of formal coordination mechanisms and mutually agreed M&amp;E indicators in most countries makes managing for results and mutual accountability difficult. The effectiveness of individual climate change projects has been evaluated on a project-by-project basis. There is no mechanism to determine the “collective” effectiveness/ impact of climate change interventions across Pacific SIDS.</li> <li>▪ Alignment and harmonization of efforts to national policies and plans remains a</li> </ul>	<ul style="list-style-type: none"> <li>▪ Countries should strengthen coordination mechanisms and conduct regular meetings with donors and developments partners. The need for proper coordination mechanisms is fundamental for many country developments and planning, including the provision of an established platform for all climate change stakeholders to engage in open dialogue; less fragmentation and duplication of efforts; better alignment to national priorities; and greater harmonization and ownership of climate change activities.</li> <li>▪ Joint missions to be considered by development partners and no mission periods during critical months for national budget preparations.</li> <li>▪ Countries should work towards mutually agreed M&amp;E indicators and a framework for climate change programmes and projects. M&amp;E frameworks should be linked to national development strategies. Developing national M&amp;E systems will enable countries to monitor progress of project implementation and evaluate the effectiveness of climate change</li> </ul>

<p>challenge as many development partners still operate outside government processes and systems.</p>	<p>activities. M&amp;E contributes to transparency and mutual accountability, allows lessons to be shared, and will help inform future climate change projects.</p> <ul style="list-style-type: none"><li>▪ Partners and regional organizations that wish to engage with the government should consider joint missions and approaches to lessen the burden on already-stretched administrations. Pacific SIDS should also play a lead role in setting periods for missions – these should not be approved during critical periods of budget planning.</li></ul>
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*Source:* SPC (2019).



## 6. Conclusion

Pacific SIDS are still experiencing difficulties in accessing climate finance from multiple sources despite the plethora of climate finance flows internationally. To that end, the Pacific SIDS have implemented and are exploring innovative financial mechanisms to support their effort in financing their climate change efforts. While most of these mechanisms have experienced a certain degree of success, Pacific SIDS' ability to attract and sustain financing particularly from the private sector is still limited. The special circumstances of Pacific SIDS, especially their small economies and their weak enabling environment continues to inhibit their ability to enhance the mobilization of climate finance in their economies. Targeted

investments that will strengthen the pillars of the enabling environment, such as policy and planning, institutions, public financial management, human capacity, gender, social inclusion, and aid effectiveness, is critical in enhancing the mobilization of climate finance in Pacific SIDS. Donors and development partners are therefore reminded that, while channeling finance for climate projects are important, for these investments to be sustainable and scaled-up in the long run, strategic and targeted investments to strengthen the enabling environment of Pacific SIDS to plan, attract, manage and effectively spend climate finance in a manner that is transformational is needed.

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# Appendix: Types of national funds

There are three main types of national funds: endowment, revolving and sinking funds (Irawan, Heikens and Petrini, 2012). The types of national funds determine the capitalization process and the governance structure that will be adopted. The strategic role of the fund, political feasibility, institution and human resource capacity, time and cost effectiveness are key prerequisites that needs to be established before countries implement such modalities (ibid.).

## Sinking fund

A sinking fund consumes the principle capital and investment income (if the fund is invested) over a fixed time period. This type of fund should be regarded as a short-term initiative and not sustainable in the long run because the capital of the fund will be disbursed entirely within a fixed period of time. An example of a sinking fund is a multi-donor trust fund, where it pools financial resources committed by various donors and channels them to intended beneficiaries through one gateway to ensure better aid coordination (ibid.). Examples of sinking funds in the Asia Pacific is the Cambodia Climate Change Alliance Trust Fund and Indonesia Climate Change Trust Fund.

## Revolving fund

Revolving funds are those in which the principle capital and the investment income (if the fund is invested) are consumed entirely but a replenishment source (a tax or external source) exists and contributes regularly to the funds (ibid.). The principal capital can be further invested in various types of risk-free financial instruments to generate additional income or not invested further (ibid.). Thailand's Energy Conservation Fund is an example that adopted this modality.

## Endowment fund

An endowment fund when the principal capital is kept in perpetuity and not consumed under any circumstances, and only the investment income is used to provide grants. There is no regular source to replenish the capital, thus an endowment fund depends on the interests or dividends generated from the investments and/or additional funds mobilizing by fund managers (ibid.). The Tuvalu Trust Fund currently adopts this structure.



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