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SPREP Circular

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To: **SPREP National Focal Points
Climate Change Focal Points
CROP Heads**

Subject: **SPREP analysis of and comments on consultants report
on Mobilising Climate Change Funding in the Pacific
Islands Region**

Further to SPREP circulars 10/102 dated 23 December 2010 and 10/93 dated 20 October 2010 I am circulating an analysis paper on the consultants report on Mobilising Climate Change Funding in the Pacific Islands Region in light of comments received from stakeholders. The consultants report has been amended with those comments where applicable and is also attached to this circular. This analysis paper will be discussed at the Pacific Climate Change Roundtable in Niue in March 2011.

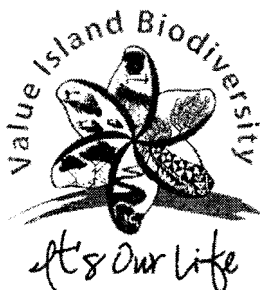
I would again wish to thank those who submitted their views for their helpful comments and guidance on this consultants report.

Yours sincerely,

David Sheppard
Director

DS/er

Attachments: 1. Summary analysis by the SPREP Director
2. Revised consultants report with comments inserted



Report on:
Mobilising Climate Change Funding in the Pacific Islands Region (Revised)
Summary Analysis by the SPREP Director

Background

Pacific Island Countries and Territories (PICTs) face major difficulties in accessing funding for climate change purposes, either for mitigation or for adaptation. This has been accentuated in recent years, ironically as the impacts of climate change become better-understood and more widely acknowledged, and with consequent increases in financial resources available or pledged to address these impacts. In addition there are wide differences in the resources available to the PICs compared to the Territories. PICs are eligible for international financing as Parties to the UNFCCC, while Territories largely have to rely on resources from their Administrative Authority or private sector/foundation support.

PICTs are widely acknowledged as being among the most vulnerable countries in the world to the impacts of climate change.

Financial resources for climate change purposes are available to the Pacific region through a number of arrangements: (a) national government spending; (b) private sector spending; (c) foreign direct investment; (d) international loans; (e) official development assistance; as well as (f) regional and global financing mechanisms that have more recently come on stream.

The more commonly known environmental financial mechanisms for the Pacific include: (i) The Global Environment Facility; (ii) Multilateral Development Banks like the World Bank Group and the Asian Development Bank (ADB); and (iii) bilateral funds available through national development partner arrangements to the Pacific as a region or bilaterally, such as the EU, Australia, New Zealand and Japan.

These financial mechanisms were already in place before developments at the UNFCCC Conference of the Parties in December in Copenhagen in 2009, further solidified at the UNFCCC COP in Cancun in November 2010, and which promise exponential increases to these resource flows in the future.

Recognition of the impacts of climate change, and acceptance that significant resources need to be mobilised from the north to the south to attempt address these impacts, have resulted in a proliferation of funding sources, complex disbursement criteria, and hence difficulty in accessing climate funding.

Funding Report Process

The Pacific Climate Change Funding study and report was requested by the Pacific Climate Change Roundtable (PCCR) at its meeting in Majuro, Republic of Marshall Islands, in October 2009. SPREP, as Secretariat to the PCCR, was tasked with commissioning the related consultancy. The SPREP Annual Meeting Ministerial Segment in September 2010 also endorsed this action. The PCCR requested the study consider the feasibility of establishing a Pacific Regional Climate Change Fund, and assess the need for a Technical Backstopping and Facilitation mechanism

The study Terms of Reference were developed by SPREP in close consultation with CROP agencies and other PCCR partners.

A first draft of the report was received by SPREP for internal review in September 2010, and a revised draft was received and circulated to PCCR partners for comment in October, 2010. The draft report was also informally circulated to the 14th Finance and Economic Ministers Meeting (FEMM), 26-28 October, 2010 in Alofi, Niue for comment.

Some important developments occurred since the study report was commissioned. Reference has been made above to the outcomes of the UNFCCC COPs in Copenhagen and Cancun, which will have major implications for global climate change funding flows in the future, in particular the decision at Cancun to establish a Green Fund at Cancun, with separate windows including for adaptation and mitigation.

There were also important new developments related to the Smaller Island States Leaders' direction, and Forum Leaders Communiqué, after their meeting of 2010 in Port Vila, leading to additional work on climate change funding coordination being led by the Forum Secretariat and supported by SPREP. This action was endorsed by the FEMM in Niue.

This report must therefore be viewed against these more recent developments.

The current version of the revised Report incorporates comment on issues in the first draft raised by numerous PCCR partners including CROP agencies, and touch on recent and emerging issues. Depending on the outcome of PCCR consideration, the final revised report will again be presented to the FEMM in July 2011, and for information to the Leaders Forum 2011 through the Pacific Island Forum Secretariat (PIFS).

Report Recommendations

In assessing the feasibility of establishing a Pacific Regional Climate Change Fund, the consultants evaluated three institutional options:

- (1) Stand alone new entity – a Pacific Climate Change Fund;
- (2) A fund within an existing organisation; and
- (3) A fund coordinated at the regional level but operated at the national level.

The consultants favoured the 3rd option, which suggested housing the Fund within an existing CROP agency, but recommended that further national and regional consultations, including with donors, are necessary before a final choice was made.

The report generally endorsed the establishment of a Technical Backstopping Mechanism. However, the consultants noted that existing CROP agencies and other Pacific partners already provide technical support of this nature, and recommended that this matter be further considered.

Numerous PCCR partners also commented in support of the technical backstopping idea, and agreed that while more thought and evaluation should be given to its development, it

may be implemented separately while further consultation continues on the options for regional and national funds. Some suggested that the two processes be considered as separate tracks in that there is an existing need for enhancing regional technical backstopping to assist the region with funding opportunities already in existence.

Director's Evaluation

I have evaluated the Consultants' Draft Report, and have also carefully considered the comments on the contents of the draft submitted by PCCR stakeholders. The revised draft includes most of these comments. I have also given some thought to the context within which those comments were made, which have also further nuanced our thinking on the report.

In my evaluation I had found, like some of the stakeholders, insufficiencies in certain areas of the report. References to these, as pointed out by some stakeholders, have been actioned through revisions to the draft now circulated.

I wish to highlight, in particular, the following matters:

Pluses

- Overall Outcome: The study report has taken this issue of a regional trust fund a step further since it was investigated in detail by a consultancy study in 2003, and it has gathered some valuable background information that has updated the original analysis. It has also catalyzed thinking on this issue at the regional level and engaged key stakeholders in debate on the best options for our region.
- Report Conclusions: the report has provided the vehicle for a wide discussion of related issues and options by PCCR stakeholders.
- Report Recommendations: The recommended options pointed the way for further investigations of a final option, and provided guidance and a vehicle to finally arrive at the most suitable one.
- Technical Backstopping Mechanism: The report analysed this option in less detail than the fund option, but it drew numerous favourable comments from stakeholders, and paves the way for progressing such a service, based on other related experience, which can be most valuable to PICTs.

Minuses

- Study Methodology: There appears to have been insufficient stakeholder consultations in the process of developing the premises and analysis contained in the draft report, although this is understandable given the tight scheduling and timeframe for the report.
- Report Analysis: Given the above, and also the related "desk research" necessary, there should have been a greater amount of collected and collated information on which to base a thorough and rigorous assessment of the objects of the study.

- Report Options: There is limited discussion of the three options presented and the comparative and in-depth analysis of the chosen options themselves needs further work
- Cost-Benefit Analysis: The report acknowledges the difficulties with being sufficiently detailed in the comparative financial analysis of the three options, given that costs and benefits will be influenced by inflows of funding contributions, investment opportunities, as well as institutional and governance arrangements. However, the analysis could still have been further developed using some basic institutional and operational assumptions and scenarios.

Recommendations

My recommendations based on my analysis of the report and feedback from PCCR stakeholders are:

1. That the option of establishing a Pacific Regional Climate Change Fund continues to be explored through national, regional and international consultations, including consultations with potential donors; and in conjunction with the review of coordination mechanisms for climate change funding currently led by the PIFS.
2. The option of establishing a Technical Backstopping Mechanism that has received favourable comment from stakeholders, including arrangements for coordination that account for similar existing services to PICs, be agreed to by the PCCR, and that SPREP be requested to develop an options paper containing more detail for implementation. This paper would be prepared for consideration by the 2011 SPREP meeting.

The revised consultants report, plus my analysis and recommendations on the subject of the report, are presented for the consideration of the PCCR.



**A REPORT TO THE SECRETARIAT OF
THE PACIFIC REGIONAL ENVIRONMENT PROGRAM (SPREP)
ON**

Mobilising Climate Change Funding

in the Pacific Islands Region

Modified with comments received February 2011

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Executive Summary

Overview

The Pacific Island region comprises a wide range of large and small island groups which are both highly volcanic in nature and comprise low-lying atolls, and which are widely dispersed across the Pacific Ocean. While different Pacific Island Countries (PICs) face varying climate change related challenges, all of these groups are highly vulnerable to extreme events and changes in climate variability.

Despite international, regional and national level discussions and meetings (including the production of various policy documents, such as the Barbados Program of Action for the Sustainable Development of Small Island Developing States (SIDS), Pacific Islands Framework for Action on Climate Change) there are still disparities between PICs in addressing climate change. While prioritization of national development needs has been carried out by most Pacific Island countries, there have been difficulties in implementing these priorities in a wider context of sustainability and climate change.

At the Pacific Islands Climate Change Roundtable (PCCR) meeting, held on 19-21 October 2009 in Majuro, Republic of the Marshall Islands, participants considered a number of critical issues regarding climate change in the region. One of the recommendations called for a study to consider the feasibility of establishing a Pacific Regional Climate Change Fund or funding modality (hereafter referred to as a Pacific Regional Climate Change Fund), including assessing the need for a technical backstopping and facilitation mechanism.

As part of the SPREP tendering process, Carbon Market Solutions was commissioned by SPREP to review the feasibility of establishing a Pacific Regional Climate Change Fund through identifying a number of structural options. This study examines whether the establishment of a regional fund would be a cost effective and efficient approach for Pacific Island countries to address adaptation to climate changes in the Pacific region.

Key Findings

Current and Potential Funding Sources for Climate Change Adaptation Initiatives

There is a huge range of funding available for supporting climate change initiatives in the Pacific region. This takes a variety of forms, including; bilateral and multilateral funding; public donations; philanthropists; foundations and corporations, as well as national government budgetary resources. However, capacity limitations, issues of access to information, as well as access to the funding itself have been key constraints in the past for PICs to benefit from multilateral financing in all environment sectors. For example, the Global Environment Facility (GEF) found that PICs as a group had been the least successful in securing GEF financing in its first 15 years of operation, which led to the establishment of the GEF-Pacific Alliance for Sustainability.

Quantifying these amounts, which are specifically available to climate change schemes globally, presents a challenge. This is further complicated when trying to determine how much is available solely for the Pacific Region. Under the GEF, the main trust fund allocations for climate change target in particular, mitigation projects, which leaves the greater area of need by PICs, adaptation, to be resourced from smaller special funds, such as the Least Developed Country Fund (LDCF) and the Special Climate Change Fund (SCCF).

However, funding that is available specifically for Climate Change Initiatives globally (*i.e.* climate finance that is not exclusive to the Pacific and excluding any underlying finance which may contain an element of combating climate change) is in excess of an estimated US\$21 billion¹.

A list of some sources of multilateral funding available includes: the Kyoto Protocol Adaptation Fund; the Global Environment Facility – including its Special Climate Change fund; and the Least Developed Countries Fund.

A list of some sources of bilateral funding available includes: The Hatoyama Initiative, (Japan); The Environmental Transformation Fund – International Window (UK); and The International Climate Change Adaptation Initiative (Australia).

It appears that new and additional climate change financing is likely to become available through a number of avenues. The Copenhagen Accord details perhaps the most prolific new funding on the horizon. The collective commitment by developed countries is to provide new and additional resources, including forestry and investments through international institutions, approaching US\$30 billion for the period 2010 - 2012 with balanced allocation between adaptation and mitigation. This finance is to be delivered through a ‘fast start’ finance package. Although the commitments of the Accord are clear, their delivery is uncertain.

Further to this, the European Union (EU) is proposing to launch a Global Climate Change Alliance (GCCA) with the developing countries that are most vulnerable to climate change. The GCCA will be financed chiefly through the “Environment and sustainable management of natural resources, including energy” thematic programme, for which an additional €50 million have been allocated for the 2008-2010 period. Resources earmarked under the 10th European Development Fund (EDF), *i.e.* the national and regional envelopes that can contribute to the GCCA, and about €200 million under the intra-African Caribbean and Pacific programme in the area of climate change, the environment and disaster risk prevention will be available.

The final piece of substantial funding to benefit the Pacific is The Pilot Program for Climate Resilience (PPCR). The PPCR is part of the Strategic Climate Fund (SCF), a joint undertaking of the contributing and recipient countries being carried out in partnership with the multi-lateral development banks, with ADB/WB jointly implementing the Pacific pilot, and ADB serving as lead MDB overall. The overall objective of the program is to provide incentives for scaled-up action and transformational change in integrating consideration of climate resilience in national development planning consistent with poverty reduction and sustainable development goals. The projected pledged resource envelope increased from US\$614 million (September 30, 2009) to US\$975 million (July, 2010) globally, with US\$60 million available to the Pacific as a grant with possible additions through concessional loans.

¹ This is the total amount received by PICS for Mitigation and Adaption to climate change. The figure is based on amounts provided by PICs and Donors, as part of this consultation process.

Existing Funding Modalities and Mechanisms

A number of funds were reviewed, such as; the Tuvalu Trust Fund, The Kiribati Revenue Equalization Reserve Fund, Mexican Fund for the Conservation Nature (national level); Pacific Development and Conservation Trust; Pacific Regional Infrastructure Facility; Micronesia Challenge; the Latin America and Caribbean Environmental Funds Network (Regional Level); and European Development Fund, Asian Development Bank (International Level).

In the context of this report, we use Fund as the pool of resources from which Pacific Island countries could access and utilize, we use Facility as the institutional arrangement for the Fund, and we use Mechanism as the description of the whole (*i.e.* Fund and Facility).

Whilst it is acknowledged that there are a number of factors which affect how effective a fund, or facility might be in financing adaptation to climate change, any fund should have a clearly defined objective; be cost effective; be accountable and transparent; and have a capital base that can be continuously supplied.

Feedback from stakeholders indicate that for a regional Pacific Climate Change Fund to be established, the case has to be made as to:

- How the Fund will provide related added value;
- How it will deliver more effective and efficient climate change development benefits; and
- How it will better deliver existing and new funding flows.

Alternative Options for Donor Funding

The 2003 feasibility study discussed trust funds as a potential long term mechanism for supporting climate change adaptation in the Pacific.

Environmental funds can be structured in three ways; as Endowment funds, Sinking funds and Revolving funds. As the structure of a Pacific Regional Climate Change Fund has not been confirmed, Donors were unwilling to comment whether or not they would prefer to contribute towards an endowment, sinking or revolving fund.

Feedback from Donors clearly outlined that identification of options was a pre-requisite before detailed discussions could begin, in order to provide them with a sense of the structure of the options. If a strong multilateral or bilateral donor is intended to be used to galvanise support from other donors, relationships must be built prior to the launch of any fund; and this must be based around a structure which suits both the region and donors.

Donors recognise the need to improve the delivery of financial resources for Climate Change in the Pacific, and are committed to the principles agreed by the Pacific Leaders at their 2010 meeting. There was also the recognition that since this report was first commissioned, there have been two related subsequent developments: the Leaders decision related to funding coordination currently being led by the PIFS with support from SPREP, and the Cancun agreement to establish a new International Green Climate Change Fund to be designed during 2011.

Alternative options to a fund can include direct budgetary support such as funds for environment personnel and capacity building, and sector support which may include areas such as the environment sector or energy sector. Although direct budgetary support has previously been implemented, it is generally difficult to demonstrate transparency to donors of how finance is distributed. Nevertheless, the EU still seeks to pursue this approach through their GCCA. Coordination of funding streams is still required no matter which modality is used.

Options for Establishing a Regional Financing Mechanism for Climate Change

Based upon information received from respondents to a questionnaire regarding this study, as well as the previous studies and the existing activities in the Pacific region, it was concluded that a Pacific Regional Climate Change Fund could be:

Option 1: A STAND ALONE NEW ENTITY, THE PACIFIC CLIMATE CHANGE FUND

Option 2: A FUND WITHIN AN EXISTING ORGANISATION

Option 3: A FUND COORDINATED AT REGIONAL LEVEL BUT OPERATED AT NATIONAL LEVEL

Given the above options, the authors conclude that no single option would satisfy the desires of all stakeholders and the findings of previous reports. The initial consultation responses from beneficiaries identified a number of attributes that could apply to each of the identified options. These attributes include; effective and efficient support; easily accessible; institutionally strengthening; enhanced cooperation and coordination; and good technical support.

However, taking into account previous experiences in the region, the option that provides the best of the above identified attributes is ***OPTION 3***. This conclusion is based upon:

OPTION 1 – Provides for a new mechanism, thus can be considered a high cost option, and one for which existing mechanisms and modalities already deliver outcomes. A new mechanism would undoubtedly require location and establishment in terms of staffing and agreement by stakeholders in terms of where it may be based. These points in themselves have not been greeted with any enthusiasm by any stakeholder in the context of undertaking this study. Further complications could arise upon establishment over how it would interact with development partners and regional organisations currently already coordinating and seeking to deliver outputs to their member states. Finally, clearly it was felt in the responses received from Pacific Island countries that the key priority to them was ease of access to available funds, on the ground delivery, and low cost establishment and operation. A new mechanism of course could also be established within an existing regional organisation. The current mandates of the regional organisations most relevant to climate change, such as SPREP, the Pacific Islands Forum Secretariat (PIFS) and SPC/SOPAC, have been somewhat overlapping, with each organisation, at least between SPREP/SPC/SOPAC and PIFS having different constituencies. Locating a newly established mechanism in one of these organisations would require wide national, regional and international agreement in terms of how financial flows could be channelled into such an existing structure.

OPTION 2 – Provides for establishing a Facility permanently at an existing regional organisation. Given the current mandates of the regional organisations most relevant to climate change, then SPREP and the Forum Secretariat both provide for a wide scope of coordination with members. Interestingly, SPREPs membership includes Pacific Island territories whereas the PIFS only comprises independent PICs. SPREP has a formal mandate to assist PICs with their capabilities and capacities to address climate change. Thus the Round Table originally formed under a SPREP program (PICCAP) during a regional conference in the Cook Islands, would “easily fit” within that mandate. PIFS provides policy advice and facilitates political decision making with its members, as well as coordinates some climate change funding activities. One point that arises is whether either of the organisations can reach all relevant country delegates and decision makers across all sectors of the society effectively, on a subject such as climate change. With such an enormous amount of climate related activities being undertaken at national, regional, and international levels, clearly no-one organisation currently has the ability to provide for all that is required to efficiently organise and coordinate not only activities, but also participants, development partners, and international agencies, in the context of the key principles identified by stakeholders, such as effective and efficient support financially; easily accessible; institutionally strong; enhanced cooperation and coordination; and wide technical support.

OPTION 3 – Provides for more regional coordination emphasis with focus on national management and implementation. Similar to a Bank with district branches, this Option provides for the responses that many PICs have sent to the authors related to both ease of access and managing their own resources. Previous programs and activities such as the Pacific Islands Climate Change Assistance Program (PICCAP) and others, sought to successfully establish National Climate Change Country Teams as a coordinating mechanism for preparing and completing their initial National Communications to the UNFCCC. These teams and others have been strengthened in order they address other sectors as well as climate, such as health, education, and fisheries. Technical support must be emphasised, as this will be sourced from all relevant regional organisations and other groups working in the region to assist Pacific Island countries to address their vulnerabilities across all sectors and at all levels. A coordinated mechanism at regional level will catalyse this national oriented approach. This mechanism is seen as a low cost efficient modality for ensuring firstly all climate activities are not overlapping activities through different agencies, and secondly, can be a mechanism with open governance which sets up the Facility initially.

The PCCR already undertakes both general policy discussions and information exchange in the context of coordination of climate activities in the region. Established under PICCAP within SPREP, the PCCR is a “good fit” in terms of a regional coordination mechanism. It operates currently by participant offer to host the next PCCR meetings, and would be the right modality for revision into a more formal regional coordination facility.

Note that previously in terminology this report identified that a fund was where the resources were pooled, that a facility was the institutional arrangement, and that a mechanism outlined the whole.

In this context the Pacific Regional Climate Change Facility could be housed at SPREP, or perhaps another organisation such as the PIFS. There are good attributes which both organisations could provide in terms of location of the Facility, such as:

- SPREP has a mandate to assist PICs address environmental issues, and specifically coordinate and provide technical and policy assistance to PICs. SPREP members are also from PI territories;
- SPREP has instituted a range of national and regional environmental programs and activities through establishment and use of national country teams, who are primarily composed of government and non-government team members, these teams would be the national focal point for a Fund;
- PIFS has primarily Planning and Financial focal points, and are also involved in facilitating Leaders aspirations toward a sustainable Pacific Island region, with climate change as one highly rated priority. At a regional level is there a need to coordinate both PIFS focal points with SPREP focal points? Or is this best left to National levels of coordination.

However, it is still recognised that there is still a need to carry out more detailed and in-depth analysis of institutional options, and which may explore other combinations of the options posed in this report, including consideration of the most effective and efficient arrangements, taking into account existing and possibly new institutional arrangements, including mechanisms available through existing funding arrangements.

It is also recognised that more detailed cost-benefit analysis of the options can be undertaken once there is greater consensus on and clarity as to the institutional structure and operational parameters envisaged for the Fund. The analysis in latter sections of this report are therefore to be considered as very preliminary and for illustrative purposes only.

Technical Backstopping

There is unquestionable support for a technical backstopping mechanism from beneficiaries and regional organisations. However there are factors which will affect expectations relating to the capacity and function of a technical backstopping mechanism. These include disparities between target areas for addressing climate change, and technical capacity of PICs. How such a backstopping mechanism could achieve that is subject to its own role and responsibilities. Those details have yet to be defined, however, we do acknowledge that there is wide ranging technical expertise present in various regional organisations, including CROP agencies, within the Pacific. These could be coordinated to provide a technical backstopping mechanism.

Development partners including some donors acknowledge the need to provide support for capacity building at the national level for accessing and managing climate change funding, and that there can be value in technical support from regional experts and through a regional technical backstopping function that is based on recipient country needs. This has been borne out by SPREP's experience with GEF through its technical support through its GEF Adviser position and technical assistance by its different programme officers.

The technical assistance and support mechanism would complement the Regional Climate Change Facility suggested above, possibly as a technical sub-group or committee of the PCCR. Its operational and administrative features would be closely aligned and structured within the PCCR policies and procedures.

Recommendations

It is suggested that SPREP consider the views above and then seek to conduct a specific regional consultation to address the following:

What would be required to strengthen and improve the way the PCCR works and operates?

In order for the existing PCCR to meet the needs and aspirations of the region in terms of a coordination role for a Facility, means the PCCR would require a number of structural and governance agreements, such as:

- Agreement by Stakeholders that the PCCR be changed to the Regional Climate Change Facility with the following structural amendments:
 - The Facility would be located at SPREP
 - The Facility would be established by regional stakeholders through agreement and with a primary objective clearly defined
 - The Facility could comprise 3 separate divisions: a Climate Fund, a Coordination Division, and a Technical Assistance Division;
 - The Climate Fund within the Facility would have paid operational staff, with policy developed and prepared by the SPREP membership at its annual meeting/s;
 - The Coordination Division would operate as it does currently, with no paid operational staff, but would have access to SPREP Secretariat staff to organise annual meetings with regional stakeholders. It is important that all stakeholders are aware of the activities undertaken within the region, whether or not those activities are a result of the activities of the Fund or otherwise.
 - The Technical Assistance Division would have paid staff to facilitate assistance to PICs from organisations and agencies throughout the region upon request, both in terms of capacity development around the Fund, eg, applications and access, but also in terms of due diligence, ie, ensuring applications meet the criteria (yet to be developed). The TA primary role is to coordinate assistance request and facilitate that assistance between the regional/national experts and the country seeking assistance, the TA division does not undertake assistance in this context.
- The recommendations above are based on preliminary investigations undertaken for the purpose of this report, and are considered tentative at this stage, and will need to

be further explored during the suggested follow-up regional consultations with countries and donors. The roles attributed to the PCCR and SPREP, therefore, are suggestions only for the purpose of this ongoing discussion as the PCCR itself is concurrently reviewing its own roles and structures.

Introduction

Overview

The Pacific Island region comprises a wide range of large and small island groups which are both highly volcanic in nature and comprise low-lying atolls, and which are widely dispersed across the Pacific Ocean. While different Pacific Island Countries (PICs) face varying climate change related challenges, all of these groups are highly vulnerable to extreme events and changes in climate variability. It is likely over the longer term that they will suffer from such changes to climate, including sea-level rise.

Since the early 1990's Pacific Island countries have voiced their climate concerns at a large number of regional and international fora, culminating in the Climate Convention agreement and its subsequent Kyoto Protocol. As a part of the Group of 77 and China developing countries including the Alliance of Small Island States (AOSIS), Pacific Island countries have contributed to the debate on climate change with particular focus on the impacts of climate change and adaptation measures. Over the past 2 decades within these debates acknowledgment of impacts and adaptation has become increasingly understood in the context of financing activities in both a multilateral and bilateral approach.

At an international level the climate convention clearly acknowledges that financing of measures which enables vulnerable countries to adapt to climate change as well as increase their resilience to that change is well known but it has been only recently that financial flows have been made available or about to become available which will enable those vulnerable countries, particularly small island states to engage in increasing their capabilities and capacities to address these key issues. These discussions, often undertaken under the auspices of the United Nations, have culminated in one specific island-focused agreement, called the Barbados Program of Action, a wide ranging development program which aimed to account for the environment, including climate change. Other key agreements relating to Pacific Island countries socio-economic development and their environments, *e.g.* biological diversity, were also finalized by the island states. Others include the Mauritius Strategy for Implementation as well as UNFCCC outcomes.

At a regional level with financial assistance from multilateral funds and development partners, a series of meetings and conferences also culminated in the late 1990's, with agreement on a Pacific Islands Framework for Action on Climate Change. Again, other important agreements on socio-economic development and environment also were established within the region by and among regional organisations, the international community and Pacific Island countries.

At national levels, Pacific Island countries have grappled with the realities around capacities and capabilities, which have been addressed in many forms by various funds, mechanisms, and development partners and at international, regional, and national levels. While prioritization of national development needs has been carried out by most Pacific Island countries, there have been difficulties in terms of how to implement these priorities in a wider context of sustainability and climate change. For some, the term, mainstreaming climate change into development has not been a successful activity, due to a number of impediments, such as; translating political will into coherent policy, active coordination of development partners and the matching of priorities between both parties, the understanding of the roles and responsibilities of key stakeholders when it comes to adaptation implementation, among

others. Mainstreaming climate change can often have different and even contradicting connotations.

At regional levels over the past 2 decades there have been increased efforts to coordinate and organize activities and programs in the context of climate change. Often, however, these coordination efforts have been at national levels and often within environment departments who suffer themselves from capacity issues, and are perceived as “environment people” who in turn do not sometimes have influence or participate in financial development decision making processes. This in itself is not a criticism but rather an understanding that there is a point in time when the mainstreaming of climate change in national financial policy development and beyond needs to occur, as adaptation measures are increasingly becoming recognized as covering a wider scope of civil society.

One outcome from the development of the Pacific Islands Framework for Action on Climate Change (PIFACC) in 1999 was the establishment of a Pacific Island Climate Change Roundtable (PCCR), which sought to update participants (national delegates, regional organizations, non-government organizations, and development partners) on their climate change activities, as well as seek to ensure a cooperative approach to coordination of activities by stakeholders. At a PCCR meeting, held on 19-21 October 2009 in Majuro, Republic of the Marshall Islands, participants considered a number of critical issues in relation to addressing Climate Change in the region. The PCCR made a number of recommendations, one of which called for a study to consider the feasibility of establishing a Pacific Regional Climate Change Fund or funding modality (hereafter referred to as Pacific Regional Climate Change Fund) including assessing the need for a technical backstopping and facilitation mechanism.

The PCCR noted the important role that can be provided by such a coordination mechanism, as well as the need for greater harmonization of regional funding arrangements. However, discussions did not conclude on the final form or functionality required from such a mechanism. A feasibility study was conducted in 2003, by KVA Consulting². The study was commissioned by SPREP on behalf of the region and sought to investigate the feasibility of establishing a Regional Climate Change Adaptation Fund. However, one key outcome from the study outlined that establishment of a fund was not in consensus. Since that time little additional work has been conducted in this area, until 2010, after recommendations from the SPREP Annual Meeting.

Further work has also been completed in this area by the UNDP³ and the Asian Development Bank. The Asian Development Bank are working in the Pacific, implementing The Pilot Program on Climate Resilience (PPCR), which has a region-wide activities component. In scoping discussions with the 14 Pacific countries on this component in March 2010, the countries unanimously supported a "one-stop shop on climate financing, knowledge and locally-developed expertise." The idea of the one-stop is to assist Pacific countries with three things: knowledge, capacity and finance in their effort to reduce climate risks and build climate resilience of their development investments. This would not be a stand-alone effort, but would take advantage of the resources and scope created by a variety of efforts. While

² KVA Consulting (2003). *An Assessment of the Feasibility of a Regional Adaptation Facility*. Secretariat of the Pacific Regional Environment Programme.

³ Morrell, Dr Willy (2009) *United Nations Climate Change Scoping Study*. United Nations

details/the modality of this one stop will be fleshed out by the countries and CROPs and Development Partners in the fuller consultations in Nadi, Fiji on 14-15 October, this could potentially be both a technical backstopping mechanism and potentially (if there is country demand for this) grow in time to be a multi-donor funding facility (starting with PPCR seed funding and potentially housed out of SPREP, for example).

As part of the SPREP tendering process, Carbon Market Solutions was commissioned by SPREP to review the feasibility of establishing a Pacific Regional Climate Change Fund through identifying a number of structural options. This study examines whether the establishment of a regional fund would be a cost effective and efficient approach for Pacific Island countries to address adaptation to climate changes in the Pacific region.

Lastly, confusion over terminology often leads to misunderstanding or misinterpretation. Consultations, reports, and discussions have referred to a Regional Facility, a Regional Fund, or a Regional Mechanism. To some it is irrelevant at this early stage of feasibility, whereas to others clearly, each term provides different perceptions. In the context of this report, we use Fund as the pool of resources from which Pacific Island countries could access and utilize, we use Facility as the institutional arrangement for the Fund, and we use Mechanism as the description of the whole (*i.e.* Fund and Facility)

Purpose of this report

The purpose of this study is to assess the feasibility of establishing a Pacific Regional Climate Change Fund or Facility, with the objective of reducing the administrative burden and other constraints Pacific island countries are experiencing with accessing and utilizing climate change financial assistance provided through both Official Development Assistance (ODAS) and through multilateral agreements, *e.g.* the Adaptation Fund. Cost benefit analysis has been undertaken to understand the general cost and benefit implications of setting up such a fund under a few scenarios. This analysis is in no way conclusive and must be treated with caution and used only as a tool to assist the region move forward with developing the best framework and mechanisms that will assist in coordinating financial flows that may be earmarked for climate change adaptations and mitigations, as they are projected to increase dramatically into the region.

Secondly, the study also discusses the need for a Technical Backstopping Mechanism in relation to the constraints PIC's are experiencing with the development of project proposals for accessing resources and the administrative and management responsibilities associated with such access.

Lastly, this report builds upon and reflects key findings and information already compiled under the initial assessment for feasibility of a regional climate change adaptation facility or fund carried out in 2003, along with responses from a wide range of stakeholders who made contributions during the assessment.

Methodology

In 2003, SPREP commissioned an initial assessment on the feasibility for establishing a regional climate change adaptation fund. That report outlined the approach taken in terms of consultations and research carried out which provided the basis to that report, including its recommendations.

This study examines whether the establishment of a regional fund would be a cost effective and efficient approach for Pacific Island countries to address adaptation to climate changes in the Pacific region. Both the 2003 study and this one, highlight that there are numerous funds which exist in the region and for which finances are provided by a range of stakeholders, from development partners to multilateral institutions. In preparing this report, the authors reviewed many of the existing funds and reports, as well as sent out a focused questionnaire to five categories of stakeholders:

- Pacific Island countries through SPREP focal points
- Regional Organisations
- Non-Governmental Organisations
- Development Partners
- International and multilateral institutions

With regard to financial analysis in the report, Discounted Cash Flow (DCF) is a cash flow summary adjusted to reflect the time value of money. DCF can be an important factor when evaluating or comparing investments, proposed actions, or purchases. Other things being equal, the action or investment with the larger DCF is the better decision. When discounted cash flow events in a cash flow stream are added together, the result is called the Net Present Value (NPV). In choosing the discount rate a general rule of thumb is to begin with the interest rate of capital. So if in NZ the interest rate for lending is 7%, we can begin with this amount. However in the islands, apart perhaps from the bigger islands of Fiji and PNG, the lending interest rate averages from 8.75% to 13.25% for general purpose capital, what i've done is added up three interest rates 8.75, 10, and 13.25 (from the Cook Islands banking experience) and the average (divide by 3) is 10.6%, and have used 10% as the proposed discounted rate to reflect across the region. In private industry, many companies use their own cost of capital (or weighted average cost of capital) as the preferred discount rate. Government organizations typically prescribe a discount rate for use in the organization's planning and decision support calculations, like mentioned above using the banking system in their countries.

Generally a higher discount rate for investments or decisions is viewed as risky, and a lower discount rate when expected returns from a proposed action are seen as less risky. The higher rate is viewed as a hedge against risk, because it puts relatively more emphasis (weight) on near-term returns compared to distant future returns. In the case of this report we have worked centre of the mill.

Lastly, a full cost benefit analysis can be done for each identified option, but can only be done if there are more certainties around the work that has been assigned. Unfortunately this

is not the case at this point, as issues around objective, structure, location, etc, are not finalised as certainties.

Available and potential funding sources

Overview

Since the 2003 feasibility study, there have been significant changes in global financial grants and commitments and there is a huge range of funding available for supporting climate change initiatives in the Pacific region. This takes a variety of forms, including; bilateral and multilateral funding; public donations; philanthropists; foundations and corporations, as well as national government budgetary resources. However, capacity limitations, issues of access to information, as well as access to the funding itself have been key constraints in the past for PICs to benefit from multilateral financing in all environment sectors. For example, the GEF found that the PICs as a group had been the least successful in securing GEF financing in its first 15 years of operation, which led to the establishment of the GEF-Pacific Alliance for Sustainability.

This funding has been used for a wide range of projects relating to climate change adaptation throughout the Pacific. Following consultation with participants and donors, current spending in the Pacific on Climate Change projects has been in excess of US\$200million⁴. There will undoubtedly be significantly more spending in the region, as this figure only applies to projects which have an element specifically relating to climate change adaptation. For example, the Pacific Regional Infrastructure Facility undertakes a wide range of projects, which are not solely focused as Climate Change projects but contain an element of climate change adaptation.

Quantifying the amounts specifically available to climate change schemes globally presents a challenge. This is further complicated when trying to determine how much is available solely for the Pacific Region. A study, which was recently conducted by the World Bank, acknowledges the difficulty in tracking financial support to climate change adaptation and mitigation. They highlight the difficulty in tracking both *climate finance* (i.e. the amount of additional resources required to catalyze the shift of a much larger volume of public and private development investments to climate-friendlier options) and *underlying finance* (i.e. the almost 10 to 20 times larger amount of financial and investment flows in developing countries that must be increasingly put to climate action)⁵.

There are ongoing efforts to simplify tracking of available financial resources to those who need it. The recent UN Climate Change Conference in Bonn furthered the discussion regarding a UNFCCC governed finance portal. The objective of the portal is to provide an information hub on climate finance for policy discussion and guidance, in the context of the UNFCCC process. It has been considered that an on-line platform will allow a continuous and more dynamic update of such information. There are four main objectives for this portal.

⁴ This is based on information provided by consultees.

⁵ World Bank (2009) 'Monitoring and Reporting Financial Flows Related To Climate Change'

- Firstly, to enhance visibility of and accessibility to information related to climate finance that is made available by Parties as part of official or non-official submissions;
- facilitate information on the work and functioning of the funds established under the Convention and operated by the GEF, including the climate change focal area of the GEF Trust Fund in a manner that is relevant to the intergovernmental process;
- provide additional entry points and interface for information on climate finance flows that can be made available by bilateral and multilateral organisations; and
- facilitate access to other web sites, data bases and other resources that provide relevant information on climate finance.

Although this platform is not currently available, it should be noted for future use by the Pacific region. Two useful resources for identifying international funding include www.climatefundsupdate.org and www.climatefinanceoptions.org.

In addition to the already high volumes of finance available, the Pacific region is likely to receive far more for adaptation to climate change in the future⁶. However, there is still a lack of clarity with respect to how this finance will be different, how it will be distributed and how much will be available.

This section therefore deals only with specific *climate finance*, which is currently available. It does not deal with *underlying finance*. It also comments on the likely future finance that will become available through agreements, including the Copenhagen Accord.

Available Funding Sources

As mentioned, quantifying the amounts of finance available specifically relating to climate change is a challenge. However, there is benefit in broadly summarizing those funds which provide *climate finance*.

It is important to note that a large proportion of available funding does not provide a separate budget, or amount for climate change financing in the Pacific. The Adaptation Fund provides us with a good example of this point. The Adaptation Fund has been established by the Parties to the Kyoto Protocol of the UN Framework Convention on Climate Change (UNFCCC) to finance concrete adaptation projects and programmes in developing countries that are Parties to the Kyoto Protocol

The current total in the Adaptation Fund account is approximately US\$140,000,00, but they expect to receive a further US\$300-500,000,000 before 2012⁷. There is not a budget for the Pacific *per se*, and funds are allocated to projects on a first come first serve basis. The Solomon Islands recently became the first country in the Pacific region, and one of four countries in the world, to be invited to secure resources for adaptation to climate change.

⁶ M.J. Mace, 'Adaptation Under the UN Framework Convention on Climate Change: The International Legal Framework', in W.N. Adger, J. Paavola, S. Huq and M.J. Mace (eds.), *Fairness in Adaptation to Climate Change*. (Cambridge, Massachusetts: MIT Press, 2006), pp. 53–76.

⁷ Information provided during consultation with Marcia Levaggi, Manager of the Adaptation Fund Secretariat.

They were awarded this funding on the quality of their submission, not because of the Pacific being entitled to the funding.

We have reviewed and summarized a comprehensive list of funding, which is available at the international, regional and national levels. These are summarized in *Table 1.* below and an overview is given in the following sections.

Table 1. Existing and Future Funding Sources

Name of Fund	Total Funding	Purpose	Type
Adaptation Fund	US\$300-600 million by 2012	Adaptation	Multilateral
Global Environment Facility (GEF)	US\$1 billion over 2007-10	Mitigation & Adaptation	Multilateral
Least Developed Countries (LDC) Fund and Special Climate Change Fund (SCCF)	US\$270 million	Adaptation	Multilateral
Climate Investment Funds	US\$6.3 billion	Mitigation & Adaptation	Multilateral
Asian Development Bank Climate Change Fund	US\$40 million	Mitigation & Adaptation	Multilateral
Hatoyama Initiative (Japan)	US\$ 10 billion (US\$ 280 million for Adaptation)	Mitigation & Adaptation	Bilateral
Environmental Transformation Fund – International Window (UK)	US\$ 1.6 billion	Mitigation & Adaptation	Bilateral
International Climate Initiative (Germany)	US\$ 180 million p.a.	Mitigation & Adaptation	Bilateral
Climate and Forest Initiative (Norway)	US\$ 580 million	Mitigation & Adaptation	Bilateral
International Forest Carbon Initiative (Australia)	Undisclosed	Mitigation & Adaptation	Bilateral
Global Climate Change Alliance (European Commission)	US\$ 180 million	Mitigation & Adaptation	Multilateral

The Global Energy Efficiency and Renewable Energy Fund (GEEREF). European Commission	Undisclosed	Mitigation	Multilateral
International Climate Change Adaptation Initiative (Australia)	US\$160 million	Adaptation	Bilateral
UNDP-Spain MDG Achievement Fund	US\$ 135 million	Mitigation & Adaptation	Bilateral
UN Collaborative Program on Reduced Emissions from Deforestation and Forest Degradation	US\$100 million	Mitigation	Multilateral
NEFCO Carbon Finance and Funds	US\$170 million	Mitigation & Adaptation	Multilateral
World Bank Group Catastrophic Risk Management	n/a	Adaptation	Multilateral

Sources of Multilateral Funding

Adaptation Fund

The Adaptation Fund has been established by the Parties to the Kyoto Protocol of the UN Framework Convention on Climate Change (UNFCCC) to finance concrete adaptation projects and programmes in developing countries that are Parties to the Kyoto Protocol.

The Fund finances concrete adaptation projects and programs in developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change. It is financed with 2% of the Certified Emissions Reductions (CERs) issued from Clean Development Mechanism (CDM) projects. It is also supported by additional donations. A non exhaustive list of donors includes the UK, Germany, Spain, Monaco and Sweden.

Among the principles established for the Adaptation Fund (Decision 5/CMP.2) is “sound financial management, including the use of international fiduciary standards”. To ensure this principal is maintained, projects must be submitted through an accredited implementing entity. To date, Senegal is the only accredited National Implementing Entity.

In order to become an Implementing Entity, an authority would need to pass a range of criteria to achieve accreditation. This includes; financial integrity and management;

institutional capacity; transparency and self-investigative powers. Accountability and transparency is of paramount importance.

The Global Environment Facility

The Global Environment Facility (GEF) unites 182 member governments — in partnership with international institutions, nongovernmental organizations, and the private sector — to address global environmental issues.

As an independent financial organization, the GEF provides grants to developing countries and countries with economies in transition for projects related to a range of environmental sectors.

The GEF was established in 1991 and is the largest funder of projects to improve the global environment. The GEF has allocated \$8.8 billion, supplemented by more than \$38.7 billion in co-financing, for more than 2,400 projects in more than 165 developing countries and countries with economies in transition. Through its Small Grants Programme (SGP), the GEF has also made more than 10,000 small grants directly to nongovernmental and community organizations.

The GEF partnership includes 10 agencies: the UN Development Programme; the UN Environment Programme; the World Bank; the UN Food and Agriculture Organization; the UN Industrial Development Organization; the African Development Bank; the Asian Development Bank; the European Bank for Reconstruction and Development; the Inter-American Development Bank; and the International Fund for Agricultural Development. The Scientific and Technical Advisory Panel provides technical and scientific advice on the GEF's policies and projects.

As the GEF moves into its fifth replenishment phase, the GEF Trust Fund will provide resources for climate change mitigation, while climate change adaptation will be funded through the Least Development Country Fund (LDCF) and Special Climate Change Fund (SCCF), both UNFCCC funds mandated to be managed by the GEF⁸.

The Least Developed Countries Fund and Special Climate Change Fund

The Least Developed Countries Fund (LDCF) was established under the UNFCCC at its seventh session in Marrakech in 2001, and it is managed by the GEF. The Fund addresses the special needs of the Least Developed Countries (LDCs), which are especially vulnerable to the adverse impacts of climate change. This includes preparing and implementing National Adaptation Programs of Action (NAPAs), which aim is to identify “urgent and immediate needs” of each LDC according to specific guidelines provided by the Least Developed Countries Expert Group (LEG). The operational guidelines of the LDCF were developed consistent with specific guidance provided by the COP at its eleventh session in Montreal. The GEF has, as of June 2010, mobilized voluntary contributions of \$224 million for the LDCF, of which \$169 million have been received.

⁸ GEF-5 Programming Document (Prepared by the GEF Secretariat), Sixth Meeting for the Fifth Replenishment of the GEF Trust Fund May 12, 2010

The Special Climate Change Fund (SCCF) under the Convention was established in 2001 to finance projects relating to adaptation; technology transfer and capacity building; energy, transport, industry, agriculture, forestry and waste management; and economic diversification.

Climate Investment Funds

The Climate Investment Funds are a pair of financing instruments designed to support low-carbon and climate-resilient development through scaled-up financing channeled through the African Development Bank, Asian Development Bank, European Bank for Reconstruction and development, Inter-American Development Bank, and World Bank Group.

The Clean Technology Fund (CTF) promotes scaled-up financing for demonstration, deployment and transfer of low-carbon technologies with significant potential for long-term greenhouse gas emissions savings. It is expected that the CTF will finance programs in 15 to 20 countries or regions.

The Strategic Climate Fund (SCF) serves as an overarching framework to support three targeted programs with dedicated funding to pilot new approaches with potential for scaled-up, transformational action aimed at a specific climate change challenge or sectoral response. This includes the Pilot Program for Climate Resilience (PPCR), which is a joint MDB activity with ADB and the World Bank Group involved in the Pacific with activities in the programme implemented through both ADB and the WBG.

Asian Development Bank Climate Change Fund

In May 2008, the Climate Change Fund (CCF) was established to facilitate greater investments in ADB's developing member countries (DMCs) to effectively address the causes and consequences of climate change. Through the CCF, the ADB provides grants to projects through technical assistance, or investments in the private and public sectors. CCF initially dedicated \$25 million towards mitigation activities—to lower carbon emissions, \$10 million for adaptation activities—to build resilience, and \$5 million for pilot activities in reducing emissions from deforestation and land degradation (REDD).

The Asian Development Bank are also implementing the PPCR for the Pacific region. The PPCR is part of the Strategic Climate Fund (SCF), a multi-donor Trust Fund within the Climate Investment Funds (CIFs). The overall objective of the program is to provide incentives for scaled-up action and transformational change in integrating consideration of climate resilience in national development planning consistent with poverty reduction and sustainable development goals. The projected pledged resource envelope increased from US\$614 million (September 30, 2009) to US\$975 million (July, 2010)⁹.

Global Climate Change Alliance (European Commission)

The Global Climate Change Alliance (GCCA) is an initiative of the European Union. Its overall objective is to build an alliance on climate change between the European Union and developing countries that are most affected and that have the least capacity to deal with climate change. The GCCA operates through the European Commission's established channels for political dialogue and cooperation at the national and international level.

⁹ <http://www.climatefundsupdate.org/listing/pilot-program-for-climate-resilience>

One of the proposed priorities of the GCCA includes Implementation of measures to adapt to climate change, by supporting the development of national adaptation action plans in vulnerable countries other than LDCs and the implementation of these plans in LDCs and Small Island Developing States (SIDS) that have finalised them. Other measures proposed include financing pilot adaptation projects and supporting research into the impact of climate change in developing countries.

Whilst the idea of the GCCA is to add adaptation-related funding to existing budget support programmes, the existence thereof is not a precondition for support under the GCCA. Where this aid modality is not used (or where its use in the area of climate change adaptation is not possible or beneficial in the short term), other means of support can be identified with the partner government/region.

The Global Energy Efficiency and Renewable Energy Fund

The Global Energy Efficiency and Renewable Energy Fund (GEEREF) was proposed in 2006 by the European Commission. It is a Public-Private Partnership (PPP) designed to maximise the leverage of public funds. Structured as a Fund-of-Funds, GEEREF invests in private equity funds (sub-funds) that specialise in providing equity finance to small and medium-sized project developers and enterprises (SMEs). Energy efficiency and renewable energy projects will be implemented in developing countries and economies in transition.

UN Collaborative Program on Reduced Emissions from Deforestation and Forest Degradation

The UN-REDD Programme is the United Nations Collaborative initiative on Reducing Emissions from Deforestation and forest Degradation (REDD) in developing countries. The Programme was launched in September 2008 to assist developing countries prepare and implement national REDD+ strategies, and builds on the convening power and expertise of the Food and Agriculture Organization of the United Nations (FAO), the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP).

NEFCO Carbon Finance and Funds

The Nordic Environment Finance Corporation (NEFCO) is a multilateral international financial institution with broad experience of financing projects with positive environmental impacts.

NEFCO contributes to sustainable development and climate change adaptation and mitigation through supporting a wide range of GHG reduction projects (e.g. renewable energy, energy efficiency, fuel switching, etc.) in various parts of the world. NEFCO provides carbon financing in the form of additional revenues to projects by monetising the value of greenhouse emission reductions generated through the use of the Kyoto Mechanisms, namely Joint Implementation (JI) and Clean Development Mechanism (CDM). Nordic Environment Finance Corporation manages two carbon facilities with combined funding resourcing of up to €135 million by originating and managing projects in Eastern Europe, Asia and Africa on behalf of 17 public and private sector investors. These are The NEFCO Carbon Fund (NeCF) and the Baltic Sea Region Testing Ground Facility (TGF).

The World Bank Group Catastrophic Risk Management

The International Bank for Reconstruction and Development (IBRD) offers a line of catastrophe risk financing for direct budget support that provides varying levels of protection depending on the type, frequency, and severity of the event of a catastrophe.

These schemes help developing countries better prepare for the eventuality of climate-related events, such as managing the disaster risk of a certain country, weather risk management solutions, and helping government insure against natural disaster risk.

Sources of Bilateral Funding

The Hatoyama Initiative

The Hatoyama Initiative, is a national carbon-regulation scheme, announced at the Copenhagen Summit in December 2009 (COP15) by the former Prime Minister of Japan, Hatoyama. It is an initiative of the Japanese government that targets a 25 percent cut in global warming emissions below 1990 levels by 2020. It replaces the Cool Earth Partnership, a previous (2008-2010) initiative of the government of Japan. The Hatoyama Initiative aims to provide assistance to developing countries that are already making efforts to reduce greenhouse gas emissions to enable them to achieve economic growth in ways that will contribute to climate stability, on the basis of policy consultations between Japan and those countries.

The Hatoyama Initiative aims to fund 250 climate-fighting projects worldwide, however more than 95 percent of that total will finance mitigation policies. However, US\$218.00 million will be made available for adaptation activities to strengthen developing countries' capability to cope with natural disasters caused by climate change.

The Environmental Transformation Fund – International Window

The Environmental Transformation Fund – International window (ETF-IW) is an initiative of the government of the UK that focuses on poverty reduction, environmental protection and helping developing countries tackle climate change. In the course of its development, a large proportion of the proposed funding of the ETF-IW has been allocated to the World Bank-administered Climate Investment Funds (CIFs).

The governmental Department for International Development is currently undertaking multilateral and bilateral aid review, which may see funding channelled straight through multilateral agencies (such as the World Bank and Asian Development Bank)

The International Climate Initiative

The International Climate Initiative (ICI) is an initiative of the German government. It is an international mechanism for financing climate protection projects. It receives funding from the sale of tradable emission certificates. The overall objective of the fund is to provide financial support to international projects supporting climate change mitigation, adaptation and biodiversity projects with climate relevance.

The Climate and Forest Initiative

The Climate and Forest Initiative is an initiative of the Norwegian government. It was launched during the climate change negotiations at Bali in December 2007. A project group

has been appointed in the Ministry of the Environment, and this works closely with the Ministry of Foreign Affairs and other relevant ministries.

The initiative seeks to achieve cost-effective and verifiable reductions in greenhouse gas emissions from deforestation and forest degradation in developing countries (REDD), and applies to all types of tropical forests.

The International Forest Carbon Initiative

The International Forest Carbon Initiative (IFCI) is an initiative of the Australian Government. It supports international efforts on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (REDD) through the United Nations Framework Convention on Climate Change (UNFCCC). It is jointly administered by the Australian Department of Climate Change and AusAID. The Australian Government does not intend to set up a new fund or governance structure through IFCI, but will work through established channels of bilateral dialogue and cooperation at the international level.

International Climate Change Adaptation Initiative (Australia)

In recognition of the adaptation challenges faced by developing countries, and particularly those in the Pacific region, Australia invested \$150 million from 2008–09 to meet high priority climate adaptation needs in vulnerable countries. This assistance will be scaled up by \$178.2 million over the next two years (2012–13)—a total of \$328.2 million—to help the most vulnerable countries adapt to the impacts climate change. The primary geographic emphasis of the program is on Australia's neighbouring island countries, but targeted policy and technical assistance is also being made available for other countries in Asia, the Pacific and, most recently, the Caribbean and Africa. Significant contributions of \$40 million has been committed to the Pilot Program for Climate Resilience, which is being coordinated by the Asian Development Bank.

UNDP-Spain MDG Achievement Fund

On 18 December 2006, UNDP Administrator Kemal Derviş and Spanish Secretary of State for International Cooperation, Leire Pajín, signed a landmark agreement to programme €528 million over the next four years through the UN system, towards key Millennium Development Goals and related development goals in select sectors and countries. This agreement paved the way for the establishment of the UNDP/Spain MDG Achievement Fund (MDG-F) which was launched in the first quarter of 2007.

Future Sources of Funding

Sources of new and additional funding have been widely discussed and debated. The Copenhagen Accord details perhaps the most prolific new funding on the horizon. The collective commitment by developed countries is to provide new and additional resources, including forestry and investments through international institutions, approaching US\$30 billion for the period 2010 - 2012 with balanced allocation between adaptation and mitigation. Funding for adaptation will be prioritized for the most vulnerable developing countries, including small island states and territories. Based on research conducted by the

World Resources Institute¹⁰, pledges publicly announced by developed countries thus far total US\$28 billion. The Accord mandates that fast-start funds have a “balanced allocation between adaptation and mitigation,” are “new and additional,” are “prioritized for the most vulnerable developing countries, such as the least developed countries, small island developing States and Africa,” and include “investments through international institutions.” Though the commitments are clear, their delivery is uncertain. Some of the funds have yet to go through national budget appropriations processes.

Developed countries have also committed to a goal of jointly mobilizing US\$100 billion dollars a year by 2020 to address the needs of developing countries. This funding will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance. Although it has not been confirmed how new multilateral funding will be generated, or distributed; a significant portion of such funding is expected to flow through the Copenhagen Green Climate Fund¹¹. This makes it very difficult to assess how a regional mechanism could complement and work alongside (or within) any new international climate change fund(s) as well as complementing bilateral support.

Further to this, the European Union (EU) is proposing to launch a global alliance with the developing countries that are most vulnerable to climate change. The alliance will offer a structured dialogue and concrete cooperation on actions funded by the EU’s development policy. The GCCA will be financed chiefly through the “Environment and sustainable management of natural resources, including energy” thematic programme, for which an additional €50 million have been allocated for the 2008-2010 period. Moreover, resources earmarked under the 10th European Development Fund (EDF), *i.e.* the national and regional envelopes that can contribute to the GCCA, and about €200 million under the intra-ACP programme in the area of climate change, the environment and disaster risk prevention will be available.

The final piece of substantial funding to benefit the Pacific is The Pilot Program for Climate Resilience (PPCR). The PPCR is part of the Strategic Climate Fund (SCF), a multi-donor Trust Fund within the Climate Investment Funds (CIFs). The overall objective of the program is to provide incentives for scaled-up action and transformational change in integrating consideration of climate resilience in national development planning consistent with poverty reduction and sustainable development goals. The projected pledged resource envelope increased from US\$614 million (September 30, 2009) to US\$975 million (July, 2010), globally while approximately US\$75 million is earmarked for the Pacific including a concessional loan component. Key regional partners with major roles in this initiative include Australia, Japan, Republic of Korea, Peoples Republic of China and the USA.

Additional Finance Options

There is also a range of financing options, which haven’t been included in this list. A good example of this is provided by the International Finance Corporation. Options provided by the International Finance Corporation include securitization, risk sharing and partial credit guarantees. As these are not directly attributed to funding sources, they are not discussed further here. However, they provide further finance options, which should be a consideration

¹⁰ <http://www.wri.org/publication/summary-of-developed-country-fast-start-climate-finance-pledges>

¹¹ Report of the Conference of the Parties on its fifteenth session, held in Copenhagen from 7 to 19 December 2009

for any regional fund, or funding mechanism. These could be particularly useful when managing risk of extreme weather events on the economies of the Pacific region.

Existing funding modalities and mechanisms

Overview

There is a large number of funding modalities and mechanisms currently in operation across the globe. Many of these funding modalities and mechanisms provide useful lessons of success and challenges, which are useful when considering a Pacific Regional Climate Change Fund or facility.

This section provides a summary of those funding modalities and mechanisms that have been reviewed and consulted.

National Funding Modalities and Mechanisms

Tuvalu Trust Fund

The International Trust Fund Agreement was signed on 16 June 1987 by Tuvalu, New Zealand, Australia and the United Kingdom as the original parties. Since its establishment other contributors have been Japan and South Korea.

The Tuvalu Trust Fund (TTF) was set up to enable Tuvalu to help finance chronic budget deficits, underpin economic development and achieve greater financial autonomy. Initial contributions amounted to \$27.1 million. The Agreement provides a mechanism for these and subsequent contributions to be held in trust for the benefit of current and future generations of Tuvaluans.

After twenty years the Fund has had a positive influence on the Government's financial position, the nation's economic stability and national self confidence. It has provided an additional source of government revenue that underpins the budget and the whole economy¹².

Kiribati Revenue Equalization Reserve Fund

The Revenue Equalization Reserve Fund is the sovereign wealth fund of the Pacific island republic of Kiribati.

It was created in 1956 to act as a store of wealth for the country's earnings from phosphate mining in Banaba. The end of phosphate revenue from Banaba in 1979 had a devastating impact on the economy. Receipts from phosphates had accounted for roughly 80% of export earnings and 50% of government revenue. Per capita GDP declined by more than half between 1979 and 1981. The Revenue Equalization Reserve Fund (RERF), a trust fund financed by phosphate earnings over the years, is still an important part of the government's assets and contained more than U.S. \$500 million in 2009. However, with the declining returns on offshore investments in the REFR, lower drawdowns from the fund to meet fiscal deficits is vital for the long-term welfare of the country.

¹² Tuvalu Trust Fund Board (2007) *Tuvalu Trust fund: Anniversary Profile*

Mexican Fund for the Conservation Nature

The Mexican Fund for the Conservation Nature (FMCN) operates by channeling financial resources, principally from bilateral and multilateral agencies and private foundations, to on-the-ground conservation projects throughout Mexico. Although originally conceived as an institution that would administer endowment funds and allocate the interests to conservation projects, FMCN currently administers both endowment funds and other donations.

FMCN has a flexible and transparent decision-making structure, strict financial controls and experienced technical staff, which enables the Fund to identify and assist local organizations in carrying out projects. As a result of this experience and an understanding of Mexico's needs and challenges, FMCN assists donor institutions in ensuring that their resources contribute to the conservation of Mexico's natural resources.

Regional Modalities and Mechanisms

Pacific Development and Conservation Trust

The Pacific Development and Conservation Trust was established by Trust Deed by the New Zealand Government on 23 May 1989. The money for the Trust was received from France in recognition of the events surrounding the destruction of The Rainbow Warrior vessel in 1985.

A total of \$3.2 million was provided to the Trust and each year the Trust distributes most of the interest accrued to appropriate projects. The Trust's net income is made available each year for charitable purposes of groups in New Zealand and the South Pacific.

The Trust has on average distributed \$300,000 annually in grants, although following the economic down turn, this has reduced to approximately \$250,000¹³.

Pacific Regional Infrastructure Facility

The Pacific Region Infrastructure Facility (PRIF) is a multi-partner infrastructure coordination and financing mechanism. It was initiated in 2008 by the Asian Development Bank, The Australian Agency for International Development (AusAID), the New Zealand Government via the New Zealand Government via the New Zealand Aid Programme (NZMFAT) and the World Bank Group.

PRIF aims to support infrastructure planning, development and management in Pacific island countries in the following economic infrastructure sectors:

- Energy
- Telecommunications
- Transport (land, air, sea)
- Waste Management
- Water and Sanitation

Externally, PRIF looks like a single fund however it operates on two broad levels, firstly overall coordination arrangements between the participating PRIF donor partners (AusAID.

¹³ Consultation with Sara Taylor, Trust Advisor, Department of Internal Affairs, New Zealand Government.

NZAID, World Bank, ADB), and secondly multiple agency-to-agency financial and management arrangements¹⁴.

Micronesia Challenge

The Micronesia Challenge is a commitment by the Federated States of Micronesia, the Republic of the Marshall Islands, the Republic of Palau, Guam, and the Commonwealth of the Northern Marianas Islands to preserve the natural resources that are integral to Pacific traditions, cultures and livelihoods.

The Micronesia Challenge is not a stand-alone initiative. It is part of the Global Island Partnership, which assists islands to protect and sustainably manage the natural resources in the region.

In support of the Micronesia Challenge, The Nature Conservancy and Conservation International each committed \$3 million towards the sustainable financing of the Micronesia Challenge. This commitment was made to leverage an additional \$12 million in matching funds from other financing sources, including donor countries, the Global Environment Facility and regional finance mechanisms like the Asian Development Bank, forming the Micronesia Trust Fund.

Latin America and Caribbean Environmental Funds Network (REDLAC)

The Latin American and Caribbean Network of Environmental Funds (RedLAC) was formally established in 1999. Its mission is to set up an effective system of learning, strengthening, training, and cooperation through a Network of Environmental Funds aimed at contributing to the conservation and sustainable use of natural resources in Latin America and the Caribbean.

The Environmental Funds of RedLAC have financed more than three thousand projects regionally in benefit of conservation and sustainable development. Together they have an annual operational budget of more than US\$70 million for conservation activities in the region.

Regarding to the funds' origin of the Environmental Fund's total resources portfolio, 47.5% comes from debt for nature swaps, 26.7% from FMAM, 9.45% from bilateral donations, 7.16% from governments, 5.18% from loans coming from bi and multilateral organisms, 1.38% coming from private foundations, 0.28% from multilateral donations and 2.21% from fines, parks entrance fees, etc.

International Modalities and Mechanisms

European Development Fund

The European Development Fund (EDF) is the main instrument for providing Community aid for development cooperation in the African Caribbean and Pacific (ACP) States and Overseas Countries and Territories (OCT). The 1957 Treaty of Rome made provision for its creation with a view to granting technical and financial assistance, initially to African countries which at that time were still colonised.

¹⁴ Consultation with Paul Wright, AusAID

Even though a heading has been reserved for the Fund in the Community budget since 1993 following a request by the European Parliament, the EDF does not yet come under the Community's general budget. It is funded by the Member States, is subject to its own financial rules and is managed by a specific committee. The aid granted to ACP States and OCTs will continue to be funded by the EDF, at least for the period 2008-2013.

Commission funding for overseas aid is significant: between 2003 and 2007, the ninth EDF provided €15.2 billion to ACP countries. The tenth EDF runs from 2008 to 2013, and is scheduled to give out payments of €22.7 billion.

Asian Development Bank

The Asian Development Bank (ADB) is an international development finance institution. Headquartered in Manila, and established in 1966, ADB is owned and financed by its 67 members, of which 48 are from the region and 19 are from other parts of the globe. ADB's main partners are governments, the private sector, nongovernment organizations, development agencies, community-based organizations, and foundations.

Under Strategy 2020, a long-term strategic framework adopted in 2008, ADB will follow three complementary strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration.

Although most lending is in the public sector - and to governments - ADB also provides direct assistance to private enterprises of developing countries through equity investments, guarantees, and loans. In addition, its triple-A credit rating helps mobilize funds for development.

Discussion

Having reviewed a range of operating funding mechanisms and modalities (hereafter referred to as funding systems), it is possible to inform a discussion on aspects that contribute towards a successful Pacific Regional Climate Change Fund.

It is important to note that the success of a fund is ultimately determined by how successful it is in achieving its objective.

The 2003 study suggested the following objective for a regional adaptation facility.

To provide financial support for the implementation of climate change adaptation projects within the Pacific island countries.

This objective has an obvious focus on finance. If we use this objective as a measure for success, then the fund should focus on maximising finance for the region. Ultimately the success of this objective will be dependent on maximising the collating and distribution of finance. Therefore it is important to ensure that a system is in place to; maximise the finance available; lever funding from major donors; and allows easy access of funds for participants. Having reviewed these funding modalities and mechanisms, it is possible to extrapolate key aspects which have contributed towards successful systems of securing and distributing finance to where it's needed.

However, while maximising access to funding resources is an important and a major objective, this will need to be hand in hand with efforts to ensure the objectives of maximising the effectiveness and efficiency of such flows are also achieved. A major objective of the proposed Technical Backstopping Mechanism is to provide assistance to recipient countries overcome some of these inherent access hurdles.

As part of this discussion, it will be important to consider how international funding modalities view regional funding facilities when assigning grants. This should be acknowledged when designing a regional fund. Aligning the goals of a regional climate change fund with the objectives of major donors should be acknowledged when considering the potential options available.

However it is important to note that there are a range of factors which influence how successful adapting to climate change will be. This includes financial resources (to pay for adaptation); governance (how well society can steer the adaptation process and how legitimate that process is); information (to anticipate climate risks, devise of appropriate adaptations, and learn from their implementation); social resources (networking and bonding among people and groups so that social responses to climate change are cohesive, equitable, and robust); infrastructure, and technology (tools and crafts that help adapt)¹⁵. Although economic development may provide greater access to technology and resources to invest in adaptation, high income per capita is considered neither a necessary nor a sufficient indicator of the capacity to adapt to climate change¹⁶. This is considered later when we review the potential options which are available

The following section discusses the key aspects of successful funds, and how they could apply to a Pacific Regional Climate Change Fund.

A Clearly Defined Objective

A clearly defined goal is important regardless of the organisations purpose. Having a clearly defined goal provides focus to the group and is integral to determining where funding should be granted.

Thus in reaching the defined goal, a clear objective or sets of objectives will be required, that are understandable, pragmatic to implement, widely beneficial and meets the needs of recipients as well as other stakeholders. Aligning the priorities and objectives of all stakeholders into an agreed objective on climate change funding is no easy task and will require further consultation directly with stakeholders.

Some stakeholders, for example, the Asian Development Bank has a number of clearly defined objectives to achieve in their current Strategic Framework. This framework focuses on five core principles: infrastructure, environment, regional cooperation and integration, finance sector development, and education. There is an opportunity to align the Pacific Regional Adaptation Fund with two of these five principles; environment, and regional cooperation and integration. There is of course more than one stakeholder who would wish to

¹⁵ Neil Adger et al, 'Assessment of Adaptation Practices, Options, Constraints and Capacity'

¹⁶ Moss, R.H., A.L. Brenkert and E.L. Malone, 2001: Vulnerability to Climate Change: A Quantitative Approach. Pacific Northwest National Laboratory, Richland Washington

see a clear set of objectives for such a fund, hence the rationale for further focused consultations around the issue.

The importance of deciding on an objective is well discussed in the 2003 feasibility report. Although the report suggests a potential objective, it has not itself been subject to thorough consultation. However, for ease of simplicity to carry out identification of possible options for a funding mechanism, the 2003 feasibility's suggested objective is used with a wider application in this report. Additionally, the feedback from the consultations and questionnaire also assisted in forming the suggested objective within this assessment.

Minimal Cost and Cost Effectiveness – Are they mutually exclusive

Minimising the cost of a funding system is valuable for a number of reasons, both practically and politically. Firstly, it is important that setting up a regional fund will not divert existing funds away from 'on the ground' projects and schemes. High management and employment costs will be viewed negatively by both donors and other stakeholders, as the finance is intended for projects that will support the objectives of the fund.

Operating on a low cost basis will be valuable when applying for various grants from donors. Partners will need the confidence that their money is being well spent, which is emphasised under a number of funds, such as the European Development Fund. If ODA is used then clearly a country's taxpayers are rightly concerned over use and expenditure.

There are a number ways that funding systems have minimised their operating costs. The Pacific Conservation Fund was set up, and currently operates, within an already established governmental department. The Department for Internal Affairs is the oldest running New Zealand Governmental department. This allows the trust to make use of experienced personnel, without the need for full time employment and training of new staff.

The Mexican Fund for Nature Conservation operates on a very low expenditure, as all of the board members work on a *Pro Bono* basis. Whilst this may not be practical for all members of a newly formed regional fund, it should be considered for forming either a committee or a board of trustees. Furthermore, the Mexican Fund for Nature Conservation does not carry out conservation projects. This reduces the number of technical staff required and simplifies the running of the fund, further reducing the operating costs of the fund.

However, island environments are vulnerable and therefore any fund set up to assist in adapting or mitigating to changes in climate may not always be able to operate at minimal costs given the extensive nature of dealing with environmental problems. It will be important for island governments when considering the merits of developing a fund for climate change that the criterion of minimal cost must be considered next to cost effectiveness. Both minimal cost and cost effectiveness are two important concerns which are mutually exclusive, *e.g.* adopting a minimal cost approach does not necessarily mean the projects will be cost effective, and being cost effective does not imply costs will be low. For instance, an adaptation program in one of the remote islands of some of our Pacific Islands may entail very high travelling costs to get to them, it is important that that cost is met otherwise the program and the climate change concern can not be addressed.

Accountability

Significant emphasis on ensuring transparency and accountability for any of the funding modalities, in the Pacific region is a pre-requisite to effectiveness and accountability. Funds

are primarily accountable to the institutional donors that contribute their funds to projects and should submit regular narrative and financial reports to them. While this is a useful mechanism to ensure the proper use of donor funds, the scope of accountability is limited, and perhaps, should extend as far as the fund's governance, transparency or even project impact.

The Tuvalu Trust Fund is subject to rigorous procedures to ensure transparency to stakeholders. The way they achieve this is by outsourcing various financial reporting and monitoring tasks. These include professional fund management, dedicated fund monitoring and professional fund auditing. By outsourcing these tasks to professional external bodies they give assurance over three main aspects of the funds expenditure: the truth and fairness of financial statements; the regularity (or statutory validity) of the expenditure, and; the propriety of the audited body's conduct in accordance with the objective of the funding. This level of information is welcomed by substantial donors when to satisfy their stakeholders.

The Tuvalu Trust Fund also has a board of directors to provide accountability. The board is ultimately responsible for the organization's accountability and integrity. It is vital that the board are vigilant and exercise care in taking the steps needed to ensure the fund is operated and managed in a manner consistent with its objective, the best interests of the organization, and consistent with all applicable requirements of donors. Again, this emphasises the importance of a clearly defined objective. Establishing a board provides persons responsible and accepting of the consequences of the actions of the organization, whether those consequences are positive or negative.

Accountability should be considered as a responsibility to all stakeholders, and should be a priority when establishing a new regional fund.

Robust Capital Base

Establishing a robust capital base will also be of extreme importance to the fund. The 2003 Feasibility study identified the need for the fund to operate on a sustained basis. Furthermore, it was recommended that an endowment fund in perpetuity would be appropriate for the support of adaptation in the Pacific island countries.

It states that to demonstrate member support for a regional adaptation facility, countries will need to contribute financially to the capitalization of the fund. It also suggests that the facility should allow for alternative financing options, such as sinking funds.

The Pacific Development and Conservation Trust is a sinking fund based solely on an initial capital deposit. The Trust was based on an initial capital base of approximately \$3million. Each year most of the income earned from this capital is disbursed as grants. In order to maintain the real value of the initial capital, some of the accrued income is reinvested.

The report argues that if additional support is to be levered, there should be regular investment from participants of the fund. The Micronesia Challenge was based on an initial capital base of approximately \$3million. This commitment was used to leverage an additional \$12 million in matching funds from other financing sources, including donor countries, the Global Environment Facility and regional finance mechanisms like the Asian Development Bank.

The leveraging of funds, while not new, is critical in terms of effectiveness of a fund. The importance of having a regional fund should not be overlooked in this context, and while a number of the respondents were understandably cautious over the establishment of a fund, most overwhelmingly recognised an ability to leverage additional funds from sources not often considered as an existing source. There is a strong emphasis from international donors to encourage regional cooperation. Both the EDF and the ADB openly state that they would support regional cooperation.

The ADB strategy leading up to 2020 ‘Strategy 2020’ is a document which outlines ADB's strategic course for its operations to the year 2020. Two very important elements of this document came out, the first was that ADB will not attempt to meet all needs of all its members, as it will not be possible to do so. In line with its new strategic agenda to promote greater regional integration, ADB will scale up its support for Regional Cooperation and Integration (RCI), increasing both the volume of its RCI operations and the share of RCI in total operations. Its investments will seek to accelerate growth and economic partnerships, as well as to address common risks and challenges. These two statements from the ADB emphasise the importance of establishing coherent regional cooperation for financing activities as well as securing financing.

These experiences may be drawn upon to assist guide the design of a Pacific Climate Change Fund. Governance arrangements must necessarily include, in addition to prudent financial management and fiduciary requirements, decision-making processes and procedures that incorporate elements of mechanisms that take into account experience and existing best practice in the Pacific and elsewhere. In addition to technical and functional considerations there are also political realities and current regional institutional arrangements.

The Pacific as a region has accumulated vast experience over the years in developing and operating regional mechanisms that address national needs. These are exemplified through the existence and operations of its regional organizations. Related to these institutions are regional decision making processes, each CROP agency have a governance mechanism with an overseeing body of officials. The experience with operating regional organizations can thus be also drawn upon to assist in the development and design of a regional Climate Change Fund.

Alternative options for Donor Funding Coordination

General

The 2003 feasibility study discussed trust funds as a potential long term mechanism for supporting climate change adaptation in the Pacific. This discussion comprised a range of topics, including; relative advantages and disadvantages of trust funds; their growing popularity; and a review of existing trust funds. However it also acknowledges that climate change adaptation also poses additional challenges, which would need to be met by a regional climate change adaptation facility.

This notion was reflected in the consultation responses. All the regional and donor agencies responded with a mix of caution and interest to the setting up of a new Pacific Regional Climate Change Fund. This may have derived from confusion over terminology as a number of respondents emphasised the relative merits of a fund versus a facility and *vice versa*. These relative merits have been considered when devising the options, however, donor funding coordination (from a purely financial perspective) is considered here.

One important impetus driving the idea of investigating new added value from the operations of a Pacific Climate Change Fund, against the existing scenario where certain resource allocation mechanisms are already in place, is the aim to influence the design of such an institution, and therefore the rules of procedure and processes and systems of operation, that would better address needs and conditions prevalent in Pacific Island Countries. This is important because PICs continue to struggle and often are at a disadvantage given their existing capacities to access and utilise available international climate change resources.

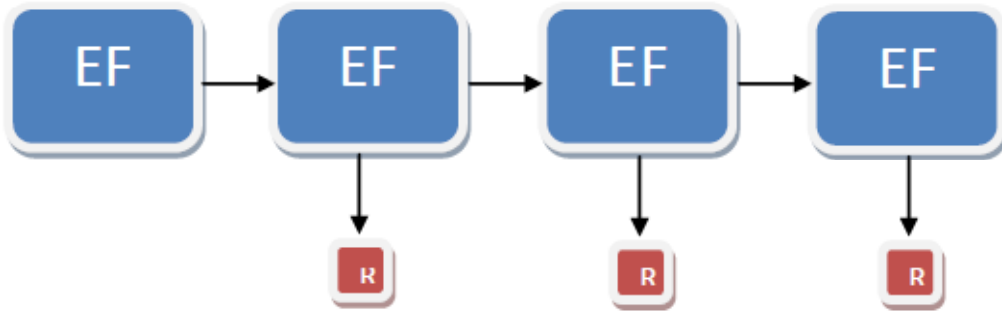
There can also be the opportunity, through a regional climate change funding arrangement, for further enhancing access to climate funding at the regional level, and which target specific donor partners. The experience of GEF and the Kyoto Adaptation Fund, at the global scale, demonstrate that there will be need for ground rules for both donors and recipients, which allow for better programming, coordination and usage of resources, including the programmed inflow of donor resources.

Trust Funds

Environmental funds can be structured in three ways; as an endowment fund, a sinking or fund or a revolving fund.

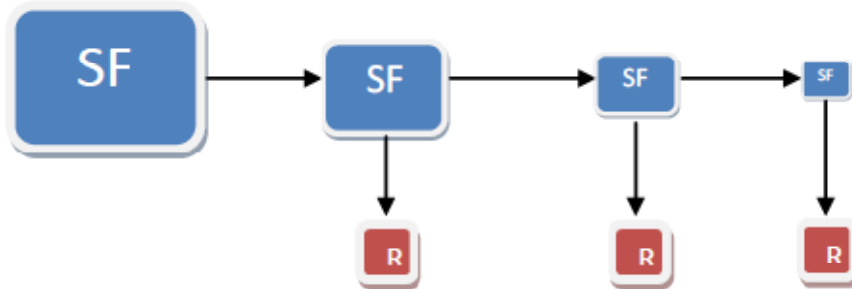
An endowment fund aims to invest its initial capital (endowment) in a bank account or other financial assets (for example bonds or stock markets) and use only the proceeds (returns or income) from this investment as the resources available to support environmental projects or activities.

Figure 1. Endowment Fund



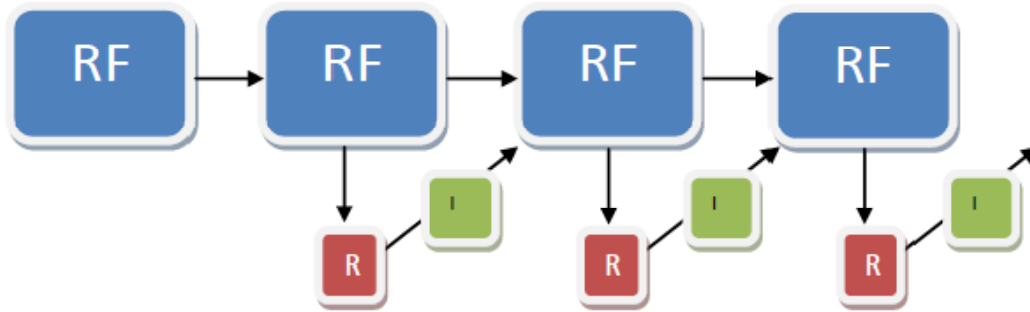
A sinking fund aims to use up all the capital of the fund over a fixed period of time, short or long, until the fund is completely exhausted.

Figure 2. Sinking Fund



Finally, a revolving fund is aimed to sustain itself over time from its own lending activities, through the repayment of capital and interests on loans that the fund disburses.

Figure 3. Revolving Fund



The 2003 feasibility study recommended that an endowment fund in perpetuity would be appropriate for the support of adaptation in the Pacific island countries. This modality of raising funds was suggested in partnership with additional funding support from development partners in a sinking or rotating fashion. It is not unusual for a particular Environmental Fund to combine these features as part of its overall financial structure. For example, PROFONANPE in Peru has an endowment fund, several sinking funds (created through debt swaps), and project funding¹⁷. Another good example of this is the Tuvalu Trust Fund. The Tuvalu Trust Fund is one of the most successful trust funds in the Pacific¹⁸, and Tuvalu has devised a unique, binary structure with a primary endowment fund operating alongside a

¹⁷ Bayon, R. et al. 1999. *Environmental Funds: Lessons Learned and Future Prospects*. IUCN/GEF.

¹⁸ Graham, Benjamin (2005) *Trust Funds in the Pacific: Their Role and Future*. Asian Development Bank.

secondary revolving fund. The value of the fund had grown from its original \$27.1 million to \$81.3 million as of spring 2004.

The relative advantages and disadvantages of the structure of trust funds is summarised below¹⁹.

<i>Fund Type</i>	<i>Comparative Advantage</i>	<i>Comparative Disadvantage</i>
Endowment Fund	<ul style="list-style-type: none"> • Most sustainable • Long-term planning • Less costly to donors • Can earn investment income 	<ul style="list-style-type: none"> • More capital upfront • More sophisticated set up • Higher recipient costs • Can incur investment losses
Revolving Fund	<ul style="list-style-type: none"> • Flexible • Quicker setup, dissolution • More closely matches resources to needs 	<ul style="list-style-type: none"> • Less sustainable • More frequent consultation • Disruption of resource flows
Sinking Fund	<ul style="list-style-type: none"> • Short-term initiatives • Usually less capital • Targeting 	<ul style="list-style-type: none"> • All capital upfront • Least sustainable • Not as flexible

As the structure of a Pacific Regional Climate Change Fund has not been confirmed, Donors were unwilling to comment whether or not they would prefer to contribute towards an endowment, sinking or revolving fund.

Furthermore, responses from potential participants suggest a lack of capacity to financially contribute towards any such fund. This lack of capacity may limit the options of the structure for a trust fund, if it were to be selected. As such, one view would be an initial review could be undertaken to determine whether equitable contribution towards such a fund by all stakeholders would be possible. The lack of capacity to financially contribute could be reconsidered within innovative recommendations that guide island governments to provide, for example, all the in-country expenses required for the regional trust fund to deliver the objectives of the fund and ensure that those who should be benefiting from the fund would receive significant support at national and local levels.

Examples of Trust Funds

Endowment Fund

The Micronesia Challenge is an example of an endowment fund. This is discussed in more detail in *Section 5.3.3*.

Revolving Fund

Examples of revolving funds in the Pacific are few. Generally these types of funds exist at the national level, are small in size, and specific to a task or development activity. For instance the women's revolving credit funds scattered throughout the Pacific introduced by the

¹⁹

Secretariat of the Pacific Community (SPC) in the eighties. Another example is the village bank credit schemes set up also in this period supported by SPC and the UNDP, in Kiribati.

Funds are given to communities and villages to run small scale credit schemes along the lines of the Grameen Bank, and the interest payments received alongside principal payments ensures the funds revolved annually.

Sinking Fund

The Palau Compact of Free Association (COFA) Trust Fund was established in 1995 under section 211 of the Compact of Free Association with the United States. This was a front-loaded fund capitalized with a US\$66 million contribution from the US in 1995 and a \$4 million follow-up contribution in 1997. The primary objective of the fund is to augment the government's recurrent budget. It was designed with a 50-year horizon commensurate with the life of the Compact to produce a net return of \$15 million by its 15th anniversary and to continue providing for another 35 years.

By design this is a sinking fund, however in the case of island countries that have opportunities to use these funds wisely, returns on short term investments and gains can be reverted into longer term investment portfolios. For Palau the allocation of portions of this fund to economic development activities has had macroeconomic returns.

The Pacific Development and Conservation Trust is another example of a sinking fund.

6.3 Budgetary and Sector Support

While a regional cooperation fund or mechanism may be considered as a possible option for financing primarily national climate change activities, we must also note that some Pacific Island countries receive direct budgetary support from some development partners. During the economic reform period in the Pacific (mid nineties to late nineties) a handful of Pacific island countries undertook restructuring in their public services, and reforms to the way they managed their finance and economy.

Development partners like the Asian Development Bank and New Zealand and Australia sought to support island government efforts by providing direct budgetary support via loan or grant facilities to the countries to ensure financial momentum and to support public service restructuring and transitioning programs, among other governance and sector programs.

The comment above is only given in the context of, if this direct support raises the resilience of a Pacific Island country to the impacts of climate change through effective handling of finances and project development, then does it need to be considered in the context of climate change adaptation?

The same can be indicated for general support for sector developments. Sector wide approaches to development guide these types of interventions. However, we should also recognize that sector wide approaches under the Kyoto Protocol Clean Development Mechanism (CDM) has already been discussed to a large extent, and in time will become a mode of operations under a revised CDM. Thus in mind a regional cooperation around a sector such as transport or health across a number of countries could be provided through the fund, dependent upon the type of criterion the fund carries.

Introduction to the Identification of Funding Options

Identifying options, for a Pacific Regional Climate Change Fund, raises a number of key questions. These are discussed below.

What level of financing would the fund administer?

Currently, the Pacific Islands Forum Secretariat (PIFS), is probably the only Pacific regional agency that has managed significant fund falls from development partners. In 2009, a total of US\$66 million was received from Japan and is earmarked towards addressing climate change priorities in member countries. In addition, the European Union's 10th EDF with about Euro 40 million has been allocated to supporting sustainable management of natural resources, suggesting a spending capacity over a period of years for Pacific Island member countries.

This suggests that the Pacific Islands can expect to host and utilise fundfalls of over \$100 million (as a starting figure) over a period of 5 to 10 years for Climate Change activities and programs with the aim of prolonging this fund in the long term, given the current levels already committed in the region.

Perhaps the main considerations could be who would manage a fund and how would this be carried out.

Who would manage a Climate Change Fund in the Pacific?

Seventeen development partners (regional and international) responded to the questionnaire relating to their current operations and involvement in supporting activities and programs relating to the impacts of climate change in the region. Each development agency also outlined views on a possible fund, although some were cautious over establishment of a fund due to a lack of clarity and detail over a fund design and structure.

The contributions relating to who should manage a possible Pacific Regional Climate Change Fund, focussed on the following management attributes:

- Cost effectiveness and efficient management of resources with low overhead costs;
- Coordinated and effective development and implementation of in-country, sub regional, or regional work programs/activities;
- Ability to execute the reporting, administration and fiduciary activities of such a funds complexity with minimal burden to the client country or sub-region;
- Ability to supply technical backstopping at most levels of fund development, access, implementation, and reporting responsibilities;
- Seamless delivery of fund inputs to client countries; and
- Comprehensive operation of the fund that addresses the Pacific regions climate change impacts through enhanced cooperation of stakeholders at all levels.
-

Already mentioned, there are regional arrangements in place that can be drawn upon in part for guidance in designing the necessary management arrangements for a Pacific Climate Change Fund. Heads of CROP agencies have periodic meetings that assist regional work programme coordination. Recently there was established a

Climate Change Task Force consisting of CROP CEOs to provide the mechanism for regional organisations, especially with SPREP and PIFS as co-chairs, to further assist in coordination of related climate change activities and mandates among CROP agencies. This Task Force can be a resource for the proposed regional Climate Change Fund that could provide guidance to the design and functions of the Fund and a Technical Backstopping Mechanism.

How would a Climate Change Fund be managed?

Development and Pacific Island government (11 out of 13) partner responses to the questionnaire and literature research provided a host of options on how a Pacific Regional Climate Change Fund could be managed.

However before entering this discussion, it is important to highlight what major considerations would influence how a possible fund might eventually be managed, as these points will also provide the relevant criteria for the establishment of a possible fund. Those points are:

Secure and effective – generally this was a consideration by most of the respondents. This suggests that any agency that took up this responsibility must have high accounting and reporting processes and procedures, and regionally supported governance structures.

Accessible – development partners and island country responses insisted that a CCF should be accessible, not too burdensome in its accessibility in terms of procedures for applying. Hence the common call for grounded technical backstopping to island countries keen to access the fund.

Relevant- the suggestion is that processes and procedures within funding levels requested should be simple and relevant to the requests and levels of funding being applied for. A simple but stratified system of accessing funding could assist in optimising fund management and supporting significant implementation of country climate change programs.

Cost effective versus minimal cost – generally past reports on developing Pacific regional funds for climate change have focussed on minimal costs rather than cost effectiveness in managing the fund. The intention of any discussion on developing a regional fund for alleviating climate change impacts must consider the nature of climate change mitigation and adaptation. The value of the Pacific environment is priceless. Vulnerability in Pacific Island countries is high while resilience is low and no funding source will ever be able to reclaim or revert back to an original state any devastation caused by significant events caused by changes to climate and variability, such as coastal erosion, cyclone and weather pattern changes, among others. To develop a fund primarily with a criterion of minimal cost diminishes the true extent of environment damage that climate changing patterns has done to the planet and in particular to the island countries of the Pacific. Cost effectiveness on the other hand dispels this insignificance and suggests that donor and development partners alike enter into equal partnerships with island governments to save some of the most bio diverse and extremely valuable ecosystems of the world. To do less would in the long term, encroach real costs on development partners.

Broadly, building upon the information and consultations during this feasibility and previous assessments, identifying possible options for a fund have been undertaken and are listed

below. The identified options are provided at a high level and are not detailed to a large extent as design features. However, recognising key attributes is given so that a sense of a design and a reasonable foundation for a possible fund maybe better understood.

All stakeholders within the region have worked over the past 2 decades on two highly significant and focused agreements. The first at international level was the Barbados Program for Action, which was small island focused, negotiated by small island states with the international community and agreed to by the international community. The second was the Pacific Islands Framework for Action on Climate Change developed by stakeholders in the region, with focus on improving and enhancing capacities and capabilities of Pacific Island countries as they move to address climate change.

Both agreements above are also consistent with international multilateral agreements such as the Convention on Biological Diversity and the Framework Convention on Climate Change, both of which include the need for access to finances to implement programs and activities, and that those finances should be new and additional to those existing already, such as ODA.

Finally, the identified options listed below need to be laid out in the context of both the Barbados Program for Action and its Reviews, and the Pacific Island Framework for Action on Climate Change and its subsequent update for the period 2006-2015, for which a large number of stakeholders participated, negotiated and agreed to the texts as a blueprint and master plan toward small island and in particular Pacific Island countries need to increase their own resilience to address the impacts of a changing climate.

Alongside each of the identified options key attributes also need to be identified to enable an understanding of what the option may look like in a structural sense. Additionally, cost benefits are provided at a high level based upon assumptions provided by the authors.

Technical Backstopping Mechanism– The Technical Backstopping Mechanism (TBM) role would apply to all the identified options and involve all applicable, relevant, and demonstrated groups initially within the Pacific region, inclusive of NGO's, Community Groups, Consulting Groups, as well as Regional Organisations themselves. The TBM would be available to participants and the Secretariat. The role of the TBM would be to provide technical support to participants, and to offer advice on proposals, as well as undertake diligence at the behest of the Facility or Mechanisms.

Options Appraisal

Overview

Historically, PICs have had difficulty in accessing international financial resources available for climate change projects and programmes due to a number of reasons. They often lack the capacity to identify, prioritise and design quality projects that meet funding criteria. Complexities are often related to the global nature of these financial mechanisms, which often do not account for or framed to address the peculiar and often special needs of small island developing states.

Three options have been identified under this study as possible mechanisms for the funding of climate change activities in the Pacific Island countries and region. Each option has the same suggested objective (extracted in part from the 2003 Assessment study) because without any, the identified option could not be perceived as functional in the conceptual sense. Clearly, any option seen as a positive way forward by the national, regional and international stakeholders, would require further discussion and agreement, with the identification and agreement of a concise objective as a pre-requisite before a detailed design.

It must be pointed out that the options presented and discussed here are not exhaustive of the possible combination and packaging that may be considered as appropriate for the purpose of establishing and operating a regional climate change fund. It would also be premature to suggest such a final choice as the issues explored and discussed in this report are suggested for further investigation and consideration through subsequent regional and country consultations as part of this process.

The suggested objective is detailed below.

‘Provide financial support for the implementation of climate change adaptation and mitigation programs and projects within Pacific island countries through improved national, and regional coordination and in a manner that facilitates access and is consistent with sustainable development agreements, such as the Barbados Program of Action, and the Pacific Island Framework for Action on Climate Change.

Option 1: A Stand-Alone New Mechanism is Established; The Pacific Climate Change Facility (PCCF)

Institution and Governance

Institutional development will be dependent on the extent of the funds received to set up a standalone agency. The new fund would be established using the following guidelines; to be simple, effective, inclusive (as much as possible), and with clear directions.

Box 1

A previous study “concluded that a regional facility would attract financing from donors if the facility was relatively **“simple, efficient and cost effective”** to operate and efforts were made to target contributions from non-traditional donors. From the feedback received during that study, ‘simple’ meant that the eligibility criteria for accessing the fund should not be overly complex; ‘efficient’ meant that the fund should not be soaked up through the creation of an overly bureaucratic and ultimately expensive administrative structures and ‘cost effective’ meant that transaction costs for both donors and beneficiaries be kept to an essential **minimum.**” (SPREP Information Paper: For Forum Officials; Auckland, NZ, 13-14 August 2003: PROGRESS ON DEVELOPMENTS CONCERNING CLIMATE CHANGE, CLIMATE VARIABILITY AND SEA LEVEL RISE: SUMMARY OF ASSESSMENT OF THE FEASIBILITY OF A REGIONAL ADAPTATION FACILITY)

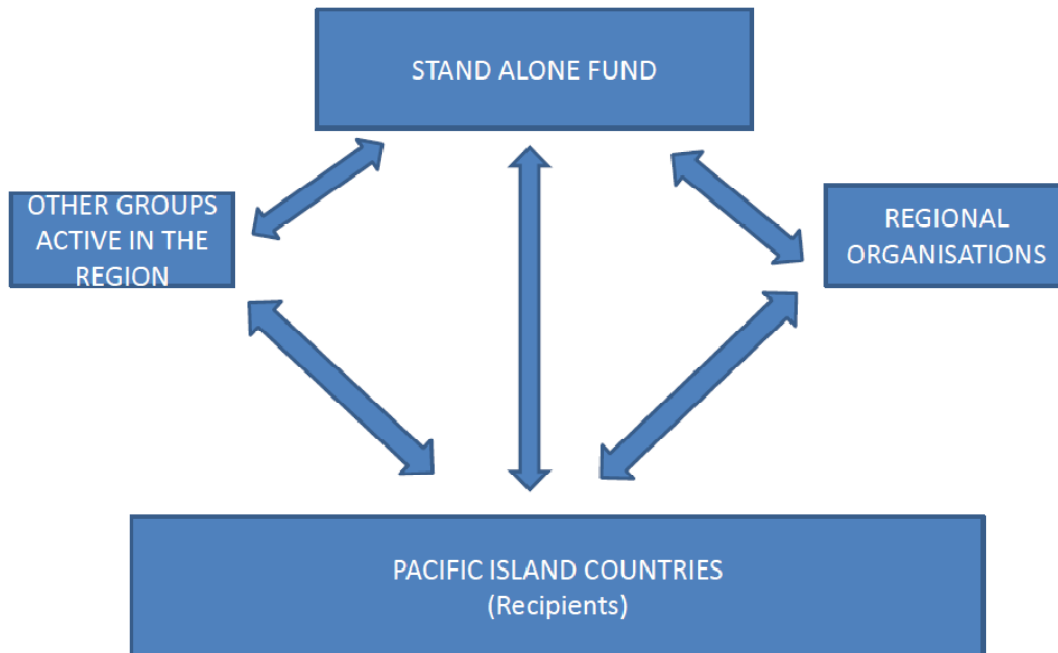
A regional agency will be beneficial if national priorities on a regional scale can be achieved; there is efficiency in delivery to a grouping of island states and additional funding allocation to assist in providing regional technical assistance.

Simple models of governance abound in the region and can be emulated based on the governing structure the Pacific Island governments alongside their development partners (those putting into the fund) may adopt. However, it is highly likely a governance structure for this option will result in one that favours development partners more than beneficiaries.

Inclusiveness depends on political and economic responsibilities and jurisdictions of development partners more than socio-political and economic cooperation of Pacific Island countries.

Effectiveness then follows once a clear objective is developed, based on simplicity in governing, and inclusiveness in allocating are reached.

Figure 4. Governance Structure for Option 1



Operation and Administration

Regional agencies administering and operating funds allocated for specific environment activities have been highlighted in *Section 5*.

To be able to meet Pacific Island government expectations of being cost effective, yet still cater for the diverse nature of climate change, clearly simplicity in administrative structures and streamlined fund operations and practises is vital.

Sound financial management goes without saying: the proposed Fund must comply with strict international codes of ethics and best practices in its operations, and must satisfy stringent fiduciary standards as appropriate to operations of this nature. It must have rigorous policies, processes and procedures that guide and direct its funding sourcing and funds disbursements.

As is practised already, such an agency could be led by a Chief Executive Officer, with three proposed areas of operations; finance/administration (of the agency); technical backstopping support to the fund; and fund application processing, accessing, and implementation.

Support operations to this basic structure would be influenced by the financial and capital base, and expectations of donors for accounting and reporting frequency.

Finance, capital base and donors

This option is a function of the expectations of donors mainly and depending on whether the capital base is significant or small, then the operations and governance structures also assume similar scope with that base. The key is whether a fund within a new agency will be wholly inclusive and address the needs of all stakeholders active and eligible within the fund

equitably or whether it aligns itself toward those who are more forward in their approach to the fund.

These issues will also influence not only the flow of donor contributions but also impact fund operations through adopted institutional/organisational structures and governance arrangements. Again, some lessons may be learned from the establishment and operations of the GEF and of the new Kyoto Adaptation Fund, which had taken slightly different approaches, with the Adaptation Fund having more consideration for the needs of recipient countries.

Cost analysis

Generally the most simplistic reason for conducting cost-benefit analysis involves finding out if there will be any gains in establishing a climate change fund for the region. The exercise involves an analysis of the cost effectiveness of different alternatives in order to see whether the gains will outweigh the costs, with the aim being to gauge the efficiency of the intervention relative to the status quo. Inputs into the analysis are measured in terms of opportunity costs – the value of their best alternative use. The process involves monetary value of initial and ongoing expenses versus expected returns. The analysis is often terminated when the sum of costs to benefits is negative unless circumstances change or the valuation of benefits are raised by an increase in revenue streams or a raise in prestige based on supporting social and environment protection for long term benefits. The difficulty in the exercise lies in developing the right valuation of social, postponed, and intangible benefits.

For this assignment, a very basic approach to cost analysis is adopted, whereby general assumptions are made based on a fixed capital input of funds from a host of donors. The politics and costs of administering multi-donor funds are not catered for. Generally the following conditions and assumptions will be used in this option and the other options that follow in order to consider at least the impact, influence and effectiveness the Fund may have on the island countries.

Given the above, it must therefore be acknowledged that the assumptions and approach adopted for this exercise are somewhat purposely simplistic. Cash flows, both in and out, can vary quite significantly from actual experience taking into account the willingness of donors to contribute, and when such inflows are actually received. Earned income from Fund investments will also be influenced by prevailing opportunities from time to time.

Outflows, on the other hand, will be partly dictated by the availability of funds and also that of quality projects that satisfy Fund criteria. This is a significant consideration as the integrity of the Fund as a financial institution must be assured, and which ensures donor confidence enhancing future Fund replenishments.

In a sense, therefore, it is too early in this evaluation process to expect a high level of accuracy with these kinds of projections. The nature of Fund operations, the institutional structures that will be in place, organisational and human resource considerations are all yet to be defined, and these will directly impact incomes and expenditure for the options compared, although some of these variables will be common to all three options.

Assumptions:

Fixed Capital Input from Multi-Donors: \$100million (received in four annual instalments)

Serving 22 island governments and territories

Staffing level: A CEO, 3 Program Advisors, 8 Program Staff and Administrations

Governing Board: A rotating representative from Micronesia, Melanesia, Polynesia, French and American Territories

At a discounted rate of 10%²⁰, the present value of an investment of \$100 million over the ten year period is \$61.9 million. It is envisaged that in year 5, interest payments on the prudent investing of portions of the fund in hedging and capital markets will earn \$500,000 on a portion of the funds being invested, and onwards and could be reverted back into the benefit stream.

²⁰ The discounted rate of 10% has been derived from the Cook Islands commercial interest rate. This has been used in the table below.

Table 2. Cost Analysis of Option 1

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Discounted Flows										
Costs	-\$500,000	-\$1,354,545	-\$1,231,405	-\$1,119,459	-\$1,017,690	-\$925,173	-\$841,066	-\$764,606	-\$695,096	-\$631,905
Benefits	\$25,000,000	\$15,940,909	\$14,491,736	\$13,174,305	\$502,015	\$456,377	\$414,888	\$377,171	\$342,883	\$311,712
Net	\$24,500,000	\$14,586,364	\$13,260,331	\$12,054,846	-\$515,675	-\$468,796	-\$426,178	-\$387,434	-\$352,213	-\$320,194
Cumulative	\$24,500,000	\$39,086,364	\$52,346,694	\$64,401,540	\$63,885,865	\$63,417,069	\$62,990,892	\$62,603,457	\$62,251,244	\$61,931,050

Option 2: A Fund with an Existing Regional Organisation

Institution and Governance

The nature of the fund, and the development area that the Pacific Regional Climate Change Fund is focused towards, will influence where a possible location would be. SPREP is mandated by PICs to represent and address the environment concerns of member governments. SPC is mandated by PICs to represent and address the socio-economic concerns and aspirations of member governments.

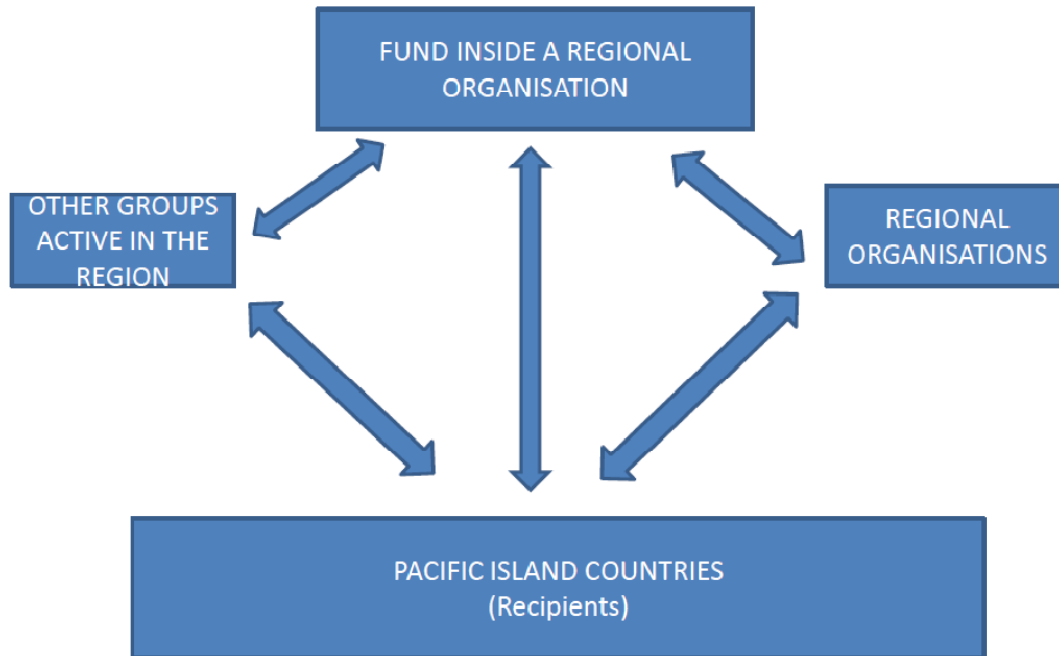
PIFS by way of its political mandate is positioned strategically in the region to move national, regional and international representations and initiatives to the collective and special requirements of PICs. Although PIFS has a smaller membership number, its outreach is determined by the sovereignty of its members, who as independent nations can make calls on bilateral and multilateral partners in a substantive manner. This political independence has extended the PIFS management borders on many occasions to be able to facilitate work in the American and French territories in the region. For these same territories, seeking membership in the PIFS is also an important destiny.

Table 1. Comparative advantages and disadvantages of CROP agencies

Regional Agency	SPC	SPREP	PIFS
Comparative Advantage	Socio-economic development mandate in the Pacific region, thus can align with the general observation that climate change is not only an environment issue.	Established to address the environment issues of the 22 island states and territories in the Pacific region, with focuses primarily on environment concerns.	Represents the independent and self-governing island countries and collectively packs decisive directions to island and development partners equally. Its exclusive membership to sovereign island states ensures that decisions are taken seriously. There are mechanisms in place to allow non-Forum members access to development support managed by the agency.
Comparative Disadvantage	Located in one of the more expensive locations in the Pacific, thus would suffer from increased costs	Climate change is a multi-sector concern, and not limited to the environment sector	Membership confined to sovereign states, however there are avenues to circumvent this consideration

International multilateral agencies have been left out of this modality based on the regional and national assumption that these agencies generally require a few layers of bureaucratic arrangements and in terms of governance will need to revert to island administrations and governments for fund management directions, which can prove problematic if based outside of the region.

Figure 5. Governance Structure for Option 2



Operation and Administration

Generally operations, administration, and governance channels would pursue the existing arrangements of each agency.

Efficiency and effectiveness of operation is a function of the institutional governance structure of the agency.

Finance, capital base and donors

PIFS response to the questionnaire advises that it has already provided clearing house and management facilities for funds in the region of \$40 to 90million (Japan and EU, respectively).

Although reported as preliminary and in the early stages, some donors involved in the region would consider supporting a regional pool for climate change work notably Japan and the Asian Development Bank.

Cost analysis

The present value of the investment of \$100 million over the ten year period at a 10% discount rate is \$61.9 million. As in *Option 1*, it is envisaged that in year 5, interest payments

on the prudent investing of portions of the fund in hedging and capital markets will earn \$500,000 on a portion of the funds being invested, and onwards and could be reverted back into the benefit stream.

Options for investing portions of the fund annually would naturally be developed with professional advice.

Table 3. Cost Analysis of Option 2

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Discounted Flows										
Costs	-\$500,000	-\$1,127,273	-\$1,024,793	-\$931,630	-\$846,937	-\$769,942	-\$699,948	-\$636,316	-\$578,469	-\$525,881
Benefits	\$25,000,000	\$15,909,091	\$14,462,810	\$13,148,009	\$239,055	\$217,322	\$197,566	\$179,605	\$163,278	\$148,434
Net	\$24,500,000	\$14,781,818	\$13,438,017	\$12,216,379	-\$607,882	-\$552,620	-\$502,382	-\$456,711	-\$415,192	-\$377,447
Cumulative	\$24,500,000	\$39,281,818	\$52,719,835	\$64,936,213	\$64,328,331	\$63,775,711	\$63,273,330	\$62,816,619	\$62,401,427	\$62,023,980

Option 3: A Fund Co-ordinated at Regional Level but Operated at National Level

Institution and Governance

This option can best be described through two examples. One effective environment fund that is similar in concept to the description; internationally supported, regionally coordinated, and nationally managed and implemented in the region, would be the Global Environment Fund: Small Grants Program (SGP). The other is the Pacific Islands Climate Change Round Table (PICCR)

Box 2 provides an outline of both the GEF: SPG model and the PICCR in operation in the Pacific region.

Box 2. Global Environment Fund: Small Grants Program (SGP)

The GEF through its Small Grants Program (SGP) has been effective in the Pacific island countries, present in 122 countries. Key areas the program has covered includes climate change abatement and adaptation, conservation of biodiversity, protection of international waters, reduction of the impact of persistent organic pollutants, and prevention of land degradation. The management structure involves the United Nations Office for Project Services (UNOPS) executing the implementation through a bottom up approach targeting local communities via GEF in-country focal structures. Grant levels are small (US\$50,000 maximum - US\$20,000 average grant). All Pacific Island countries that are participating members develop a country program strategy to adapt the SGP global strategic framework to the island country's conditions, thus taking into account existing environment and climate change conditions, strategies and plans beside national development and poverty reduction goals. Each participating island country recruits a local National Coordinator who is tasked to manage the daily affairs of the SGP and serves as the secretary to the National Steering Committee (a voluntary body that has been the success of this grants scheme). The NSC usually comprises representatives from local NGOs, government, academia, UNDP and occasionally development partners, the private sector and media. Government's (national and local) presence on the committee enables a conduit for policy shifts based on the need to promote an enabling environment at the island, village and national levels.

Source: GEF/SGF UNDP Website

The PICCR was established as an output and outcome of the Pacific Islands Framework for Action on Climate Change during 1998-1999 at a Pacific Island Climate Change Conference, Rarotonga, Cook Islands. The PICCR main function was to seek to transparently work to coordinate programs and activities on climate change in the Pacific region at both national and regional levels. The PICCCR thus was a catalyst for increased and improved climate change coordination and monitoring. The PICCR meets annually and is often hosted by specific participants of the PICCR. As the Round Table was mandated to undertake these primary functions at a large climate conference by a wide range of participants; such as country delegates, development partners, NGO's and others, its continued operation at very low cost has been a good model for concluding that it may be one good option for consideration as a climate change funding mechanism. This in addition to a nationally focused mechanism would provide a modality for coordinating and implementing predicted financial flows into the region. As a result of a climate change program managed by SPREP, the Pacific Island Climate Change Assistance Program (PICCAP), in 1997, Pacific Island countries established National Country Teams to assist and facilitate management and implementation of the regional climate program at national levels. Even though an inter-governmental program, many teams comprised a wide range of representatives from youth, church, NGO, and trusts. The Country Teams were established through predominantly formal decisions of government at the time and overwhelmingly resulted in the success of the program. Additionally many of the Teams continue to function effectively at national levels, taking on other related and relevant roles in addition to climate change.

Factors for Success

What seems to be clear is that there are some mechanisms already operating within the region which could provide a model or be used themselves with some improvement as a mechanism for a fund, and for which may meet the description above, being internationally supported, regionally coordinated and nationally managed and implemented.

The GEF Small Grants Program is one modality that is readily identifiable; however, another relevant mechanism is the Pacific Island Climate Change Roundtable (PCCR). The PCCR is a climate change coordination mechanism established to identify climate change activities being planned or undertaken by the myriad agencies, countries and other stakeholders within the Pacific Island region. Additionally, it also had a role of monitoring implementation of the Pacific Islands Framework for Action on Climate Change. As a mechanism that could be used as a fund coordination role, it has good attributes and clear mandate already. One key question is how would the PCCR be formally mandated to take on the role of a climate change fund coordinator, where would it be located and who would be the target groups for the fund.

Given the responses from both Pacific Island countries and sensitivities by development partners to establishing new entities at higher capital costs, then the PCCR is identified as one option which could meet the desirable attributes highlighted by the 2003 Assessment and are repeated in this report.

While the PCCR was founded out of a SPREP Conference and former program, The Pacific Islands Climate Change Assistance Program (PICCAP), it has been utilized as a formal mechanism to bring together stakeholders with an interest in climate change activities, irrespective of its location, as often one stakeholder would make an offer to host the PCCR. In order for such a structure to continue to work in this specific area, then stakeholders need to be able to agree that:

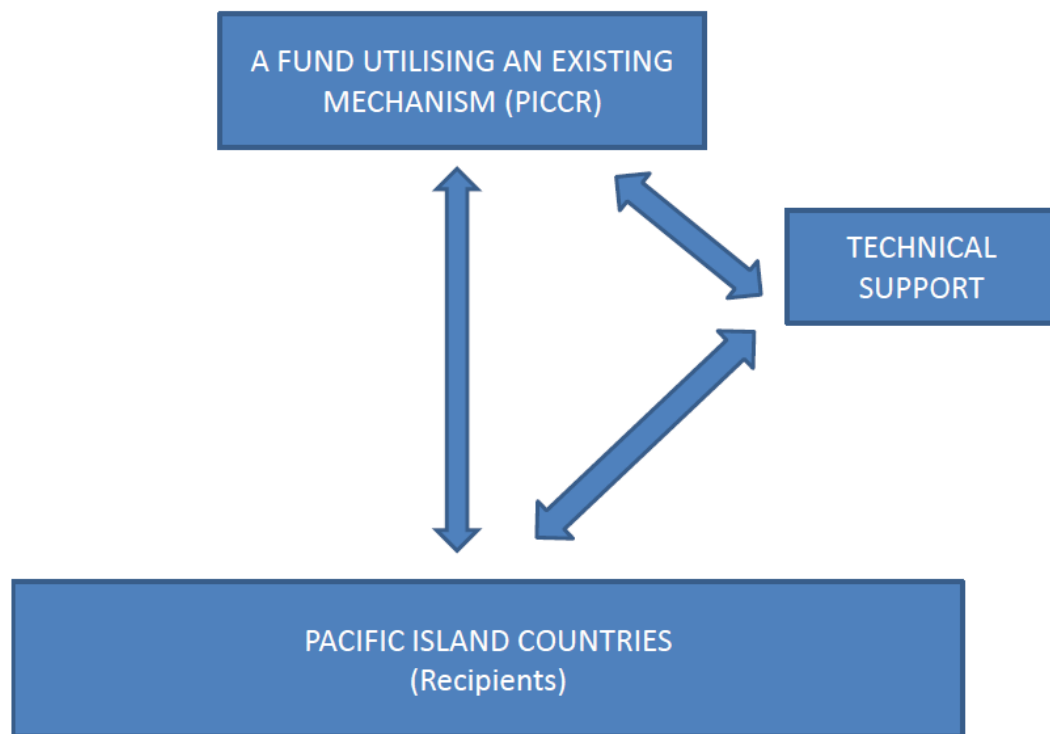
- The PCCR could operate as the regional coordination mechanism for a climate change fund
- That its existing structure and operations do not need to be significantly altered at high capital cost
- That the PCCR is an open-ended, transparent mechanism and already carries a mandate to monitor and coordinate climate change activities in the Pacific region. National climate teams through the national coordinators could provide national inputs into the PCCR
- The PCCR also carries a wide range of expertise and technical knowledge on the region and about climate change adaptation and mitigation to begin to adequately address technical support to Pacific Island countries
- The PCCR needs to be located in one organization with the capacity to provide for the mechanism as a part of its existing mandate and operation. This then provides formality, stability and clear understanding by all stakeholders over the role of the mechanism, how it could operate and processes and procedures to enable the mechanism to work alongside national fund management

Risks

Some identified risks may involve:

- Wide accepted formal recognition of the PCCR may not be easily obtained and would require a regional cooperative effort to demonstrate that such a mechanism could work effectively and efficiently for the good of the region, the benefit of Pacific Island countries and for demonstrating effective and efficient use of financial flows from a multitude of sources
- The PCCR if accepted as a coordination mechanism for a regional climate fund may compromise existing activities and how some development partners and regional organizations work bilaterally with specific Pacific Island countries.
- With regional coordination could the availability of the right level and scope of technical support in a timely manner be undertaken at national levels;
- Where and how would the regional coordination role translate into national fund management and disbursement

Figure 6. Governance Structure for Option 4



Operation and Administration Issues

This option suggests strengthening of the regional coordination role including the management of the fund, and strengthening national mechanisms to follow through the implementation of activities. The PCCR would act as the clearing house and provides the policy and financial oversight for the operation of the fund.

Cost Implications

Generally, the implications on setting up this option relate to:

- What size grants could be expected to be funded;
- If seeking a simplified process and ease of access, who could participate in the fund

- Who would undertake the monitoring and reporting of activities under the fund
- The level of the funds operations will be influenced by capacity levels in participating countries;

Given the extensive differences in cost structures throughout the member states, developing a simple cost benefit table is restricted and is not a robust tool in this respect for looking at the option in terms of other opportunities to expend on. However the observation still remains valid that funds that support the strong participation of national and in particular communities in the management and implementation of activities, often enjoys consolidation of management activities that are relevant, and the sustainability of the program.

Feasibility of a Technical Backstopping Mechanism

Overview

A range of factors will influence how successful PICs will be in adapting to climate change. These include financial resources; governance; information; social resources; infrastructure, and technology. If the desired outcome of a regional climate change adaptation fund is to be one greater than a pool for finance, then a climate change fund cannot operate successfully without a sound technical support function.

Providing technical backstopping is not new, and it is not peculiar to developments such as a regional climate change fund. All CROP agencies, as well as numerous other development partners in the region, expend a significant level of resources on capacity building at both the regional and national levels. And while these country needs will continue due to various reasons, the establishment and operation of a regional climate change fund will in itself add to this country capacity need.

From the results of our consultations, there is unquestionable support for a technical backstopping mechanism from beneficiaries and regional organisations. However there are factors which will affect expectations relating to the capacity and function of a technical backstopping mechanism. These include disparities between target areas for addressing climate change, and the technical capacity of PICs to be able to address climate change adequately.

The responses also suggested that a technical backstopping mechanism should be supported, regardless of the final outcome of establishing a regional fund. One respondent commented; *'a technical backstopping mechanism should be running regardless of any regional fund. CROP organizations should be providing support to member countries to go out and access these resources on a needs basis and actively seeking which funds and procedures would be most appropriate for the requests received by members'*.

The holistic nature of climate change impacts on virtually all sectors – social, economic, infrastructural, development – and the consequent impacts on biological systems, means that the nature of the technical assistance needs of Pacific countries will be broad. These implications must be considered not only in terms of the design of the Climate Change Fund but also in instituting, and the coordination, of related technical backstopping and capacity building mechanisms.

Feasibility

There is wide ranging technical expertise present in various regional organisations, including all CROP agencies, within the Pacific. A non exhaustive list of CROP agencies include; the Pacific Islands Forum Secretariat (PIFS), the Secretariat of the Pacific Community (SPC), including its Applied Geoscience and Technology Division (SOPAC), and the Secretariat of the Pacific Regional Environment Program (SPREP).

Each regional organisation provides a distinct skill set, which would lend itself very well in supporting a technical backstopping mechanism for beneficiaries. For example; SOPAC offers a range of applied science, development and resource management services to Pacific Island Countries and other regional agencies. Among these are services such as coastal science, oceanographic science, vulnerability assessment, community risk management (and others). We understand that SOPAC is capable of deploying a range of specialist capacities, equipment and tools to collect crucial baseline data in support of adaptation, vulnerability assessment and the empirical understanding of climate change effects.

Alternatively, PIFS has the capacity to support and advise on large multilateral and multi focused funding opportunities through establishments such as the World Bank, and Asian

Development Bank. It also understands and can advise on most of the funding opportunities presented by the Post Forum Dialogue Partners (14 Countries) and development partners (35) to the Forum.

Further to CROP agencies, there are other regional organisations willing to provide support for a technical backstopping mechanism. For example, the IUCN is willing and able to provide support on ecosystem based adaptation approaches, strategic planning, provision of information and training, environmental impact assessment and environmental planning. Conservation international are also able to provide support for biodiversity related projects and schemes.

Although CROP agencies are already in existence, it appears that there could be greater support provided to PICs to get assistance for addressing Climate Change by incorporating a wider range of agencies and organisations. Additional support to ensure these existing technical and scientific resources could be mobilised to undertake more climate change related work.

Taking the above into consideration, it is possible that that Fund and the Technical Backstopping Mechanism may not need to be physically located as a unit. One suggestion was that a first step could be the establishment of an “advisory service” that provides support to countries in accessing existing and emerging financial resources. Such an option can also minimise any overlap with the activities of other international facilities and mechanisms.

In addition to the technical backstopping and capacity building assistance currently available from CROP agencies and other development partners, advisory services could include the following:

- Pre-feasibility analysis (assessing costs of actions)
- Preliminary assessment of options for combining various financial instruments
- Identification of potential sources of finance for the different components
- Preparation of applications for individual or groups of countries to selected sources
- Assistance in implementing Results Frameworks, Monitoring and Reporting
- Provide up to date information and reporting on climate finance flows

Raising and allocating finances for this purpose could be an integral part of the operation of the regional climate change adaptation fund. A co-ordination role for such technical backstopping could also be implemented (and financed) by a regional fund.

If it was decided to operate a technical backstopping mechanism independently from a regional climate change adaptation fund, funding would have to be sourced from elsewhere, for example a regional application to the Adaptation Fund.

However, if PICs consider that a close institutional relationship is needed between the technical backstopping mechanism and the climate change fund operations, then a cost-benefit analysis that accounts for both services within the one institutional arrangement, and takes into account similar and supporting services currently provided by CROP agencies and other partners, will need to be carried out.

Conclusion:

Detailed discussions on expectations and scope for a technical backstopping mechanism should be made as early as possible to allow integration with any regional funding mechanism (if it is considered appropriate to operate as part of a regional fund). These discussions should identify technical areas where support is required and will clarify what agencies are willing and able to provide assistance. Whilst there are presently CROP agencies

covering a range of specialist areas, additional expertise may be required. For example, biodiversity issues may be better resourced through organisations such as IUCN and Conservation International. Any such relationships should be agreed prior to starting any technical backstopping mechanism.

If CROP agencies are to play a key role in establishing a technical backstopping mechanism, it is reasonable to assume that the resourcefulness and capacity of CROP agencies will be tested if outside of a climate fund. This will be due to the developing challenges of climate change and an increase in use by beneficiaries. It is likely that the capacity of CROP agencies will need to be strengthened (either immediately or over time) to cope with this anticipated increase in demand. Their current capacity for technical backstopping should be reviewed to identify where and how it could be strengthened. These reviews often undertaken prior to Annual Board Meetings can be the springboard for increased collaboration among the agencies, utilising the climate fund at least initially as the catalyst.

Following detailed discussions with beneficiaries and CROP agencies, it will be possible to determine the full scope of the technical backstopping mechanism. Once this is decided, it will be easier to determine whether the technical backstopping mechanism should be part of a regional fund, or be independent. This will also be heavily dependent by what option is selected for a regional fund. It is important to consider the role of a technical backstopping mechanism when reviewing the potential options.

Key points which will need to be addressed include:

- Where would a technical support program for a Pacific Regional Climate Change Fund be based?
- How would a technical support program function in terms of the Fund, *i.e.* what is its primary role?
- What are the primary functions of the technical support program, *i.e.*, is it related to:
 - The application process
 - Project design and diligence
 - Monitoring and reporting
 - Financial management
 - Implementing/preparing NAPA programmes
 - All technical aspects relating to addressing climate change

Conclusions

Given the above options, the authors conclude that no single option would satisfy the desires of all stakeholders and the findings of previous reports. The initial consultation responses from beneficiaries identified a number of attributes that could apply to all of the identified options. These attributes include; effective and efficient support; easily accessible; institutionally strengthening; enhanced cooperation and coordination; and good technical support.

The identified options reveal an array of possibilities for consideration by stakeholders. Given the assumptions input into a simple cost benefit model, along with suggestions on governance and operations, including administration and reporting, as well as the overall responses received from Pacific Island countries, development partner, multilateral funds, and regional organizations, it is recommended that **Option 3** would be the most appropriate, cost effective, and addresses the needs and views of all stakeholders best.

All three options, if selected individually, or reframed as a combination to capture their desirable attributes into a single institutional design, it is again emphasized, must comply with strict fiduciary standards and stringent financial management principles. Appropriate systems of internal and external control, and fund management checks and balances, will need to be developed and instituted in due course, and before the Fund becomes operational.

Understanding the following high level byline provides the key to which option is preferred under this feasibility:

- ✓ **Internationally financed and supported**
- ✓ **Regionally coordinated and technical assistance**
- ✓ **Nationally managed and implemented**

OPTION 1 – Provides for a new mechanism, thus can be considered a high cost option, and one for which existing mechanisms and modalities already deliver outcomes. A new mechanism would undoubtedly require location and establishment in terms of staffing and agreement by stakeholders in terms of where it may be based. These points in themselves have not been greeted with any enthusiasm by any stakeholder in the context of undertaking this study. Further complications could arise upon establishment over how it would interact with development partners and regional organisations currently already coordinating and seeking to deliver outputs to their member states. Finally, clearly it was felt in the responses received from Pacific Island countries that the key priority to them was ease of access to available funds, on the ground delivery, and low cost establishment and operation. A new mechanism of course could also be established within an existing regional organisation. The current mandates of the regional organisations most relevant to climate change, such as SPREP, the Pacific Islands Forum Secretariat (PIFS) and SPC/SOPAC, have been somewhat overlapping, with each organisation, at least between SPREP/SPC/SOPAC and PIFS having different constituencies. Locating a newly established mechanism in one of these organisations would require wide national, regional and international agreement in terms of how financial flows could be channelled into such an existing structure.

OPTION 2 – Provides for establishing a Facility permanently at an existing regional organisation. Given the current mandates of the regional organisations most relevant to climate change, then SPREP and the Forum Secretariat both provide for a wide scope of coordination with members. Interestingly, SPREPs membership includes Pacific Island territories whereas the PIFS only comprises independent PICs. SPREP has a formal mandate to assist PICs with their capabilities and capacities to address climate change. Thus the Round Table originally formed under a SPREP program (PICCAP) during a regional conference in the Cook Islands, would “easily fit” within that mandate. PIFS provides policy advice and facilitates political decision making with its members, as well as coordinates some climate change funding activities. One point that arises is whether either of the organisations can reach all relevant country delegates and decision makers across all sectors of the society effectively, on a subject such as climate change. With such an enormous amount of climate related activities being undertaken at national, regional, and international levels, clearly no-one organisation currently has the ability to provide for all that is required to efficiently organise and coordinate not only activities, but also participants, development partners, and international agencies, in the context of the key principles identified by stakeholders, such as effective and efficient support financially; easily accessible; institutionally strong; enhanced cooperation and coordination; and wide technical support.

OPTION 3 – Provides for more regional coordination emphasis with focus on national management and implementation. Similar to a Bank with district branches, this Option provides for the responses that many PICs have sent to the authors related to both ease of access and managing their own resources. Previous programs and activities such as the Pacific Islands Climate Change Assistance Program (PICCAP) and others, sought to successfully establish National Climate Change Country Teams as a coordinating mechanism for preparing and completing their initial National Communications to the UNFCCC. These teams and others have been strengthened in order they address other sectors as well as climate, such as health, education, and fisheries. Technical support must be emphasised, as this will be sourced from all relevant regional organisations and other groups working in the region to assist Pacific Island countries to address their vulnerabilities across all sectors and at all levels. A coordinated mechanism at regional level will catalyse this national oriented approach. This mechanism is seen as a low cost efficient modality for ensuring firstly all climate activities are not overlapping activities through different agencies, and secondly, can be a mechanism with open governance which sets up the Facility initially.

The Pacific Islands Climate Change Roundtable (PCCR) already undertakes both general policy discussions and information exchange in the context of coordination of climate activities in the region. Established under PICCAP within SPREP, the PCCR is a “good fit” in terms of a regional coordination mechanism. It operates currently by participant offer to host the next PCCR meetings, and would be the right modality for revision into a more formal regional coordination facility.

However, as commented on in earlier sections of this report, the finer details of the role to be placed by the PCCR, as well as a CROP agency that could host these coordination and fund functions, will need to be further considered during the suggested follow-on regional consultation, especially in light of events subsequent to the commissioning of the study resulting in this report. This study report had its beginnings from a recommendation of the PCCR in Majuro in 2009, and the pending PCCR in Niue in March 2011 will provide the opportunity for the PCCR to again review these issues and recommend further actions as appropriate.

Note that previously in terminology this report identified that a fund was where the resources were pooled, that a facility was the institutional arrangement, and that a mechanism outlined the whole.

In this context the Pacific Regional Climate Change Facility could be housed at SPREP, or perhaps another organisation such as the PIFS. There are good attributes which both organisations could provide in terms of location of the Facility, such as:

- SPREP has a mandate to assist PICs address environmental issues, and specifically coordinate and provide technical and policy assistance to PICs. SPREP members are also from PI territories;
- SPREP has instituted a range of national environmental programs and activities through establishment and use of national country teams, who are primarily composed of government and non-government team members, these teams would be the national focal point for a Fund;
- PIFS has primarily Planning and Financial focal points, and are also involved in facilitating Leaders aspirations toward a sustainable Pacific Island region, with climate change as one highly rated priority. At a regional level is there a need to coordinate both PIFS focal points with SPREP focal points? Or is this best left to National levels of coordination.

Figure 7. Recommended structure of a strengthened Climate Change Round Table into the Regional Climate Change Facility.

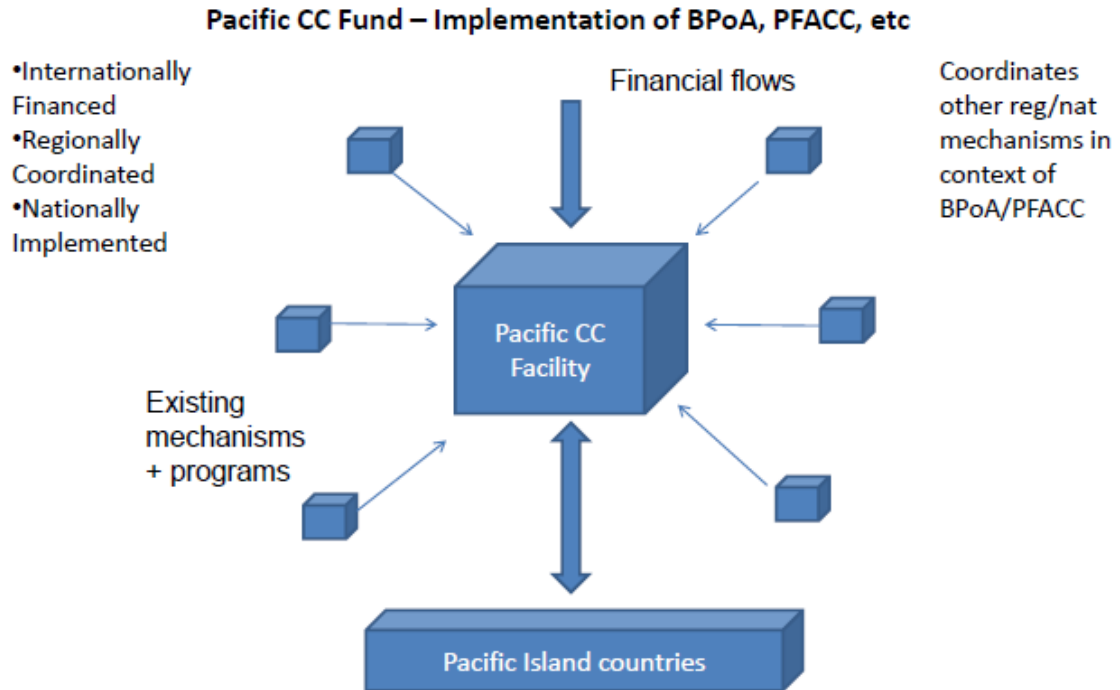
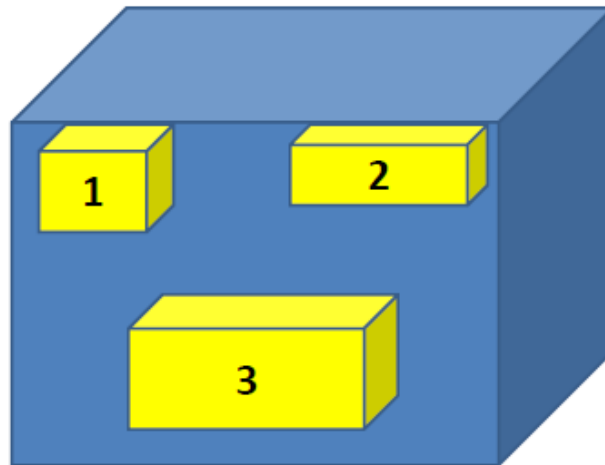


Figure 8. Structure of a Pacific Island Climate Change Facility

The Pacific Island Climate Change Facility



The PICCF would comprise :

1. A Climate Fund, application process,
2. A Coordination function
3. Technical Support function

Next Steps

It is suggested that SPREP consider the views above and then seek to conduct further specific regional and national consultations to address the following:

What would be required to strengthen and improve the way the PICCR works and operates?

In order for the existing PICCR to meet the needs and aspirations of the region in terms of a coordination role for a Facility, means the PICCR would require a number of structural and governance agreements, such as:

- Agreement by Stakeholders that the PICCR be changed to the Regional Climate Change Facility with the following structural amendments:
 - The Facility would be located at SPREP
 - The Facility would be established by regional stakeholders through agreement and with a primary objective clearly defined
 - The Facility could comprise 3 separate divisions: a Climate Fund, a Coordination Division, and a Technical Backstopping Division;
 - The Climate Fund within the Facility would have paid operational staff, with policy developed and prepared by the SPREP membership at its annual meeting/s;
 - The Coordination Division would operate as it does currently, with no paid operational staff, but would have access to SPREP Secretariat staff to organise annual meetings with national and regional stakeholders. It is important that all stakeholders are aware of the activities undertaken within the region, whether or not those activities are a result of the activities of the Fund or otherwise.
 - The Technical Backstopping Division would have paid staff to facilitate assistance to PICs from organisations and agencies throughout the region upon request, both in terms of capacity development around the Fund, eg, applications and access, but also in terms of due diligence, ie, ensuring applications meet the criteria (yet to be developed). The TA primary role is to coordinate assistance request and facilitate that assistance between the regional/national experts and the country seeking assistance, the TA division does not undertake assistance in this context.
- The conclusions above, and the recommendations contained in this report, partly because of the evolving nature of the issues and concerns considered, may be viewed as “work in progress”. The regional and national consultations suggested, including further discussions with potential donors, as a follow-on from this study, taking into account the Leaders decision in 2010 and the Cancun agreement to establish an International Green Climate Fund, will assist better focus this process of enhancing access to funding and services that can be provided by a regional Climate Change Fund and a Technical Backstopping Mechanism.

