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Unlocking Access to Climate Finance for Pacific Island Countries

Prepared by Manal Fouad, Natalija Novta, Gemma Preston, Todd Schneider, and Sureni Weerathunga

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Executive Summary and Policy Implications

Pacific island countries (PICs) are globally among the most exposed and vulnerable to climate change and natural disasters and are also among the least equipped to adapt, putting their economic development and macroeconomic stability at risk. Climate adaptation efforts in the Pacific are critical, but costs are substantial. Debt levels for some are high and rising, exacerbated by the pandemic. Average investment needs for climate-proofing infrastructure are estimated at 3.3 percent of GDP annually for the Asia-Pacific region during the next decade, but average between 6½ and 9 percent of GDP annually for PICs (IMF 2021a). While climate change is primarily caused by emissions from large advanced and emerging market economies, the Pacific islands are among those most heavily impacted by the adverse effects of climate change.

This departmental paper provides an in-depth overview of access to climate finance for PICs, evaluating successes and challenges faced by countries and proposes a way forward to unlock access to climate funds. Chapter 1 takes stock of the climate finance landscape and examines the current track record of PIC access to climate finance.[1] The paper then reviews the requirements to access major climate funds (CFs), with a focus on the largest, the Green Climate Fund (GCF), identifying the types of potential challenges PICs could face in accessing finance (Chapter 2). Chapter 3 draws on country specific experiences in accessing climate finance to identify actual challenges and successes based on discussions with relevant country authorities. Chapter 4 identifies the specific public financial management (PFM) requirements to accessing climate finance, particularly those of the GCF. Putting this together with an assessment of PFM capacity in the region, it identifies areas where

[1]Other market-based mechanisms to finance climate adaptation needs including through greater private sector involvement such as green bonds, catastrophe bonds, debt swaps and insurance are either still emerging and require further exploration or are not relevant for PICs. Thus, the focus of this paper is the experience with accessing finance from multilateral climate funds in the Pacific region.

capacity challenges could be particularly acute and where IMF PFM diagnostic tools, and capacity development, could play a supporting role. The paper then offers conclusions with some options to go forward.

The paper draws several key findings:

- Without additional grant-based access to climate finance, meeting the cost of climate adaptation in the PICs will be extremely challenging. Financing to date has fallen short of annual estimated adaptation needs. Additional support will be needed to help countries manage vulnerabilities and build resilience to climate change.

- Accessing climate finance from CFs like the GCF through partnerships with international accredited entities (such as the World Bank, Asian Development Bank [ADB], or United Nations Development Programme [UNDP]) has been the most successful avenue to date in terms of the size and speed of financing. This path works well to provide finance where the priorities of countries and international accredited entities align. Where priorities diverge, or where PIC projects are simply too small relative to the overall project portfolio of international entities, relying only on this pathway can leave countries stranded, without viable access to climate finance through CFs.

- Achieving national direct-access accreditation to the GCF remains a strong preference for PICs but the track record of success in the region is poor, with low accreditation rates and disbursements of funds yet to occur. The process is lengthy and complex, despite previous streamlining attempts. PFM-related GCF requirements are extensive, involving many hundreds of criteria. Many of these areas are where PIC PFM capacity needs to be further strengthened. Experience shows progress will be gradual, requiring genuine institution-building.

- The speed at which capacity can be developed in the region to facilitate direct access to the GCF appears inconsistent with the speed at which PICs need to adapt to climate change. Increasing frequency and intensity of natural disasters have already highlighted the need for near-term scaling up of public investment in climate resilience. Measures to facilitate adaptation to climate change are becoming increasingly urgent.

Several recommendations and proposals for the way forward are formulated, for the PICs, CFs, and the IMF, respectively:

- *For the PICs*: PICs should take a strategic view of how to best match climate adaptation projects with all potential funding sources. Where resources allow, dedicated climate units that take a whole-of-portfolio view

to managing climate finance could establish financing strategies, integrate climate finance into the budget process, develop a pipeline of viable projects and be a key link across government ministries, managing coordination challenges. It is increasingly clear that a mix of access modalities is needed to unlock finance from CFs. To leverage the successes of projects developed through partnerships with international accredited entities PICs should seek out areas where country and international entity priorities align. Decisions on pursuing direct access to CFs should be taken fully informed by the track record of experience, and the needed investment of time and resources. Meanwhile, PICs should continue to build necessary PFM capacity. Strong audit, robust control frameworks and strengthened public investment practices are important priorities and where relevant, should be integrated into country-specific PFM reform plans. Countries should draw on the existing regional cluster of climate experts and, where feasible, expand it to help address resource scarcity.

- *For the CFs*: Recognizing the shrinking window of opportunity to address the climate crisis, CFs should consider further efforts to rebalance the risks to shareholders, with the urgency of climate adaptation needs of small and fragile[2] countries. CFs should consider further streamlining efforts for accreditation requirements and prioritize requirements that will significantly strengthen safeguards for shareholder resources. CFs should also consider whether other innovative options beyond fast-track accreditation processes could help to further reduce the burden on countries.

- *For the IMF*: The IMF should continue to provide targeted capacity development assistance to strengthen PFM in the PICs, with an emphasis on where major PFM gaps remain, helping to integrate climate considerations into PFM reform plans, as appropriate, depending on country capacity. The IMF should provide further analysis and discussion of climate risks, mitigation goals and adaptation needs of individual countries in the context of macroeconomic surveillance, disseminate lessons learned from analytical work to the global membership, and use its convening power to bring relevant stakeholders together to discuss optimization of climate finance for climate adaptation needs.

[2]Fragile States are group of countries trapped in cycles of low administrative capacity, political instability, conflict, and weak economic performance. While a few PICs are considered to be fragile because of their post-conflict status, PICs are considered fragile because of the vulnerability associated with both their smallness and remoteness. Small states in fragile situations are defined as having weak institutional capacity as measured by the World Bank Country Policy and Institutional Assessment (CPIA) score and/or experience of conflict.

CHAPTER

1 Pacific Island Countries: Characteristics and Track Record of Access to Climate Finance

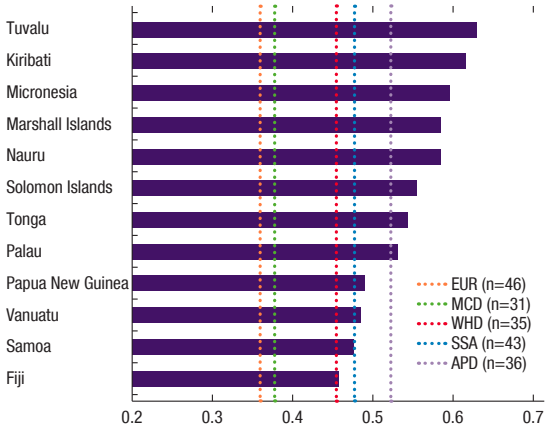
Pacific island countries (PICs) are highly vulnerable to the impacts of climate change, and for some it presents an existential threat. As a group, they are not only particularly exposed, but also have comparatively less local capacity to effectively adapt to changing climate conditions and increased incidence of natural disasters. This section reviews the characteristics of PICs that contribute to their vulnerability, reviews the available international sources of climate finance, and discusses the region's climate adaptation needs and their current track record in accessing climate finance.

Introduction

PICs are among the countries most exposed to the physical impacts of climate change; for some it presents an existential challenge (Figure 1).[1] Exposure to climate change is determined by physical factors that countries cannot control (Chen and others 2015). Over the past 100 years, PICs have experienced approximately 17 centimeters of sea-level rise due to the increase in average global temperatures. More frequent and intense storms and tropical cyclones have caused widespread coastal flooding and shoreline erosion. Between now and 2100, it is expected that average annual temperatures in the region will rise 1.4–3.7 degrees Celsius, and sea levels are expected to increase by an additional 120–200 cm, that is, 7 to 10 times more than in the past 100 years. These changes are contributing to stressed water systems, diminished fish stocks, ocean acidification, loss of coral reefs

[1]The exposure index is taken from the ND-Gain Index of the Notre Dame Adaptation Initiative. The exposure index measures the extent to which human society and its supporting sectors are stressed by the future changing climate conditions. It captures the physical factors external to the system that contribute to vulnerability. Compared to other regions, on average, Asia-Pacific is the most exposed to climate change, and the PICs are the most exposed within Asia-Pacific.

Figure 1. Exposure to Climate Change
(Index)

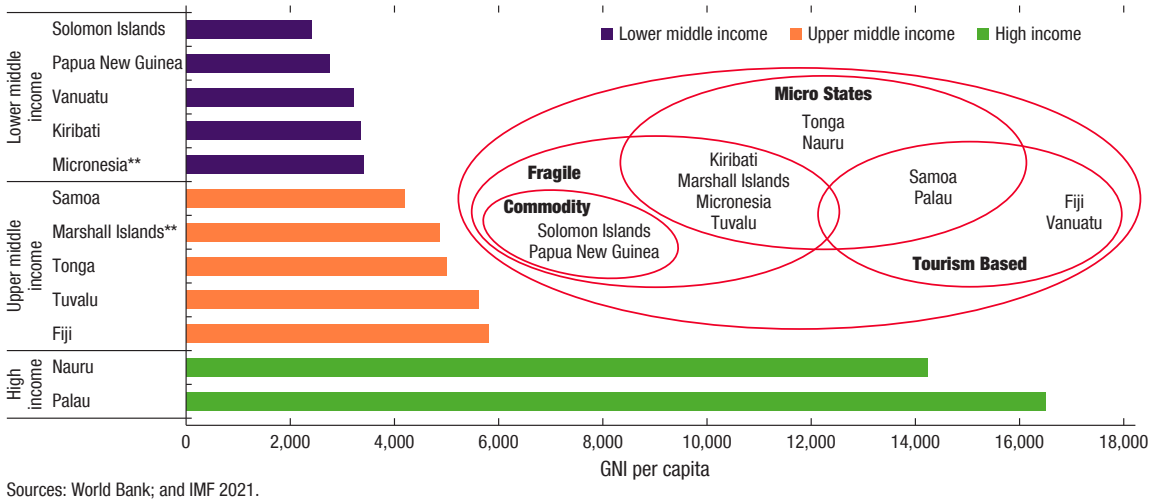


Source: Notre Dame Global Adaptation Index (2018).
Note: Dotted lines show averages by IMF area departments, and the number of countries is shown in parentheses. APD = Asia Pacific; EUR = Europe; MCD = Middle East and Central Asia; SSA = Sub-Saharan Africa; and WHD = Western Hemisphere.

and biodiversity, all of which can devastate economic activity and people's livelihoods in PICs (Nunn 2012).

PICs are among some of the world's poorest small states (IMF 2017). They broadly share many characteristics—small, remote, and geographically dispersed—but there is also much heterogeneity (Figure 2). This paper covers 12 of them: Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. They traverse the income spectrum from about $2,300 to $16,500 in GNI per capita. Five are considered lower middle-income, five upper middle-income, and two high-income countries using World Bank criteria. Two-thirds of the group are considered "micro-states" with populations below 200,000, and half of these are also fragile states. Papua New Guinea is the only non-small state, with a population of close to 8 million. Overall, the region is home to about 10 million people, covering millions of square miles of ocean.

Figure 2. Characteristics of Pacific Island Countries (PICs)
(US Dollars, 2019)



Sources: World Bank; and IMF 2021.
Note: Countries marked ** are classified based on GNI per capita in 2018 to reflect latest data available.

High vulnerability to climate change and natural disasters puts economic development and macroeconomic stability at risk in small island economies. PICs are particularly sensitive to climate change because their economies are relatively undiversified and tend to rely on a few dominant sectors—such as tourism or exports of natural resources—that are heavily affected by adverse weather and climate impacts. Sensitivity to climate change measures the degree to which people and the economy are affected by climate disturbances. Some of the PICs are tourism-based (Fiji, Palau, Samoa, Tonga, Vanuatu), some are commodity exporters (Papua New Guinea and Solomon Islands), and others are deeply reliant on tuna stocks, either for income from fishing licenses or transshipment (Kiribati, Marshall Islands, Micronesia, Nauru, Tuvalu). The productivity of each of these dominant sectors depends in part on the weather, and over the long term, on climate. Reliance on these economic sectors and the fact that Pacific islanders' homes, businesses, and infrastructure are at high risk of weather-related damage contribute to PICs' vulnerability to climate change and natural disasters.

Although natural disasters tend to be more frequent and devastating in small island states compared to other regions (IMF 2016), there are ways to build resilience and adapt to changing climate conditions. The types of adaptation projects needed to address these risks are well-known and include climate-proofing of infrastructure, protection of mangroves, better management of water resources, better use of weather information, implementation of early warning systems, and greater uptake of dryland agriculture (for a review see GCA 2018).

Climate change adaptation in the Pacific region is critical, but costs are significant and fiscal space is limited. Public sector investment costs for adaptation are disproportionately high in PICs due to their expensive coastal protection infrastructure needs. Average investment needs for climate-proofing infrastructure are estimated at 3.3 percent of GDP annually for the Asia-Pacific region as a whole during the next decade but are typically much higher for PICs. Sustained investment on this scale for an extended period—10 years or more—will be difficult or impossible without a mix of grants or external concessional loans, especially given the deterioration of fiscal space due to COVID-19. Additional financing in the form of loans—even on concessional terms—will need to be integrated into a sustainable fiscal and debt management framework.

PICs face significant challenges in gaining or increasing access to climate adaptation financing from multilateral climate funds. Across the Pacific, governments face institutional and human resource capacity constraints, which limit their ability to plan, fund, and implement climate adaptation projects. PICs must satisfy rigorous and complex access requirements of CFs, navigate

different access modalities, and successfully work with local and international partners to implement and execute projects.

The rest of this paper seeks to identify each of these challenges and offer some suggestions for the way forward for PICs, CFs, and the IMF. The paper first reviews the landscape of climate funding for PICs and the recent track record of climate finance flows to the Pacific.

The Climate Finance Landscape for Pacific Island Countries

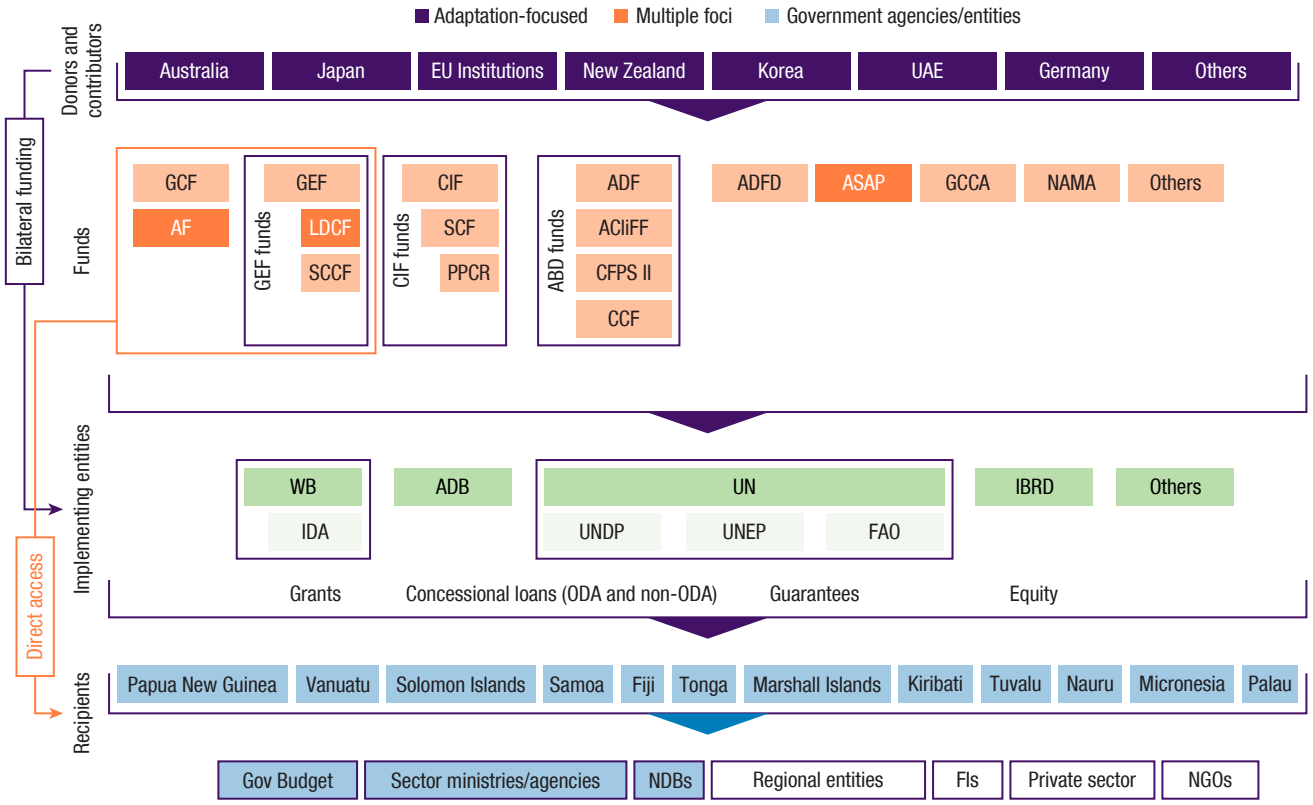
The climate finance landscape for PICs is complex and involves many players (Figure 3). Countries can access climate finance either directly through bilateral donors and multilateral development banks or through multilateral CFs (for example, the GCF). Increasingly, multilateral CFs are becoming a major source of finance for large adaptation projects, which necessitates working within a system of accredited and implementing entities—the so-called climate finance architecture. Climate finance architecture refers to the system of public funds and institutions that help countries implement climate mitigation and adaptation projects (Thwaites and Amerasinghe 2017). The current complexity of the climate finance architecture is a consequence of CFs being created in response to different needs and gaps at different points in time.

Climate finance[2] architecture involves the following set of stakeholders:

- *Bilateral Sources/Donors*: These stakeholders represent governments and are the source of climate funding that is available to recipient countries. Donors can contribute funding to specific CFs (for example, the GCF, Global Environment Facility [GEF]), or to a multilateral agency to deploy on their behalf (for example, the World Bank, Asian Development Bank [ADB]) or directly to a national bilateral agency in the country (for example, the Ministry of Finance or Environment).
- *Climate Fund (CFs)*: These stakeholders represent designated CFs and facilities established by donors to address climate change. Some funds are multi-donor and have complex governance structures and arrangements. Others are bilateral or otherwise have more targeted management, governance, and operations (the Abu Dhabi Fund for Development [ADFD]).
- *Implementing Entities (IEs) and Agencies*: These entities are responsible for identifying, proposing, overseeing, and appraising projects/programs. They

[2]Climate finance refers to international public funding from donors, development finance institutions, and CFs that aims at reducing emissions, enhancing sinks of greenhouse gases and reducing the vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to adverse climate change impacts (UNFCCC n.d).

Figure 3. Climate Finance Architecture for Pacific Island Countries



Source: IMF staff.
Note: The acronyms are listed by group. The Funds are as follows: Asia-Pacific Climate Finance Fund (ACLiFF), Asia Development Fund (ADF), Abu Dhabi Fund for Development (ADFD), Adaptation Fund (AF), Adaptation for Small Agriculture Program (ASAP), Climate Change Fund (CCF), Canadian Climate Fund for the Private Sector in Asia II (CFPS II), Climate Investment Funds (CIF), Global Climate Change Alliance (GCCA), Green Climate Fund (GCF), Global Environment Facility (GEF), Least Developed Countries Fund (LDCF), Nationally Appropriate Mitigation Action Facility (NAMA), Pilot Program on Climate Resilience (PPCR), Special Climate Change Fund (SCCF), Strategic Climate Fund (SCF). The Implementing Entities are as follows: World Bank (WB), International Development Association (IDA), Asian Development Bank (ADB), United Nations Development Program (UNDP), United Nations Environment Program (UNEP), Food and Agriculture Organization (FAO), International Bank for Reconstruction and Development (IBRD). The Recipients are as follows: National Development Banks (NDBs), Financial Institutions (FIs), Non-Governmental Organizations (NGOs).

may work in conjunction with local financial institutions and governments to coordinate the implementation of a project. Many implementing entities are also multilateral institutions such as the World Bank and the ADB.

- *Recipients*: The recipients of climate finance tend to be developing country governments, national development banks, nongovernmental organizations (NGOs), and private sector actors such as commercial banks. Recipients can receive finance directly from donors, through multilateral institutions, or through CFs (directly or indirectly).

A multitude of multinational CFs exist, with different governance models, instruments, and eligibility criteria. Fourteen main CFs available for PICs are

Table 1. Main Climate Funds Available to PICs and Their Financial Instruments

Facility	Grant	Concessional Loan	Equity	Guarantee
Green Climate Fund (GCF)	✓	✓	✓	✓
Pilot Program for Climate Resilience (PPCR)	✓	✓	✓	✓
Global Environment Facility (GEF)	✓	✓	✓	✓
Abu Dhabi Fund for Development (ADFD)	✓	✓		
NAMA Facility	✓	✓		✓
Asia-Pacific Climate Finance Fund (ACLIF)	✓	✓	✓	
Adaptation Fund (AF)	✓			
Least Developed Countries Fund (LDCF)	✓			
Global Climate Change Alliance (GCCA)	✓			
Special Climate Change Fund (SCCF)	✓			
Climate Change Fund (CCF)	✓			
Asian Development Fund (ADF)	✓			
Adaptation for Smallholder Agriculture Programme (ASAP)	✓			
Canadian Climate Fund for Private Sector in Asia II (CCFP II)		✓		

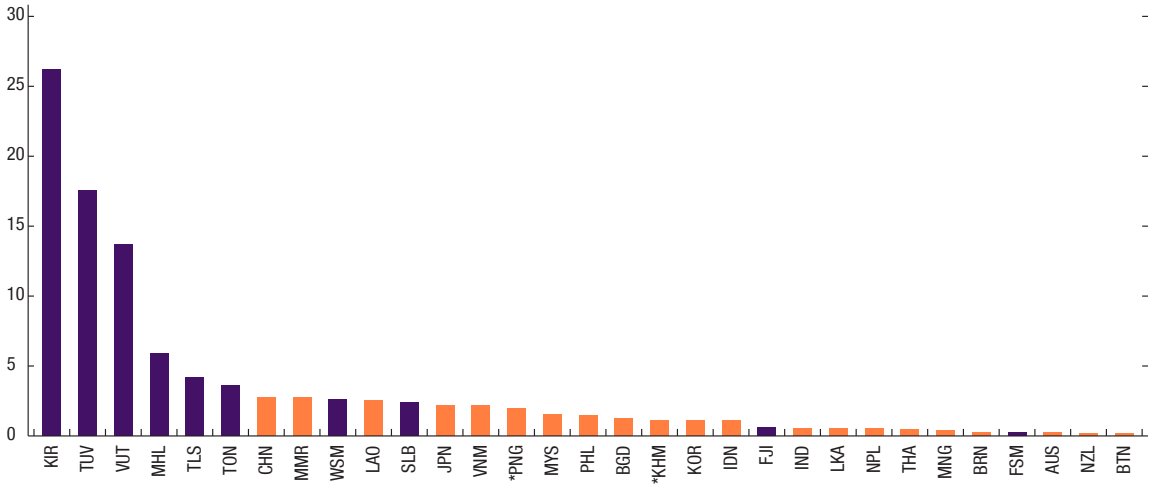
Source: IMF staff.
Note on eligibility: LDCF—only least developed PICs are eligible; ADF—Fiji, Palau, and Papua New Guinea are not eligible; ASAP—Marshall Islands, Micronesia, Nauru, Palau, and Tuvalu are not eligible.

listed in Figure 3 and Table 1. Some of these funds and facilities are standalone, such as the GCF. Others operate under the umbrella of other multilateral CFs. For example, the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF) are separate trust funds managed by the GEF. Similarly, the Asian Development Fund (ADF) and the Climate Change Fund (CCF) are managed by the ADB. Some of the CFs are relatively new and fast growing (for example, GCF), while others are longstanding (for example, GEF, ADFD). Table 1 provides information about the 14 climate funds available for PICs, including the instruments they provide and individual PIC country eligibility.

CFs offer a range of financing instruments typically grants, concessional loans, equity, or guarantees (Table 1). Given limited fiscal space in many PICs the provision of grants has been critical, and all but one of the 14 CFs active in the Pacific provide grants.[3] Entities that handle only grants typically require the lowest level of capacity to achieve accreditation. Among non-grant mechanisms, CFs primarily provide concessional loans and guarantees to projects in the Pacific. Some funds also provide equity financing on patient terms (for example, "concessional" equity). Five out of the 14 funds mapped here provide equity and/or guarantees to eligible projects, as shown in Table 1.

[3]The Canadian Climate Fund for the Private Sector in Asia II is the only fund that does not provide grants, among the 14 CFs for which PICs are eligible.

Figure 4. Estimated Annual Public Climate Adaptation Costs
(Percent of GDP)



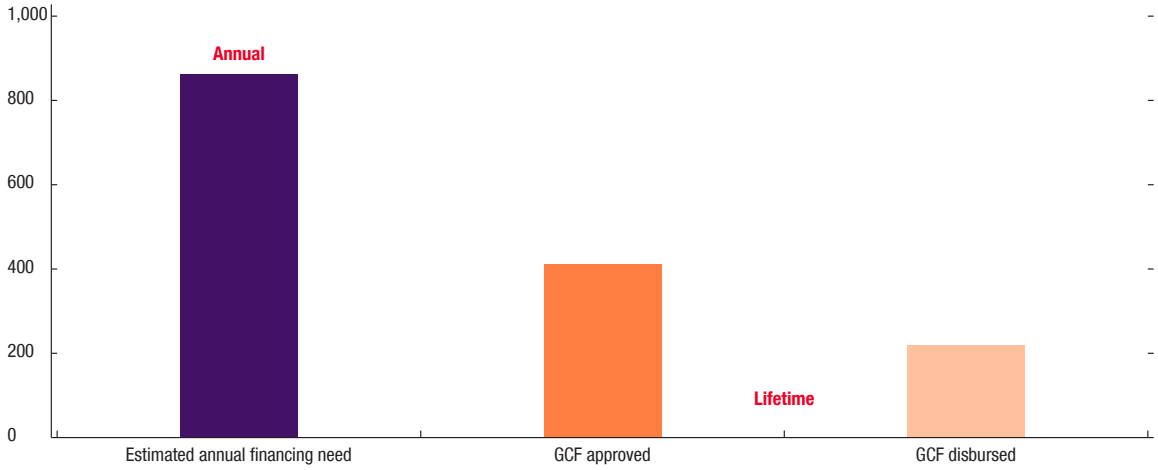
Source: IMF (2021a).
Note: The purple bars represent PIC, and the orange bars represent all other Asia-Pacific countries. Bars correspond to the sum of upgrading and retrofitting costs in the public sector and coastal protection costs. The level of protection being costed corresponds to the protection that keeps average annual losses below 0.01 percent of local GDP for protected areas. Data labels in the figure use International Organization for Standardization (ISO) country codes.
*Missing values in the risk intolerance case for Cambodia and for the private sector for Papua New Guinea.

Size of the Climate Finance "Gap" Facing Pacific Island Countries

PICs face a large climate finance "gap," with the average additional annual spending needs estimated at 6½ to 9 percent of GDP, or almost $1 billion for the region (see Figure 5). IMF (2021a) finds that PICs need about 9 percent of GDP annually on average for climate adaptation investments under a "risk-intolerant" strategy aimed at building coastal protection infrastructure that limits average economic losses below 0.01 percent of GDP. But for some countries the expected cost is much more, for example, for Kiribati, Tuvalu, and Vanuatu the estimated annual costs are greater than 10 percent of GDP (Figure 4). Tiedemann and others (2021) find that the small Pacific islands need on average about 6.5 percent of GDP of additional annual infrastructure investment, based on an input–outcome costing methodology for reaching UN Sustainable Development Goals by 2030. Their estimates are based on and consistent with Hallegatte, Rentschler, and Rosenberg (2019), Nicholls and others (2019), and Rozenberg and Fay (2019). Country-specific estimates for countries that have been developed in the context of a CCPA point to an estimated financing gap of $400–500 million over the next 15 years for Micronesia and $289 million over the next 10 years for Tonga, see Box 1.[4]

[4]This section presents a number of methodologies that have been used to estimate the size of the finance gap facing PICs, including global top-down methodologies like that referenced in IMF (2021a) and Tiedemann and others (2021) and bottom-up country specific assessments prepared in the context of the CCPAs. No one methodology offers a precise estimate—but all methodologies point to a roughly similar range.

Figure 5. Estimated Annual Climate Adaptation Need vs. GCF Lifetime Approvals and Disbursements
(USD million)



Sources: Green Climate Fund (GCF) website; IMF (2021a); and IMF staff calculations.
Note: GCF data as at May 2021.

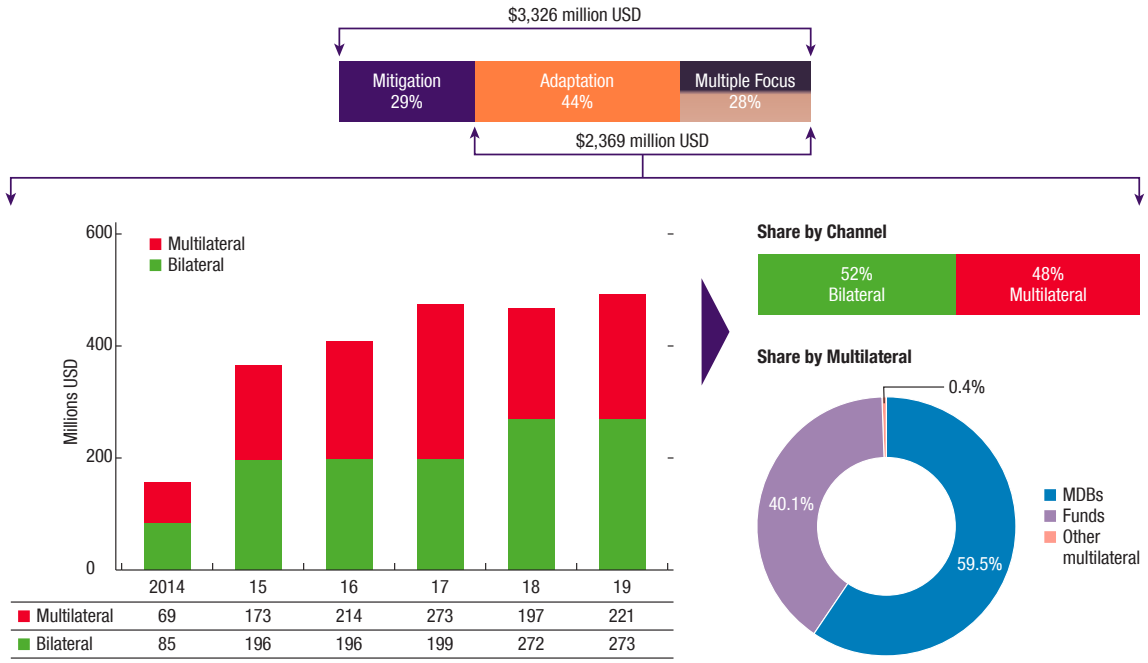
Overall, PICs' annual estimated climate-adaptation finance needs far exceed the amounts received from major available sources. The GCF has become the dominant climate fund in the Pacific region since it started approving projects in 2015. Figure 5 compares the estimated annual climate adaptation financing needs for the PICs, of almost $1 billion, with the cumulative (or lifetime) GCF approvals and disbursements (for both adaptation and mitigation), since the GCF was established. The *lifetime* GCF approvals for the PICs are just under half of the estimated *annual* needs, and GCF disbursements in the region are around a quarter of the annual needs. This highlights the need for faster-paced investment in building climate-resilient infrastructure in the Pacific islands.

Track Record of Access to Climate Finance by Pacific Island Countries

About $3.3 billion was committed for climate projects in the Pacific region between 2014 and 2019, and each island country has received some climate finance (Figure 6; Annex Tables 2.1 and 2.2).[5] Climate projects are classified as focusing on mitigation (reducing greenhouse gases), adaptation (adjusting to the impact of climate change), or multiple focus activities. Of the $3.3 billion in committed funds, $1.5 billion (44 percent) was focused solely

[5]Data on climate finance draw from the OECD Climate-related Finance Database, 2014–19, and all the climate finance data analysis presented in the paper covers this period. These data have been verified by the OECD and represent the most reliable data on climate finance, through occasional gaps may persist. The fragmentation of climate finance sources hampers the consistency and quality of data as different entities report according to their own definition, level of detail, frequency, and with different quality control procedures.

Figure 6. Climate Finance Commitments for PICs (2014–2019)
(USD million)



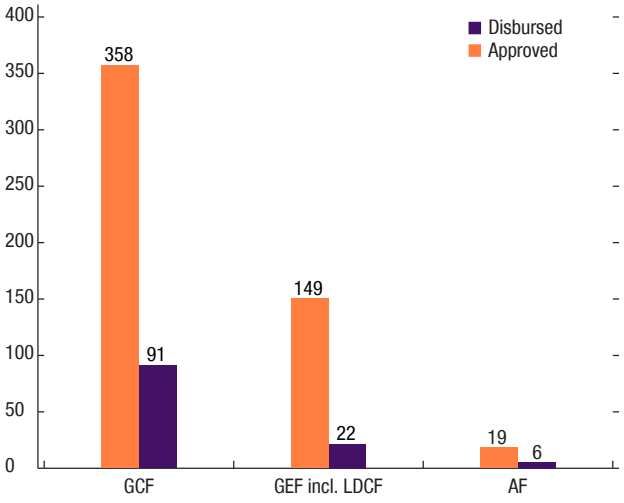
Sources: IMF staff; and OECD Climate-related Development Finance Database (2020).

on adaptation, $0.9 billion (27 percent) had multiple focus activities jointly addressing adaptation and mitigation, and $1 billion (29 percent) focused solely on mitigation (Figure 6).

Bilateral and multilateral sources of climate finance have so far been equally important in the Pacific (Figure 6). Bilateral sources are important for more urgent priorities, as bilaterally funded projects tend to be disbursed more quickly, with fewer or more tailored access requirements that take into account country-specific conditions. Australia, European Union, Japan, and New Zealand have led the way in bilateral climate support in the Pacific (see Annex Tables 2.1 and 2.2). However, multilateral sources of climate finance, including large global funds like the GCF, are increasingly needed to support adaptation projects given the sizable financing requirements. To date, these projects typically take several years from conception to completion, with rigorous fiduciary standards, gender policies, and environmental and social safeguards.

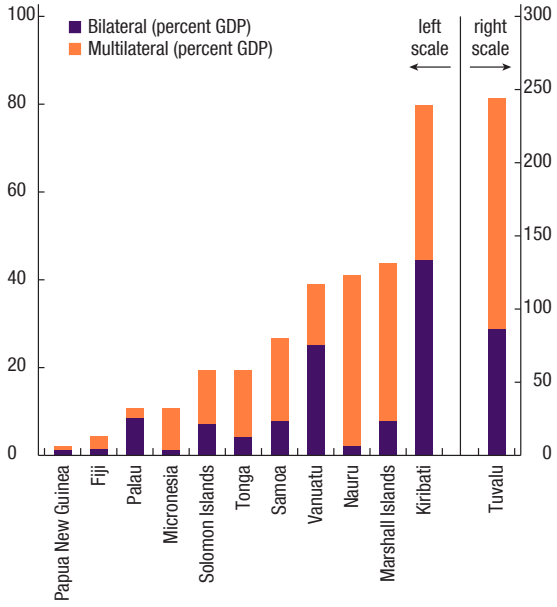
The GCF has become the dominant climate fund in the Pacific region since it started approving projects in 2015. Other major CFs, such as the GEF, the LDCF, and the AF have also historically had an important presence in the Pacific. However, according to the OECD data since 2014, the GCF

Figure 7. Approved and Disbursed Climate Funding by CF (2014–2019)
(USD million)



Sources: Climate Funds Update Database; and OECD Climate-related Development Finance Database.
Note: Climate funding includes adaptation, mitigation, and multiple focus projects. AF = Adaptation Fund; GEF = Global Environment Facility; GCF = Green Climate Fund; and LDCF = Least Developed Countries Fund.

Figure 8. Approved Climate Adaptation Funding by Country (2014–2019)
(Percent of GDP)



Source: OECD Climate-related Development Finance Database.

has committed more funds for the PICs than all the other major CFs combined (Figure 7).

The track record in accessing climate adaptation finance has varied in several aspects across the PICs (Figure 8), including:

- *Differences in climate funding as a share of GDP*: Some of the PICs have embarked on significant investments in climate adaptation, while others lag (Figure 8). For example, Tuvalu's approved climate adaptation funding exceeds 200 percent of GDP, largely due to a major coastal protection project with the GCF. Kiribati, Nauru, Marshall Islands, and Vanuatu and have all secured over 30 precent of 2019 GDP in climate adaptation funding over the period 2014–19. Other countries lag behind, with Papua New Guinea and Fiji having secured less than 10 percent of their 2019 GDP in funding over the same period (2014–19). On a per capita basis, Tuvalu and Nauru have secured the most funding.
- *Bilateral vs. multilateral access*: Some PICs rely primarily on bilateral partners for climate finance, which are overwhelmingly in the form of grants (Figure 8; Annex Tables 2.1 and 2.2). For climate adaptation for example, in Papua New Guinea and Vanuatu more than 60 percent of funding was bilateral, primarily from Australia and the European Union. Palau and

Kiribati also received the majority of their financing from bilateral sources, primarily Japan. Other PICs relied predominantly on multilateral sources, some almost entirely (Marshall Islands, Micronesia, Nauru, and Tonga).

- *GCF vs. other CFs*: While providing 80 percent of the climate adaptation funding from multilateral sources in the region, the GCF has so far had very little presence in some PICs, such as Papua New Guinea, Micronesia, and Palau (Annex Table 1). In some countries, other multilateral funds (for example, the AF in Micronesia) have partially compensated for the lack of GCF funding.
- *Grants vs. loans:* Almost all climate adaptation projects in the Pacific have been financed through grants. Only in the Solomon Islands were concessional loans heavily used, with a US $70 million, 40-year loan for a GCF co-financed hydropower project.[6] Papua New Guinea and Tonga have also received concessional loans, but in smaller amounts.

Despite commitments for climate finance, disbursements are often delayed for several years, although recent GCF disbursement rates have been improving. Using approval and disbursement data for four major funds from 2014–19 from the OECD and Climate Funds Update databases, only about 20 percent of the approved adaptation funds were recorded as disbursed during that time (Figure 7), though reliability of disbursement data from these sources is questionable.[7] Looking at just the GCF approved programs through May 2021, based on the GCF website, the average disbursement rate for the Pacific is at about 50 percent (Figure 9).[8] There was large variation across PICs, with Solomon Islands, Nauru, and Tonga having high disbursement rates (more than 80 percent), while others had little or no disbursements at all (Palau and Kiribati).

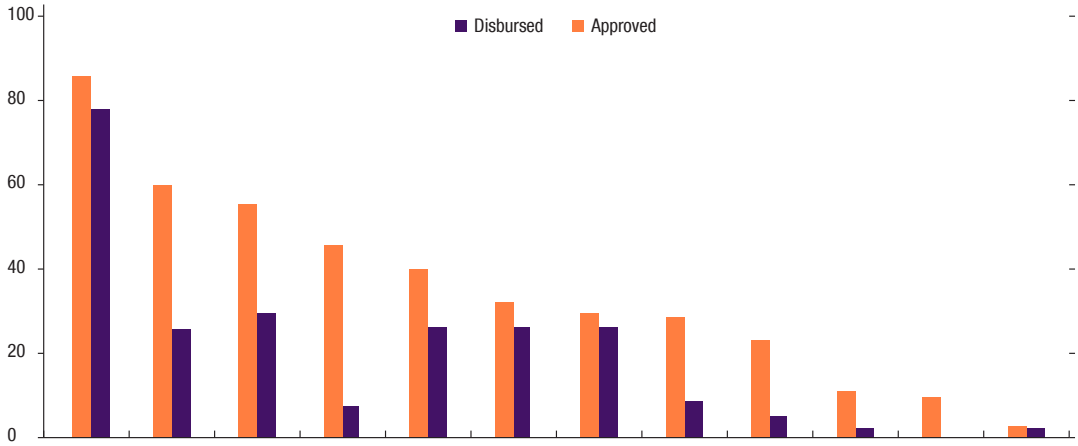
While the overall track record of access to climate finance is mixed, countries with higher exposure to climate change tend to have more approved climate adaptation funding, as a percent of GDP (Figure 10). This is an encouraging finding. However, the overall needs still far outpace climate finance approvals and disbursements. Given the urgent need for climate-related investments and the absence of domestic sources of finance, all PICs need to increase their access to climate finance to improve investment in climate adaptation.

[6]The hydropower project referred to is a multifocus project looking at both adaptation and mitigation challenges, but mitigation is a primary aspect of this project.

[7]Data on climate funding disbursements are generally very limited. Disbursement data were extracted from the Climate Funds Update database between 2014 and 2019 and compared against approved amounts in the OECD Climate-related Development Finance database.

[8]Disbursements can be delayed due to project-specific issues, such as permitting, failure to achieve agreed project milestones on time, problems within an implementing entity or executing entity, difficulties in recruiting suitably qualified national and international staff, or infrequent shipping access. Political turnover can be particularly disruptive, particularly if a new administration replaces key stakeholders within government ministries. These cause a break in knowledge and, potentially, commitment to proposals under development and ongoing projects (GCF n.d.-d).

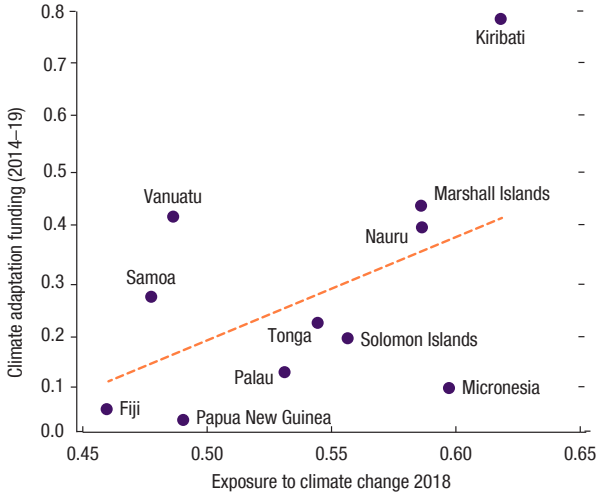
Figure 9. Funding Approved and Disbursed by the GCF (as of May 2021)
(USD million)



	Solomon Islands	Samoa	Marshall Islands	Tuvalu	Fiji	Tonga	Nauru	Kiribati	Vanuatu	Micronesia	Palau	Papua New Guinea
Approved	$ 86	$ 60	$ 56	$ 45	$ 40	$ 32	$ 29	$ 29	$ 23	$ 11	$ 9	$ 2
Disbursed	$ 78	$ 26	$ 30	$ 7	$ 26	$ 27	$ 26	$ 9	$ 5	$ 2	$ –	$ 2
%	91%	43%	53%	16%	66%	82%	90%	31%	22%	20%	0%	91%
Projects	**1**	**2**	**4**	**2**	**4**	**2**	**2**	**1**	**1**	**2**	**1**	**1**
Adaptation	0	1	3	2	1	0	0	0	1	1	1	0
Mitigation	0	0	0	0	3	1	0	0	0	0	0	0
Multiple Focus	1	1	1	0	0	1	2	1	0	1	0	1

Sources: Green Climate Fund; OECD Climate-related Development Finance Database; and IMF staff.

Figure 10. Exposure to Climate Change and Approved Climate Adaptation Funding
(Percent of GDP)



Sources: Notre Dame Global Adaptation Index (2018); and OECD climate adaptation approved funding 2014–2019.
Note: Tuvalu is not shown on chart, as it is an outlier in terms of amount of approved climate adaptation funding as percent of GDP, at over 200 percent.

Box 1. Climate Financing Needs as Identified by the Climate Change Policy Assessment

The Climate Change Policy Assessment (CCPA) assisted small states to understand and manage the expected economic impact of climate change, while safeguarding long-term fiscal and external sustainability. CCPAs helped to showcase small states' policy efforts and aimed to improve their access to global climate funding. Two small states in the Pacific—Micronesia and Tonga—have been involved in the pilot program of six countries.

Micronesia

Micronesia has recognized that climate change is an existential threat and has made significant strides to counter it, but more action and sustained international support is required. Increasing frequency and intensity of coastal storms threatens infrastructure and livelihoods, as do increased risks of coastal flooding and drought.

Micronesia has a total estimated financing gap of $400–500 million over the next 15 years (~100 percent of 2018 GDP) between its ambitious climate change investment plans and currently available grant funding. Accelerating adaptation investments is paramount, which requires addressing critical capacity constraints and increasing grant financing. Micronesia 's overall planning for adaptation is fragmented and individual sectoral projects include varying levels of adaptation measures. Progress has been hindered by capacity constraints, particularly in investment project execution at the state level.

Tonga

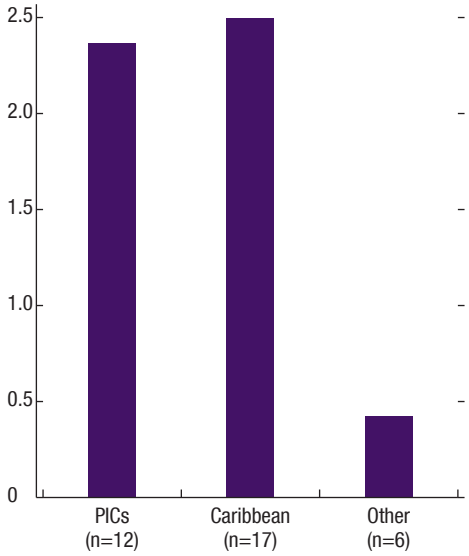
Tonga is one of the world's most exposed countries to climate change and natural disasters. It suffered the highest loss from natural disasters in the world (as a ratio to GDP) in 2018 and is among the top five over the last decade. Climate change will make this worse. Cyclones will become more intense, with more damage from wind and sea surges. Rising sea levels will cause more flooding, coastal erosion, and contaminate fresh water. Daily high temperatures will become more extreme, with more severe floods and drought. Within the total identified spending needs of about $671 million, the total financing gap is estimated at about $289 million over the next 10 years (60 percent of 2018 GDP).

Source: IMF Climate Change Policy Assessment (Tonga 2020, Micronesia 2019).

Box 2. Pacific Islands versus Other Small Island Developing States

The amount of climate adaptation funding approved for the PICs is broadly similar to that secured by the Caribbean and other Small Island Developing States (SIDS) (Box Figure 2.1). From 2014 to 2019, climate adaptation funding committed to SIDS totaled $5.7 billion. The Caribbean region was the main recipient with $2.9 billion. PICs received $2.4 billion, while other SIDS received $424 million. Slightly larger amounts received in the Caribbean are consistent with their larger size, as well as slightly more severe exposure to climate change than the Pacific islands. Disbursement problems are also common across small island states, in the Pacific and the Caribbean. In terms of the GCF funds disbursed, Pacific islands appear to be outperforming their peers.

Box Figure 2.1. Climate Adaptation Funding Approved for Small Island Developing States (2014–19)
(USD billion)



Source: OECD Climate-related Development Finance Database.
Note: Other includes Bahrain, Comoros, Guinea-Bissau, the Maldives, Mauritius, and the Seychelles.

CHAPTER

2 Climate Finance: Access Modalities, Requirements, and Challenges

This section discusses how countries can access climate finance, the types of requirements for access, and the potential challenges in meeting these requirements. The section starts by introducing the different entities typically involved in climate finance projects and concludes with a review of access requirements for accreditation of entities and for project approval for a typical climate fund, as well as the types of potential challenges countries face when attempting to meet these requirements.

Access Modalities for Climate Finance

While some CFs allow direct applications for project funding, most multilateral CFs require the intermediation of various entities (Table 2). This section primarily focuses on understanding the access modalities for multilateral CFs. Box 3 summarizes the typical access requirements for climate funds, for both the accreditation stage and the project approval stage. Compared to climate funds, bilateral climate finance is typically less cumbersome to access, as countries can usually make a direct application for a climate project in which the donor country is interested in funding and conditions are usually tailored to country-specific goals or objectives.

Climate finance access modalities are the channel through which project sponsors/proponents access funding from CFs and facilities. Access modalities include:

- Direct Application for Project Funding: Project proponents apply directly to the fund or facility, which evaluates the proponent or sponsor's capacity to act as an executing entity to implement the project. Multilateral CFs like the GCF typically do not allow direct applications without first completing an accreditation process, but bilateral funds often do (Table 2).

Table 2. Access Modalities for Main Climate Funds Available to PICs

			Required Project Entities	
Facility	Requires Accredited Entity	Allows Direct Project Funding, without AE	Accredited/ Implementing Entity	Executing Entity
Green Climate Fund (GCF)	✓		✓	✓
Global Environment Facility (GEF)	✓		✓	✓
Adaptation Fund (AF)	✓		✓	✓
Least Developed Countries Fund (LDCF)	✓		✓	✓
Special Climate Change Fund (SCCF)	✓		✓	✓
Pilot Program for Climate Resilience (PPCR)	Limited AEs		✓	✓
Asian Development Fund (ADF)		✓		
Asia-Pacific Climate Finance Fund (ACLIF)		✓		
Canadian Climate Fund for Private Sector in Asia II (CCFP II)		✓		
Climate Change Fund (CCF)		✓		
Abu Dhabi Fund for Development (ADFD)		✓		
Adaptation for Smallholder Agriculture Programme (ASAP)		✓		
Global Climate Change Alliance (GCCA)		✓		
NAMA Facility		✓		

Source: IMF staff.

- Access through Accredited Entities (AEs): AEs are entities or intermediaries that are pre-qualified to access, manage and carry out activities such as developing funding proposals and managing projects/programs. To access funding, these institutions must have gone through an accreditation process. The project sponsor goes through an existing entity that is either designated or accredited by the fund or facility to act as a fiduciary for deploying resources to project sponsors. This can be done through international or domestic/regional institutions, commonly referred to as International and Direct Access.
  - **Direct Access:** Direct access is a process through which regional, national, or subnational entities become accredited to receive finance directly from the fund without going through an international intermediary. The facilitation and fiduciary functions normally played by an international entity are taken on by the accredited direct access entity.
  - **International Access:** Access is granted to institutions like the United Nations agencies, multilateral development banks (MDBs), international financial institutions, NGOs, and regional institutions that are either designated or accredited as official access channels to a fund or facility. These accredited entities (that are sometimes also implementing entities) have been verified as having the expertise to handle various climate change projects and financing instruments.

Countries often wish to obtain direct access to the multilateral funds, but there are both advantages and disadvantages. The key advantage is that direct access gives countries more control over how the funds are managed,

Table 3. PIC Entities Accredited for Direct Access

	GCF						AF	
Facility	Type	ESS Categ.	Project Size	Fiduciary Standards	Year Accred.	No of Projects	Type	No of Projects
Fiji Development Bank (FDB)	National	C	Micro	Basic; Project management; Loan; Equity; Guarantee	2017	1		N/A
Micronesia Conservation Trust (MCT)	Regional	C	Micro	Basic; Project management; Grants only	2017	1	National	1
Cook Islands Ministry of Finance and Economic Management	National	C	Small	Basic; Project management; Grants only	2018	0	National	1
Tuvalu Ministry of Finance and Economic Development (MFED)					N/A	N/A	National	0
Secretariat of the Pacific Regional Environment Programme (SPREP)	Regional	B, Int 3	Medium	Basic; Project management; Grants only	2015	1	Regional	1
The Pacific Community (SPC)	Regional	B, Int 2	Small	Basic; Project management; Grants only	2019	0		N/A

Sources: Adaptation Fund websites; Green Climate Fund; and IMF staff.

how projects are developed, and how they are implemented. Direct access also tends to foster greater engagement with local communities who are affected by the climate investments.[1] However, the key disadvantage is the delay induced by lengthy procedures involved with obtaining accreditation for direct access.

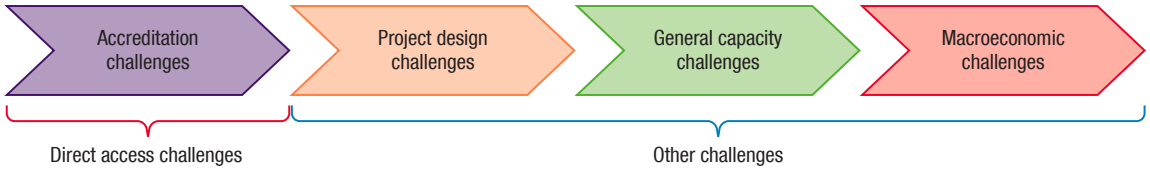
Six entities in the Pacific are currently accredited with national or regional direct access for the GCF and the AF (Table 3). The Micronesia Conservation Trust (MCT), the Secretariat of the Pacific Regional Environment Programme (SPREP) and the Pacific Community (SPC) are regional direct access entities for the GCF. Other direct access entities include the Fiji Development Bank (FDB) and the Cook Islands Ministry of Finance and Economic Management. For the AF, MCT is granted accreditation as a national direct access entity for Micronesia, as is the Ministry of Finance and Economic Development in Tuvalu, while SPREP is a regional direct access entity.

Challenges to Accessing Climate Finance

Countries can face many challenges when attempting to satisfy requirements for accessing multilateral CFs. These potential challenges mainly relate to not being able to reach the standards required by multilateral CFs, most partic-

[1]For example, an analysis of 63 Adaptation Fund projects has shown that Direct Access Adaptation projects tend to be more community focused than those that are implemented by International Access Entities (Manuamorn and Biesbroek 2020).

Figure 11. Types of Challenges PICs Face when Accessing Climate Funds



Source: IMF staff.

ularly the GCF, for a variety of reasons. Potential challenges can be grouped into four broad categories as shown in Figure 11 and explained further with examples in Annex Tables 4.1 to 4.4:

- Accreditation challenges (Annex Table 4.1): Accreditation barriers are those that prevent the country from directly accessing the CF without the need to go through another accredited entity. Accreditation challenges generally center around strengthening public financial management systems, building PFM capacity, and presenting detailed evidence of their effectiveness. Accreditation usually entails developing gender policies, and environmental and social safeguards policies, which can also be a significant challenge as these kinds of policies may not already exist.
- Project design challenges (Annex Table 4.2): Project barriers can prevent a country from developing a project that will satisfy the required project approval criteria. This can be due to the complexity of project approval criteria set by the CF, or due to the intrinsic characteristics of adaptation projects that make it more difficult to structure the financing (for example, difficulty to assess climate-related risks and benefits, difficult to monetize public good benefits).
- General capacity challenges (Annex Table 4.3): Capacity constraints can prevent a country from designing and executing a pipeline of eligible projects. Lack of previously developed National Adaptation Plans, a country climate program, or a dedicated unit to execute the climate finance strategy can slow down access to climate finance.
- Macroeconomic challenges (Annex Table 4.4): The macroeconomic environment and lack of fiscal space can prevent a country from designing and executing a pipeline of climate projects. Developing countries, particularly those with already high debt, may have difficulty mobilizing private sector buy-in for climate projects. Financing and technical assistance support from the IMF to address macroeconomic challenges, including strengthening PFM frameworks, could in turn help to unlock other sources of private sector finance.

Box 3. Access Requirements for a Typical CF: Accreditation and Project Approval

Accreditation requirements for a typical CF can be grouped into five broad criteria:

- **Fiduciary Standards:** The entity must have an effective and efficient operational track record and strong corporate governance, abide by international financial management and accounting standards, and have internal and external audits and fair and transparent procurement practices.
- **Transparency and Accountability:** The entity must have policies and systems in place to prevent fraud and misconduct and conduct independent investigations of possible fraud.
- **Compliance with Anti-Money Laundering/Combating Financing of Terrorism** (AML/CFT) requirements.
- **Environment and Social Safeguards (ESS):** The entity typically must effectively manage environmental and social risks and impacts and improve outcomes.
- **Gender Policy** (for the GCF): The entity typically must make explicit commitments to gender equality and women's empowerment.

Upon accreditation, entities can begin submitting proposals for approval, which are then evaluated against project funding criteria. In the case of the GCF, all funding proposals must have a no-objection letter (NOL) from the National Designated Authority (NDA)—the national focal point for the GCF—which confirms the intended projects/programs align with national climate strategies. Annex Figure 3.1 represents the GCF accreditation process and Annex Figure 3.2 represents the project approval process.

Each multilateral climate fund has its own project funding criteria based on its mandate, but the common criteria across CFs are the following:

- **Co-financing**: Financial resources should also be provided by other funders, public or private.
- **Country ownership**: Project objectives should be aligned with the country's climate strategy, including its Nationally Determined Contributions and national adaptation/mitigation plans.
- **Impact indicators**: The project must have a significant impact, as measured by lifetime emissions reduction (for mitigation projects), or the expected number of lives saved, reduction in losses of physical assets and/or environmental losses (for adaptation projects).
- **Capacity/Readiness**: Implementing and executing entities must have the capacity to carry out the activities listed in the project.
- **Paradigm shift/Transformational change**: The project should help the CF achieve sustainable development impact beyond a one-off project through replicability and scalability, and in some cases, commercialization.

Box 3. Access Requirements for a Typical CF *(continued)*

- **Stakeholder engagement**: Projects should be developed in consultation with local communities and nationally designated authorities.
- **Sovereign guarantee**: Government's guarantee that an obligation will be satisfied if the primary obligor defaults is often a condition for public sector investments/loans.
- **Vulnerability/Need of the recipient**: Does the project provide financing needs to the beneficiary country and population? Is there an absence of alternative sources of financing?

CHAPTER

3 Pacific Island Country Experiences with Accessing the Green Climate Fund

This section focuses on the GCF given its status as the single largest source of climate finance for the PICs. First, a review of the region's track record with the GCF accreditation and project approval processes is presented. This is followed by a discussion of PICs' reported experiences with accessing the GCF, both in the accreditation phase and the project approval and implementation phase. This section is based on a series of webinars with Pacific country officials from Ministries of Finance,[1] diagnostic missions,[2] and a review of the literature. Taken together, this section provides insights into the key challenges and successes experienced by PICs in seeking to access climate finance through the GCF.

Pacific Island Countries and the Green Climate Fund

Almost all PICs are endeavoring to obtain direct access to the GCF by seeking national entity accreditation—but most face formidable challenges. As of early May 2021, only two countries within the PICs have managed to secure direct access to the GCF through a national accredited entity: the Fiji Development Bank in 2017 for projects up to $10 million and the Cook Islands Ministry of Finance and Economic Management in 2018 for projects up to $50 million, one of only two finance ministries in the world to have done so (Table 4).

Almost four years since national direct access was first achieved in the Pacific, only one project has been approved by the GCF for $5 million but no disbursements have occurred. (Table 4). This project, the Fiji Agrophotovoltaic Project, accredited with the Fiji Development Bank is a $10 million project

[1]IMF Pacific Webinars were held early–mid March 2021 and included candid discussion with officials from Ministries of Finance in the region responsible for managing climate finance. Contributing officials include those from Cook Islands, Fiji, Kiribati, Micronesia, Nauru, Samoa, the Solomon Islands, Tonga, and Tuvalu.

[2]Including the Climate Change Policy Assessments conducted in Micronesia and Tonga.

Table 4. Track Record: GCF Direct Access Entities in the Pacific as at May 2021

Track Record - Direct Access	Accreditation Phase			
	Outcomes			
Direct Access - National Accredited Entity	Accreditation complete (Date)	Time since accreditation (Years)	Projects Approved (#)	Funding disbursed as at end May 2021?
Fiji - Fiji Development Bank	2-Oct-17	3.7	1	No
Cook Islands - Ministry of Finance & Economic Development	20-Oct-18	2.6	0	No

Source: GCF website; and IMF staff.

with 50 percent GCF financing and was approved in 2020, 3.7 years after direct entity accreditation in 2017. As of May 2021, the Cook Islands Ministry of Finance and Economic Management continues to work on a project proposal to secure financing with the support of the GCF Project Preparation Facility, 2.6 years after the Cook Islands secured direct access in 2018.

GCF fast-track processes are being relied upon to support direct-access accreditation. The Cook Islands has used AF accreditation as a fast-track path to the GCF. The Cook Islands' accreditation for the AF took slightly more than 2 years, and then the GCF accreditation took another 1–2 years with accreditation completed in October 2018, (but not being finalized until legal agreements were completed in October 2019). The Tuvalu Ministry of Finance and Economic Development has secured direct access status to the AF, a process that took five to six years. This allowed it to use a fast-track pathway toward obtaining GCF direct access, which the Ministry is continuing to work on.

The track record with GCF regional accredited entities has been slightly more successful, with two approved projects, totaling $32 million and $5 million disbursed (Table 5). Three regional accredited entities have direct access to the GCF: the Micronesian Conservation Trust, Secretariat of the Pacific Regional Environment Programme (SPREP), and the Pacific Community (SPC) (Table 5). Since late 2016, SPREP has been managing the Climate

Table 5. Track Record: GCF Regional Direct Access Entities in the Pacific

Regional Access - Track Record						
Regional Accredited Entity	Accreditation Date	Projects Approved (#)	Time accreditation to approval (Years)	Time to 1st disburse (Years)	Funding disbursed as at end May 2021 ($m)	Funding disbursed as at end May 2021 (%)
Micronesia Conservation Trust	6-Jul-17	1	3.7	N/A	0	0
SPREP	25-Mar-15	1	1.7	1.2	5.1	22%
Pacific Community (SPC)	28-Feb-19	0	N/A	N/A	N/A	N/A

Sources: IMF staff; and GCF website.

Table 6. Track Record of GCF-Approved Projects in the Pacific Through All Modalities

Track Record of Approved Projects by Access Modality	Approved $m	# of Projects	% Disbursed	Share by value	Share by # of projects
Direct Access - National Accredited Entity	**5**	**1**	**0%**	**1%**	**6%**
Fiji - Fiji Development Bank	5	1			
Cook Islands - Ministry of Fin. & Eco. Dev.	0	0			
Regional Accredited Entity	**32**	**2**	**16%**	**7%**	**13%**
Micronesia Conservation Trust	9	1			
SPREP	23	1			
SPC	0	0			
International Accredited Entity	**399**	**13**	**59%**	**92%**	**81%**
Multi-country Projects	**59**	**4**			
Single Country Projects	**340**	**9**			
Total	**435**	**16**	**55%**	**100%**	**100%**

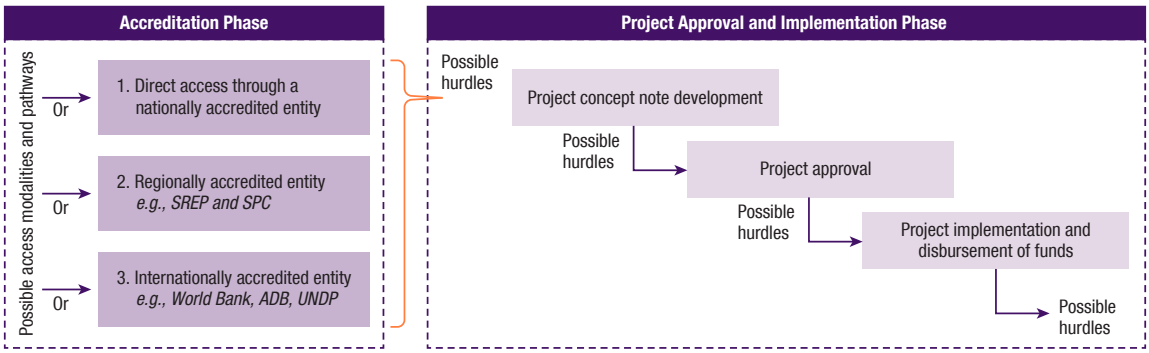
Sources: GCF website; and IMF staff.
Note: Projects in Table 6 total 16. Projects in Figure 9 total 23. The difference is explained by classification of multicountry projects, which are listed once per project in Table 6 and once per country in Figure 9.

Information Services project in Vanuatu, worth $26.6 million, of which 86 percent is a GCF grant, with disbursements that began in 2018, almost two years after project approval. In addition, the Micronesia Conservation Trust has had a $9.4 million adaptation project on food security, 90 percent of which is a GCF grant, approved in March 2021. Disbursements for this project are yet to commence.

To date, access to the GCF through international-accredited entities has been the most successful in terms of the volume and value of projects approved (Table 6). Thirteen projects, totaling $399 million in GCF contributions, have been approved by the GCF through the international access modality. This covers 92 percent of the value of total GCF contributions in the Pacific region and 81 percent of the total number of projects. Of particular note, individual countries like the Solomon Islands and Nauru have been able to unlock large amounts of financing through this modality, leveraging GCF contributions with contributions from other development partners. In the case of the Solomon Islands $86 million of GCF financing (loans and grants) has been leveraged to support the Tina Hydro Project, a significant hydropower project totaling $242 million. In the case of Nauru, the GCF contributed $26.9 million toward a $65.2 million project to construct a climate-resilient, year-round port.

Notwithstanding the positive track record of access through international access modalities, some Pacific islands have been able to access only relatively small amounts through this channel. Three of the 13 PICs (Cook Islands, Palau, and Papua New Guinea) have had projects approved only using the international access modality as a part of a multi-country project. They have neither secured approval for a single country project through this

Figure 12. Green Climate Fund Access Modalities and Possible Hurdles over the Climate Finance Lifecycle



Source: IMF staff.

modality nor been successful through the national or regional accredited entity pathways.

Challenges and Successes Experienced in Accessing Climate Finance

Challenges and successes were drawn out by examining individual country choices at two main phases of the climate finance lifecycle—accreditation phase and project approval and implementation phase (Figure 12). Establishing a national entity with direct access introduces hurdles and delays in the accreditation phase. Within the project approval and implementation phase, there are hurdles when developing a project concept note, obtaining project approval, and managing project implementation, each step of which can take considerable time to overcome. PIC country experiences at each stage are discussed throughout the remainder of this section.

Direct Access through a National-Accredited Entity

Challenges

Securing direct access to the GCF through a national accredited entity is a lengthy journey even for relatively high-capacity PICs—typically two to five years. Table 7 shows current estimates of the time needed to obtain direct-access accreditation with the GCF. Many of these processes are ongoing and denote anticipated timing, as reported by country officials. Some entities have experienced shorter timeframes for the GCF if they were able to first secure direct access to the AF and then use the GCF fast-tracking process. However, PIC experience suggests that "fast-tracking" still takes more than 12 months. For reference, the GCF website indicates that direct-access

Table 7. Actual or Expected Time to Complete Accreditation for Direct Access to the GCF

		Yet to attempt	< 2 years	2–5 years	> 5 years
Direct Access - Nationally Accredited	*Actual*			Fiji - Development Bank	
				Cook Islands - Ministry of Finance and Economic Management**	
	Expected	Solomon Islands - Ministry of Finance and Treasury		Fiji - Ministry of Economy	Tuvalu - Ministry of Finance and Economic Planning**
		Kiribati - TBC		Tonga - Ministry of Finance	Micronesia - Development Bank
		Nauru -TBC			Samoa - Ministry of Finance
					Samoa - Development Bank
Regionally Accredited	*Actual*		Secretariat of the Pacific Regional Environment Program (SPREP)	Micronesia Conservation Trust	
				Pacific Community (SPC)	

Sources: GFC (2000); PIC authorities; and IMF staff.
** Time taken for the Cook Islands - Ministry of Finance and Economic Management reflects both the time taken for the Adaptation Fund which was > 2 years plus the time for the GCF Accreditation > 1 year relying on GCF fast-tracking processes. Similarly, estimated time for Tuvalu - Ministry of Finance and Economic Planning for GCF accreditation, takes into account 5–6 years for direct-access accreditation to the Adaptation Fund.

accreditation should take six months for the accreditation panel to refer applications to the GCF Board, after receiving necessary and complete documentation, and it should take three months for those that have used a fast-track process.[3]

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

Implementation of some policies needed to satisfy GCF requirements require PICs to commence work from scratch. These include the development of gender, environmental and social policies, and information disclosure policies. These new policies take considerable time and effort to design and implement, especially given that in many cases they need to be implemented governmentwide. Development of such policies alone has been reported to take at least a year in higher-capacity countries.

[3]GCF website.

Fees associated with GCF accreditation can be high, and GCF direct access re-accreditation is required every 5 years. Countries reported surprise at needing to pay a fee to seek direct-access accreditation. Some PICs have also expressed concern that their accreditation might expire before they can manage to successfully develop a project. Looking at the time from accreditation to project approval in Tables 4 and 5 it appears that this concern is warranted. Country authorities expressed concern that due to limited human resources, they would again have to focus just on re-accreditation, rather than the ultimate goal of project development and implementation.

The level or type of national direct-access accreditation achieved may be insufficient to meet climate finance needs, which has triggered the desire to seek additional national entity accreditation. In Fiji, the Fiji Development Bank was accredited as a direct-access entity to handle projects up to $10 million, primarily through a combination of loans and grants. Fiji estimates the size of financing needed to meet adaptation challenges alone at about $4.5 billion, leaving the Fiji Development Bank poorly placed to meet these adaptation needs. This has prompted the Fiji Ministry of Economy to also seek accreditation, in the hope that it would be accredited to manage larger projects in the range of $50–250 million.

In some cases, the opportunity cost of pursuing direct-access GCF funding has been weighed against other sources of finance. In Samoa, the Ministry of Finance has been pursuing accreditation with the GCF since 2016. But over time the Ministry staff had to focus on other climate projects and have had to put aside GCF accreditation due to resource constraints. Instead, Samoa is pursuing GCF accreditation for the Samoa Development Bank, for smaller-scale projects. The Ministry of Finance has been instead pursuing climate finance through other sources, including bilaterally.

Successes

Reciprocal recognition of accreditation processes between global CFs has enabled some fast-tracking. Several countries have reported being able to secure a fast-track process to GCF direct-access accreditation if they have secured direct access to the AF or GEF. Countries such as Tuvalu and the Cook Islands reported that direct-access accreditation to the AF has been a useful platform for preparing for the GCF accreditation process, though neither have found the process particularly fast and indeed in Tuvalu it is ongoing.

New GCF programs and facilities, such as the readiness program, have been accessed and usefully deployed but are yet to translate into more accredited entities in the region. Similarly, the Project Preparation Facility and the Simplified Access Procedure, introduced by the GCF, have been well received

Table 8. GCF Direct Access Accreditation: Challenges and Successes

Challenges:	Successes:
✓ Complexity of requirements.	✓ Reciprocal recognition allowing for "fast tracking" (although still lengthy process).
✓ Lengthy process; re-accreditation needed every 5 years.	✓ Readiness funding usefully deployed.
✓ Requires significant resources where capacity is already thin.	✓ Gaps assessment helpful.

Source: IMF staff.

in the region, although have not yet translated into higher project approvals (see Box 4).

The GCF Gaps Assessment process is reported to be helpful in addressing shortfalls. In general, some PICs reported being able to build good relationships with the GCF assessment panel, which was important to allowing them to better understand GCF requirements. PICs have reported that through the multi-staged process, the panel has helped identify remaining gaps in capacity, policies, or documentation that need to be addressed to secure access.

Access through a Regional Accredited Entity

Challenges

Regional AEs receive significant demand for support and thus have to be selective with projects they take forward. PICs might not always be able to find a regional partner for their priority projects. In this respect, working with regional and international accredited entities is similar. In addition, the regional AEs themselves have resource constraints that may not allow them to get projects approved quickly, as seen in their track record of project approval (Table 5). Further, the regional AEs' size of accreditation achieved means they cannot unlock large amounts of financing, limiting Pacific island countries' ability to access large amounts of finance through this channel.

Successes

Regional AEs have supported countries in their GCF readiness activities primarily as a delivery partner and trusted advisor. In the absence of these regional AEs, progress with direct access might have been even slower. In addition to readiness support, the regional AEs have also brought medium-size projects to fruition.

Access through an International Accredited Entity

Challenges

PICs report that international AEs experience high demand for support and that PIC and international AE priorities do not always align. A number of

Table 9. GCF Access via Regional Accredited Entity: Challenges and Successes

Challenges:	Successes:
✓ Demand for support is too high; not all requests can be supported.	✓ Offer crucial support for GCF readiness grants.
✓ Can only support small-to-medium size projects.	✓ Re-accrediation done by regional entity.

Source: IMF staff.

countries reported that international entities receive so many requests for support that they cannot satisfy the level of demand. In addition, the types of projects that garner support from international accredited entities do not necessarily always align well with the needs and national priorities of the country but rather with the work program of the international institution. Smaller projects that are low value for international accredited entities relative to the size of their portfolio—but nonetheless significant for PICs—may not be accommodated. In addition, while well intentioned, GCF investment principles dictate that there should be a balance between the share of projects using direct access entities versus international access entities within their overall investment portfolio. This principle may inadvertently prevent international access entities taking on projects from smaller countries, even if these countries' options for direct access are limited or nonexistent. In these cases, PIC authorities noted that without direct access it is very challenging to get traction, especially for climate adaptation projects. Similar experiences have been reported outside the Pacific region (German Watch 2019).

In some cases, support for a project has been withdrawn by an international accredited entity as its priorities change. For example, Micronesia[4] joined the Pacific Islands Renewable Energy Investment Program funded by the GCF, with the ADB as an accredited and implementing entity. Micronesia joined the project in 2016 along with the Cook Islands, Nauru, Papua New Guinea, Marshall Islands, Samoa, and Tonga. Micronesia proceeded with the joint Concept Note and completed feasibility studies for all four state utilities. However, in early 2019, three years into the project development, the ADB announced it would cease work on this GCF grant proposal and would no longer serve as the accredited entity—causing delays and setbacks. The GCF database still shows this project as active in Micronesia, while the country reports no activity or disbursement.

International accredited entities charge significant management fees—often 5–10 percent of the project value depending on project size and other circumstances.[5] Many countries reported they do not see the value in paying what they view as very large management fees, particularly if their relatively small projects are considered lower priority in a large international organi-

[4]GCF (2019).

[5]For GCF Policy on fees, and exceptions to established caps, see https://www.greenclimate.fund/document/policy-fees.

zation. For this reason, along with the perceived benefits of national ownership and control, many PICs have developed a preference for national direct-access accreditation allowing them to develop and manage the projects themselves. Only a minority of PICs reported that the management fees of international AEs appear justified, given difficulties in autonomously developing and implementing projects.

Successes

Most PICs have used international AEs effectively to unlock large amounts of climate finance with multiple instruments and high disbursement rates. Countries with lower capacity across a range of requirements (but particularly PFM) have had positive engagement with international accredited entities, allowing them to access both grants and loans at larger scale. This model is demonstrated to have worked particularly well in Nauru's construction of a new port, and in the Solomon Islands in building a new source of hydro power. In both cases, large volumes of financing have been secured and GCF acted as a co-financier—catalyzing other sources of finance.

International AEs allow PICs to develop and implement their projects faster by avoiding the lengthy wait to achieve direct-access accreditation. Direct-access accreditation takes significant time and human capital, which can instead be used to seek international partners that can help develop projects for approval and manage the implementation. For example, the multi-country projects that GCF is currently funding in the Pacific would likely have been impossible without the participation of an international AE, such as the ADB and the United Nations Environment Programme. Others outside the region have also reported that with complex standards and heavy human resource requirements, successfully completing the accreditation process has been easier for large institutions like multilateral development banks, international organizations, or United Nations agencies, than for smaller organizations from developing countries (German Watch 2019).

Table 10. GCF Access via International Accredited Entity: Challenges and Successes

Challenges:	Successes:
✓ Demand for support is too high; not all requests can be supported.	✓ Large amounts of funding can be available even for low capacity countries.
✓ Misalignment of priorities can constrain support.	✓ Implementation can begin earlier than with direct access.
✓ Management fees.	✓ Re-accrediation done by international entity.

Source: IMF staff.

Challenges and Successes in Project Approval and Implementation

Challenges

Most PICs currently have insufficient capacity to develop bankable project proposals to satisfy GCF requirements. For example, in Fiji, the experience has been that 90 percent of projects get stuck at the concept note stage. When a concept note is sent to GCF, comments are received quickly and GCF offers a pool of consultants, but collaboration has been markedly more difficult in a remote work environment such as during the pandemic.

Thus far the pool of human resources dedicated to climate financing activities in PICs is very limited. In discussions, country participants regularly noted that they do not have time and human resource capacity to develop a detailed climate finance country program and a pipeline of projects. A number of ministries have sought to set up dedicated climate finance units to centralize and consolidate this function, using assistance from GCF funds. Fiji reported that other partners, such as USAID and the World Resources Institute (WRI), also helped them begin to strategically choose climate projects and appropriate sources of funding.

PICs face difficulties in sourcing and developing the highly technical skills sets needed to progress project proposals. This affects the country's ability to translate development priorities into bankable financial proposals, develop comprehensive feasibility studies, and articulate the technical issues to successfully complete project concept notes and to obtain project approval. Often the underdeveloped statistics offices in island countries are unable to provide the high-quality statistics required by the GCF. These issues will likely continue to be an important challenge.

Adaptation projects are perceived as less likely to secure funding than mitigation projects because the investment returns are over a longer horizon. Private-sector participation is nearly impossible with climate adaptation projects as they are often not bankable. Since co-financing is an important element of GCF projects, it appears that governments typically need to provide more co-financing for climate adaptation projects.

Countries have reported that onerous procurement procedures sometimes delay project implementation and disbursement. In Samoa, for example, the cost of shipping went up due to the COVID-19 pandemic, which increased the costs of various equipment and other supplies. According to their GCF funding agreement, any contract with costs more than 10 percent higher than those approved in the funding agreement had to be individually reviewed. This led to significant delays in the project, and delayed disbursement. In Kiribati, there were also COVID-related delays in shipments of materials and difficulty getting workers and experts into the country. While agreed

co-financing from the ADB and World Bank arrived, the GCF portion of the funds have been delayed for the South Tarawa Water Supply project.

Successes

Implementation of climate projects in the Pacific has encouraged proactive development of PFM systems to track and monitor climate flows. Requirements to track, report, monitor, and evaluate climate finance flows have encouraged proactive uptake of green PFM initiatives such as climate budget tagging. In Fiji this has involved ingraining specific climate project codes into the chart of accounts to better track climate expenditures. In addition, climate change typologies have been developed that will over time help Fiji to better define and cost climate projects. Climate change typologies will also help separate climate components of government spending from the general development components.

Several PICs have begun to establish dedicated climate units (typically within ministries of finance) to support climate finance activities. For example, Fiji reported significant human capacity constraints to translate the country's climate development needs into bankable project proposals and financial concept notes. With that recognition, Fiji is establishing an internal government standalone division within the Ministry of Finance, that takes the burden of developing climate project proposals away from other government agencies. The Cook Islands and Solomon Islands have followed a similar path. Nauru has recently established a Climate Change Department. Climate Units can also play a key role in developing country programs for the GCF and a strong pipeline of climate projects, allowing countries to strategically seek the most appropriate source of finance for each project. While units of this nature can be helpful, in very small capacity countries, these decisions are not costless or without trade-offs. Caution is also needed to ensure that in the establishment of new functions existing resources are not spread too thin.

Table 11. GCF Project Approval Stage: Challenges and Successes

Project Approval Stage	
Challenges:	**Successes:**
✓ Insufficient human resources and technical skills to develop projects. ✓ Disbursement delays. ✓ Harder to get funding for adaptation projects.	✓ Steps toward better monitoring of climate flows (climate budget tagging). ✓ Introduction of climate units to coordinate climate finance activities.

Source: IMF staff.

Box 4. Experience with GCF Capacity Development Support and Streamlining

Readiness and Preparatory Support Program. The GCF offers support to entities applying to become direct-access entities. The program includes resources and capacity for activities such as (1) information exchange between institutions interested in accreditation and/or learning from each other's experiences undergoing the process; (2) conducting an institutional gap analysis of applicants against the fiduciary standards and environmental and social standards and GCF's gender policy or developing a personalized readiness and preparatory support plan; (3) building up the institutional capacities of AEs to better comply with GCF standards; and (4) developing project and program proposals according to GCF standards and regulations. All PICs have been approved for readiness grants, and almost all have received disbursements. The total approved for readiness activities in the region so far is $20.3 million, with about $10 million disbursed.

Simplified Approval Process. The Simplified Approval Process is an application process for smaller-scale projects developed by direct-access entities and requiring a GCF contribution of up to $10 million with minimal environmental and social risks and impacts. The GCF notes that the purpose of Simplified Approval Process was to reduce the time and effort required to go from project conception to implementation. So far, projects in the Pacific have been approved using the Simplified Approval Process in Fiji and in Micronesia.

Project Preparation Facility. The GCF has established a Project Preparation Facility, designed specifically for project and program development. Support from the Project Preparation Facility can be requested after the concept note has been approved by the GCF Secretariat. This support is open to all AEs, but direct-access entities applying for a funding proposal below $10 million in the micro or small size category are given a preference. The Project Preparation Facility can additionally support feasibility or pre-feasibility, environmental, social and gender studies, risk assessments and indicator development. This is provided in the form of a grant with a maximum of $1.5 million per project or program.

Project-Specific Assessment Approach. The GCF Board are considering whether accreditation could be granted to some entities on a one-off basis to deliver a specific project.

Sources: Green Climate Fund website; German Watch (2019); and IMF staff.

CHAPTER

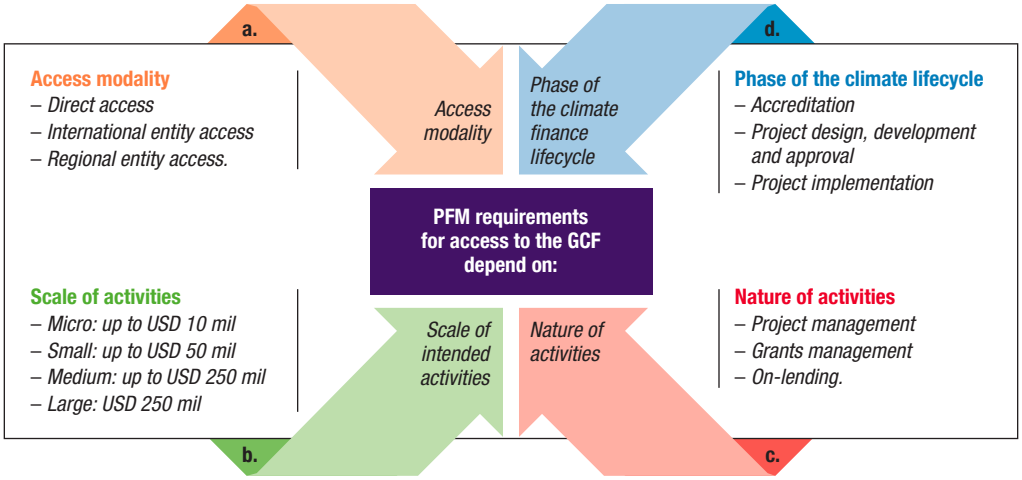
4 Deep Dive: Public Financial Management Requirements and Challenges

This section explores the extent to which PFM-related requirements are a hurdle to accessing finance from the GCF. Particular attention is paid to the GCF given its status as the largest source of climate finance and given the region's strong preference to pursue GCF direct-access accreditation. By comparing GCF PFM-related requirements with PFM capacity as measured by the PEFA diagnostic tool, areas of PFM that need strengthening to secure direct-access accreditation are identified. This section also explores PFM capacity in the later stages of the climate finance lifecycle, drawing out the particular types of PFM, including Public Investment Management (PIM), capacity needed to develop and implement climate projects. Finally, this section explores the capacity development tools that can help further strengthen PFM capacity for climate finance and considers how these insights can feed into PFM reform plans.

Specific PFM Requirements for Accessing Climate Finance

To safeguard their resources, CFs require that entities seeking direct access to climate finance are able to satisfy a range of PFM-related requirements. PFM refers to practical arrangements, systems, tools, procedures, and institutions that support prudent management of government financial resources. Put simply, PFM requirements aim to ensure the efficient, effective, and transparent use of taxpayers' and donors' money. CFs like the GCF have put in place various safeguards for the use of their resources to provide assurance to GCF shareholders that accredited entities have the ability to manage funds effectively and do so with care and integrity. Of the multilateral CFs, the GCF has both the largest global pool of resources and the most detailed access requirements, and hence warrants the focus of this section.

Figure 13. Determinants of PFM-Related Requirements for Access to the GCF



Source: IMF staff.

PFM requirements demanded by the GCF vary across the climate finance lifecycle, access modality, and the scale and nature of activities. Each of these are explained in turn below and their relationship set out in Figure 13.

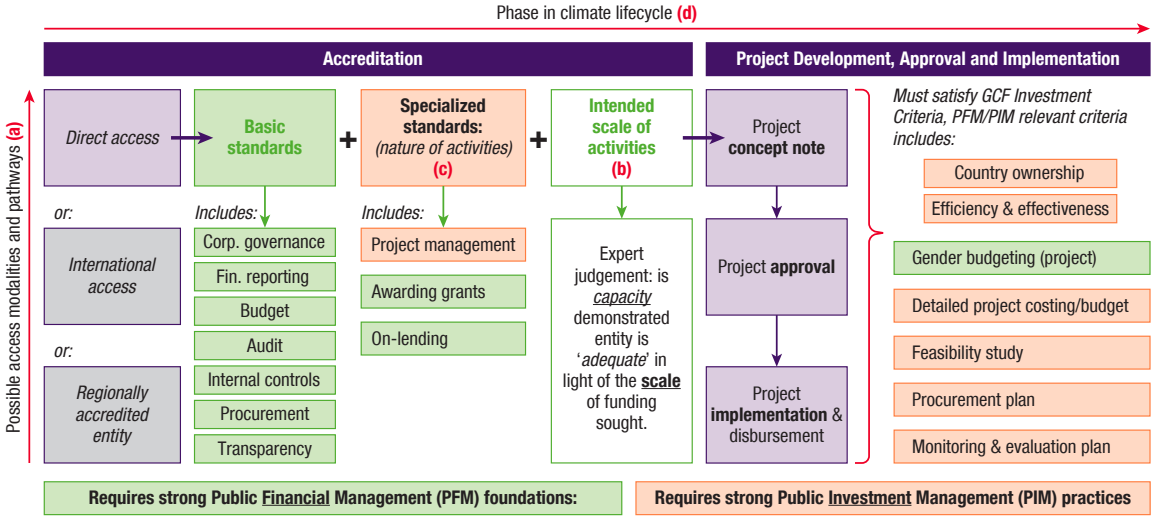
a. *The access modality or pathway countries decide to take*: PFM requirements for countries seeking direct access through a national accredited entity are different from those for countries that use international or regional accredited entities to access GCF finance. Countries may be subject to some PFM requirements from international or regional accredited entities, who themselves are already accredited with the GCF, but this varies and typically is far less involved than the requirements of the "direct-access" modality.

b. *The scale of intended activities*: The GCF adopts a "fit-for-purpose" approach to accreditation, which means that an entity can access funding only at a scale that is deemed "within its capacity to manage."

c. *Nature of activities*: Depending on the accredited entity's intended activities, "specialized'" criteria may need to be met to allow an entity to complete project management activities or administer grants or manage loans (on-lending).

d. *Phase of the climate finance lifecycle*: At various points in the climate finance lifecycle, more specialized PFM capacity (that is, capacity in PIM), is needed both to obtain "specialized accreditation" (as above) and to develop and deliver projects in the project design, development, approval, and implementation phases.

Figure 14. PFM-Related Requirements Across Different Stages of the Climate Finance Lifecycle



Source: IMF staff.

PFM requirements of the GCF as they apply to phases of the climate finance lifecycle are explained schematically in Figure 14. Figure 14 places the GCF PFM-related requirements, identified in Figure 13, in context across the various phases involved in accessing climate finance. It highlights the main PFM-related requirements at each phase, following a direct-access modality and distinguishes between PFM and PIM requirements. Of course, it is important to remember PFM-related requirements are only a subset of the requirements to access climate finance from the GCF. Other requirements include complying with international AML/CFT standards, appropriate environmental and social safeguards, and gender policies, as explained in earlier sections.

PFM Requirements in the Accreditation Phase

The GCF "basic" PFM-related accreditation requirements are principle-based standards, that we have categorized across seven core areas of PFM capability (Figure 15). To become an accredited GCF institution, entities must demonstrate that they meet certain basic fiduciary requirements including, from a PFM perspective, key administrative and financial management capabilities and transparency and accountability provisions. As set out in Box 5 the principles focus on ensuring information is reliable, accurate, complete, and transparent and relies on a proven track record of effectiveness and efficiency. The principles are supported by a set of fiduciary standards that require capacity across what we have classified into seven broad areas of PFM prac-

Figure 15. Summary of Basic PFM-Related Standards Required for Access to the GCF

	Summary of Basic GCF Requirements Classified as PFM-Related across the Climate Finance Life Cycle
Accreditation Phase	**1. Corporate Governance:** Clear and formal governance structure of the entity exists which describes the entity's key area of responsibility, authority, and reporting lines. Organization objectives are set, measured, monitored, and reported against.
	2. Financial Reporting: A financial management and accounting system that follows international good practice (including the Generally Accepted Accounting Principles) and a track record of financial statements.
	3. Budget Credibility: Track record of transparent business plans, financial projections and budget preparation and execution, and ability to continuously monitor performance and expenditure against these budgets and plans.
	4. Internal & External Audit: Procedures in place for internal and external audits, including: a fully functional audit committee (or comparable body); an internal audit function and an independent external audit function.
	5. Robust Internal Controls: Internal financial controls to ensure that financial risks are properly managed.
	6. Procurement: Formal procurement standards, guidelines, and systems in place to ensure fair and, transparent procurement processes.
	7. Transparency and accountability: A range of transparency and accountability provisions, but those that relate specifically to PFM include: a policy for disclosure of conflicts of interest; demonstrated capacity to prevent fraud, financial mismanagement, and other forms of malpractice; and an independent investigation function for investigating allegations of fraud and corruption.

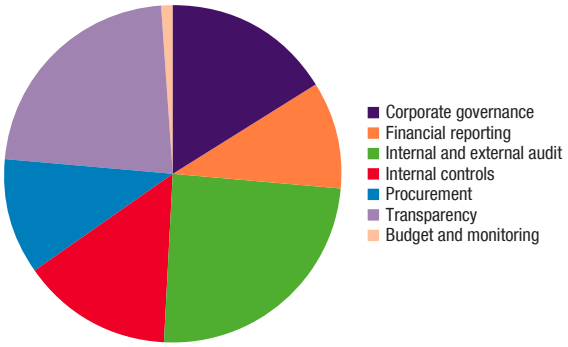
Source: IMF staff.

tices and institutions as described in Figure 15. These requirements apply to the entity seeking accreditation, so in the case of the public sector, most usually to the ministry of finance or ministry of environment. In some cases this can become complex, where for example, the ministry of finance has to establish an environmental and social safeguards or gender policy that is under the jurisdiction of another ministry or conversely where a ministry of environment seeking accreditation has to improve PFM, requiring whole of government input and coordination. Annex 5 provides more detail on the GCF PFM-related requirements we have grouped under these seven areas.

PFM-related elements of the GCF "basic" standards overwhelmingly focus on the existence of strong control frameworks and accountability mechanisms. A key focus of GCF PFM-related standards is ensuring accredited entities can, and have, complied with international and statutory reporting obligations within a robust controls framework, enforced by strong internal and external audit functions. As can be seen in Figure 16, about 50 percent of the GCF "basic" standards focus on ensuring a strong reporting and controls environment, monitored by regular and effective internal and external audit functions (orange, red, and green areas).

GCF Basic PFM Standards are granular, multilayered, and vast in volume, totaling many hundreds of requirements across three checkpoints. GCF PFM-related standards are outlined primarily in *Initial Fiduciary Principles and Standards,* which lists close to 100 requirements that meet the definition of PFM. Stage 1 and Stage 2 checklists add multiple layers of granularity and specificity to the requirements. A summary of the volume of requirements at each checkpoint is at Annex Table 5.1.

Figure 16. Coverage of GCF Standards Across PFM Institutions



Source: IMF staff.

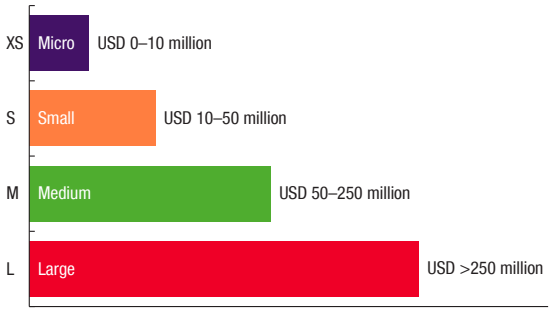
To satisfy GCF PFM basic standards, entities must prove policies exist, have a track record of implementation, and the review panel must deem that practices are "adequate." In Stage 1, the accreditation panel deems whether documentation provided is "satisfactory." In Stage 2, the accreditation panel assesses whether the standard, sub standards and other specific requirements have been "adequately met or effectiveness suitably demonstrated." To demonstrate the track record of implementation, often processes need to be demonstrated as effective over a period of time.

Notwithstanding the level of granularity contained within the standards, the criteria to be "adequately" met is not clearly defined. Assessments of capacity appear to be binary, in that the requirement is either "adequately met" or not. The judgment of what is deemed to be adequate appears to be left to the discretion of each accreditation panel.[1] When considering the following standard, for example, "General management policies promote an organizational culture that is conducive to fairness, accountability and full transparency across the organization's activities and operations." How do countries self-assess, and how does the panel measure, whether the standard is adequately met? Based on these criteria alone, how do countries know where they stand when considering their current level of capacity, and what else is needed to be judged as adequate by the GCF?

In addition, the standards do not give a sense of relative priority, leaving it unclear whether all criteria must be deemed "adequate," or whether some criteria are more important than others. For example, is the requirement that the "chief audit officer sharing information and coordinating activities with relevant internal and external parties ensuring proper coverage and a minimization of duplication of efforts" just as important as ensuring an "income statement is produced in line with the relevant international reporting standards"?

[1]GCF Stage I Institutional Assessment and Completeness Checklist and Stage II Accreditation Review Checklist

Figure 17. GCF Accreditation Sizes



Source: GCF.

With such a large volume of standards and requirements that require a high degree of specificity, it can be challenging for small and low-income countries to know where to best target their scarce resources to maximum effect. This could be especially challenging if all criteria are considered equally important. An illustration of the highly specific GCF PFM-related requirements at each accreditation stage can be seen at Annex Figure 5.2.

The GCF's "fit-for-purpose approach" aims to match country capacity with its "intended scale of activities" and accreditation relies on judgement. GCF guidance stipulates that an entity can access funding only at a scale that is "within its capacity to manage" in accordance with its fiduciary standards. Project sizes range from "micro," which covers anticipated activities up to $10 million to "large," which is activities greater than $250 million (Figure 17). Guidance for countries about the "level of capacity needed" to satisfy requirements at each accreditation size is limited. The GCF notes that the accreditation panel will use its expert judgement to determine whether the capacity demonstrated by the applicant entity is "adequate" for the amount of funding it seeks to access from the GCF.[2] The panel will recommend to the GCF Board that an entity be accredited to access funding within one of the categories in Figure 17 commensurate with its track record and demonstrated capacity.

In addition to the "basic" standards, "specialized" PFM-related standards are also required for different activities. For example, there are different specialized PFM and PIM standards for entities that manage projects, manage grants, or plan to engage in on-lending activities. The requirements are shown visually in Figure 18 and in more detail at Annex 6. The GCF also takes on a principles-based approach to specialized standards as set out in Box 6.

PFM Requirements in the Project Development, Approval, and Implementation Phase

Successful "direct entity" accreditation does not automatically unlock any climate finance. Despite the granular accreditation process set out earlier, it is important to remember that achieving direct-access accreditation does not automatically unlock any climate financing per se—rather it provides entities

[2]GCF Guidelines for the operationalization of the fit-for-purpose accreditation approach, paragraph 12.

Figure 18. Specialized GCF PFM-Related Requirements

Summary of Specialized GCF Requirements Classified as PFM-Related across the Climate Finance Life Cycle		
Accreditation Phase	Project Management	**Project identification, preparation, and appraisal** – Specifically institutions need to show that they are capable of identifying, preparing, and appraising projects.
		Project oversight and control – Implementation of an approved project or activity, including monitoring performance, assessing project expenditure against project budget, and reporting on progress made.
		Monitoring and evaluation – The monitoring function detects, assesses, and provides management information about risks relating to projects, particularly those deemed to be at risk. The goal of evaluation is to provide an objective basis for assessing results, to provide accountability in the achievement of objectives, and to learn from experience.
		Manage project risk – Demonstrating a project-at-risk system and related project risk management capabilities.
	Awarding Grants	**Transparent eligibility criteria and evaluation** – Transparent manner, impartial and equal treatment of applicants.
		Grant award decision and procedures – Detailed processes on announcing decisions an notifying recipients.
		Public access to information on beneficiaries and results – Grant decisions are published within certain timeframes and include specific beneficiary details.
		Transparent allocation and implementation of financial resources – Grant-awarding entity monitors the implementation of funded programmed activities.
		Good standing with regard to multilateral funding
	On-Lending	Thirteen broad requirements covering track record, creditworthiness, risk management, due diligence, transparency, portfolio management.

Source: IMF staff.

with the right to prepare direct applications for funding to the GCF, in the Project Development, Approval and Implementation Phase.

The Project Development, Approval, and Implementation phase has three broad steps. The PFM-related requirements in each step are highlighted in Figure 14 and outlined below.

- Developing a project concept note: Usually an accredited entity develops a concept note in line with the GCF investment criteria before proceeding with a full funding proposal. Two of the six GCF investment criteria have very specific PFM requirements (Figure 19), in that countries should ensure that projects align with the strategic and national objectives and priorities defined in national plans and that projects are appropriately appraised including through a cost-benefit analysis.
- Developing a full funding proposal to obtain project approval: If the concept note is endorsed, a full funding proposal is developed for approval of the GCF Board. At this stage PFM-related requirements include that the project-level gender impact is assessed, that project-level gender performance indicators are developed, detailed project costing is conducted, the feasibility study updated, a procurement plan is in place and that project monitoring and evaluation is performed.

Figure 19. Summary of PFM-Related Challenges: Requirements and Capacity

Summary of PFM-Related Challenges for PICs	
Challenges Associated with the GCF PFM-Related Requirements	**Challenges with the Level of PIC PFM Capacity**
• The multilayered, granular, and highly specific nature of the GCF PFM requirements makes the PFM requirements complex to navigate.	• PFM capacity takes considerable time to build and areas of "basic" PFM targeted by the GCF are also in some cases areas where PIC capacity is relatively weak and the track record poor, potentially delaying access.
• GCF PFM-related requirements appear have been assigned equal weight, priority and criticality, making it challenging to know what is most important.	• The complex accreditation procedure and coordination needed makes the process time and resource intensive, relative to available capacity.
• Volume of requirements alongside the coordination task needed makes for a time and resource intensive process.	• PFM capacity development activities and reform plans and roadmaps have not been developed with the requirements of the GCF specifically in mind.
• The measure of quality, that is the 'level of adequacy', needed to meet a certain GCF PFM-related criteria is not clearly defined.	• Policies required by the GCF may not exist and may need to be developed that do not always have a direct link to effectively managing climate finance.
• GCF PFM-related standards do not clearly differentiate the level or proficiency required taking into account country capacity.	• PFM capacity is often thin and challenging to maintain presenting potential challenges for re-accreditation processes.

Source: IMF staff.

- Project implementation and disbursements: Accredited entities decide whether they will directly manage project implementation or use an "executing entity." Using an executing entity requires satisfying another set of due diligence criteria to ensure that these entities can also satisfy the GCF standards. PFM-related requirements broadly include enacting procurement processes and portfolio monitoring and management.

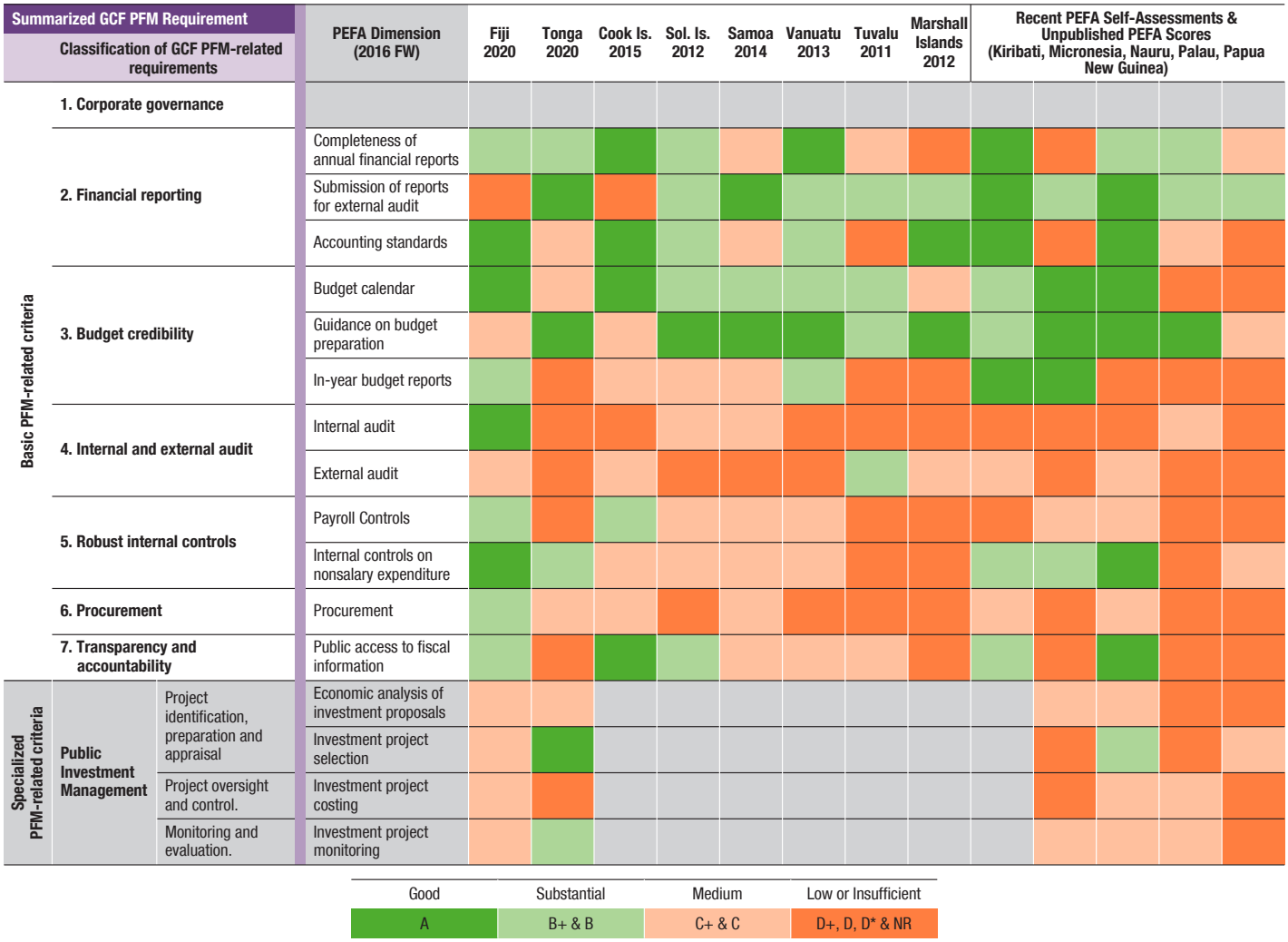
Strong PIM capability is required to successfully navigate the project development, implementation, and approval phases. In summary, while the accreditation phase primarily focuses on meeting requirements related to "core" PFM capability, the Project Development, Approval, and Implementation phases require more specialized capability in PIM. This includes being able to ensure climate project proposals align with national plans and strategies, identifying and appraising an appropriate pipeline of projects, having strong procurement procedures, and monitoring project execution and implementation.

PFM Capacity Challenges in the Pacific

Public Expenditure and Financial Accountability (PEFA) assessments provide a reasonable proxy for assessing PIC PFM capacity. PEFAs are a methodology for assessing PFM capacity and provide a framework to report on the strengths and weaknesses of PFM practices across seven pillars.[3] PEFAs have been done in all the PICs in the last 10 years, given the 2010 commitment of Pacific leaders to improving PFM capacity, see Box 7.

[3]PEFA – PEFA 2016 Framework | Public Expenditure and Financial Accountability.

Figure 20. Green Climate Fund-Public Expenditure and Financial Accountability Mapping



Source: IMF staff.

An initial "mapping" of the GCF PFM-related requirements with the results of PEFA assessments can help identify potential gaps in PIC PFM capacity needed to access GCF climate finance. The features and coverage of the PEFA tool are most closely aligned with the "basic" PFM-related requirements in the "direct-access" accreditation phase of the GCF, so mapping efforts focus here.[4] The heat map in Figure 20 shows the range of PFM capacity as measured by the PEFA across various PFM practices and institutions and can help to identify where PICs PFM capacity may be falling short

[4]Papua New Guinea has not yet published a PEFA. Unpublished self-assessments and PEFA scores are shown without assigning country names, while the broad conclusions remain relevant. There is no PEFA equivalent for the Corporate Governance requirements of the GCF. Mapping between the 2016 and 2011 PEFA framework follows the methodology outlined in Allen and others (2020).

in their bid to unlock climate finance. Combining this analysis with a recent assessment of the performance of PIC capacity efforts over the last 10 years (Allen and others 2020) could help to inform countries as to where they could best focus their PFM reform efforts going forward.

Overall, the GCF-PEFA mapping paints a mixed picture—highlighting a very broad spectrum of "core" PFM capacity across Pacific countries. PFM capacity across PICs is heterogenous, underscoring that PFM capacity in the region varies significantly from country to country. There are some that have relatively high capacity, while others are yet to establish more foundational elements. A few PICs have started implementing relatively advanced PFM practices, like internal audit, while others continue to struggle in implementing basic functions of PFM, like having an effectively functioning budget process (Allen and others 2020).

Key areas of weakness among PICs highlighted in the GCF-PEFA mapping—particularly audit, internal controls, and procurement—coincide with the majority of GCF PFM-related accreditation requirements. Strong internal and external audit functions, robust control frameworks and procurement processes and procedures are areas where the GCF PFM-related requirements are heavily focused—indeed 50 percent of requirements are targeted in this area (see Figure 16).

Improvements in PIC PFM performance over the last 10 years have been slow, and the path is not always linear. Building capacity in PFM even in relatively core or basic institutions has proven to be challenging and, in some cases, capacity has even weakened over time. PFM reforms undertaken in PICs over the last 10 years suggest that capacity can take considerable time to build. In addition, across the 10-year period, the rate of improvement in PFM capacity had not been greater than 20 percent in any one PIC (Allen and others 2020).

Past PFM reforms in Pacific island countries have been most successful when they have strong country ownership and target only a few critical areas. Experience shows that the scope and scale of reforms should be limited to take account of the constraints associated with Pacific islands comparatively small size and related capacity constraints. PFM reforms have been most effective when there is leadership by the ministry of finance and reform plans are realistically sequenced, focused on a few deliverables that can be supported by PFTAC and donors rather than long wish lists (Allen and others 2020).

Looking ahead, building more capacity in PIM will be critical for increasing access to climate finance. If direct access can be successfully obtained after building core PFM capacity, countries then need to draw on PIM capacity to be successful in developing project concept notes and funding proposals for approval by the GCF Board. This includes developing project proposals

that align with national plans, developing a pipeline of bankable projects that are appropriately appraised and include a feasibility analysis. The PEFA only recently introduced a focus on PIM so it is not yet possible to form a full picture of PIC PIM capacity through this mechanism, and only one Public Investment Management Assessment (PIMA) has been performed in the Pacific to date.[5] A 2021 IMF PIMA workshop held for Pacific Technical Assistance Center countries showed that PIM is still an area of weakness and that there is strong interest in further strengthening capacity in this area.

Resource capacity constraints in PICs remain an important challenge to building PFM institutions (Figure 19). Ministries of finance in many PICs have only a small pool of qualified professionals with a high level of turnover. It is therefore very important that these staff are used in areas where they can have the greatest impact. In this context, it is important to remember that some micro-states, with just a few thousand people, are putting in place the same basic traditional PFM architecture that much larger countries have struggled with over decades (Allen and others 2020). Therefore, while addressing weaknesses in PFM-related capacity as assessed against GCF PFM standards, we should take care to ensure that these requirements also fit within countries broader PFM reform plans, that have been prioritized appropriately, recalling that reforms are most successful when targeting only a few areas (Allen and others 2020).

How IMF Capacity Development Can Help Countries Meet GCF PFM-Related Requirements

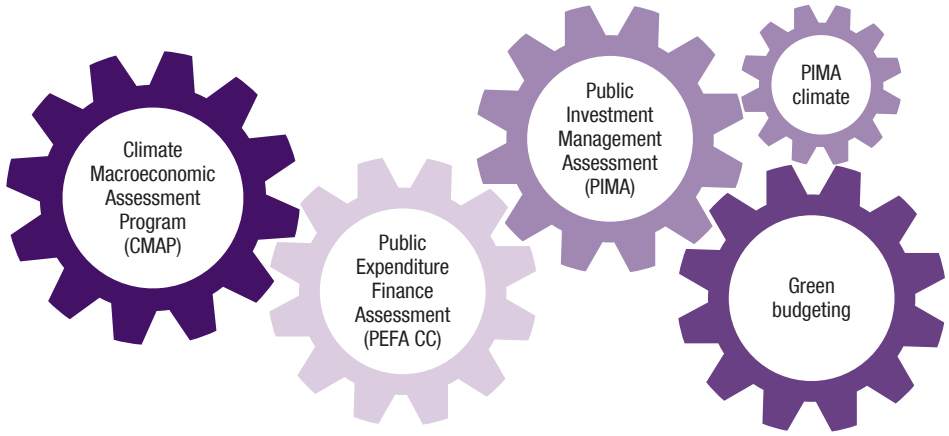
A number of diagnostic tools have recently emerged to help countries build resilience and tackle climate mitigation and adaptation needs. From the IMF, these include the Climate Change Policy Assessments (CCPAs) – which are evolving into the Climate Macroeconomic Assessment Program (CMAP),[6] the PEFA with a climate change lens (PEFA CC), the PIMA and PIMA climate change module, and green budgeting (Figure 21).

Each of these tools can play an important role across the climate finance lifecycle to build PFM capacity in particular areas and identify where gaps exist. Figure 22 identifies where particular IMF PFM tools could be helpful in strengthening PFM or PIM capacity across different phases of the Climate Finance Lifecycle. Annex 8 explains the linkages between the requirements to access climate finance and the support that particular PFM tools can provide in more detail.

[5]2019 PIMA Kiribati.

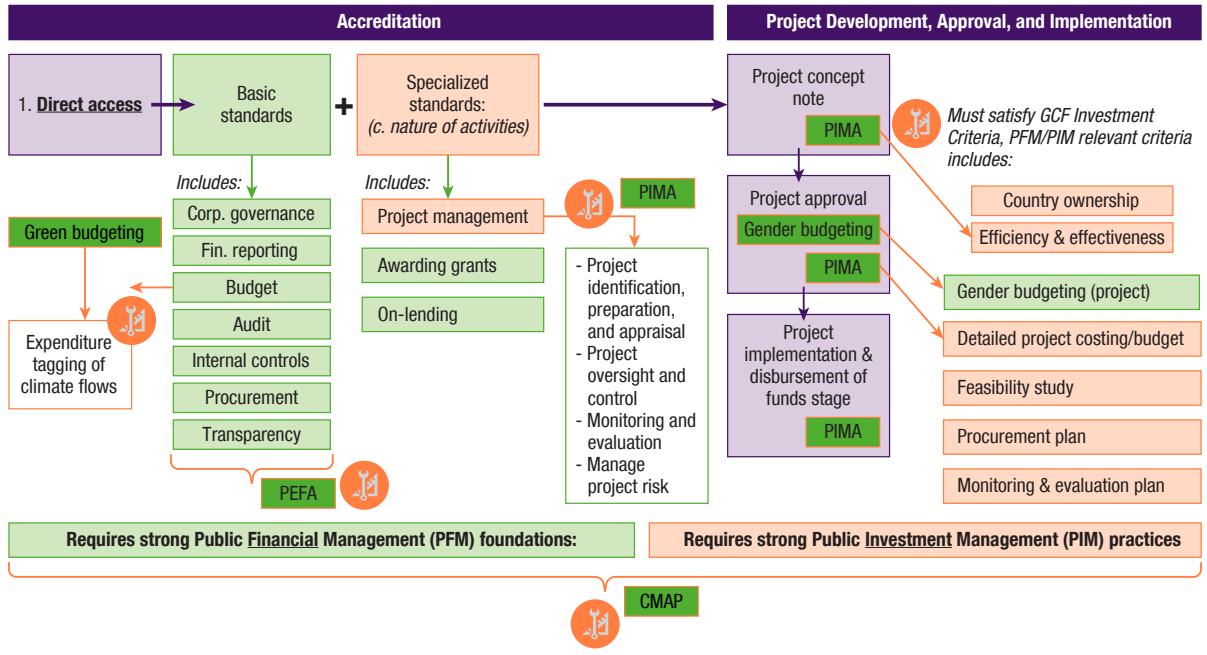
[6]Following a review of the six pilot CCPAs (that were joint with the World Bank), and with the World Bank launching its own climate diagnostic product, the IMF will be piloting its own CMAPs, which will be based on CCPAs, but with a stronger macroeconomic focus and also encompassing non-small states.

Figure 21. PFM Tools with a Climate Lens that Support Access to Climate Finance



Source: IMF staff.

Figure 22. PFM Tools that Build Capacity Across the Climate Finance Lifecycle



Source: IMF staff.

Box 5. Principles Supporting GCF "Basic" PFM Requirements for Direct Access

- Financial inputs and outputs are properly accounted for, reported, and administered transparently in accordance with relevant laws and regulations.
- Information relating to the overall administration and management of the entity is available, consistent, reliable, and complete.
- Operations of the entity show a track record in effectiveness and efficiency.
- Protection against mismanagement and fraudulent, corrupt, and wasteful practices.
- Conflict of interest (actual, potential, or perceived) is disclosed.
- Code of ethics, policies, and culture drive and promote full transparency and accountability.

Source: Adapted from the GCF Initial Fiduciary Principles and Standards, Annex II to decision B.07/02.

Box 6. Principles Supporting GCF "Specialized" PFM Requirements for Direct Access

- Ability to identify, formulate, and appraise projects or programs.
- Competency to manage or oversee the execution of approved funding proposals, including the ability to manage executing entities or project sponsors and to support project delivery and implementation.
- Capacity to consistently and transparently report on the progress, delivery, and implementation of the approved funding proposal.

Source: Adapted from the GCF Initial Fiduciary Principles and Standards, Annex II to decision B.07/02.1,

Box 7. Track Record of PEFA Diagnostics in the Pacific, 2010–20

As part of a regional PFM reform strategy endorsed by the Pacific Ministers in 2010, it was agreed that PICs should undertake Public Expenditure and Financial Accountability (PEFA) assessment a key public financial management diagnostic, every three years. In reality, assessments have been less frequent then envisaged and since 2010 there have been some changes to the PEFA assessment framework, including in 2011 and more substantially 2016. In addition, a few of the assessments were self-assessments such that the results of these assessments may be more generous because they did not go through as rigorous a peer review and validation process as regular assessments. Nonetheless, for our purposes the results from the PEFA diagnostic tool in the Pacific will be sufficient to provide a broad picture of PIC PFM capacity and can help with the analysis of public financial management capacity in the Pacific across a range of indicators. Annex 6 outlines the history of PEFA Assessments in the region over the past 10 years.

Sources: Allen and others (2020); and IMF staff.

CHAPTER

5 Options for the Way Forward: Conclusions and Recommendations

In this section, we take stock of the lessons learned so far and put forward areas for further collaboration among PICs, CFs, and the IMF to help further climate adaptation and mitigation efforts in the region.

Conclusions

Without additional grant-based access to climate finance, meeting the cost of climate adaptation in the PICs will be extremely challenging. Financing to date has fallen short of annual estimated adaptation needs. Additional access to grants and concessional loans will be needed, along with support to ensure these funds are deployed efficiently. Given their limited or nonexistent fiscal buffers, lack of domestic debt markets, or access to international debt markets, most PICs are unable to go it alone.

International access modalities have offered the most fruitful path to climate finance for PICs, but access has been uneven, and some countries can be left behind. PIC's experience shows that project sizes have been larger, the choice of instruments broader, and access to finance much more rapid when using international access modalities compared to direct or regional access modalities. This modality works particularly well when the priorities of countries and international accredited entities are aligned. Where priorities diverge, change, or where projects are simply too small, relative to the overall portfolio of projects international accredited entities are managing, relying only on international access modalities can leave countries stranded, without an avenue to access GCF climate finance. For this reason, many countries view accessing GCF climate finance through an international accredited entity as only an interim measure until sufficient capacity can be developed to achieve direct-access accreditation—a pathway perceived as providing greater national control and ownership.

While direct access remains a preferred pathway for PICs, it is yet to deliver results, despite significant efforts by the GCF to support countries. Direct access accreditation typically takes a minimum of 2–5 years in the Pacific. Six years after establishment, only two PIC national entities have achieved direct-access accreditation to the GCF for low-scale projects. One project has been approved, and no funding has been disbursed. This track record continues globally with only 62 direct-access entities accredited from low-income developing countries, only about 30 percent of which have had disbursements.[1] This is despite significant efforts by the GCF to support country preparation and readiness throughout the accreditation process, a fast-tracking program, and simplified approval processes for projects.

GCF direct-access requirements are complex and demanding, while building capacity takes time. PFM-related requirements are granular, vast in number, not clearly prioritized, and leave room for ambiguity on the level or quality needed. Building PFM capacity in the Pacific region takes time, and progress has not always been linear. PEFA assessments reveal that areas of relative PFM weakness among PICs coincide with the majority of GCF PFM-related accreditation requirements, particularly in audit, internal controls, and procurement. Developing PFM capacity is an important and fundamental element to the efficient and effective use of public resources. Continuing to strengthen PFM capacity is necessary, but not sufficient, to unlock climate finance. PFM is only one of the GCF's requirements, and direct-access accreditation is only one step toward accessing climate finance. Getting projects approved and financing disbursed requires additional skills and capabilities (for example, in PIM).

It is increasingly clear that a mix of access modalities is needed, which should be strategically deployed by PICs. When choosing access modalities countries should ensure they fully consider the actual costs and perceived benefits of each path, informed by the track record of experience in the region. Countries that focus on direct-access pathways should do so fully informed by the on-the-ground realities in terms of the investment of time and resources needed to yield results. Particular attention should be paid to embed projects within national and sectoral plans and seek the most appropriate financing sources for each climate project.

Adapting to climate change is an urgent need, but in the absence of further action, national direct-access modalities do not offer a rapid or sizable path to climate finance. Without further efforts, direct-access accreditation will remain out of reach for many PICs for some years. Ensuring that climate finance is used efficiently and effectively is an important objective. However, based on past development of PFM capacity in the region and no change in

[1]World Resources Institute (2021).

the status quo of climate finance requirements, rapid increases in the level of access from the GCF through a direct-access modality cannot be expected.

Recommendations and Proposals for the Way Forward

For PICs

PICs should ensure that climate adaptation project proposals are integrated into, and aligned with, national and sectoral infrastructure and resilience goals, plans, and strategies.

PICs should take a strategic, comprehensive, and coordinated view of how best to match climate project proposals with potential funding sources and delivery partners, determining which projects may be better financed through bilateral channels compared to those that should be pursued through CFs. Such an approach, while primarily to inform country financing plans, could also be an important tool to engage with donors.

- PICs should consider where opportunities to work with international access entities can be beneficial, including identifying areas where priorities align, to leverage potentially much larger pools of finance.
- PICs should make decisions about pursuing direct-access accreditation fully informed about the actual experience in the region. PICs should pay particular attention to whether direct access represents the best value given the opportunity costs of time and resources, compared with the benefits of country ownership, control and retention of management fees.

Where resource constraints allow, PICs should consider establishing dedicated climate units to take a whole of portfolio view to managing climate finance. Units should preferably sit within ministries of finance, given their stewardship role of financial resources, and ensure strong linkages and coordination across other ministries, particularly ministries of planning and climate change.

PICs should continue to build PFM capacity. Strong audit, robust control frameworks, and strengthened public investment practices are important priorities. Where capacities allow, PICs should integrate climate change considerations into PFM reform plans, while being targeted and focused, to ensure reforms have the best chance of success.

PICs should further build or draw on clusters of regional experts, such as the initiatives of the Pacific Islands Forum Secretariat (PIFS) or the Regional Technical Support Mechanism through SPREP to help with resource scarcity.

Further regional efforts could be explored where economies of scale could help without adding additional coordination burden. This could be an area for further work.

For Climate Funds

Recognizing the shrinking window of opportunity to address the climate crisis, CFs should make further efforts to rebalance the risks to shareholders with countries' climate adaptation needs. CFs should consider further streamlining accreditation requirements given their high compliance cost for countries (especially small and fragile countries) and prioritize requirements in areas where strong capacity will significantly strengthen financial safeguards.

CFs should consider whether the upfront, evidence-based conditions that put the burden of proof on countries are consistent with addressing the current climate challenges at the pace required. Increased reliance on monitoring and ex post, rather than ex ante, compliance could ease the burden on countries and help keep pace with adaptation challenges.

CFs should consider whether there are other innovative ways to reduce the accreditation burden on countries beyond fast-tracking processes for reciprocal recognition, including scope for processes to be conducted concurrently. CFs should explore standardization of access requirements, aligning requirements and standards with those contained within commonly used PFM diagnostics that are well-known and understood.

For the IMF

The IMF can continue to enhance the integration of climate issues into macroeconomic surveillance, in line with the IMF's Climate Strategy (IMF 2021b). This includes through a more systematic focus on climate adaption issues and related debt sustainability challenges in annual country economic assessments—that is, annual Article IV consultations. In addition, the mainstreaming of climate indicators into macroeconomic data through a climate change dashboard will help to address the growing need for data in macroeconomic policy analysis to facilitate climate change adaptation.

The IMF can continue to take an analytical approach to understanding the challenges and successes involved in accessing climate finance and disseminate these lessons among its global membership.

The IMF can use its convening power to bring stakeholders together in international fora, and facilitate evidence-based, solutions-focused discussions on optimizing climate finance for climate adaptation.

The IMF, including through its Pacific Financial Technical Assistance Center will continue to provide capacity development to PICs to enable stronger PFM and public investment management institutions to help meet the requirements of CFs, building on the PFM tools mentioned above. Capacity development activities, whether at the country or regional level can also focus on existing gaps in PICs' PFM institutions. Capacity-building efforts in the areas targeted by the GCF (strong audit functions and robust controls frameworks) should be prioritized in the context of country-specific PFM reform plans.

Annex 1. PIC Case Studies

Fiji: Successful Accreditation, But with Clear Limitations

The Fiji Development Bank (FDB) received its accreditation for direct access to the GCF in October 2017, and the GCF approved its first project in August 2020. By most measures, the Fiji Development Bank is an example of a successful relationship with the GCF in the Pacific. However, FDB's time to direct-access accreditation was about 3.7 years. Time to project approval after direct-access accreditation was another almost 3 years, even with the use of the Simplified Approval Process.

The Fiji Agrophotovoltaic Project in Ovalau, approved in 2020, is valued at $10 million, of which 50 percent is a GCF loan and 50 percent is in-kind financing by Fiji and the Korea International Cooperation Agency. The project is highly innovative and combines climate adaptation and mitigation. On the mitigation side, the project allows Fiji to expand its clean energy production by adding solar generation capacity and contributing to more stable electricity supply on the island. The project also supports agricultural production in Ovalau, as solar panels are located on farmland. Moreover, the solar panels create shade for the plants, thus making them more resistant to severe heat and dry conditions and thus promoting food security in Ovalau (GCF 2020).

While successful overall, the Fiji experience with the GCF has highlighted several limitations, starting with the types of instruments available. Given Fiji's middle-income status, it is difficult for Fiji to get access to concessional loans, which limits the amount it can borrow for climate projects without risking debt sustainability. Further because of its middle-income status, Fiji authorities reported being expected to pursue blended financing arrangements, even though the country does not yet have the capacity for blended financing (in terms of the required financial modeling and structuring).

They reported that the local financial sector is not yet willing to engage in blended financing.

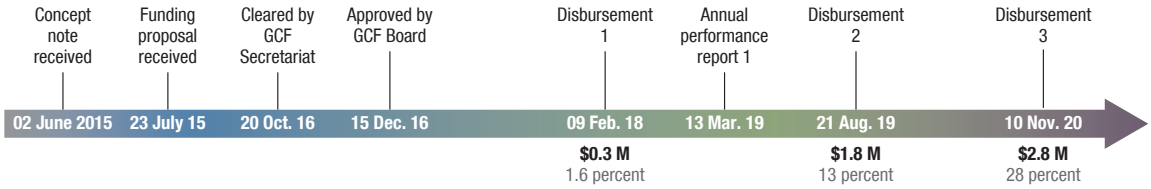
Fiji's experience with FDB accreditation for direct access has revealed another limitation—allowed projects are very small and the ESS rating is low. The FDB was only able to secure direct-access accreditation for loans up to $10 million, which the authorities feel is too small compared to the country's estimated adaptation needs of about $4.5 billion. For this reason, the Fiji Ministry of Economy is now also pursuing direct-access accreditation with the GCF for projects of $50–250 million. Since climate adaptation projects generally do not generate net positive cashflows they cannot be financed with loans, so FDB's accreditation for loans make it poorly equipped to help with climate adaptation. Even for many climate mitigation projects, the FDB's current ESS rating of B is restrictive. For example, FDB had to abandon a renewable energy project that had battery storage with lithium-ion batteries and would require their disposal, because FDB's ESS rating of B was too low for such a project.

Fiji is using support from GCF and other development partners, such as the United Nations Development Programme (UNDP) and the WRI, to develop a strong pipeline of climate projects. Fiji has made use of the GCF's Simplified Access Program and has had preliminary experience with the Project Preparation Facility. As such, Fiji might have experienced more changes in GCF processes than countries that used these facilities at a later stage of their development. Other development partners have also supported Fiji in planning project feasibility studies, producing a project prospectus, and deciding which partners to approach for specific projects. To do all this effectively, the government of Fiji has also established a standalone office for the strategic development of climate projects which they find essential given the pressing climate adaptation needs.

Vanuatu: An Effective Regional Partnership, But Disbursement Delays

Vanuatu is highly exposed to cyclones, while 90 percent of the value of its infrastructure is located within 500 meters of the coastline. Sea level rise, especially when combined with storm surges and high seas, will increase the risks of coastal inundation. Ocean acidification may degrade 80 percent of Vanuatu's coral reefs within 20 years. Extreme rainfall is expected to be more intense, and dry periods may last longer, leaving Vanuatu susceptible to erosion and flooding. To prepare for the negative effects of climate change and adapt, the Government of Vanuatu is pursuing the Climate Information Services project, funded by the GCF (GCF 2016).

Annex Figure 1.1. Vanuatu Climate Information Services Project Timeline



Sources: Green Climate Fund (2020); and IMF staff.

The Climate Information Services Project, approved in 2016, is valued at $26.6 million, of which about 86 percent is a GCF grant; the rest is financed by Vanuatu. The project targets five key sectors—tourism, agriculture, infrastructure, water management, and fisheries—and aims to build technical capacity to foster use of climate and weather information. The project is expected to improve future climate adaptation planning (for example, which crops farmers should plant) and policy (for example, develop of localized climate smart building codes for housing and public infrastructure).

SPREP is the regional accredited entity for the project, while SPREP and the Government of Nauru Meteorological & Geohazard Department are jointly acting as the executing entities. While SPREP and the Government of Vanuatu are in a very productive partnership, there have been several setbacks. The project overspent on staffing before the second disbursement and had to create a special six-month work plan with the GCF, to allow for completion of the remaining conditions. The project also experienced delays in conducting a cost–benefit analysis required under the funding agreement, due to delays in putting out terms of reference, delays in the procurement process and finding a suitable contractor (GCF 2019). The Project Management Unit required extensive support from SPREP to revise and improve the workplan and budget.

Setbacks and delays in project implementation resulted in disbursement delays (Annex Figure 1.1), but these have been addressed through strong partnership with SPREP and the GCF. The good working relationship and communication with SPREP, and through them with the GCF, helped to convey the encountered problems and find solutions proactively and effectively. Shared responsibility between SPREP and the Government of Vanuatu, working as co-executing entities appears to have benefited the project, especially through support for the Project Management Unit, and revising plans and budgets.

Samoa: Local Ministries as Executing Entities

Samoa has been heavily impacted by severe tropical storms, which can result in Vaisigano river discharge and flooding of lowland areas, including in the capital, Apia. Cyclone Evan in 2012 caused widespread damage estimated at about 30 to 40 percent of 2012 GDP, including a collapsed departures lounge at the international airport, destroyed houses, power and water outages, and loss of lives and livelihoods.[1] In response, the Government of Samoa adopted a programmatic approach to address the issue of climate change-induced flooding. The GCF project on climate resilience and flood management in the Vaisigano River Catchment was the centerpiece of this climate adaptation effort.

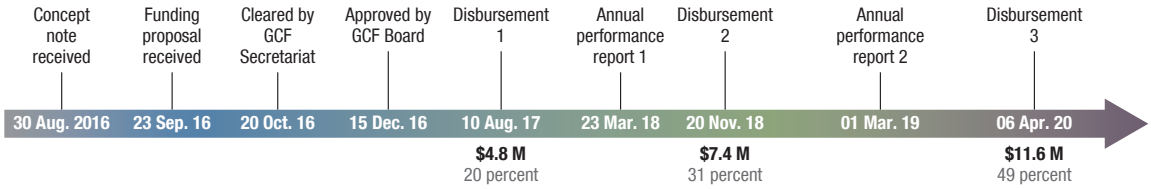
The Vaisigano River Catchment Flood Management project, approved in 2016, is valued at $65.7 million, of which almost 88 percent is a GCF grant, and the rest is financed by Samoa. The Vaisigano River Catchment has the highest concentration of public infrastructure (schools, hospitals, and government buildings) as well as private buildings (homes and businesses) in Samoa, with about 12 percent of the Samoa population living in the affected areas and 70 percent of the population living within 1 kilometer of the coast. Hence, the project was a clear national priority. The projects two main objectives are: first, to flood-proof key infrastructure in the Vaisigano River Catchment and upgrade drainage and, second, to strengthen the capacity and information base of the local population to reduce climate vulnerability, with better land-use and building practices.

The Samoan Ministry of Finance is the Executing Agency for the Vaisigano Catchment project. Since the Samoa Ministry of Finance does not have accreditation for direct access to the GCF, it had to partner with an international accredited entity, in this case the UNDP. With this arrangement, the Samoan Ministries as the executing entities must abide by rules of the GCF as well as the UNDP, and this appears to increase the administrative burden for the country. The Samoa Ministry of Finance stated that the Project Management Unit (PMU) for the Vaisigano project is the largest PMU for a climate project that the country has ever had, and the project presents the single largest administrative burden.

The project was originally expected to be completed in July 2023, but there have been several setbacks, which will likely delay project completion (Annex Figure 1.2). In September 2019 there was a measles outbreak in Samoa, with a declaration of a state of emergency and lockdown needed to administer vaccines to control the outbreak. In March 2020, the COVID-19 pandemic

[1]Based on the Samoa Post-Disaster Needs Assessment undertaken by the Government of Samoa, with the assistance of the World Bank in 2013.

Annex Figure 1.2. Vaisigano River Catchment Project Timeline



Sources: Green Climate Fund (2020); and IMF staff.

disrupted work again, initially through a state of emergency and lockdown, and also through disrupted trade and shipping of necessary materials. Finally, in December 2020, there was major flooding in Samoa, when the Vaisigano river burst its banks after heavy rain. Each of these events have disrupted the project.

So far about 41 percent of the GCF funds have been disbursed. To request and receive disbursements from the GCF, the IE had to achieve specific targets pre-defined in the project's Financial Plan. However, the Samoan implementing agencies did not meet the 70 percent expenditure threshold to request the third tranche due to delays during project implementation. As a result, the project received no funding in 2019. The project staff reported problems with procurement contracts where costs were exceeded by more than 10 percent compared to the amounts approved in the funding agreement. However, the project staff stated that shipping costs overruns in a remote small island state such as Samoa are typically out of their control, particularly during times of crises such as the COVID-19 pandemic.

The Vaisigano River Catchment project offers several lessons. First, lengthy and time-consuming procurement and contracting remain a key challenge during the reporting period. Improved setting of timelines for meeting procurement plan targets and better coordination could help in this respect. Second, implementing a fairly large project with local human resources can be difficult, especially if a disaster or crisis strikes, such as the measles and COVID-19 health emergencies that Samoa has had to deal with. To pre-emptively address such situations, it may help to proactively identify additional support required for project implementation. This could also help relieve some of the capacity constraints in the ministries executing the project even outside of crisis events.

Nauru: Successful Cooperation with ADB as an International AE/IE

Nauru, one of the most remote island states in the Pacific, has never had a true port due to the technical difficulties and high cost of building a port on

a small Volcanic atoll. Currently, when ships arrive to Nauru, they must wait at sea to manually unload using small barges that can approach the island. This has always been a hazardous and time-consuming procedure (unloading often takes several weeks), and it was also very polluting due to the fuel used by the barges and ships waiting. Moreover, typically for about three months per year, ships cannot unload safely due to severe weather conditions from westerly waves and swells. Shipping rates to Nauru are the most expensive in the region, with few ships willing to serve Nauru, due to the hazardous conditions (GCF 2017).

The Nauru Port project, approved in 2017, is valued at $65.2 million, of which 41.3 percent is a GCF grant, 32 percent is an ADB grant, 21 percent is covered by the Government of Australia, and 6 percent by Nauru. Nauru relies on imports for almost all of its food, fuel and durable goods, so having reliable shipping connections is critical. The port project was a clear national priority. The new climate resilient port will allow ships to safely dock year-round, lowering shipping costs, offering new growth opportunities for the island, as well as some local training and employment. With its innovative design, essentially building a pocket inland where two ships can berth with more limited exposure to the weather, the Nauru port is expected to be the first climate-resilient port in the Pacific.

The Nauru Port Authority is the Implementing Entity for the project, while ADB is the Accredited Entity. To prepare for the Port project, the Nauru Port Authority was reformed, strengthening its legal frameworks with the help of a separate ADB project on state-owned enterprise reform in Nauru. The Nauru Port Authority also brought in a new CEO, with expertise to oversee the Port Project, who reports to both ADB and the Government of Nauru. In addition to the Port Authority staff, the project is relying on Chinese contractors to build the port, selected in a competitive process.

Despite obstacles posed by the COVID-19 pandemic, the project is on track for completion with some delay. The outbreak of the COVID-19 pandemic and the subsequent necessary public health measures in Nauru disrupted the Port project. However, the Port Authority and the Chinese contractors mutually agreed to a temporary suspension of work, without incurring penalties for the delay, which would have to be borne by the Government of Nauru. ADB assisted in reaching this agreement. With the Nauru population now vaccinated for COVID-19, work has resumed on the Port.

Overall, the Government of Nauru is satisfied with its major GCF project and its partnership with ADB as the accredited entity. Accreditation for direct access to the GCF would have been too time-consuming and costly for Nauru, putting undue pressure on very limited local human resources. Unlike other PICs, Nauru does not intend to seek GCF accreditation. However, the

Government of Nauru did establish a new Climate Change Department in 2021, with the aim of strengthening strategic planning for climate finance and developing a pipeline of climate projects.

Annex 2. Adaptation and Mitigation Funding

Appendix Table 2.1. Funding for adaptation and multiple-focus projects for PICs, 2014–2019

	Papua New Guinea	Vanuatu	Solomon Islands	Fiji	Samoa	Kiribati	Tuvalu	Marshall Islands	Tonga	Nauru	Micronesia	Palau	TOTAL
BILATERAL													
Australia	$ 317.6	$ 119.5	$ 46.3	$ 49.1	$ 27.3	$ 18.1	$ 9.2	$ 3.8	$ 12.4	$ 2.1	$ 3.6	$ 1.5	$ 610.7
EU Institutions (excl. EIB)	$ 125.9	$ 29.5	$ 11.1	$ 22.4	$ 22.4	$ 25.8	$ 7.7	$ 11.8	$ 1.3		$ 2.0	$ 3.1	$ 262.9
New Zealand	$ 23.4	$ 40.8	$ 18.8	$ 10.0	$ 9.4	$ 6.8	$ 18.6	$ 2.0	$ 10.1	$ 0.3	$ 1.2	$ 1.0	$ 142.4
Japan	$ 4.9	$ 38.8	$ 2.4	$ 5.4	$ 11.9	$ 35.0	$ 4.2	$ 0.4	$ 0.2	$ 0.0	$ 0.1	$ 17.9	$ 121.2
Korea	$ 0.4	$ 1.5	$ 38.8	$ 7.7	$ 0.6	$ 2.4	$ 1.6	$ 1.6	$ 0.1	$ 0.1		$ 1.0	$ 55.8
Germany	$ 3.8	$ 0.0		$ 3.8				$ 0.1	$ 0.5				$ 8.2
Canada		$ 1.8	$ 1.6	$ 4.0				$ 0.3					$ 7.8
Italy			$ 0.2	$ 1.1		$ 1.2	$ 0.1		$ 0.3			$ 0.2	$ 3.1
United States	$ 2.0										$ 0.4		$ 2.4
United Kingdom	$ 0.3			$ 1.8									$ 2.1
Sweden		$ 0.1	$ 0.4	$ 1.5									$ 2.1
Switzerland		$ 0.5		$ 0.7									$ 1.2
France	$ 0.1	$ 0.7	$ 0.0	$ 0.1									$ 0.9
Austria				$ 0.3									$ 0.3
Finland	$ 0.1												$ 0.1
TOTAL BILATERAL	**$ 478.4**	**$ 233.3**	**$ 119.6**	**$ 108.0**	**$ 71.6**	**$ 89.2**	**$ 41.4**	**$ 20.0**	**$ 24.9**	**$ 2.6**	**$ 7.4**	**$ 24.8**	**$ 1,221.3**
MULTILATERAL													
MDBs													
AsDB	$ 88.0	$ 1.8	$ 18.3	$ 10.0	$ 31.6	$ 9.1	$ 2.7	$ 3.7	$ 12.8	$ 15.1	$ 3.2	$ 1.5	$ 197.8
EIB	$ 11.8			$ 8.0									$ 19.8
WB	$ 7.7	$ 80.5	$ 37.9	$ 63.5	$ 64.5	$ 14.2	$ 26.5	$ 32.3	$ 59.6		$ 24.9		$ 411.6
FAO	$ 0.1				$ 0.1			$ 0.0	$ 0.0				$ 0.2
UNDP	$ 0.6		$ 0.7	$ 1.1	$ 0.4								$ 2.9
Subtotal	**$ 108.3**	**$ 82.3**	**$ 57.0**	**$ 82.6**	**$ 96.6**	**$ 23.3**	**$ 29.2**	**$ 36.0**	**$ 72.4**	**$ 15.1**	**$ 28.1**	**$ 1.5**	**$ 632.3**
FUNDS													
Adaptation Fund			$ 4.4	$ 4.2							$ 10.0		$ 18.6
CIF	$ 29.8												$ 29.8
GCF		$ 18.1	$ 86.0	$ 31.0	$ 57.7	$ 28.6	$ 36.0	$ 43.6		$ 26.9			$ 328.0
LDCF		$ 20.9	$ 19.7			$ 9.2	$ 8.4						$ 58.3
GEF	$ 2.5	$ 8.9	$ 0.3	$ 2.4	$ 0.9	$ 4.2	$ 0.7	$ 6.2	$ 4.5	$ 4.0	$ 0.9	$ 4.6	$ 40.1
IFAD	$ 10.2		$ 4.5		$ 2.3	$ 3.0			$ 1.2				$ 21.3
Abu Dhabi Fund for Development			$ 15.0										$ 15.0
Subtotal	**$ 42.5**	**$ 47.9**	**$ 130.0**	**$ 37.7**	**$ 61.0**	**$ 45.0**	**$ 45.1**	**$ 49.8**	**$ 5.7**	**$ 30.9**	**$ 10.8**	**$ 4.6**	**$ 511.1**
Other Multilateral													
GGGI		$ 0.7		$ 2.8		$ 0.6							$ 4.1
Subtotal		**$ 0.7**		**$ 2.8**		**$ 0.6**							**$ 4.1**
TOTAL MULTILATERAL	**$ 150.8**	**$ 130.9**	**$ 186.9**	**$ 123.1**	**$ 157.6**	**$ 68.9**	**$ 74.3**	**$ 85.8**	**$ 78.1**	**$ 46.0**	**$ 38.9**	**$ 6.1**	**$ 1,147.5**
TOTAL	**$ 629.2**	**$ 364.2**	**$ 306.6**	**$ 231.1**	**$ 229.1**	**$ 158.2**	**$ 115.7**	**$ 105.8**	**$ 103.0**	**$ 48.7**	**$ 46.3**	**$ 30.9**	**$ 2,368.8**

Source: OECD Climate-related Development Finance Database; and IMF staff.
Note: Figures are in millions of US dollars.

Appendix Table 2.2. Funding for mitigation projects for PICs, 2014–2019

	Papua New Guinea	Vanuatu	Solomon Islands	Fiji	Samoa	Kiribati	Tuvalu	Marshall Islands	Tonga	Nauru	Micronesia	Palau	TOTAL
BILATERAL													
Australia	$ 4.6	$ 3.0	$ 29.2	$ 0.5	$ 0.7	$ 0.5	$ 0.4	$ 0.2	$ 4.0	$ 0.2	$ 0.3	$ 0.2	$ 43.9
Austria		$ 1.0											$ 1.0
EU Institutions (excl. EIB)									$ 13.4	$ 2.7	$ 15.9		$ 32.0
Finland		$ 0.0					$ 0.0						$ 0.0
France		$ 2.0	$ 0.0	$ 0.1					$ 0.0				$ 2.1
Germany	$ 1.0		$ 0.5	$ 1.1				$ 10.7					$ 13.3
Japan	$ 230.1	$ 0.0	$ 2.3	$ 6.7	$ 3.5	$ 2.8	$ 1.9	$ 9.6	$ 45.0	$ 0.1	$ 13.0	$ 1.4	$ 316.5
Korea	$ 0.2		$ 0.0	$ 6.0	$ 0.0	$ 0.0	$ 0.0		$ 0.1				$ 6.4
New Zealand			$ 2.5	$ 2.0	$ 12.0	$ 0.6			$ 2.2	$ 2.9		$ 1.1	$ 23.4
Norway	$ 8.6												$ 8.6
Poland	$ 0.0												$ 0.0
United Kingdom				$ 1.3									$ 1.3
Iceland				$ 0.0									$ 0.0
TOTAL BILATERAL	**$ 244.6**	**$ 6.1**	**$ 34.5**	**$ 17.7**	**$ 16.3**	**$ 3.9**	**$ 2.3**	**$ 20.6**	**$ 64.8**	**$ 5.8**	**$ 29.2**	**$ 2.8**	**$ 448.5**
MULTILATERAL													
FUNDS													
CIF		$ 13.8	$ 13.2										$ 27.0
GCF									$ 29.9				$ 29.9
GEF	$ 16.4	$ 2.6	$ 3.0		$ 6.2	$ 6.0	$ 3.3	$ 0.4	$ 2.6	$ 3.8	$ 2.0	$ 4.7	$ 51.1
Abu Dhabi Fund for Development		$ 4.5	$ 4.0	$ 4.4	$ 5.4	$ 4.4	$ 5.8	$ 4.0		$ 3.6	$ 3.9	$ 5.0	$ 45.0
Sub Total	**$ 16.4**	**$ 20.9**	**$ 20.2**	**$ 4.4**	**$ 11.6**	**$ 10.4**	**$ 9.2**	**$ 4.4**	**$ 32.5**	**$ 7.4**	**$ 5.9**	**$ 9.7**	**$ 153.0**
MDBs													
AsDB	$ 60.9	$ 5.0	$ 38.3		$ 12.0		$ 5.8	$ 1.1	$ 14.1	$ 28.5	$ 14.2		$ 179.9
EIB				$ 6.5							$ 0.1		$ 6.6
IFC				$ 2.5									$ 2.5
WB	$ 29.3	$ 4.0	$ 59.8	$ 4.4	$ 1.3	$ 1.4	$ 9.8	$ 31.2	$ 4.2		$ 19.6		$ 165.0
Sub Total	**$ 90.2**	**$ 9.0**	**$ 98.1**	**$ 13.5**	**$ 13.3**	**$ 1.4**	**$ 15.6**	**$ 32.3**	**$ 18.2**	**$ 28.5**	**$ 33.9**		**$ 354.1**
OTHER MULTILATERAL													
GGGI		$ 1.4		$ 0.5									$ 1.9
Subtotal		**$ 1.4**		**$ 0.5**									**$ 1.9**
PRIVATE DONOR													
Children's Investment Fund Foundation				$ 0.2									$ 0.2
Sub Total				**$ 0.2**									**$ 0.2**
TOTAL MULTILATERAL	**$ 106.6**	**$ 31.3**	**$ 118.3**	**$ 18.6**	**$ 25.0**	**$ 11.8**	**$ 24.8**	**$ 36.8**	**$ 50.8**	**$ 35.9**	**$ 39.9**	**$ 9.7**	**$ 509.2**
TOTAL	**$ 351.1**	**$ 37.3**	**$ 152.8**	**$ 36.3**	**$ 41.3**	**$ 15.6**	**$ 27.1**	**$ 57.3**	**$ 115.6**	**$ 41.7**	**$ 69.1**	**$ 12.4**	**$ 957.6**

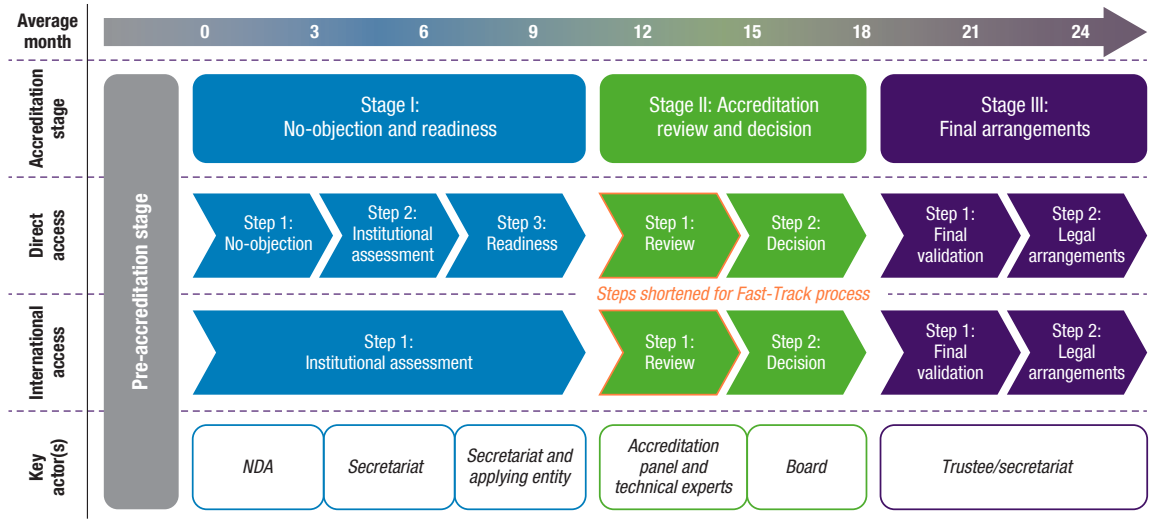
Source: OECD Climate-related Development Finance Database; and IMF staff.
Note: Figures are in millions of US dollars.

Annex 3. Accreditation and Project Approval Processes

The role of different entities involved in accessing finance from a multilateral CF, from inception to the funding application, approval, and execution, are the following:

- National Focal Points (FP): FPs, also commonly referred to as National Designated Authorities (NDA) and National Implementation Entities (NIE), are the primary interface between countries and CFs. They are responsible for setting priorities for funding from the institution and signing off on proposals received by sponsors before they are considered by the fund's governing body or board.
- Accredited Entity (AE): AEs are entities or intermediaries that are pre-qualified to access, manage and carry out activities such as developing funding proposals and managing projects/programs. To access funding, these institutions must have gone through an accreditation process. In many cases, the terms AE and IE are used interchangeably. However, formally, AE is distinct from IE for those funds that have a formal process for accreditation of IEs, such as the GCF and AF. AEs accredited by CFs include private or public, non-governmental, sub-national, national, regional, or international organizations. AEs may choose to also be the Executing or Implementing agencies or to oversee other agencies delivering these services on their behalf.
- Executing Entity (EE): EEs are responsible for executing the project and ensuring its objectives are met. EEs can be private or public, nongovernmental, subnational, national, regional, or international organizations. EE is often the same as project sponsor/proponent, but not always.
- Implementing Entity (IE): IEs identify, propose, oversee, and appraise projects/programs for the CF's Board. IEs hold the funds released by the

Annex Figure 3.1. GCF's Accreditation Stages

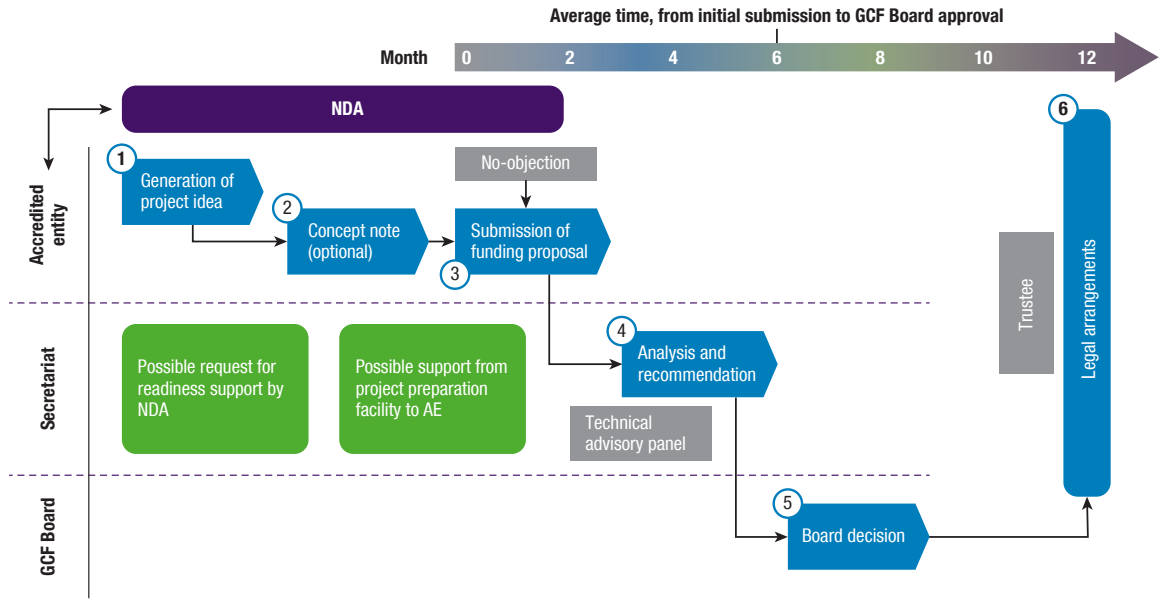


Sources: Green Climate Fund; and IMF staff.

trustee of each Fund, and transfer them on to the executing entity, if project execution advances according to plan.

Annex Figures 3.1 and 3.2 schematically describe the GCF accreditation stages, and the project approval process and where different entities fit in in these processes.

Annex Figure 3.2. GCF's Project Approval Process



Sources: Green Climate Fund; and IMF staff.

Annex 4. Potential Challenges to Accessing Climate Finance

Annex Tables 4.1 to 4.4 present examples of the types of challenges countries can face when seeking to access climate finance.

Appendix Table 4.1. Accreditation Challenges

Challenge	Description
Lack of administrative and financial capacities	Limited capacity to demonstrate that: a) Financial inputs and outputs are properly accounted for, reported and administered transparently following pertinent regulations; b) Information relating to the overall administration and management of the entity is available, consistent, reliable and complete, and financial information systems are in place; c) Operations of the entity show a track record in effectively and efficiency; d) Entities have public expenditure reviews, if applicable
Lack of program management and accountability	Limited capacity to demonstrate: a) Procedures to provision and/or invest capital the AE is managing; b) Policies and mechanisms in place to maintain transparency; c) Ability to undertake specific types of due diligence, including IDD, AML and KYC; d) Donor management functions, explicitly reporting functions that can enable proper reporting on the progress, delivery and implementation of specific project, programs managed by eh AE.
Lack of capacity/ability to conduct internal or external audit	Limited or nonexistent legal/regulatory frameworks and formal metrics/standards around internal and external audits for entities that request accreditation. Inability to demonstrate audit reports on institutional management program effectiveness.
Lack of E&S (ESS) performance management systems	Inability to: a) Demonstrate capacities to identify the environmental and social risks and impacts of projects/programs as they evolve over the project life; b) Prove the entity systematically applies it to investment/projects; c) Prove the ESS policy has been publicly communicated; d) Ability to provide overall metrics/indicators that describe the overall performance/effectiveness of its ESS implementation.
Lack of a gender policy	Lack of policy, strategies, and/or processes to ensure gender mainstreaming in operations.

Source: IMF staff.

Appendix Table 4.2. Project Design Challenges

Challenge	Description
Complex criteria for project selection	Inability to meet the requirements and conditions that are imposed on projects to get approved. These include, among others: a) Country ownership; b) Impact criteria (mitigation or adaptation); c) Paradigm shift; d) Stakeholder engagement; e) Co-financing.
Challenges in structuring the financing for adaptation projects	Specific characteristics of adaptation deals that impact risk-adjusted returns, including for some: a) Unclear/uncertain revenue streams, which is particular important for project seeking to mobilize private capital; b) Smaller project size making transaction costs disproportionately high (e.g., smaller projects often have the same or higher transaction s costs as larger projects); c) Additional transaction costs related to integrating climate-resilience measures into an investment (e.g., through the need for feasibility studies that assess climate-related risks, etc.); d) Inability to monetize public goods/benefits of adaptation projects, making it difficult to properly allocate risk/risk-sharing among different funders and/or structure financing.

Source: IMF staff.

Appendix Table 4.3 General Capacity Challenges

Challenge	Description
Lack of sufficiently robust and tangible adaptation pipelines within NDC, NAPs, or other country strategy processes.	Lack of well-defines pipeline of projects, programs, and investment that meet the eligibility criteria or many climate funds; in some cases, this is a function of capacity. In some cases, the high-level strategies do not go far enough in articulate tangible projects. Thus, more work is necessary to move thus strategies into actional investments.
Strategic allocation of public capital, climate finance, other development aid, and private finance.	In some cases, ongoing and existing pressures prevent country policymakers/planners from thinking more strategically about how to allocate public capital, development aid (e.g., Official Development Assistance (ODA) and others), and how and where to mobilize private capital.

Source: IMF staff.

Appendix Table 4.4. Macroeconomic Challenges

Challenge	Description
Lack of fiscal space to borrow	Limited fiscal space of countries to borrow money. Countries heavily indebted an are unable to take on more debt, even if from climate funds, even if it is highly concessional.
Difficulty in mobilizing private capital	Difficulty to get private sector buy-in for climate change adaptation projects, which may be the result of perceived or real risks in the enabling environment 9e.g., regulatory, legal frameworks) and capacity.

Source: IMF staff.

Annex 5. Basic PFM-Related Requirements

Annex Figures 5.1 and 5.2 identify more specifically the "basic" GCF criteria we have classified as PFM-related, from the standards set out in GCF Initial Fiduciary Principles and Standards, Annex II to decision B.07/02.

GCF PFM-Related Standards

- GCF PFM-related standards are outlined primarily in Initial Fiduciary Principles and Standards, which lists close to 100 requirements that meet the definition of PFM.
- The Stage 1 Institutional Assessment checklist adds a layer of granularity, identifying further specific requirements for a particular standard. It also lists policies, procedures, and documents that should be provided to the GCF accreditation panel. The checklist examines the existence of these documents and whether they are considered to be satisfactory or not.
- The Stage 2 Accreditation Review Checklist lists further, or sometimes restates, specific information requirements, examines their status, and provides an assessment of "adequacy"

A summary of the volume of requirements is shown in Annex Table 5.1. An example of GCF PFM-related requirements traced across these various accreditation stages is at Annex Figure 5.2.

Annex Figure 5.1. Basic PFM-Related GCF Requirements

1	**Corporate Governance**
	Existence of adequate internal oversight bodies & transparent rules governing their existence
	Entity's key areas of authority and responsibility and reporting lines are well-defined
	Entity objectives support and align with the mission of the entity
	Indicators to measure defined objectives
	A general management plan and processes to monitor and report organizational objectives.

2	**Financial Reporting**
	Follows International Standards (IFRS, IPSAS)
	Clear and Complete Statements
	Periodic and Comparable
	Entity uses appropriate financial management systems

Balance Sheet
Income Statement
Statement of Changes in Equity
Cashflow Statement
Description of Accounting Policies
Appropriate Notes and Disclosures

3	**Budget & Monitoring**
	Track record of transparent business plans, financial projections and budget preparation and execution
	Ability to continuously monitor performance and expenditure against these budgets and plans
	Ensure proper financial reporting over the use of funding received from the GCF

4	**Internal and External Audit**
	Independent Audit Committee
	Appointed and fully functional and oversees the work of the internal audit function as well as the external audit firm
	Internal Audit
	Terms of reference address membership, duties, authority and accountability
	Internal audit has approved charter
	Function conducted in accordance with international standards
	Legal arrangements support the auditors adhering to ethical standards
	Function is independent
	A risk based approach to preparing an annual audit plan
	The chief audit officer shares information and coordinates activities with relevant internal and external parties
	The internal audit function disseminates its findings within the organization for action and follow up.
	Response to recommendation are monitored
	Periodic internal and external quality assessments of the IA function are undertaken
	External Audit
	Independent external audit firm
	Audit conducted in-line with international standards
	Audits must be independent and periodic
	Necessary provisions are in place to ensure the audit opinion can be relied upon
	Reports are regularly prepared on accounting systems and controls and reviewed by the Audit committee

Annex Figure 5.1. Basic PFM-Related GCF Requirements (Continued)

5	**Internal Controls**	*Reasonable assurance is provided that:*
	Transparent and consistent payment and disbursement systems are in place	
	Effectiveness and efficiency of operations	
	Reliability of financial reporting	
	Compliance with applicable laws and regulations	
	A control framework that has been adopted and that is documented	
	A control framework that covers the control environment	
	A control framework that defines roles and responsibilities	
	Risk-assessment processes are in place	
	The control framework guides the financial management framework	
	Provisions for regular oversight of the procurement function	
	Sensible segregation of duties	

6	**Procurement**	*For both the regular procurement of the entity and for the procurement in the implementation of GCF proposals:*
	Formal internal guidelines and procurement policy that promotes efficiency	
	Specific procurement guidelines for consultants, contractors and service providers	
	Procedures to oversee procurement processes of beneficiary organizations	
	Procurement performance of GCF project monitored regularly	
	Procurement records are easily accessible to staff and awards are publicly disclosed	
	Evidence of transparent and fair procurement policies	

7	**Transparency**	
	Code of ethics	*Non-discrimination and equal treatment of candidates;* *Dispute resolution procedures;* *Obligation to use and adherence to tendering procedures;* *Best value for money; and* *Adequate ex-post communication and publication of beneficiaries.*
	Documented code of ethics	
	Individuals are aware of code of ethics	
	Existence of ethics committee	
	Disclosure of conflict of interest	
	Disclosure policy	
	Procedures to resolve conflicts of interest and sanctions	
	Capacity to prevent or deal with financial mismanagement and other forms of malpractice	
	Demonstrated experience and track record in accessing financial resources	
	Evidence of tone or statement from senior management emphasizing a policy of zero tolerance for fraud	
	Avenues and tools for reporting suspected ethics violations, misconduct, and any kind of malpractice	
	Evidence of an objective investigation function for allegations of fraud and corruption	
	General management policies promote an organizational culture that is conducive to fairness, accountability and full transparency	
	Investigation Function	
	The investigation function has publicly available terms of reference	
	Function is independent	
	Published guidelines & standardized procedures for handling complaints	
	Defined process for periodically reporting case trends	

Sources: GCF Initial Fiduciary Principles and Standards, Annex II to decision B.07/02; and IMF staff.

Annex Figure 5.2. Tracing of GCF Requirements Across Accreditation Phases

Initial fiduciary principles and standards'				Stage 1: Institutional Assessment and Completeness Checklist		Stage 2: Accreditation Review Checklist		
Reference			**Standard**	**Specific Requirements**	**Assessment of Existence/Satisfaction**	**Additional Requirements**	**Status**	**Assessment**
Internal Audit								
1.1.3	B	(f)	The chief audit officer shares information and coordinates activities with relevant internal and external parties (including external financial statement auditors) ensuring proper coverage and a minimization of duplication of efforts.	Audit plans for the past 3 years	**Annual audit plans for each of the past 3 years have been:** ☐ Provided ☐ Not provided **Status of execution of the past 3 years' audit plans have been:** ☐ Provided ☐ Not provided	N/A	**Status** ☐ Yes ☐ No	**Standard adequacy/ effectiveness suitably demonstrated** ☐ Yes ☐ No

One of almost 100 PFM requirements in the standards

One of almost 100 PFM requirements with 4 extra requirements

Initial fiduciary principles and standards'				Stage 1: Institutional Assessment and Completeness Checklist		Stage 2: Accreditation Review Checklist		
Reference			**Standard**	**Specific Requirements**	**Assessment of Existence/Satisfaction**	**Additional Requirements**	**Status**	**Assessment**
Corporate Governance								
1.1.1	2	(d)	Indicators to measure defined objectives and internal documents demonstrating that organization-wide objectives provide clear guidance on what the entity wants to achieve	iv) A consistent and formal process to set objectives and to ensure that the chosen objectives support and align with the mission of the entity; v) Indicators to measure defined objectives and internal documents demonstrating that organization-wide objectives provide clear guidance on what the entity wants to achieve.	**Flow chart or brief write-up on the objective setting (long term and annual) process has been:** ☐ Provided ☐ Not provided **Process defines procedures for aligning objectives with the organization's mission:** ☐ Yes ☐ No **Organizational objectives are further broken into departmental objectives with supporting action plans:** ☐ Yes ☐ No	i) Appropriate indicators/metrics for all key organizational objectives (long term and annual) defined ii) Break-up of indicators/metrics for organizational objectives into departmental objectives undertaken iii) Achievement of organizational/ departmental objectives is supported by adequate action plans	**Status** ☐ Yes ☐ No	**Are the processes/ outputs adequate/ appropriate and clearly defined?** ☐ Yes ☐ No

One of almost 100 PFM requirements with 9 extra requirements

Source: IMF staff.

Appendix Table 5.1. Summary of the Number of GCF 'Basic' PFM Requirements

Basic PFM Standards for access to the GCF		Initial fiduciary principles and standards of the GCF				GCF Institutional Assessment Checklist 1		GCF Accreditation Review Checklist 2			Total Requirements
		Principles	Standards	Sub-standards	Sub-Sub Standards	Specific Requirement	Existence/ Status	Specific Requirement	Existence/ Status	Adequacy/ Effectiveness	
1	**Corporate Governance**	3	1	6	–	5	14	19	17	17	79
2	**Financial Reporting**		1	5	6	2	2	12	10	10	48
3	**Budget & Monitoring**		1	3	–	–	–	2	–	–	6
4	**Internal & External Audit**		1	20	–	5	10	27	27	27	117
5	**Internal Controls**		1	12	6	2	5	14	14	14	68
6	**Procurement**		1	7	5	6	6	10	10	10	55
7	**Transparency**	3	1	18	–	14	16	19	19	19	106
	Total	**6**	**7**	**71**	**17**	**34**	**53**	**103**	**97**	**97**	**479**
			95			**87**		**297**			**479**

Source: IMF staff.

Annex 6. Special PFM-Related Requirements

Annex Figure 6.1 identifies more specifically the Specialized GCF criteria we have classified as PFM-related, from the standards set out in GCF Initial Fiduciary Principles and Standards, Annex II to decision B.07/02.

Annex Figure 6.1. Specialized PFM-Related GCF Requirements

Specialized Standards: Project Management	
1	**Project Preparation & Appraisal**
	Track record of capability and experience (including appropriate tendering procedures for project proposals) in the identification and design of projects or programmes within the respective jurisdiction (subnational, national, regional or international, as applicable);
	Capacity to clearly state project objectives and outcomes in preparing funding proposals and to incorporate key performance indicators with baselines and targets into the project design;
	Ability to examine and incorporate technical, financial, economic and legal aspects as well as possible environmental, social and climate change aspects, and relevant assessments thereof, into the funding proposal at the appraisal stage; and
	Appropriate fiduciary oversight procedures are in place to guide the appraisal process and ensure its quality and monitoring of follow-up actions during implementation.
2	**Project Oversight and Control**
	Operational systems, procedures and overall capacity to consistently prepare project implementation plans, including project budgets, reporting guidelines and templates to be used by executing entities or project sponsors;
	Operational capacity and organizational arrangements to continuously oversee the implementation of the approved funding proposal in order to regularly assess project expenditure against project budget as well as to monitor and identify opportunities for improving project performance against its budget and timelines;
	Appropriate reporting capabilities and capacities to appropriately publish implementation reports; and
	Operational systems and overall capacity to conduct necessary activities relating to project closure, including due reporting on results achieved, lessons learned and recommendations for improvement, as well as capacity to disseminate results and make key findings publicly available.
3	**Monitoring & Evaluation**
	The monitoring function detects, assesses, and provides management information about risks relating to projects, particularly those deemed to be at risk.
	Operational and organizational resources are available to implement monitoring functions, policies and procedures consistent with the requirements of the Fund's monitoring and evaluation guidelines;
	The roles and responsibilities of the monitoring function are clearly articulated at both the project and entity/portfolio levels. The monitoring function at the entity/portfolio level is separated from the project origination and supervision functions; Tools for reporting on project monitoring are available and monitoring results are periodically published.
	The evaluation function assesses the extent to which projects, programmes, strategies, policies, sectors or other activities achieve their objectives and contribute to the initial results areas of the Fund. The goal of evaluation is to provide an objective basis for assessing results, to provide accountability in the achievement of objectives, and to learn from experience (and to detect any deviation from project planning in the early stages).
	Independent evaluations are undertaken by an established body or function as part of a systematic programme of assessing results, consistent with relevant requirements and related Fund policies.
	The evaluation function follows impartial, widely recognized, documented and professional standards and method.
	The evaluation body or function is structured to have the maximum independence possible from the organization's operations, consistent with the structure of the entity, ideally reporting directly to the board of directors or comparable body. If its structural independence is limited, the evaluation body or function has provisions that ensure transparent reporting to senior management.
	An evaluation disclosure policy is in place. Evaluation reports are disseminated as widely as possible, at a minimum to all parties directly or indirectly involved in the project or programme. To enhance transparency, reports are available publicly to the extent possible
4	**Project Risk**
	A process or system, such as a project-at-risk system, is in place to flag early on when a project has developed problems that may interfere with the achievement of its objectives, and to respond accordingly to redress the problems;
	Availability of an independent risk management function differentiated from project implementation and project supervision responsibilities.
	Risk assessment:
	Demonstrated capabilities to undertake the assessment of financial, economic, political and regulatory risks during the implementation stages; and
	Demonstrated ability to integrate risk mitigation and management strategies into the funding proposal at all levels listed above, and to exercise such strategies during the implementation stage.

Specialized Standards: Grant Mechanisms	
1	**Transparent Eligibility Criteria and Evaluation**
	The grant award mechanism is organized in a fully transparent manner that guarantees impartiality and equal treatment to all applicants;
	The evaluation process is based solely on the criteria for exclusion, eligibility, selection and award pre-announced in the call for proposals;

Annex Figure 6.1. Specialized PFM-Related GCF Requirements (Continued)

Specialized Standards: Grant Mechanisms (Cont.)	
1	**Transparent Eligibility Criteria and Evaluation (Cont.)**
	Eligibility evaluation performed on the basis of the criteria stated in the call for proposals
	All stages are formally documented through standardized checklists and forms;
	There is an evaluation committee that:
	(i) Evaluates the applications to make a recommendation for award and rejections in accordance with the pre-announced criteria; and (ii) Works in accordance with the formal rules of procedure.
2	**Grant Award Decision and Procedures**
	The grant award decision is taken by the person or body who is legally authorized to sign grant agreements on behalf of the awarding body;
	The grant award decision is based on the grant award proposal prepared by the evaluation committee
	If the grant award does not follow evaluation committee's recommendation, the departing decision is adequately justified and documented
	The grant decision states the following: (i) Subject and overall amount of decision; (ii) Name of beneficiaries, title of granted activity, grant amount awarded, and the reason(s) for this choice; and (iii) Name(s) of application(s) rejected and reason for their rejection(s).
	Checks have been undertaken to guarantee that one and the same activity only results in the award of one grant to any one beneficiary;
	No grant is awarded retrospectively for activities already started or completed at the time of the application
	All applicants are notified in writing of grant award outcome; and
	Rejected applications result in rejected applicants receiving reason(s) for rejection with reference to the pre-announced criteria
3	**Public Access to Information on Beneficiaries and Results**
	Grant-awarding entity makes the grant award results public;
	Results made public within a reasonable timeframe following the grant award decision
	The following information should be included (at a minimum): (i) Name, address and nationality of the beneficiary; (ii) Purpose of the grant; and (iii) Grant amount awarded and, where applicable, the maximum co-financing rate of the cost.
4	**Transparent Allocation and Implementation of Financial Resources**
	There is a system in place to provide assurance on the reality and eligibility of activities to be carried out with the grant award as well as the legality of the underlying operations;
	There is a system in place to recover funds unduly paid;
	There is a system in place to prevent irregularities and fraud;
	The grant-awarding entity monitors the implementation of funded programme activities and supports beneficiaries through counselling and advice;
	There are sufficient possibilities for the beneficiary to contact the grant-awarding entity;
	The grant-awarding entity carries out on-site visits to monitor the implementation of individual projects;
	Those on-site visits are used to support the beneficiary, gather and disseminate best practices and establish/maintain good relations between the awarding entity and the beneficiary entity;
	There are clear procedures about procurement rules the grant beneficiary is required to apply, if any;
	The amount of the grant is finalized only after the grant-accepting entity has accepted the final report and accounts;
	There are procedures in place for the suspension, reduction, or termination of the grant if the beneficiary fails to comply with its obligations.
5	**Good Standing with Regard to Multilateral Funding**

Annex Figure 6.1. Specialized PFM-Related GCF Requirements (Continued)

On-lending and/or Blending	
	Additional Specialized Criteria for On-lending and Blending:
	Appropriate registration and/or license from a financial oversight body or regulator in the country and/or internationally, as applicable.
	Track record, institutional experience and existing arrangements and capacities for on-lending and blending with resources from other international or multilateral sources.
	The creditworthiness of the institution making on-lending or blending arrangements;
	Due diligence policies, processes and procedures in place;
	Financial resources management, including analysis of lending portfolio of the intermediary;
	Public access to information on beneficiaries and results;
	Investment management, policies and systems, including in relation to portfolio management;
	Capacity to channel funds transparently and effectively, and to transfer the Fund's funding advantages to final beneficiaries;
	Financial risk management, including asset liability management;
	Governance and organizational arrangements, including relationships between the entity's treasury function and the operational side;
	For intermediaries or IEs that blend grant awards:
	There are clear procedures about the grant award rules that the implementing partner is required to apply; or
	If the intermediary or IE uses its own rules, the minimum requirements are satisfactory.

Sources: GCF Initial Fiduciary Principles and Standards, Annex II to Decision B.07/02; and IMF staff.

Annex 7. PEFA Assessment in PICs

Annex Table 7.1 identifies the frequency with which PEFA assessments have been undertaken in the Pacific in the last 10 years. Annex Table 7.2 identifies the most recent PEFA Assessments undertaken in the Pacific that were used in compiling the GCF-PEFA Heat Map.

Appendix Table 7.1. PEFA Assessments conducted in PIC over the last ten years

	2005 PEFA		2011 PEFA					2016 PEFA			
Year	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Vanuatu											
Tuvalu											
Tonga											
Tokelau											
Timor-Leste											
Solomon Islands											
Samoa											
PNG											
Palau											
Niue											
Nauru											
RMI											
Kiribati											
FSM											
Fiji											
Cook Islands											

Source: Allen and others (2020).

Appendix Table 7.2. Most Recent PEFA Assessments in the Pacific Used in the Heatmap

	Fiji	Tonga	Cook Islands	Samoa	Vanuatu	RMI	Solomon Islands	Tuvalu	Nauru	Kiribati	FSM	Palau	PNG
Latest Published PEFA	2020 (16)	2020 (16)	2015 (11)	2014 (11)	2013 (11)	2012 (11)	2012 (11)	2011 (11)					
Latest Self Assessment									2016 (16)	2017 (16)	2016 (16)	2013 (11)	
Latest Unpublished													2019 (16)

Source: IMF staff.

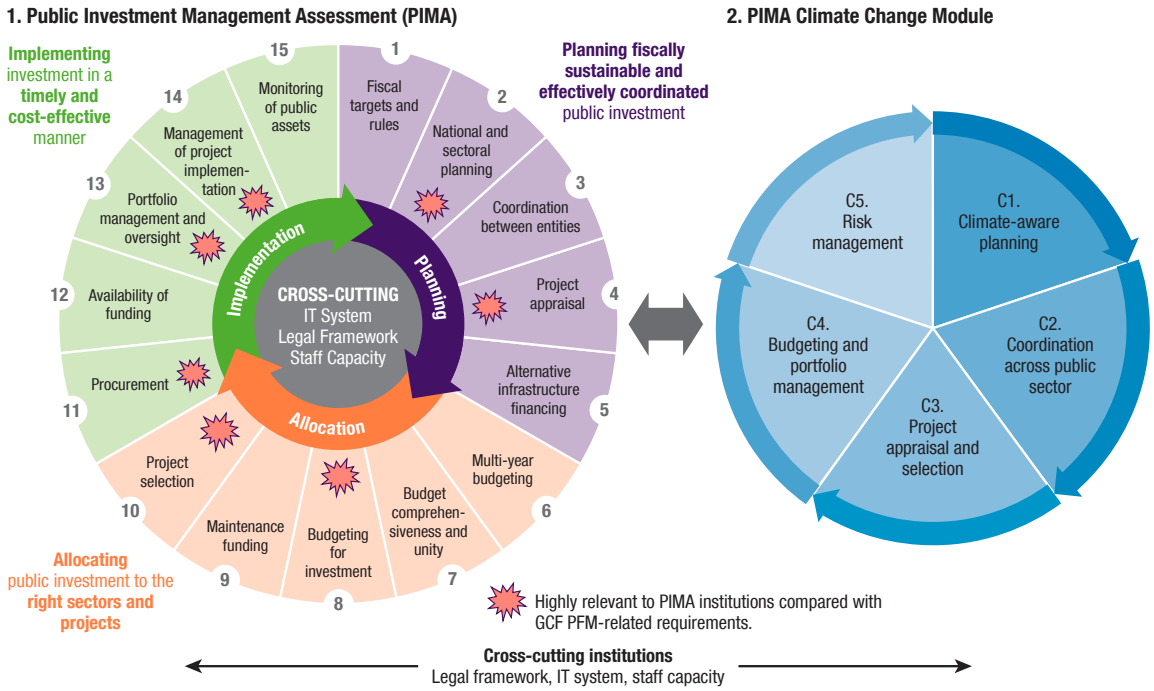
Annex 8. Supportive IMF PFM Tools

Public Investment Management Assessment (PIMA) has become a key tool for helping IMF member countries strengthen the efficiency and effectiveness of their public investment. The PIMA framework helps to improve infrastructure governance by identifying strengths and weaknesses of country practices. The PIMA evaluates infrastructure governance using 15 key institutional features across the three stages of the public investment cycle: (1) planning public investment; (2) allocating public resources to sectors and projects; and (3) implementing productive public assets (Annex Box 8.1). Direct links between the PIMA and PIM-related requirements for access to the GCF include:

- Dimension 2: National and Sectoral Planning
- Dimension 4: Project Appraisal
- Dimension 8: Budgeting for Investment
- Dimension 10: Project Selection
- Dimension 11: Procurement
- Dimension 13: Portfolio Management & Oversight
- Dimension 14. Management of Project implementation.

The PIMA Climate Change Module (PIMA-CC) builds on the PIMA framework and assesses five key PIM practices from the climate change perspective (Annex Figure 8.1). The design of the climate PIMA framework follows the same general structure and logic of PIMA. In contrast to the 15 PIMA institutions, there are only five institutions in the PIMA CC. These reflect the public investment management aspects that are most critical to addressing climate challenges. The five PIMA CC institutions are: (1) climate aware

Annex Figure 8.1. PIMA and PIMA Climate Change



Sources: IMF staff.

planning, (2) coordination between entities, (3) project appraisal and selection, (4) budgeting and portfolio management, and (5) risk management.

The Climate Change Policy Assessments (CCPAs) were a joint initiative by the IMF and World Bank to assist small states to understand and manage the expected economic impact of climate change, while safeguarding long-term fiscal and external sustainability. Two pilot CCPAs for small states were conducted in the Pacific for Micronesia and Tonga. The CCPAs gave recommendations on how to strengthen policies while maintaining a sustainable macroeconomic framework. From a PFM perspective, CCPAs examined two important PFM questions:

- *Adequacy of PFM Systems for Managing Climate Change Funding and Outlays* – Are Adequate Public Financial Management Systems in Place to Protect Climate-Related Funding?
- *Adequacy of Public Investment Management System* – Are Adequate Public Investment Management Systems in Place to Ensure Climate-Related Investments will be Well Spent?

The CCPA took a broader lens to the capacity required to effectively secure and manage climate finance and thus was not solely focused on the capacity necessary to access GCF requirements. Given the identified focus of the GCF on highly effective internal and external audit functions, robust controls frameworks, and financial reporting obligations there may be opportunity to focus more on these aspects in future CMAPs.

Green budgeting is becoming an increasing important element of a broader suite of PFM tools considered to be "green PFM." The concept of green PFM can be defined as the integration of a climate-friendly perspective into PFM practices, systems, and frameworks – especially the budget process – with the objective to promote fiscal policies that are responsive to climate concerns. Green PFM is a notion akin to *green budgeting*,[1] but with a wider scope, as it explicitly considers broader PFM functions that might go beyond the scope of the budget (such as coordination with other public sector entities or fiscal transparency). This approach is important in the context of accessing climate finance, as increasingly CFs (and donors) require that the flows of climate finance are tracked and reported against, which can also inform green budget tagging practices.

[1]According to OECD, "green budgeting is designed to drive improvements in the alignment of public expenditure and revenue processes with climate and other environmental goals. It means to systematically examine existing and potential budget measures and policies, their interdependencies, externalities and joint benefits, and to mainstream an environmentally-informed approach into the national and subnational budgetary frameworks."

Annex Box 8.1. The Experience So Far with Green Budgeting in Fiji

The building blocks for the implementation of green budgeting in Fiji are a strong strategic framework that provides green national strategic priorities and objectives, tools for evidence generation and policy coordination, reporting to facilitate transparency and accountability, and an enabling budgetary governance framework that provides a strong supporting environment for green budgeting. This has been paired with a National Climate Change Policy 2017 to 2030 and a 5-year and 20-year development plan that covers adaptation, mitigation, financing, and a sustainable ocean policy. To assist with accomplishing these goals the government has strengthened its institution through embedding a climate change division with the Ministry of Finance, changed its fiscal year to avoid key budgetary functions during cyclone season, and established key contingency funding lines. Future plans include climate budget tagging, climate template development, and drafting a Climate Change Bill that will mandate risk reporting, as well as seeking accreditation from the Green Climate Fund for Fiji.

Source: Fijian authorities.

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