



PACIFIC ISLANDS FORUM



# What Green Climate Fund do we want for the Pacific?

*Practical recommendations for reform and capacity support*

July 2023



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## Abbreviations

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ADB	Asian Development Bank
AE	Accredited Entity
AF	Adaptation Fund
DAE	Direct Access Entity
FCDO	UK Foreign, Commonwealth & Development Office
FDB	Fiji Development Bank
FX	Foreign Exchange
GCF	Green Climate Fund
IPCC	Intergovernmental Panel on Climate Change
KII	Key Informant Interview
LCF	Low Cost Finance
LDC	Least Developed Country
MCT	Micronesia Conservation Trust
MDB	Multilateral Development Bank
NAP	National Adaptation Plan
NDA	Nationally Designated Authority
NDC	Nationally Determined Contribution
NIE	National Implementing Entity
ODA	Official Development Assistance
PIC	Pacific Island Country
PICTs	Pacific Island Countries and Territories
PIF	Pacific Islands Forum
SAP	Simplified Approval Process
SIDS	Small Island Developing States
SPC	Pacific Community
SPREP	Secretariat of the Pacific Regional Environment Programme
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UK	United Kingdom
US	United States

## Acknowledgements

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This recommendations paper takes a more granular approach than previous evaluations and existing evidence. It is based on the practical experience of stakeholders drawn from *talanoa* sessions and key informant interviews. The paper identifies specific bottlenecks in Green Climate Fund (GCF) systems, procedures and capacity, setting out practical recommendations for reform.

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## Introduction

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Global climate funds have faced much criticism for failing to deliver fast and flexibly enough to match the urgency of the climate crisis, especially for the world's most climate vulnerable countries. In the Pacific region, access to climate finance is a clear priority of leaders and the need for easier access and greater quantities of funds flowing to the region has consistently been raised at both regional and international fora.

The Green Climate Fund (GCF), the world's largest climate-dedicated fund, became fully operational in 2015 and supports climate change mitigation and adaptation efforts in developing countries. It has been the focus for developing countries in the climate funding space, as the prominent mechanism under the United Nations Framework Convention on Climate Change (UNFCCC), serving the Paris Agreement and promoting a 'paradigm shift' in the way climate action is funded to advance the global response to climate change. Nevertheless, for Pacific Island Countries (PICs), issues around access to, and management of, climate finance through the GCF are still prominent, almost 10 years later. Pacific Leaders have repeatedly called for the need to simplify approval processes. It is evident that the Simplified Approval Process (SAP) and Readiness and Preparatory Support Programme of the GCF, although well intentioned to address challenges around access, are not sufficient and responsive to the special circumstances of SIDS, including PICs. Furthermore, climate change finances still appear to be disconnected from the priorities of vulnerable local communities and people most impacted by climate change.

Against this backdrop, countries are actively working to set up institutional arrangements and safeguards, including strengthening Public Financial Management (PFM) systems and associated financial controls, to better position themselves to meet the stringent requirements of the GCF. To date Fiji's Development Bank, Cook Islands Ministry of Finance and Economic Management, the Micronesian Conservation Trust and the Pacific Community (SPC) and the Secretariat of the Pacific Regional Environment Programme (SPREP) have acquired national and regional direct accreditation to the GCF. Many other national entities are still on the journey.

There is a perception that the GCF does not provide sufficient funding to the Pacific. The GCF has committed over US\$ 400 million over the past 10 years although challenges in disbursing approved funds continue. Governments, donors and accredited entities would all like to see increased GCF disbursement in the Pacific, indeed this is also an objective of the GCF itself.<sup>1</sup> However, to achieve this, the modalities for GCF processes such as accreditation and approvals require further reform.

As the climate crisis escalates, it is worth revisiting the important question – **'What GCF do we want for the Pacific?'**. 2023 is a critical year for the Fund as it sets out its new Strategic Plan 2024 - 2027 and negotiates its second financial replenishment (also covering the period 2024-2027), with a pledging conference in October 2023 in Bonn, Germany. The new Strategic Plan, to be presented by the Co-Chairs to the Board during the July 2023 Board Meeting, sets forward an ambition to "significantly enhance its support to developing countries". It sets out the following programming priorities:

1. Readiness and Preparatory Support: Enhanced focus on climate programming and direct access;
2. Mitigation and Adaptation: Supporting paradigm shifts across sectors;
3. Adaptation: Addressing urgent and immediate adaptation and resilience needs; and
4. Private Sector: Promoting innovation and catalysing green financing.

The Strategic Plan also commits GCF to "learn and adapt its operations guided by a core goal of enhancing access, and pursue institutional measures to calibrate its policies, processes, governance, risk management, results management and reporting and organisation capacity for successful delivery".<sup>2</sup> This sets out an important intention for continual improvement and being adaptive, based on feedback from key GCF stakeholders.

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1 It is important to also note that multilateral development banks and bilateral partners are also sources of climate finance in the Pacific region.

2 GCF/B.36/17/Rev.01, 9 July 2023, Green Climate Fund – Strategic Plan 2024-2027, Co-Chairs Proposal, page 4 <https://www.greencimate.fund/sites/default/files/document/gcf-b36-17.pdf>

Over the last few years, many papers have set out broad recommendations for GCF reform<sup>3</sup>. These have covered areas such as the need for increased funding and adaptation financing; the need to strengthen partnerships and for capacity building. The GCF has made moves to address these in various ways and the updated Strategic Plan also sets intentions to continue to adapt.

To contribute to the delivery of the new strategy, this informal evidence paper sets out recommendations from a number of Pacific stakeholders on the practical changes they want the GCF, as a partner, to make. These are considered important tangible steps in GCF's continual improvement efforts and part of creating an enabling and supportive environment for achieving maximum impacts for SIDS, including PICs.

The recommendations provided in this paper are intended to be practical, for consideration by the GCF in the short and medium term. They combine suggestions for process reforms, as well as recommendations related to capacity and capability, both within GCF and for partner countries to better understand GCF processes. Stakeholders consulted in the development of this paper agreed on the need to identify more specific recommendations that are considered important for GCF to consider, particularly in the lead up to the replenishment pledging in October 2023 and the involvement of long-term Pacific development partners in this replenishment process.

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3 SIDS Access to the Green Climate Fund: Understanding the GCF project portfolio in SIDS: <https://climateanalytics.org/publications/2021/sids-access-to-the-green-climate-fund-understanding-the-gcf-portfolio-in-small-island-developing-states/>

Small Island Developing States access to the Green Climate Fund: <https://climateanalytics.org/publications/2022/small-island-developing-states-access-to-the-green-climate-fund/>

CLIMATE FINANCE EFFECTIVENESS IN THE PACIFIC: ARE WE ON THE RIGHT TRACK?: Discussion Paper: <https://www.undp.org/pacific/publications/climate-finance-effectiveness-pacific-are-we-right-track-discussion-paper>

Tonga Green Climate Fund Country Program: Investing in building a resilient Tonga: <https://www.greencimate.fund/sites/default/files/document/tonga-country-programme.pdf>

INDEPENDENT EVALUATION OF THE RELEVANCE AND EFFECTIVENESS OF THE GREEN CLIMATE FUND'S INVESTMENTS IN SMALL ISLAND DEVELOPING STATES: <https://ieu.greencimate.fund/sites/default/files/document/201123-sids-final-report-top-web.pdf>



## Proposed Recommendations

### Issue 1: Accreditation and Support

GCF accreditation requirements are complex and meeting them involves a cumbersome process. Pacific Island Country (PIC) officials highlighted the time and resource investment needed to understand GCF policies and requirements, given their complexity. Higher-capacity countries noted that the complexity of GCF requirements were not necessarily the specific challenge, rather the cumbersome process — the number of steps involved and the number of forms to be completed to secure accreditation. Even after being accredited, it can take over a year to put in place necessary legal agreements to begin operations. Others outside the region highlighted that the complicated accreditation procedure and its rigorous standards require a very high level of understanding of the GCF's policies and regulations<sup>4</sup>.

Implementation of some policies needed to satisfy GCF requirements require PICs to commence work from scratch. These include the development of gender, environmental and social policies, and information disclosure policies. These new policies take considerable time and effort to design and implement, especially given that in many cases they need to be implemented government wide. Development of such policies alone has been reported to take at least a year in higher-capacity countries, on top of meeting upfront costs to hiring expertise to put it all together. There also seems to be a lack of clarity on the utilisation of existing policies (e.g. National Gender Policies), and guidance on how to ensure that these can be applied holistically, rather than putting together a new policy for specific NEs.

Fees associated with GCF accreditation can be high, and GCF direct access re-accreditation is required every 5 years. Countries reported surprise at needing to pay a fee to seek direct-access accreditation. Some PICs have also expressed concern that their accreditation might expire before they can manage to successfully develop a project.

The level or type of national direct-access accreditation achieved may be insufficient to meet climate finance needs, both at the speed and scale required, which has triggered the desire to seek additional national entity accreditation.

#### Case study: Fiji - Successful Accreditation, Clear Limitations

While successful overall, the Fiji experience with the GCF has highlighted several limitations, starting with the types of instruments available. Given Fiji's middle-income status, it is difficult for Fiji to get access to concessional loans, which limits the amount it can borrow for climate projects without risking debt sustainability.

Fiji's experience with Fiji Development Bank (FDB) accreditation for direct access has revealed another limitation accredited for ESS category "C"— zero or minimal environmental and social impacts, size USD10m. Experience to date is that they are finding projects in the higher category. For example, FDB had to modify a resilient housing project, because FDB's Environmental and Social Safeguards rating of "C" was too low for such a project. For climate adaptation projects, which generally do not generate net positive cash flows they cannot be financed with loans, so FDB's accreditation for loans make it poorly equipped to help with climate adaptation. A better approach was to include 'on-granting' in the accreditation to allow FDB to identify programmes that can blend the on-granting with loans financial instruments.

<sup>4</sup> GIZ, *Engaging with GCF – Toolkit for CSOs*, 2019 [https://www.germanclimatefinance.de/files/2019/07/Toolkit\\_Engaging-with-the-Green-Climate-Fund.pdf](https://www.germanclimatefinance.de/files/2019/07/Toolkit_Engaging-with-the-Green-Climate-Fund.pdf)



**Recommendation 1:**

GCF to reconsider re-accreditation timelines, given that replicating the same process requires effort and time, which the small, remote and vulnerable countries do not have. Country authorities expressed concern that due to limited human resources, they would again have to focus just on re-accreditation, rather than the ultimate goal of project development and implementation. During the Key Informant Interviews (KII) and Focus Group Discussions (FGD), the Nationally Designated Authorities (NDAs) and Accredited Entities (AEs) have strongly recommended the GCF to consider revising the re-accreditation timelines, and extending it to ten years.

**Recommendation 2:**

It is strongly recommended that the GCF offer flexibilities to the Pacific NDAs and NEs, to better position them to deliver climate finance needs of the region, rather than restricting implementation. There was a strong focus on requirements needed by the GCF, both for accreditation and re-accreditation purposes.

**Recommendation 3:**

Establishment of an NDA-specific envelope under the GCF Readiness and Preparatory Support Programme, with at least USD 1 million annually for each NDA. This envelope should be new and on top of the USD 1 million per year for each NDA, and will incorporate the NDA-specific Readiness Support, created through the adoption of the Integrated Results Management Framework.

## Issue 2: Applicability of the Simplified Approval Process (SAP)

The SAP is aimed at simplifying the process and documentation required to access GCF funding. Despite the GCF's efforts to ensure efficient access to financial resources for Small Island Developing States (SIDS) and Least Developed Countries (LDCs), for example through the SAP, the simplified procedures have not yet benefited SIDS. From the GCF Portfolio, only 2 countries: the Federated States of Micronesia (through the Micronesian Conservation Trust (MCT)), and Fiji (through FDB) have accessed funding through the SAP modality. There is still a lack of capacity to develop GCF proposals, which contributes to this as well as difficulty in identifying and engaging with technical experts to develop GCF proposals.

**Recommendation 1:**

Have a "fast-track process" and simplify the project cycle for SIDS - specifically for countries that are below a certain population size (as a crude proxy for institutional capacity) and seeking smaller amounts of funding.

**Recommendation 2:**

GCF to target reductions in the number of days for SIDS projects through the pipeline process. More rapid assessments and acceptance of local project management and feedback.

**Recommendation 3:**

Simplify the SAP funding proposal template to allow cross-referencing GCF country programmes, Nationally Determined Contributions (NDCs), National Adaptation Plans (NAPs), Intergovernmental Panel on Climate Change (IPCC) reports or other equivalent analyses in demonstrating overall national vulnerability to the impacts of climate change.

### Issue 3: GCF's Portfolio and Region-Specific Programming

GCF policies, systems and processes for decision-making do not always prioritise programmes that deliver impacts to support the most vulnerable, despite this being a core goal of the GCF. The stringent proposal process results in the fact that many countries with the highest climate vulnerability but weak government institutions and fragile state-bureaucracies have missed out and have not been able to access project funding.

Furthermore, a lack of data and analysis on SIDS accessibility and priorities affects the allocation of GCF funds. Better analysis on vulnerability and utilisation of this for decision-making in the allocation of funds, would likely assist in prioritisation of SIDS. Current GCF data collection and analysis of access to the portfolio of funding shows that SIDS currently make up only 12 percent of the GCF portfolio. The Pacific region would like to see the GCF align with its mandate to support developing countries and specifically vulnerable communities.

SPC and SPREP highlighted that region-specific programming may be difficult given the need to align with GCF's governing instrument and difficulty in categorising it to be region specific. However, a Terms of Reference is being presented to the Board Meeting in July, for a feasibility study to further examine options for establishing a GCF regional presence, which may pave the way for regional programming.

As highlighted by Cook Islands, holding GCF accountable to its mandate as the financing mechanism for COP is important in driving this, and the Pacific-SIDS, as a region, can benefit from more region-specific data specifically with regards to current levels of access versus the levels of vulnerability of the region.

#### **Recommendation 1:**

Undertake a review that provides options for enhancement of allocation of funding (e.g. ratio/percentage of population affected) and ensure the priority enhancement options, aligned with GCF's ambition to significantly enhance its support to developing countries, are incorporated as part of the planned "learning and adapt approach" of the new strategic plan.

#### **Recommendation 2:**

As part of the above, look at the options for allocation of funding based on vulnerability: use of vulnerability indices that are reflective of SIDS circumstances is crucial.

E.g., Multidimensional Vulnerability Index (MVI) can prioritize funding allocations to SIDS based on their vulnerability scores.

#### **Recommendation 3:**

A periodic stocktaking of GCF funds benefiting SIDS & more specifically PSIDS is required to understand the flow of funds and the utilization of funds by vulnerable communities.

### Issue 4: Project Implementation and Local Currency Financing

The GCF currently provides funding in US Dollar, Euro, Japanese Yen, and British Pound, creating risk to AEs who deploy GCF's funding in local currencies. Historically, the GCF has primarily allocated funding in US dollars, with a smaller proportion allocated in Euro. To use the proceeds from GCF to fund local interventions/programming, the AEs convert this hard currency to local currency<sup>5</sup>. This poses two risks for AEs and borrowers. Firstly, there is a risk that the value of the fund proceeds may decrease between approval and utilisation. A decrease in the local currency's value can result in the AE receiving less funding in local currency terms than initially offered. Secondly, at the time of reflows (i.e., repayment), the AE may face insolvency risk if the local currency devalues, possibly resulting in a higher reflow burden to the AE.

<sup>5</sup> Consideration for a Local Currency Financing Pilot Program, Green Climate Fund. <https://www.greenclimate.fund/sites/default/files/document/gcf-b36-16.pdf>

This potentially limits both the range and scale of climate adaptation and mitigation projects, which development banks, specifically, are able to finance. Given the GCF's desire to increase private sector engagement, risks associated with foreign exchange and potential higher reflow burden can reduce the level of engagement of the private sector and scope of GCF's impact.

### **Case Study: Fiji Development Bank and Foreign Exchange Challenges**

Fiji Development Bank (FDB) noted that for its GCF supported Agro-Photovoltaic Project in Ovalau, FDB borrows from the GCF in US\$, lends in FJ\$ and then is required to repay over the term of the lending in US\$. If the FJ\$ were to depreciate against the US dollar by 10 percent, revenues would remain unchanged, but the liabilities would now be 10 percent higher. Whilst GCF loans are highly concessional and the true cost to FDB customers in FJ\$ is significantly higher because FDB has to price the exchange rate risk into its lending. Other Development Banks have highlighted similar concerns and it is a particular challenge for development banks in Pacific-SIDS.

#### **Recommendation 1:**

GCF should explore options to offer funding in local currencies to the AEs in order to assist them in mitigating foreign exchange (FX) risk. While GCF can still offer funding in USD and provide grants to cover hedging costs for AEs, its significant size and strong reputation make it better positioned to assume FX risk and provide funding in local currency to AEs. By having access to a wider range of currency management and hedging tools at a lower cost compared to most AEs, the GCF can maintain its concessionality. This advantage enables the GCF to effectively manage its currency-related expenses while providing financial support.

#### **Recommendation 2:**

GCF should consider offering a wide range of Low-Cost Finance (LCF) options and remain flexible to AEs' need and capacity while deciding what approach to use in each case. This analysis has identified some options that GCF can consider for providing LCF:

GCF to commission a 'Cost of doing business in the Pacific', drawing on work and experiences of other multilateral institutions, to better understand how they take issues such as foreign currency financing and providing a risk buffer to hedging assets.

Enter legal arrangements, execute the legal contracts with the financial institutions that will hold their local currency and hedge their transactions.

\*\*Note: The Board will be considering a Local Currency Financing Pilot Program as part of the July 2023 Board Meeting

## Issue 5: GCF Pacific Literacy and Engagement

Several AEs and NDAs during the key informant interviews identified the lack of “*Pacific knowledge*” in the GCF as a significant barrier and one that presents challenges for them when they submit concept notes or full proposals. Whilst individual GCF staff with Pacific knowledge and understanding were acknowledged, there is still a concern that overall, the GCF as an institution has limited exposure and experience working in the Pacific and that its systems and processes are not designed to take into account the particular circumstances of Pacific Island Countries and Territories (PICTs). This includes the limited capacity and institutional capability of many PICs to service complex and protracted GCF processes and the high transaction costs of delivering projects in isolated and remote Pacific nations.

Whilst Multilateral Development Banks (MDBs), such as the World Bank and Asia Development Bank (ADB) have proactively shifted in the last 4 years to relocate key staff into the Pacific in order to strengthen engagement in partner countries, the continued lack of GCF presence in the Pacific was widely criticised by almost all stakeholders. This is a major barrier to increased GCF understanding of the region and Pacific stakeholders’ understanding of GCF systems, processes and the limitations facing the GCF Secretariat and Board. Local presence could increase the GCF’s agility in working in the region and may lead to a more ‘adaptive’ management style to reflect local Pacific challenges in dealing with their access to climate finance.

### **Recommendation 1:**

The GCF commits to increasing the “Pacific literacy” of its Board and Secretariat, which may include recruiting more people with specific Pacific skills, experience and knowledge; regular visits and increased engagement with Pacific countries and institutions; and establishing an “understanding the Pacific” course for all staff working on Pacific policy or programmes.

### **Recommendation 2:**

The GCF proactively establishes at least one Pacific office with a mandate to promote increased, and more efficient (including quicker) GCF disbursement in the region. In doing so take into consideration any potential administrative and transactional costs associated with the establishment and staffing of a Pacific Office (\*\*Note: this is something being included in the ToR for a Feasibility Study to further examine options for establishing a GCF regional presence, on the agenda for the July Board Meeting, although it does not specify the Pacific region).

The GCF Pacific office to provide ongoing support in project design, implementation, and reporting. This team could work closely with AEs and local governments to ensure that projects are well designed and executed.

### **Recommendation 3:**

The GCF commissions an analysis of the “Cost of doing business in the Pacific”, drawing on work and experience by other multilateral institutions to understand how they take issues such as capacity constraints and high transaction costs into their decision-making processes.

## Issue 6: GCF Project Implementation – Capacity and Institutional Capability

Pacific-SIDS face considerable capacity and institutional capability constraints. This curtails their capacity to design and deliver GCF projects. Pacific-SIDS and their institutional capability constraints are well documented and development partners acknowledge the challenges these impose including on the requirement for additional capacity support and supplementation as well as increased transaction costs. Whilst GCF guidance is not prescriptive on issues of capacity support and supplementation, many AEs note that there appear to be unwritten rules regarding the level of GCF support, which could be used on institutional capacity. One of the more recent AEs indicated that they believe that this is around 30 percent of project costs. However, the same AE, which implements projects funded by other institutions notes that the typical staff and capacity support costs for their projects in the region are typically 40-45 percent and whilst this seems high compared to the costs of implementing projects in other countries or regions (e.g. Southeast Asia), this is the reality of delivering development support in the Pacific. Many AEs state that

the unwritten but rigidly applied GCF rule to limit staff and capacity support undermines efforts to deliver effective climate projects in the Pacific.

Further, some AEs raised concerns on GCF's preference to hire consultants, when complimenting capacity for countries or institutions, rather than recruiting expertise from the region, despite the overall higher cost of this approach. Whilst in many situations international consultants may be the only option if skills are not available locally, there is a tendency to favour consultants for short periods even when recruiting a national for a longer period would still be more effective. In addition, they note that flying-in consultants does not necessarily build institutional capacity. Recruiting staff into their institution for a defined period can strengthen overall capacity, while programmatically developing skills within the organisation for the longer-term.

Also observed was that several GCF consultants have provided feedback on concepts, project proposals and other reports that were at odds with each other and that there was not a consistent approach in applying GCF processes and decisions in the feedback. These 'changing goal posts' in the requirements lead to extra resources being necessary that are beyond the small size of nearly all Pacific governments.

### **Case study: The Pacific Cost of Business**

Fiji, like other Pacific-SIDS, faces unique challenges in terms of geography, economy, and infrastructure, making project implementation more costly. Consequently, the reported 30 percent of project costs allocation for capacity support may be insufficient. Commissioning an analysis to understand the actual costs of project delivery in Fiji would help GCF to adjust its support accordingly. Additionally, considering the high costs and operational difficulties due to Fiji's remoteness, increased transparency on allowable costs for capacity support could enhance effectiveness and reduce misunderstandings.

Similarly, NEs who have recently acquired accreditation to the GCF, raised concerns about the inability of the GCF to understand the costs of doing business in the region.

### **Recommendation 1:**

GCF to review its guidance (formal and informal) on allowable costs for projects staff and capacity support to ensure that it reflects the realities and true costs of delivering impactful programmes in the Pacific. This should be communicated clearly as part of GCF support.

This is linked to a need for GCF to commission an analysis on the costs of doing business/delivering programmes in the Pacific to inform their guidance and procedures.

### **Recommendation 2:**

GCF to review its guidance (formal and informal) on the deployment of international consultants to supplement capacity in situations where national expertise could be recruited into the AE for a longer period, potentially at lower cost, in order to build institutional capacity. Also if possible, GCF to limit the number of times that different consultants review the same document. It would also be beneficial to ensure continuity in having a group of consultants that would specialise in the review of Pacific applications and reports.

### **Recommendation 3:**

GCF could set up a knowledge-sharing platform where Pacific SIDS, AEs, and other stakeholders can share their experiences, best practices, and lessons learned from implementing GCF projects. This could help other countries and AEs to avoid similar pitfalls and adopt successful strategies.

## Issue 7: GCF Guidance, Frameworks and Policies for Pacific SIDS

GCF policies make specific mention of the consideration of SIDS and refer to capacity needs. Flexibility is less frequently mentioned and is required in the interpretation and application of GCF policies to account for the specific circumstances of SIDS<sup>6</sup>. Reporting requirements are onerous and there are often long delays in the GCF providing feedback to country reports. Furthermore, different views and feedback from different consultants on the same project can be confusing for PICs. It has been a consistent issue that GCF templates for multiple processes regularly change, and this delays applications and disbursement of funds.

The current climate finance ecosystem still operates on a one size-fits-all model that fails to take into account the unique needs of Pacific-SIDS. Despite their identified unique vulnerabilities, Pacific-SIDS continue to face eligibility issues when it comes to receiving concessional finance and Official Development Aid (ODA).

Currently, concessional ODA financing for Pacific-SIDS flows primarily after natural or climate-related disasters due to ad-hoc exceptions to the prevailing ODA requirements. However, ad-hoc exceptions fail to address the systemic level issues at play at the scale of the reforms needed. The very need for ad-hoc exemptions exposes the inadequacy of a framework that relies on national income per capita (alone) as an indication of a country's need and its domestic capacity to respond to disasters and other challenges.

The GCF has responded to SIDS specific COP guidance – which relates to private sector engagement, simplified and efficient access, and readiness and accreditation – but the outcomes of those actions have only been partially effective.

There have been cases of delays, which impede project progress and funds disbursement, such as the case in Fiji Development Bank projects. For Fiji, these delays can be critical considering its vulnerability to natural disasters, climate change, and its limited resources to address these challenges. Thus, shorter turnaround times from GCF would greatly support the faster implementation of necessary actions.

### Case Study: The Solomon Islands National Transport Fund - Application MIA

Gaining national direct access accreditation status has been a priority for the Solomon Islands Government. The government has made a submission to the GCF in August 2021 seeking accreditation of its National Transport Fund to the GCF. Based on the country's experience, there is no clear communication from the GCF on the status of their application. The country has expended a lot of resources to ensure systems and safeguards required by the GCF are in place and is concerned that after two years, there is still no formal communication from the GCF. The Solomon Islands experience provides an important example of not communicating adequately with countries and creating unnecessary delays and confusion.

<sup>6</sup> Independent Evaluation of the Relevance and Effectiveness of the Green Climate Fund's Investments in Small Island Developing States: <https://ieu.greenclimate.fund/sites/default/files/evaluation/201123-sids-final-report-ex-sum-top.pdf>



**Recommendation 1:**

Changes are necessary to the due diligence assessment and reporting processes to reflect the capabilities of Pacific-SIDS to report, undertake assessments, and accept the quality of local expertise, such as engineering assessments.

**Recommendation 2:**

Shorter turnaround times for the GCF to provide comments on paper and reports, such as the Annual Performance Report, to ensure the timely progress of the project and regular disbursement of funds. Due to the lack of local expertise, a dedicated support team should be looking at submissions made from Pacific-SIDS, and other vulnerable countries.

**Recommendation 3:**

Improve communication of readiness facilities to augment what Pacific-SIDS could access – specifically for DAEs endorsed by the NDAs – either directly or with a delivery partner. Improved communication includes clearer guidelines for eligibility, requirements, and process. It should also require clear process of reporting and communicating updates from the GCF to countries.

**Recommendation 4:**

GCF to consider the processes in place within institutions and organisations that are accredited entities to other funding mechanisms and note that these organisations have met necessary requirements set forth to ensure accountability, transparency and good financial management.

## Issue 8: Capacity Building Beyond Just Proposal Development

Capacity-building support to date has tended to focus solely on proposal development. It is acknowledged that support needs to be expanded beyond just providing training for proposal writing (although this is still very much needed in the Pacific region). GCF needs to consider the capacity constraints that the PICs are facing more holistically, rather than on an ad-hoc basis.

Many of the AEs highlighted during the interviews that they used many internal resources in the concept development stage and then the development of the concept note. Some AEs also mentioned that the demands of the GCF for additional work to be done in the early stages meant that budgets were being stretched. Once the concept has progressed, the size of the funding available for Project Preparation Grants is uniform and does not change for the size of the project.

NIEs and NDAs further highlighted that GCF has failed to facilitate peer learning and coordinate like-minded organisations. It is only through the own efforts of organisations, that they have managed to get in touch with other partners and learn from their experiences, on understanding the GCF processes.

**Recommendation 1:**

While GCF Readiness support to both NDAs and DAEs is coming online, there is a role for additional technical assistance to enable NDAs and national AEs to access and manage GCF finance more effectively.

There is a need to strengthen institutional capacity on overall governance of climate change, particularly in meeting required financial management standards.

**Recommendation 2:**

GCF to have a scale of payments for the Project Preparation Facility (PPF) that increase with the project size.

**Recommendation 3:**

GCF to consider a facilitated program of peer-learning that could support new AEs and AEs from SIDS to better understand whole of system GCF processes.



## Issue 9: Stability, Continuity and Capacities within the GCF Secretariat

As much as countries need to increase capacity to access GCF funds, they are highly reliant on the GCF Secretariat to uphold consistent, quality support and management of approval and disbursement processes.

Many country representatives emphasised the importance of their relationship with support staff at the Secretariat in guiding them through GCF processes. Interpersonal relationships created over time and especially in face-to-face meetings enable informal queries, easing the GCF access processes. The rapid turnover of staff at the Secretariat in recent years has disrupted these relationships, and it has taken time for new staff to get up to speed with GCF systems. These disruptions directly affect in-country capacities and institutional readiness and can contribute to slower accreditations and weaker project proposals.

The lack of continuous support and flow of constant information further burdens the NDAs and NEs.

### **Recommendation 1:**

Given the current funding uncertainty, the GCF can link the replenishment process with an operational plan to demonstrate how its own capacity can match the rapidly increasing demand for GCF funds.

### **Recommendation 2:**

This is where GCF should again look at building long-term capacity across NDAs and NEs, through more coordinated and focused support, rather than taking an ad-hoc approach.

## Issue 10: The Impact of Data Limitations for Proposal Development

Pacific SIDS typically face data limitations when developing project proposals for climate funds and structuring investments for the private sector. Adaptation projects require significantly more data to prove climate vulnerability and Pacific SIDS typically lack the historical climatological, environmental, and socioeconomic data and sufficiently downscaled models necessary for analysing climate trends.

According to stakeholder interviewees, limited human resources to analyse and interpret data and to select and justify appropriate interventions, known as the project “climate rationale,” poses another hurdle in developing feasibility assessments and convincing GCF to approve projects.

Conceptual confusion and poor data make it hard to build a climate rationale. In part, the difficulties stem from the poor availability, accessibility and reliability of data and information at relevant scales, especially in remote, conflict and transboundary areas.

### **Recommendation 1:**

GCF needs to build expertise internally and across NDAs to effectively interpret and evaluate data for project design and decision-making, including building the climate rationale, this could be through specific guidance notes or “how to” support targeted at SIDS and Pacific-SIDS. It was also discussed that through the GCF support, regional agencies such as SPC and SPREP and other relevant organisations could be supported to improve data access and analysis for the region.

### **Recommendation 2:**

Stakeholders interviewed for this report stressed the need for GCF to promote flexibility in using alternative data sources to supplement existing climate data when making a case for the climate rationale of adaptation projects.

## Conclusion

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The climate financing field has expanded significantly with the establishment of the Green Climate Fund in 2015, thereby providing substantially more opportunities for Pacific countries to access finance to target their climate ambitions. However, as the opportunities have grown, the challenges to accessing finance for Pacific-SIDS have intensified in parallel.

Given the climate change vulnerability of the Pacific Islands, access to finance is more crucial than ever. Pacific-SIDS require immediate assistance to address the effects of climate change. Without additional grant-based access to climate finance, delivered at the necessary speed and scale, it is going to be extremely challenging to meet the adaptation and resilience needs of the region. The GCF's current modalities and processes are ineffective in addressing the unique difficulties of climate change impacts in Pacific-SIDS and the urgency of climate action. As such, strategic and well-planned changes are needed within climate finance mechanisms such as the GCF.

This short, yet focussed study, involving the AEs and NDAs working in the region has briefly touched the tip of the iceberg, however, there are multiple issues still left to be discovered. The recommendations paper takes a granular approach to look at the specific issues facing Pacific AEs and NDAs and proposes practical recommendations that could help eliminate such barriers to climate finance in the region.

Given the fragility of Pacific communities and economies, their limited or non-existent fiscal buffers, lack of domestic debt markets, or access to international debt markets, most PICs are unable to acquire sufficient climate finance to match growing adaptation needs. Accessing finance through international AEs have offered the most preferable pathway, however access has been uneven, and some countries are left behind.

Whilst the study acknowledges some of the limitations in the Pacific, there is strong evidence that the region requires continuous capacity building to strengthen capability to address GCF requirements, in line with accessing sizable climate finance to meet financing needs. The study proposes a genuine increase in Pacific literacy and knowledge, to enable greater understanding of regional needs and challenges. To achieve this, the GCF needs to consider its Pacific presence and look at measures to increase Pacific participation at the Secretariat and Board levels. The study also outlines lack of GCF support for accreditation and re-accreditation processes in the Pacific, access and reliability of data and risks associated with foreign exchange and potential higher reflow burden, as key concerns, around which recommendations are formulated. The study touches on the stability and continuity issues facing the GCF, and recommends an uplift to maintain credible roles, and create peer-peer learning as a mechanism for knowledge sharing.

The study strongly recommends similar focussed investigations into the GCF affairs across other regions, to present a stronger case to the GCF and propose recommendations that help the GCF fulfil its obligation of providing increased climate finance to meet the specific needs of the Pacific.

