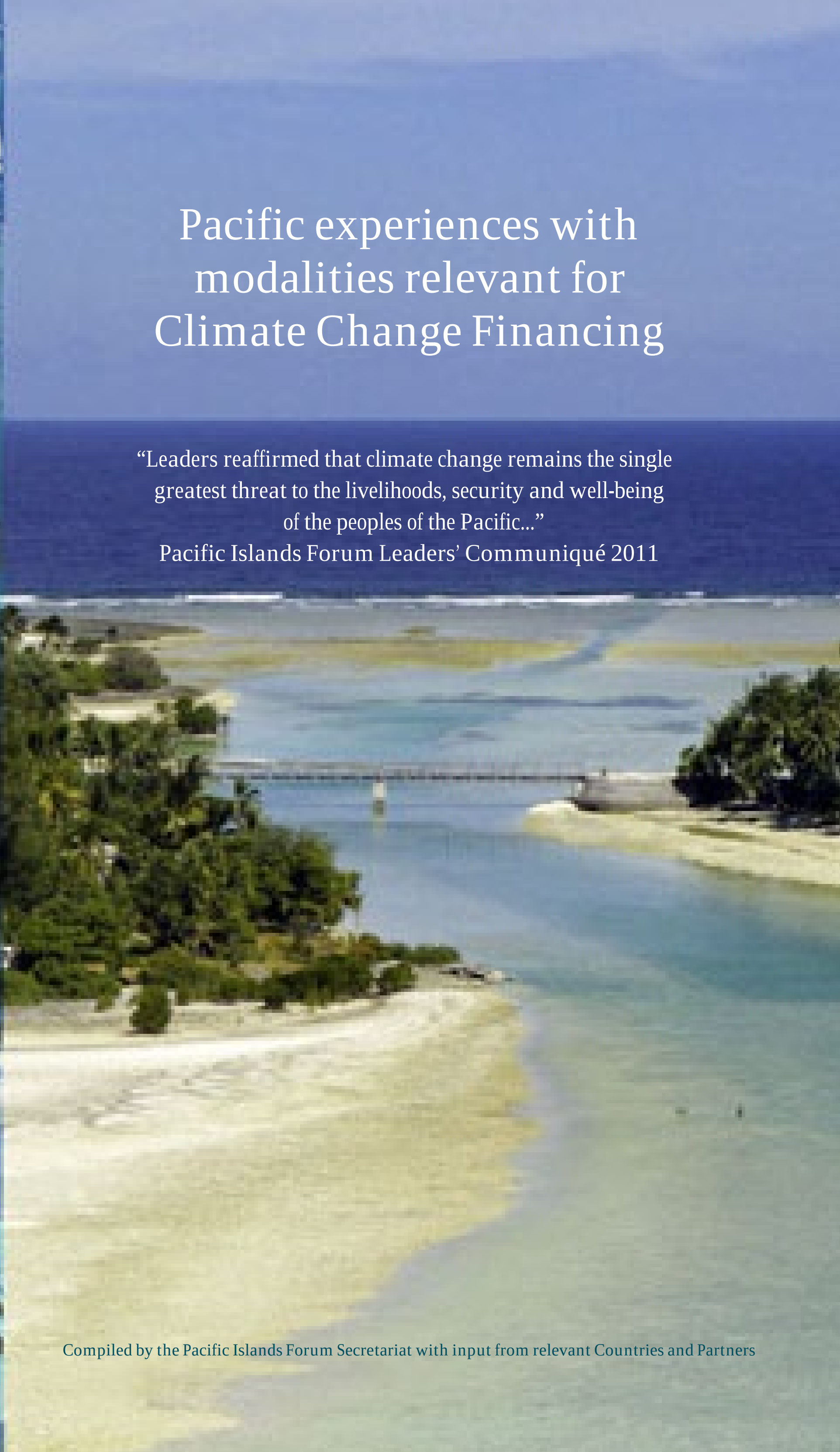

Pacific experiences with modalities relevant for Climate Change Financing

"Leaders reaffirmed that climate change remains the single greatest threat to the livelihoods, security and well-being of the peoples of the Pacific..."
Pacific Islands Forum Leaders' Communiqué 2011

Compiled by the Pacific Islands Forum Secretariat with input from relevant Countries and Partners

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1. Introduction

Over recent years Pacific Islands Forum Leaders have continuously highlighted the threat posed to Member countries by climate change and the need for improved access to and management of climate change resources to effectively respond to climate change. In their 2011 Communiqué, Leaders stressed the critical and urgent need for adaptation finance to enable Forum Island Countries to respond to the adaptation needs of its people, in particular those already suffering, are displaced or are being affected as a result of the detrimental impacts of climate change. They welcomed advice from Forum Economic Ministers on the options for accessing and managing climate change funding at their meeting in Apia in July 2011, and tasked the Forum Secretariat to set out in detail how national and regional options could work in practice, taking into account as appropriate, the specific capacities and needs of respective countries and the potential in possible combinations of various national and regional options.

The Forum Secretariat in collaboration with a number of Member countries, Council of Regional Organisations in the Pacific (CROP) and development partners is exploring a range of modalities, approaches and enabling environments that might assist countries to more effectively harness climate change resources and implement them to address national priorities. A number of these modalities are already being implemented or explored in the region and provide a practical experience to draw from. Amongst these are: budget support (general and sector); national trust fund arrangements; sub-regional fund arrangements; national development bank arrangements; accrediting national implementing entities (NIEs); accrediting regional implementing entities (RIEs); and using multilateral implementing entities (MIEs).

This booklet presents a compilation of some of these practical experiences and has been contributed to by a number of countries and partners in the region. The Secretariat also offers some summary observations on the basis of these experiences. It also contains relevant contacts under each case study for countries and partners to pursue further as they wish. This booklet complements other initiatives being implemented in the region, a number of which are being coordinated and/or supported by the Forum Secretariat in response to Leaders' decisions. These initiatives broadly include: developing a comprehensive assessment process for countries to assist in identifying the optimal mix of climate change financing[1] (CCF) modalities; exploring the design of a regional climate fund; development of a Regional Technical Support Mechanism (RTSM); contributing to a UNDP-

1 Being explored through a climate change financing case study in Nauru supported by PIFS, and a climate public expenditure and institutional review (CPEIR) approach being piloted in Samoa with the support of UNDP.

managed online community of practice on topics related to climate change financing and development effectiveness (Pacific Solutions Exchange); and, assisting countries to effectively access and manage international climate change funding.

It is envisaged that this booklet be updated periodically to include contributions from countries and partners as they wish, to build a body of practical experiences upon which to share and learn from. The Secretariat acknowledges with great appreciation all countries and partners who contributed their experiences to this booklet.

Tuiloma Neroni Slade
Secretary General

Pacific Islands Forum Leaders' Meeting in Auckland, New Zealand 2011

2. Budget Support

Samoa's experience with Incentive-Based Budget Support

Benefits	Challenges/Costs
✓ High level of national ownership of the reforms by the Government of Samoa and promotion of existing government plans. ✓ Opportunity to align donor procedures with country systems. Since it is performance based, there is reinforcement of management for results which in turn would result in greater transparency and accountability. ✓ Reduction in transaction costs given the use of existing country systems. ✓ The joint selection and assessment of performance targets with development partners has resulted in a more coordinated dialogue. ✓ The joint Policy Matrix is useful for donors as a mechanism to disburse larger amounts of funding to respond to crises such as the tsunami and the impacts of climate change. ✓ The targets could be used to drive service delivery results (outcomes) as opposed to the financing process (outputs).	• It is challenging to identify appropriate measurable and meaningful indicators that reflect transformational results required by donors for multi-sector development, which have a potential for climate change priorities and activities. • It requires close monitoring given that resources are fungible. • There is a need for greater understanding of the mechanisms and the funds available outside of just the Ministry of Finance. • This modality can result in reduced attribution or visibility of donors, however mutually agreed arrangements for visibility of donor assistance can be made particularly if there are good results being demonstrated.

Brief background and operational arrangements

In 2008 the Government of Samoa launched the Public Financial Management (PFM) Reform Plan (2008-2011). The reform plan evolved as a result of both the findings of the Public Expenditure and Financial Accountability (PEFA) Assessment financed by the European Union (EU) in October 2006, and the Government of Samoa's own assessment of their public finance management system. The Plan was also developed with reference to the Australian Commonwealth Guidelines for Public Financial Management Reform and the World Bank Strengthened Approach to Public Financial Management Reform.

In November 2009 the Government of Samoa (GoS), Australia, the Asian Development Bank (ADB), the World Bank, and the New Zealand Aid Programme (NZAID) agreed to a joint Policy Action Matrix for disbursing budget support. The targets of the Matrix were taken from the PFM Reform Plan Phase 1 and were modified to include urgent reconstruction plans following the September 2009 tsunami. That Matrix listed three sets of targets: short term (2009-2010); near term (2010-2011); and medium term (2011-2012). In 2010 and 2011, Australia and ADB conducted joint development partner assessments and disbursed budget support funds as a result of successful achievement of milestones.

The Matrix was found to be an efficient method of providing an incentive for reforms to take place. In 2012 AusAID and NZAID signed new agreements with Samoa providing over AUD$11 million over two years to Samoa upon achievement of targets in a new Matrix which supports the next phase of Samoa's PFM reform program and macro-economic reforms. Over AUD$5 million of these funds have already been assessed as being successfully attained.

The joint Policy Action Matrix payments have led to a range of achievements including:

- liberalisation of the telecommunication sector and privatisation of the state owned telecommunication organisation, SamoaTel;
- elevated levels of capital exceeding 2009 financial year that incorporate a costed post-tsunami reconstruction plan;
- state owned enterprises becoming increasingly compliant with Samoa's Public Bodies (Performance and Accountability) Act on the appointment of board members; and
- completion of stage one of the Public Financial Management Reform Plan and development of stage two of the Plan (2011-2015).

By aligning milestones with existing GoS priorities, the Matrix ensured that momentum towards PFM reforms was maintained. This included the period after the tsunami when the scale of the disaster may have otherwise sidelined the focus on reform. A high level of GoS ownership, combined with joint donor assessments, meant that the agreement was streamlined and harmonised. Other lessons learned include:

- Country ownership is the most important element of incentive-based budget support. Performance targets should be based on existing planning priorities and policy. Incentive agreements should avoid introducing a new set of priorities that direct attention and resources away from the existing national planning and reform priorities.
- It is important to achieve the right balance between the government's need for predictability in their medium term budget, and development partners' need to link disbursements to performance. The latest version of the matrix

achieves this balance by using a combination of fixed and variable disbursements. There is also a need to avoid a disbursement formula that results in an "all or nothing" disbursement.

- When designing incentive-based programs partners need to be clear about what actions are required to meet the selected objectives. Successful incentive programs have quantifiable, measurable and verifiable milestones and outcomes.

To date the Matrix has focussed predominantly on PFM and macroeconomic reforms. However there is the potential for it to be used to incentivise development financing issues in future iterations. The European Union's experience of implementing a Water Sector Budget Support program in Samoa could be drawn upon as it has incentivised progress towards water supply, water quality and water governance targets.

Key donors and partners

The original Matrix was supported by Australia, New Zealand, World Bank and the Asian Development Bank. Currently Australia and New Zealand have signed agreements with the Government of Samoa to support their new matrix. The World Bank is expected to contribute support to the matrix in the future. The new Matrix will also be assessed at the same time as EU budget assessments are undertaken to ensure that all donors providing budget support are coordinated.

Contact points for further information

1. Noumea Simi, Assistant CEO Aid and Debt Coordination, Samoa's Ministry of Finance. Apia. Email: noumea.simi@mof.gov.ws

2. Oscar Malielegaoi, Assistant CEO Budget, Samoa's Ministry of Finance, Apia. Email: oscar.malielegaoi@mof.gov.ws

3. Litara Taulealo, Program Coordinator Climate Resilience, Samoa's Ministry of Finance, Apia. Email: litara.taulealo@mof.gov.ws

4. Frances Sutherland, Second Secretary - Development Cooperation, AusAID, Apia. Email: Frances.Sutherland@ausaid.gov.au

3. National Trust Fund

Tuvalu's experience with a National Trust Fund

Benefits

- ✓ The success of the trust fund has gained a positive reputation for Tuvalu as a model for the effective use of similar trust funds for small-state and least developed country economic development.
- ✓ The Fund has been seen as an excellent alternative mechanism for delivering untied development aid to a developing country, and one that also promotes donor harmonisation and blending of funds due to the way it operates.
- ✓ Tuvalu has managed to demonstrate that a trust fund set up can have significant positive impacts on national budget and the economy as a whole. Although the Fund is not specifically tied to line expenditure items, it is fair to say that real per capita income (on average) and physical infrastructure of Tuvalu have been substantially improved partly due to the Fund's revenues.
- ✓ The Trust Fund through its Account B (Consolidated Investment Fund, CIF) is an avenue for the Government of Tuvalu to buffer unexpected situations like financial crises or natural disasters.
- ✓ The Fund is a successful model for multinational and multiparty governance arrangements. This fund is unique in that it is overseen by a multinational board in conjunction with a multinational advisory committee. The two entities serve to collectively manage the fund, adding an extra layer of oversight diligence.
- ✓ Binary Trust Fund structure is innovative and efficient. Like the two management bodies, the two fund accounts (Accounts A and B) work in conjunction to improve the overall efficiency of the fund. The CIF account initially served as a simple stabiliser for drawdowns, but its role has grown and now also serves as a conduit and management tool for other development resources.

Challenges/Costs

- Growing and maintaining the size of the Fund to ensure adequate total revenue and grant availability for intended use, including governments' annual recurrent revenue.
- Maintaining parties to the Fund Agreement over a long period of time that ensure viability and integrity of the structure of decision-making and the policy advisory capacity established by the Agreement.
- It would be a challenge to differentiate climate related finance from normal ODA invested into such a general development Fund, unless it is a fund specifically dedicated for climate change.
- Regardless of its success, the Tuvalu Trust Fund is still prone to the effects of global financial crises due to the smallness of the Fund size.
- While the Fund revenues partially contribute to improving the real per capita income (on average) and physical infrastructure of Tuvalu, it is difficult to determine if the Fund has made any tangible difference in the lives of the people of Tuvalu apart from using the CIF to supplement the government budget in times of shortfall to the budget revenues.

Brief background and operational arrangements

The Tuvalu Trust Fund (TTF) is considered by an Asian Development Bank published report on trust funds in the Pacific in 2005 as the most successful public fund in the region, and perceived as a model for the effective use of trust funds for small-state economic development. The Trust Fund was incorporated under the International Organisations Act 1964, which was enacted by the Administrator of the Government of Australia on 16 June 1987. The International Trust Fund Agreement that was signed on 16 June 1987 by Tuvalu, New Zealand, Australia and the United Kingdom provides the mandate for the operation of the Fund. The Tuvalu Trust Fund Act was also enacted by the Government of Tuvalu in 1987.

The purpose of the TTF is to contribute to the long-term financial viability of Tuvalu by providing an additional source of revenue for recurrent expenses and budget deficits of the Government of Tuvalu, and to set the country on a path towards greater financial autonomy and self reliance.

The fund was initially capitalised with AUD$27.1 million in 'donor donations' from the United Kingdom (AUD$8.5 million), New Zealand (AUD$8.282 million), Australia (AUD$8 million), Government of Tuvalu (AUD$1.6 million), Japan (AUD$695,000) and South Korea (AUD$31,000). Since establishment there have been additional donations from donors totaling to AUD$38.6 million, which comprises AUD$6.4 million from Australia, AUD$3.2 million from New Zealand, AUD$37,821 from South Korea, and AUD$28.2 million from the Government of Tuvalu. Now, the Government of Tuvalu is the Fund's largest contributor.

The TTF is governed by a Board of Directors consisting of one representative each from Tuvalu (who serves as Chairman), Australia, New Zealand, and UK. Moreover, a separate Advisory Committee consisting of government and donor representatives provides additional advice and input to trustees' decision making.

Although governance of the TTF is multinational, Tuvalu has significant autonomy over investment decisions and the use of fund proceeds and is subject to parliamentary scrutiny. Investment of the Fund is guided by a SIOP (Statement of Investment Objectives and Policies) where funds are invested according to the asset allocation of the Trust Fund as stated in the SIOP. This allocation is designed to maximise the return of the Fund within an acceptable level of risk.

Currently the Tuvalu Trust Fund assets are invested in Australian capital markets and elsewhere, and are managed by two investment managers holding a mixed portfolio of equities, fixed income, and cash. In an effort to improve the predictability and consistency of transfers to the recurrent budget, the Government of Tuvalu established a second fund into which trust fund earnings could be deposited. This buffer account or Account B, later named the Consolidated

Investment Fund (CIF) greatly benefits planning by reducing the volatility of drawdowns and allowing the government to continue making them during years when the primary trust fund earnings are zero or negative. Unlike the primary Tuvalu Trust Fund (TTF) or Account A, governance of the buffer account falls entirely on the Government of Tuvalu. The buffer account receives transfers from the primary fund and serves as a repository for other intermittent income like revenue from Tuvalu's fishing license sales and so forth. On the other hand, withdrawals from the CIF include drawdowns into the recurrent budget as well as capital reinvestments that are back-transferred into the primary trust fund.

In essence, Tuvalu has devised a unique, binary structure with a primary true trust fund operating alongside a secondary revolving fund. The value of the fund had grown from its original AUD$27.l million in 1987 to more than AUD$100 million currently.

Key donors and partners

Key donors and partners in the Tuvalu Trust Fund are the United Kingdom, New Zealand, Australia, Japan, South Korea, and the Government of Tuvalu (now the largest contributor to the Fund).

Contact points for further information

1. Pasuna Tuaga, Assistant Secretary, Tuvalu's Ministry of Foreign Affairs, Trade, Tourism, Environment and Labour, Funafuti. Email: ptuaga@gov.tv
2. Tapuago Falefou, Permanent Secretary, Tuvalu's Ministry of Foreign Affairs, Trade, Tourism, Environment and Labour, Funafuti. Email: tfalefou@gov.tv
3. Minute Taupo, Permanent Secretary, Tuvalu's Ministry of Finance and Economic Development, Funafuti. Email: secfin@tuvalu.tv

4. Sub-Regional Fund

Micronesia's experience with the Micronesian Conservation Trust

Benefits	Challenges/Costs
✓ The Micronesian Conservation Trust (MCT) lays a foundation to scale up effort. ✓ MCT provides for high level (Chief Executives) commitment and support for conservation and climate change. ✓ MCT creates opportunity for major commitment of funds and enhances collaboration to maximise resources and learning and leverage additional initiatives. ✓ The Micronesian Challenge and MCT showcase islands on the global stage as an innovative collaborative approach to implementation and financing conservation and climate change initiatives. ✓ The MCT reduces administration costs as only one entity is being used to blend and implement a number of sources of finance. ✓ MCT and its networks continue to provide good opportunities for coordination, exchange, learning and collaboration.	• Coordination among small jurisdictions across such a large region is challenging and some stakeholders are less engaged than others. • Still need to build greater support among some government resource agencies, particularly mid-level managers and identify ways of sustaining regional interest in the MCT and the MC. • Different visions/goals/approaches between various MCT partners/stakeholders. • Some local communities and stakeholders feel some distance from MCT and some apprehension applying for funding from MCT.

Brief background and operational arrangements

In early 2006, the Chief Executives of five Micronesian jurisdictions - the U.S. Commonwealth of the Northern Mariana Islands (CNMI), the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), the Republic of Palau, and the U.S. Territory of Guam - signed the Micronesia Challenge (MC), a shared commitment to effectively conserve at least 30 percent of the near-shore marine resources and 20 percent of the terrestrial resources across Micronesia by 2020. The Micronesia Challenge represents a vast scope - a total sea area of 6.7 million square kilometres, representing more than 20 percent of the Pacific Island region and 5 percent of the Pacific Ocean, with 135 sites (marine, terrestrial, freshwater) currently under some form of management status, and established/managed by local and national partners: 53 in the FSM; 28 in the Marshall Islands; 29 in Palau; 13 in the Northern Mariana Islands; and 12 in Guam.

The Micronesian Conservation Trust (MCT) was incorporated by local stakeholders from the four FSM states and the national government with assistance

from The Nature Conservancy (TNC) in 2002 as a charitable and irrevocable corporation organised to manage and provide funds to support biodiversity conservation and related sustainable development for the people of Micronesia by providing long term sustained funding.

In 2006, MCT was selected by the five Micronesia Challenge jurisdictions as the financial mechanism for the Micronesian Challenge and has since fully regionalised its Board and organisational structure and services. The Trust adheres to policies and standards set out in its Articles of Incorporation, By-Laws and Operations Manual as duly adopted and approved under the laws of the Federated States of Micronesia. MCT and TNC are currently leading on the development of a region-wide MC Business Plan to identify sustainable finance needs and strategies to fill them in meeting the conservation goals of the Micronesian Challenge.

MCT is the Micronesian region's only conservation trust fund, and works with local resource owners, traditional leaders, and local governments to develop and fund project proposals that focus on improving management and addressing key threats to the highest priority ecological sites designated through science-based and collaborative planning processes, such as National Biodiversity Strategy and Action Plans and National Climate Adaptation Policies.

Grants Fund Management, the Board of Trustees approves new projects and/or programmatic areas in line with MCT's Mission, Theory of Change and Grant making Strategy, which are inline and/or complementary to the national priorities of the jurisdictions it serves. The Executive Director, in close collaboration with relevant government and non-state actor stakeholders, and with assistance and input from the Deputy Executive Director and relevant Program Managers and Finance Officer, develops and finalises proposals to donors for funding these programmatic areas. The Board has delegated the Executive Director to sign contract agreements with donors. Once the contract has been finalised and signed, the Finance Officer enters the budget figures and financial reporting requirements into the accounting software and other tracking documents. The management of the project activities is assigned to the appropriate Program Manager. In the case of the Conservation Program, this typically involves conducting a call for proposals process and then the monitoring and evaluation of the projects funded by the grant.

The MCT currently manages three endowment funds, namely the Micronesia Challenge Endowment Fund, the MCT Endowment Fund, and the Yela Conservation Easement Endowment Fund. These funds provide ongoing support to the MCT's annual operations and direct grant making program, as well as to the operations of the Micronesia Challenge and the Yela Conservation Easement's initiatives. As of March 31, 2012 the total funds that MCT managed through Endowment Funds was approximately USD$11.2 million. This comprised endowment for the regional Micronesia Challenge Initiative currently amounting to USD$10.5 million, USD$500,000 for the MCT Endowment Fund, and USD$200,000 for the Yela Conservation Easement Initiative. As part of MCT's obligation to donors, the organisation prepares reports on status of grants, which are produced based on the contracts MCT signs with them. These reports are prepared by the individual staff assigned to the grants and reviewed by the Finance Officer and Executive Secretariat.

Key donors and partners

Donors that support the MCT and MC Regional Initiative include private foundations mostly in the US, US Government Agencies (i.e. NOAA, DOI, and NFWF), the European Commission, individual European countries (i.e. Germany), TNC, GEF, National Governments (i.e. FSM, Palau, RMI, CNMI, and Guam) and private individuals.

Contact point for further information

1. William Kostka, MCT Executive Director, FSM.
   Email: director@ourmicronesia.org

5. National Development Bank

Palau's experience with a National Development Bank channeling climate change funds for Energy Programs.

Benefits

- ✓ Incorporating energy efficient measures into the bank's policies in new home construction created a market for energy efficient products that would not have been able to develop on its own when existing non energy efficient products were cheap and readily available in the local market.
- ✓ Funds provided by donor partners (from countries, global multilateral sources, regional agencies) were blended and helped to ease the added cost incurred due to incorporating more expensive energy efficient products in business and home developments.
- ✓ Increased public awareness of the benefits of energy efficient products as new homes are being built under the program.
- ✓ Fund accountability is transparent given that the funds are managed by a banking agency and they usually have good relationships and experience with donors for loans, grants, technical assistance, and reporting requirements.
- ✓ Banks are seen as trustworthy agents of government and private sector representatives often working with many businesses directly and frequently.
- ✓ Banks usually follow business style operations and are efficient and effective at program delivery.
- ✓ Development banks specialise in policy based financing and already have existing programs such as housing loans so it is only a matter of training them on the energy efficiency measures that would be required to get such programmes started. Therefore using banks is cost effective and reduces transaction costs to the government and development partners.

Challenges/Costs

- Lack of local technical expertise in the area of Energy Efficiency and Renewable Energy when developing such programs still requires expert capacity supplementation from external sources to effectively deliver on programmes. In the case of Palau, assistance was sought from overseas experts on the right products and conditions that would make the program work in Palau. Many factors were assessed such as types of renewable energy that were viable in Palau, logistics, local capacity to install and maintain the systems and the development of the local market.
- Need to train local contractors, partners and bank staff so that some degree of technical awareness would be available in-country before programs can be rolled out.
- Sustainability of efforts implemented through the bank on energy efficiency programmes depends significantly on development of in-country technical expertise
- Developing measures and strategies to sustain the programs after the grant and donor funds are exhausted.
- Some bank decisions are not always independent of political interference.
- Not all banks are financially strong or developed to undertake complicated programs/projects.
- Some banks require government approval or endorsement which is not always available. Sometimes, governments also compete for donor funds causing friction between banks and the government.

Brief background and operational arrangements

The National Development Bank of Palau (NDBP) was established in 1982 and operates in accordance with the provisions of the National Development Bank Act. It is the central financial institution for initiating and promoting Palau's economic development. NDBP is an autonomous statutory body with its own Board of Directors, whose members are appointed by the President of the Republic of Palau with the advice and consent of the Senate of the Olbiil Era Kelulau (OEK). As per the 2010 Financial Audit, the Bank held assets of USD$30.3 million of capital base with USD$26.0 million in loans. The portfolio is almost evenly split between housing and business loans.

The bank conducts its activities, within the framework of the government's economic plans, policies and priorities. The 2009 Palau Energy Policy stated that the national goal is to achieve 20 percent renewable energy and 30 percent energy efficiency by year 2020. In line with that the bank sought ways it could do its part in packaging financing that would lead towards these national goals as stated in the National Energy Policy. In collaboration with the Palau Energy Office, the NDBP was identified as a suitable financing vehicle for subsidy administration of donor funds for the Energy Efficient Subsidy Program (EESP). Funds were disbursed directly to a borrower's mortgage loan after a house was completed and a final inspection showed that energy efficiency measures were incorporated into the new home. With the EESP, the bank incorporated energy efficient measures to new housing constructions under existing lending guidelines for housing loans.

Renewable energy subsidies were invested in equipment inventory to be recouped when loan funds were disbursed to customers. The loan funds portion that represents the subsidy is then added to any other subsidy funds to be reinvested into new inventory thereby creating a sustainable revolving fund. Provided that the subsidy money is sufficient, the accounting fund becomes revolving and perpetual. To roll out the program, a Net Metering Act was also developed which requires electrical company participation as the initial program was piloted under an MOU with the Palau Public Utilities Corporation.

The third energy program for the Bank is an initiative that falls under the Micro Finance Loan Program. With the basic concept as the EESP for new home construction, this program targets existing homes and businesses by providing low interest at 6 percent with short term of up to 5 years loan for renovation of an existing home or business. Incorporation of identified energy efficient measures in the renovation project can mean a subsidy towards the loan of up to USD$3,000.

Key donors and partners

There are currently three Energy Loan Programs that are under the bank's loan products available to customers. The first is the EESP which is a home loan that incorporates specific energy efficient measures and products to a new home construction with a possibility of subsidy towards the mortgage payment. Funds for this particular program are from the Governments of Italy and Austria, managed by IUCN. The second is the Renewable Energy Subsidy Program where financing is available for the purchase and installation of renewable energy equipment for homes and businesses. Funds from the Global Environment Facility (GEF) through the Palau Sustainable Economic Development through Renewable Energy (SEDREA) project provide a subsidy for a portion of the total cost of purchasing and installation of the Renewable Energy System. The other portion for the cost of the complete installation is provided through a low interest at 6 percent, long term of up to 20 years loan from the bank. The third is called RETRO-Energy Efficient Subsidy Program where a micro finance loan with a 6 percent interest and 5-year term with a maximum of up to USD$10,000 loan is available for the renovation to upgrade and improve existing homes or business, with subsidy available for specific energy efficient measures that are incorporated to the building during the renovation. Funds for the RETRO-Energy Efficient Subsidy Program are from EU under the North REP project managed by the Secretariat of the Pacific Community (SPC).

Contact points for further information

1. Karla T. West, Energy Loan Program Manager for NDBP.
   Email: kwest@ndbp.com
2. Kaleb Udui Jr., Former NDBP President. Email: kalebudui@yahoo.com
3. Greg Decherong, Director for the Palau Energy Office.
   Email: energy@palaunet.com
4. Nick Kloulubak, Palau Energy Planner (Palau Energy Office).
   Email: nyk@palaunet.com

6. National Implementing Entity (NIE)

Cook Islands' experience with exploring NIE accreditation to the Adaptation Fund

Benefits

- ✓ A benefit for Cook Islands in gaining National Implementing Entity (NIE) accreditation is having the option of direct access to global funds.
- ✓ MIE is nearing its maximum percentage cap. However, NIE access should enable each country to access up to a USD$10 million cap.
- ✓ NIE gives a country the ability to continue to invest in existing country systems and resources to drive country agendas whilst empowering developing countries to manage their own funds aligned with their own priorities and capacities to implement.
- ✓ Clear understanding that if NIE accreditation is gained under the Adaptation Fund, it would provide weight to a country's application for direct access to other climate change funds (e.g. Green Climate Fund) and other funds. Presumably, meeting the fiduciary standards for access to a global fund, will give bilateral donors the confidence to channel funding through the same NIE, in the long term helping to foster blending and harmonisation of climate change funds at the national level.
- ✓ NIE modality allows for swifter inception and implementation to meet the immediate needs of vulnerable countries.
- ✓ More funds from adaptation projects are retained within the country with NIE modality as opposed to using MIE where a considerable amount of project funds are usually expended in administrative fees outside of the country.
- ✓ The NIE modality recognises the potential of strengthened institutions in developing countries.

Challenges/Costs

- The biggest challenge seems to be the potential loss of expertise in MIEs and technical support countries currently receive from MIE partners. However, Cook Islands intention under NIE would still be to contract technical expertise needed which are likely to be from the MIE and other regional partners.
- The process of accreditation is time consuming and will require a considerable amount of resources, which could be an extra burden on smaller island state government ministries that already lack adequate staffing and financial resources.
- There are a number of key players in the region that have taken an interest in providing assistance to countries seeking NIE accreditation to the Adaptation Fund. The challenge is to ensure that the advice and technical guidance offered by development agencies and regional organisations in this area are consistent with the expectations and requirements of the Adaptation Fund Accreditation Panel.
- The process of seeking NIE accreditation requires political will and support as well as institutional reforms and innovation in order to satisfy the three major areas of the Adaptation Fund Fiduciary Standard, which are Financial Management and Integrity, Institutional Capacity, and Transparency, Self-investigative powers, and Anti-corruption measures.

Brief background and operational arrangements

The Cook Islands started considering NIE as an option back in early 2010. This stemmed from discussions at the 15th UNFCCC Conference of Parties (COP) in Copenhagen in December 2009, where the Cook Islands contributed significantly to negotiating the operationalisation of the Adaptation Fund. Since then there has been a strong intention for the Cook Islands to benefit from those efforts at the earliest.

Delays have occurred due to some confusion about the role of the NIE and the Designated Authority (DA) and lack of technical capacity and resources required to progress this work. This was resolved and the Secretary of the Ministry of Foreign Affairs and Immigration (MFAI) was appointed as the DA and the Ministry of Finance and Economic Management (MFEM) was identified as the best placed entity to seek NIE accreditation on behalf of the Cook Islands. It was however acknowledged that the technical capacity and resources required to progress this activity was lacking, and the country is now exploring what is needed to secure their NIE accreditation under the Adaptation Fund. This resulted in a UNDP-supported NIE capacity mapping assessment mission to Cook Islands in early

2012, and participation in the NIE accreditation workshop in Samoa in April 2012 to better understand what is required. A final decision is yet to be made on whether the Cook Islands will seek NIE accreditation, but this is being seriously considered.

If NIE accreditation is achieved, it is anticipated that the Development Coordination Division of the Ministry of Finance and Economic Management (MFEM), which currently manages millions of dollars in Aid funding on behalf of donor partners will continue to disburse climate change adaptation funds through the country's existing national systems.

Key donors and partners

The Government of Cook Islands has sought assistance from UNDP to complete an NIE assessment on the Ministry of Finance and Economic Management (MFEM). This experience is 'work in progress'.

Contact points for further information

1. Vanessa Jenner, UN Project Officer, Cook Islands' Ministry of Finance and Economic Management. Email: vanessa@mfem.gov.ck
2. Lavinia Tama Teupoko, Budget & Economic Policy Manager, Cook Islands' Ministry of Finance and Economic Management. Email: lavinia@mfem.gov.ck

7. Regional Implementing Entity (RIE)

Secretariat of the Pacific Regional Environment Programme's (SPREP) experience with applying for RIE accreditation to the Adaptation Fund

Benefits

- ✓ SPREP as a regional intergovernmental organisation, owned by Member countries, has a comparative advantage to effectively implement climate change financing services as a Regional Implementing Entity (RIE), than most Multilateral Implementing Entities (MIEs) due to closer relationship and RIEs' direct accountability arrangements with Members.
- ✓ Compared with MIEs SPREP's achievement of RIE status could be more cost effective in delivery of services and climate change funds for Member countries, due to SPREP's work on the Regional Climate Web Portal and the intention to establish a Regional Technical Support Mechanism (RTSM).
- ✓ Attaining RIE accreditation for SPREP would enhance the ability of Pacific Island Countries to manage their own climate change adaptation funds.
- ✓ The RIE modality recognises the potential of strong institutions in the region using existing governing council arrangements to ensure strong ownership and direction from Pacific Island Countries.
- ✓ RIE accreditation results in improved institutional and operational standards and procedures for regional organisations, having gone through the Adaptation Fund accreditation process and would help to raise other donors confidence in those institutions.
- ✓ Achieving RIE accreditation for SPREP would help to supplement capacity limitations of smaller island states in regards to their ability to effectively access, manage and disburse climate change funds.
- ✓ PICs would have greater ability to influence the rates and use of any administrative fees taken by an RIE and these would go back into the PICs through other services provided by the RIE.
- ✓ Assistance to Members in their work to obtain NIE status

Challenges/Costs

- There will be challenges and costs associated with developing proposals, disbursement and management of climate change funds at the national level, as has been experienced with many regional climate change projects.
- The process to attain RIE accreditation requires considerable resources and technical expertise, and Member countries must be fully committed to support the lengthy process.
- A consultative approach and active engagement of Member countries, CROP agencies and other relevant stakeholders is crucial in pursing RIE accreditation for a regional intergovernmental organisation like SPREP.
- It will be challenging for an RIE to maintain a balance between the priority climate change adaptation needs of Member countries, noting the diversity within the region and the likelihood of some Members gaining NIE accreditation in the future. However SPREP will work with Pacific island countries to ensure its position as an RIE, complements and supports national efforts to achieve NIE status.

Brief background and operational arrangements

SPREP was requested by Members to seek accreditation as an RIE, to provide an additional avenue for Members that do not have NIE status to seek Adaptation Fund Board (AFB) funding. Currently no Pacific Island Countries (PICs) have NIE status, although some have applied or expressed an interest. SPREP considered serving as RIE, only as an interim measure to assist the region until all Member countries have attained NIE status, and the accreditation process is documented and shared with the region.

Overall, SPREP has been able to engage with the Adaptation Fund through a constructive dialogue, with a visit of two of the Fund's Accreditation Panel Members to Apia in May 2012. This experience was an opportunity to identify specific areas of improvement for SPREP in seeking accreditation, and to implement specific remedial measures in a relatively short period of time. SPREP has now developed its understanding of the sometimes complex criteria which can be shared among PICs seeking NIE status.

The Panel was expected to make a recommendation on SPREP's application for RIE status at the Adaptation Fund Board Meeting from 26-28 June 2012.

One of SPREP's strengths as an organisation is its understanding of national institutional and capacity challenges as well as priorities and objectives for national sustainable development projects that was developed through continuous engagement with Member countries. SPREP is owned by its Member countries, and is able to act as a conduit for accessing, and managing funds for projects at both the regional and national levels.

SPREP anticipates working with the existing regulations of AFB when accessing funds. This requires first of all expressions of interest from Members in a particular adaptation activity which will then be followed by the assessment, planning and documenting the activity as required by the AFB format. At this stage of the process, SPREP is able to provide assistance to its Member countries in developing proposals for submission to the board in the form of technical backstopping and assistance in ensuring the AFB criteria are met. On completion of a proposal, SPREP would submit to the AFB for consideration. If approved SPREP would utilise existing procedures for funds disbursement to the relevant Member, in accordance with an agreed schedule in the project document endorsed by the AFB.

Key donors and partners

SPREP considers as key partners the CROP agencies with interests in climate change adaptation. All CROP Executives have supported SPREPs application for RIE status under the Adaptation Fund. Other development partners and stakeholders at both the national and regional level are also of critical importance, and an area to which SPREP will devote heightened attention to if accredited.

Contact points for further information

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8. Multilateral Implementing Entity (MIE)

Solomon Islands' experience with MIE through the Adaptation Fund

Benefits

- ✓ Seeking assistance from MIEs like UNDP is beneficial because they have technical expertise and support readily accessible at UNDP Offices in-country, regional and global levels.
- ✓ MIEs like UNDP already have sound and proven fiduciary standards enabling fast access to funding from the Adaptation Fund at least until the Solomon Islands Government is able to develop NIE capacity itself.
- ✓ With UNDP assistance, the concept note was developed and submitted within ten days and the project inception was completed 12 months thereafter, making Solomon Islands the first Pacific Island Forum Member country to successfully access funding from the Adaptation Fund.
- ✓ Collaboration with UNDP was vital to supplement staffing constraints in the Ministry of Environment, Climate Change, Disaster Management and Meteorology (MECDM).
- ✓ Utilising the technical skills of a local consultant rather than an outsider in the project development and consultation phase has produced positive results.
- ✓ The project attempts to integrate government departments and community organizations to increase outreach to local communities.
- ✓ The project focuses on rural communities and the issue of agriculture and food security which is relevant to their livelihoods.

Challenges/Costs

- MIE is not seen to be utilising country-driven frameworks & systems as opposed to National Implementing Entity (NIE) which promotes national ownership and aid effectiveness.
- MIE modality makes countries more reliant on donors and multilateral agencies and their respective capacities, and does not promote self-reliance.
- Going through MIE does not build or test the absorptive capacity of national governments.
- High overhead or administrative costs of MIE (e.g. for UNDP it is 8.5% of the total budget) consumes a considerable amount of the total project funds.
- UNDP's expertise is managing the project cycle administration, while a significant challenge is managing and implementing the project in the field, especially as the adaptation component requires work in communities.
- Like any other modality, the successful outcomes of climate change financing rests significantly on the capacity of the government, provinces, communities and other stakeholders to effectively implement activities within the timeframe of funding available. There remains a significant capacity dearth at all levels in this respect.
- Another challenge is to integrate any climate program focused on food security with existing projects on agriculture that are not financed through climate-dedicated funds.
- Procurement policy clearance and decisions of MIEs can be slow, and restrictive with little delegation to government, resulting in delays to timely project delivery of activities and outputs.

Brief background and operational arrangements

Solomon Islands is the first member of the Pacific Islands Forum to successfully access funding from the Kyoto Protocol Adaptation Fund in the region. The

Solomon Islands proposal focused on agriculture and food security and titled 'Enhancing the Resilience of Communities in Solomon Islands to the adverse effects of Climate Change in Agriculture and Food Security' with a total budget of USD$5.53 million for duration of four years (April 2011 - April 2015).

Solomon Islands need for climate change adaptation and adaptation needs/sectors are highlighted in the country's NAPA and other national policies and strategies. Agriculture and food security is identified as one of the most vulnerable sectors requiring urgent attention - Priority 1 in Solomon Islands NAPA.

Invitation letters for governments to submit proposals to the Adaptation Fund Secretariat was received by the Solomon Islands Government (SIG) on 8 April 2010. The Solomon Island Government formally requested UNDP assistance and within ten days a concept note was developed and submitted on 26 April 2010. The concept note was approved by the Adaptation Fund Board (AFB) on 15 June 2010. UNDP recruited a local consultant who started developing a full project proposal with various consultations until end of July 2010. The full project proposal was submitted on 25 October 2010, revised in February 2011 and finally approved by the AFB in March 2011. The project inception workshop was convened from 28-30 June 2011, and the project is now being implemented in 18 selected communities through the Solomon Islands.

In terms of the Institutional Arrangements, the project board comprises the Permanent Secretary of MECDM as the Executive and National Project Director, the UNDP Deputy Resident Representative in Solomon Islands as the Senior Supplier, and the Permanent Secretary of MAL as the Senior Beneficiary. The project implementation unit is headed by a Project Manager and supported by a project assurance and technical advisory committee.

While the time from concept note development to project approval was relatively quick, there remains a significant challenge to properly coordinate the different components of the project noting there is no established coordination mechanism in place between government ministries, donors and NGOs, with consultations organised on an adhoc basis. In addition the government does not have the full capacity to operate in the outlying areas and needs to fully engage community organisations in the planning process to successfully implement the project. Another challenge is to integrate any climate program focused on food security with existing projects on agriculture that are not financed through climate-dedicated funds.

Key donors and partners

This project is financed by the Kyoto Protocol Adaptation Fund and implemented by UNDP through an MIE modality whereby UNDP is responsible for managing the procurement, recruitment and contracting on behalf of the Solomon Islands Government's executing entity (Ministry of Environment, Climate Change, Disaster Management and Meteorology - MECDM). Other implementing partners are the Ministry of Agriculture and Livestock (MAL), School of Natural Resources (SNR) at the Solomon Island College of Higher Education, Kastom Gaden Association (KGA), and the Nut Growers Association of Solomon Islands (NGASI).

Contact points for further information

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9. Summary Observations

Based on the various experiences outlined by Member countries and stakeholders in this booklet, the Forum Secretariat provides the following summary observations.

- Implementation of Climate Change Financing (CCF) through any modality depends heavily on capacity available in-country in particular to implement and manage activities and projects. This is often the reason donors cite for not allocating more CCF to FICs through national systems. Sustainable capacity building and effective capacity supplementation are critical to facilitate consistent access to CCF as well as its successful implementation in this region.
- Sound fiduciary management (including financial investment) is a requirement across all modalities of access and management, and can be outsourced for some modalities including, national trust fund arrangements[2] (e.g. Tuvalu Trust Fund), regional fund arrangements Micronesian Conservation Trust and project based implementation (e.g. through Mulilateral Implemening Entity or Regional Implemening Entity).
- Trust Fund arrangements vary in nature (true endowment, revolving and sinking funds) and a combination of different types, similar to Tuvalu's experience, could provide an option to augment existing trust fund arrangements (national or regional level) to channel climate change funds.
- Trust fund arrangements are a modality of fund management which can also support delivery through a range of other delivery modalities including budget support and project approaches.
- National Development Banks provide a good modality to leverage a number of CCF sources and blend these, including multilateral global sources, private sector, government and donor assistance e.g. Palau's experience. This modality can implement CCF in a number of innovative ways including concessional grants, co-financing development, and transformational change approaches to development.
- Gaining direct access to global climate change funds, through the National Implementing Entity (NIE) approach under the Adaptation Fund, seems to be the optimal modality to access global climate change funds at present. This

2 While not included in this booklet, recent online discussions through Pacific Solutions Exchange, discussed different governance arrangements for national multi-donor trust fund arrangements. Outside of the region, examples included multi-donor trust funds managed by UNDP with various degrees of autonomy depending on the confidence of contributing donors had national fiduciary capacities.

could also provide a sound approach for delivering other sources of funds through national systems in line with aid effectiveness principles.

- Accrediting a Regional Implementing Entity in the Pacific such as SPREP would be an ideal step to assist Pacific Island Countries (PICs) gain greater access to and ownership of climate change funds at least until all PICs have attained NIE status.
- Multilateral Implementing Entities still provide a very useful conduit and option for countries to access global funds, particularly if countries are still working towards NIE accreditation. They can also provide good support to PICs in assisting them to gain NIE accreditation with Technical Assistance (e.g. UNDP's support to the Cook Islands).

PACIFIC ISLANDS FORUM SECRETARIAT
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