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Accessing Climate Finance: Challenges and opportunities for Small Island Developing States



Acknowledgments

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Foreword

"The United Nations and this assembly were created precisely for the kind of challenge that brings us together today," UN Secretary-General Antonio Guterres said to a General Assembly meeting on climate action last year. "The climate crisis is a code red for humanity. This assembly, and governments around the world, face a moment of truth."

We stand at a moment when the urgency of climate action cannot be overstated: developing countries are currently bearing the double burden of increasingly devastating climate impacts and a global pandemic. Small Island Developing States (SIDS) in particular, face tremendous threats from crises not of their own making.

Climate resilience means more than the ability to brace for sea level rise, intensifying storms, and damaged infrastructure. It means the resilience of the very social and economic systems of these nations, and it cannot be achieved without the financial support of developed nations. As we look forward to the Fourth International Conference on Small Island Developing States in 2024 we must come armed with clear and urgent steps for action.

This report, which offers key recommendations for short and long-term impact, is both an assessment of the current challenges SIDS face in accessing climate finance and a look forward to opportunities ahead. The recommendations detailed here are for a broad range of stakeholders: not only developed country development assistance, but also funds and the UN system itself. This is the beginning of a reflection on practical recommendations that will feed into the SIDS Conference preparation process.

Time is tight for the world to act on curbing emissions and supporting the most vulnerable nations in building resilience to climate change. This means finally addressing structural capacity issues and a slow, burdensome process that was set up to serve them and has largely failed to do so. Those on the front lines shouldn't have to fight this hard to access life-saving resources.

"Two degrees is a death sentence for the people of Antigua and Barbuda, for the people of the Maldives, for the people of Dominica and Fiji, for the people of Kenya and Mozambique and yes, for the people of Samoa and Barbados," Prime Minister Mia Motley of Barbados said in Glasgow. "We do not want that dreaded death sentence and we are here to say try harder."

Let us do so.

Heidi Schroderus-Fox

Acting High Representative for the Least Developed Countries,
Landlocked Developing Countries and Small Island Developing
States

The United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLS) is mandated to ensure the mainstreaming of the SAMOA Pathway and SIDS-related issues in the work of the UN system and to enhance the coherence of SIDS issues in UN processes, including at the national, regional and global levels, and likewise to continue mobilizing international support and resources to support SIDS implementation of the SAMOA Pathway.

Executive Summary

This report supports upcoming preparations for the fourth UN Conference on the Small Island Developing States (SIDS4) by the UN-OHRLLS, which will define the new 10-year Programme of Action for SIDS. Access to finance, and in particular climate finance, is expected to be one of the key thematic topics, as it is a critical enabler to help Small Island Developing States (SIDS) achieve their Sustainable Development Goals (SDGs).

SIDS are being disproportionately and increasingly impacted by the impacts of climate change while their special circumstances make them extremely vulnerable to other external shocks, including the COVID-19 pandemic. SIDS urgently need access to external financial support and capacity to aid their pandemic recovery efforts and to build resilience between the social, economic, and natural systems on which they depend. However, the current climate and development finance architecture is exceedingly complex and unequipped to operate efficiently, fairly, and at the speed and scale needed to meet SIDS needs.

This report provides an overview of the main challenges faced by SIDS in accessing climate finance and puts forward realistic, concrete, and actionable recommendations that can support and inform policymakers, funders, and leaders as they prepare for the upcoming climate finance decision milestones at the UNFCCC and in the lead up to the Fourth International Conference on Small Island Developing States (SIDS4).

The report undertakes an extensive literature review on climate finance access as well as a series of direct consultations with government representatives, donors, regional and international organizations, and other key stakeholders involved in financing climate resilient and sustainable development in SIDS.

It is apparent that SIDS' status as representing a 'special case' for climate resilient development does not translate into effective prioritization or allocation of funds, particularly in the absence of a dedicated financing mechanism or facility and given barriers to funding eligibility for non-ODA countries and territories. Two distinct overarching and long-standing

challenges emerged as the most pressing to be addressed for SIDS in accessing climate finance.

First, **SIDS public sectors inherently face major human and technical capacity constraints throughout the project cycle, from project origination to implementation.** The complexity of the climate finance landscape and the lack of harmonization among the requirements of multilateral climate funds and donors further exacerbate this challenge.

Second, **the current climate and development finance systems fail to accommodate SIDS' unique needs, realities, and vulnerabilities, resulting in fewer funding opportunities for SIDS.** Data limitations for adaptation projects, high transaction costs, and small project sizes make it difficult for SIDS to attract investments and compete for access to climate resilient financing.

The paper suggests three evidence-based recommendations that build on existing mechanisms and provides clear next steps for relevant stakeholders:

1. **Establish a dedicated envelope for SIDS within the Enhanced Direct Access (EDA) pilot under the Green Climate Fund (GCF).** This recommendation recognizes the need for a dedicated financing mechanism for SIDS and presents a solution that not only builds on an established mechanism but will also facilitate access through by building robust regional and country systems and strengthen institutional capacity.
2. **Scope the potential establishment of a Global Data Hub for SIDS that will increase data accessibility and serve as a reporting 'watch dog' for SIDS.** This hub would support building the climate rationale through collection, consolidation, and management of finance and climate data for SIDS. The activities, reports and knowledge products developed by the Hub would feed into key decision-making processes, debates, and negotiations relevant to the effective provision of financial resources to SIDS.

3. **Encourage donors and implementation entities to shift away from project-based approaches and invest in programmatic approaches that build long-term capacity.**

Donors and multilateral agencies should continue to develop, formalize, and invest in programmatic approaches, and for SIDS specifically, focus on enabling government

ownership and capacity to lead and coordinate sustainable and long-term programs.

A more detailed breakdown of the recommendations by key stakeholders is presented in Exhibit 1.

Table 1. Recommendations by key stakeholder

| Key Stakeholder | Key intervention | Recommended Actions |
|---|--|---|
| GCF Board | Scaling up a dedicated Enhanced Direct Access envelope for SIDS under the Green Climate Fund | The second phase of the Enhanced Direct Access (EDA) Request for proposals should include an item on a dedicated SIDS envelope. Board members should request the secretariat to prepare Terms of Reference (TORs) in line with a dedicated SIDS funding envelope for consideration by the 3 rd Board meeting in 2022. This should be prioritized for approval before the end of 2022 to accelerate the timeline for the design of the program. |
| | A renewed effort into building lasting capacity and programmatic approaches | The GCF board should finalize and approve the policy on programmatic approaches, with due consideration for SIDS (IEU, 2018) to ensure project developers have a sufficient understanding of the rules and regulations needed to guide their implementation and accountability. Programmatic approaches should include single and multi-country programs and include provisions to streamline sub-project approval processes. |
| Multilateral and bilateral agencies and donors | Scaling up a dedicated Enhanced Direct Access envelope for SIDS under the Green Climate Fund | Building alliances for support for a dedicated SIDS envelope under the EDA at the GCF board level will be key to investing in more programmatic approaches and enabling regional and national level institutions to play a central role in coordinating climate finance flows. |
| | A global data hub for SIDS | <p>The key to the success of the Hub and to the insightfulness of its work will lie in its connection to agencies, funds, and institutions. If established, the SIDS Hub will need to be adequately staffed and resourced with representative and qualified staff. Staff secondments from multilateral and bilateral agencies will likely be needed to set up and operate the Hub.</p> <p>The Hub should operate under the auspices of the United Nations, most logically under the office of UN-OHRLLS. The UN-OHRLLS should be tasked to further refine the possible mandate and scope of the Hub via stakeholder consultations and research to maximize complementarity between relevant initiatives and facilitate buy-in from SIDS governments and key stakeholders.</p> <p>Given its placement as a global data platform, the Hub could support the UN System in the implementation of the Multi-Dimensional Vulnerability Index (MVI) by providing the data and inputs that measure vulnerability.</p> |
| | A renewed effort into building lasting capacity and programmatic approaches | Multilateral and bilateral agencies should continue to develop and invest in programmatic approaches, and for SIDS specifically, focus on building government ownership and capacity to lead and coordinate sustainable and long-term programs. They should also explore providing short to medium-term access to experts with deep knowledge of donor fund rules and processes for specific assignments and continue providing end-to-end support mechanisms, from conceptualization to design and development through to the operational phase. |
| | | Multi-lateral and bilateral donors should continue to develop and invest in programmatic approaches that focus on building government ownership and capacity, invest in embedded support models that focus on capacity building, and increase support to strengthen institutional memory and knowledge management in SIDS. |

| Key Stakeholder | Key intervention | Recommended Actions |
|------------------------------|--|--|
| SIDS Governments | Scaling up a dedicated Enhanced Direct Access envelope for SIDS under the Green Climate Fund | SIDS governments can work with Direct Access Entities (DAE) to better understand the appetite to participate in a scaled-up EDA scheme to provide the SIDS representatives on the GCF Board with evidence to build the case for a dedicated SIDS envelope. |
| | A global data hub for SIDS | <p>SIDS governments should be invited to indicate interest and provide feedback on the establishment of a data, knowledge, and analytical center that could elevate trends, data, and lessons emerging from SIDS practitioners and implementers efforts in the regions, and to help develop and inform project and program climate rationale.</p> <p>Preliminary consultations in the context of this report indicate interest in setting up a data, knowledge, and analytical center that could efficiently inform the policy and negotiation leadership of the Alliance of Small Island States and work collaboratively to elevate trends, data, and lessons emerging from SIDS practitioners and implementers efforts in the regions.</p> |
| | A renewed effort into building lasting capacity and programmatic approaches | SIDS governments demonstrating strong ownership and political leadership in the development and implementation of more programmatic approaches, including ensuring full integration with national policies and frameworks, is critical to address systemic challenges in accessing finance |
| Implementing entities | A renewed effort into building lasting capacity and programmatic approaches | Implementing entities, such as national and regional direct access entities, should be supported beyond accreditation to more actively support SIDS strategic planning, national coordination, consultation, and monitoring for programmatic approaches. |

Introduction

As the world gradually and unevenly recovers from the COVID-19 pandemic and its social and economic repercussions, all indicators point to how SIDS have been disproportionately affected. SIDS are facing compounding challenges — the fragility of their tourism-reliant economies, extreme vulnerability to climate change impacts, limited fiscal space, and high levels of indebtedness, as well as their specific physical circumstances (UN, Inter-agency Task Force on Financing for Development, 2022). More urgently than ever, SIDS need access to available resources to finance pandemic recovery efforts and invest in sustainable development.

This report focuses on identifying key challenges faced by SIDS in accessing international climate finance and opportunities for providing coherent, targeted support. This report also aims to inform the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States' (UN-OHRLLS) advocacy and coordination of international support for SIDS. The authors developed the recommendations in this report based on an extensive literature review and a series of interviews with government representatives, donors, and global and regional stakeholders involved in climate finance processes.¹

The group of SIDS consists of 38 member states to the United Nations and 20 non-members, accounting for about 1% of the global population. They are distributed in three regions: the Caribbean, the Pacific, and the Africa, Indian Ocean, and South China Sea (AIS) region. SIDS are a diverse group, with large geographical, cultural, and socioeconomic differences.

Although these countries are among the least responsible for climate change, they are at the frontlines of its worsening effects. Climate change poses an existential threat to many SIDS as associated losses and damages risk causing islands

to become uninhabitable. These distinct challenges and circumstances have led to their recognition at the 1992 United Nations Conference on Environment and Development in Rio de Janeiro and in the UN Framework Convention on Climate Change (UNFCCC) as a special case for the support of the international community in accessing financial resources to address developmental and environmental priorities.

The understanding of the multidimensionality of SIDS' vulnerability has deepened. It encompasses economic, environmental, physical, and social factors. Natural disasters and the slow onset effects of climate change severely affect SIDS and their ability to achieve their SDGs. Climate change further exacerbates disasters such as hurricanes, storm surges, and cyclones and can also increase vulnerability to non-climate driven disasters. Natural disasters not only threaten lives, income, and properties, but also cause economic contraction, increase inflation, and undermine fiscal and current account balances leading to higher debt levels, possible economic crisis, and other significant fiscal challenges (UN-OHRLLS, 2020), putting decades of development gains at risk.

In this context, external financial support is critical for SIDS to build resilience within both their social and economic systems and the natural environments on which they depend. SIDS have been vocal about their special circumstances and need for finance to both tackle development challenges and respond to climate change. These nations have been at the forefront in the climate negotiations under the United Nations Convention on Climate Change (UNFCCC) since its inception, calling for science-based ambitious collective action. SIDS played a leading role in shaping the Paris Agreement with their campaign "1.5° to Stay Alive" (Bolton, 2018). SIDS are determined to also lead by example in the implementation of the Paris Agreement and committed to reach carbon neutrality by 2050, as presented in the "SIDS Package" to the Climate Action

¹See methodology in Annex 1 and list of Stakeholders in Annex 2.

Summit in 2019 and reaffirmed through the submission of their revised Nationally Determined Contributions (NDCs) (Young, 2019).

Despite recognition by the international community of SIDS' needs and vulnerabilities, SIDS have repeatedly raised concerns that the current climate finance architecture is largely failing to meet their needs. At the 26th Conference of the Parties to the UNFCCC (COP26) in Glasgow, developing countries voiced their disappointment that developed countries had fallen US\$20 billion short of their commitment to mobilize US\$100 billion per year by 2020. Specifically, flows to SIDS declined in 2019 (OECD, 2021a). The Intergovernmental Panel on Climate Change (IPCC) also indicated in their 6th Assessment Report that the current global financial flows for adaptation are insufficient and constrain implementation of adaptation options, especially in developing countries including SIDS. It also indicates that the SIDS present the most urgent need for investment in capacity building and adaptation strategies but face barriers and constraints which hinder the implementation of adaptation responses (IPCC, WGII, 2022).

The quality of climate finance and its accessibility to those the most in need was also a hot topic at COP26. It was duly recognized that the current climate finance architecture is unable to operate efficiently, fairly, and at the speed and scale needed within the decisive decade. Among other initiatives on climate finance announced at the COP, United Kingdom Presidency, in partnership with Fiji, established the Taskforce on Access to Climate Finance, which will run pilots with five pioneer SIDS and LDCs — Bangladesh, Fiji, Jamaica, Rwanda, and Uganda — to support faster, easier access to climate finance. The resourcing for the Task Force will dictate its ability to catalyze, replicate, and scale the pilots and foster the necessary political will to feed its recommendations into system-wide changes.

Although the Alliance of Small Island States (AOSIS) called the COP26 outcomes on finance an acceptable package, they continued to flag concerns around access and emphasized that the multifaceted vulnerabilities of small island states be better taken into account. Specifically, SIDS called on climate finance providers to work together to harmonize their application procedures to reduce the burden on capacity-constrained countries.

COP26 also concluded without agreeing on decisive action on loss and damage finance and a dedicated facility on loss and damage did not make it into the final agreement. While SIDS welcomed the progress of the Santiago Network, they cautioned against only including technical assistance and not

financial support under the mechanism, recognizing that this could distract from securing new and additional financing for loss and damage (Browne, 2021).

The latest IPCC report clearly indicates that SIDS are already experiencing and reporting significant losses and damages due to climate disasters, although robust methods and mechanisms to assess climate-induced losses and damages remain vastly undeveloped (IPCC, 2022). The further the international community falls behind on mitigation and adaptation action, the higher the costs of loss and damage. SIDS will continue to push for loss and damage as an integral and distinct component under the UNFCCC and the Paris Agreement and for loss and damage to be separated out in the transparency framework, as well as a separated feature of the new collective quantified finance goal (NCQG) to be agreed on by 2024.

With ever stronger and clearer scientific evidence of the acceleration of climate change and with unavoidable impacts already locked in the climate system (IPCC, 2022), it is critical for the international community to take decisive action by 2030. This is essential not only to cap global emissions, but also to provide the most vulnerable with the means to build resilient communities, infrastructure, and economies in the face of both rapid- and slow-onset disasters.

Through literature review and discussion on SIDS' access to climate finance with selected stakeholders in the preparation of this report, two overarching challenges emerged:

1. **The urgent need to address SIDS' human and technical capacity constraints in accessing climate finance throughout the project cycle, from origination to implementation.** The main challenge faced by SIDS in effectively accessing development and climate finance lies in their human and technical capacity constraints in meeting donors' proposal standards and reporting requirements. All stakeholders interviewed for this report recognized these factors slow the development, and affect the quality, of transformational projects. The projects that will be developed and approved in the next three to five years will determine whether SIDS will meet their Nationally Determined Contributions (NDCs) and Sustainable Development Goals by 2030 and will set the trajectory for meeting their long-term goals, including carbon neutrality, by 2050. However, interviewees from SIDS indicated that developing the climate project proposals typically takes about two to three years, followed by another year of legal and implementation arrangements. Access to finance for SIDS thus needs to be accelerated with a matter of emergency.



Photo: Asian Development Bank, Flickr, (CCBY-NC-ND2.0)

Emergency support should be delivered through both significantly supplementing human capacity and revisiting funding requirements in project development and financial structuring. At the international level, donors would have to scale up existing assistance initiatives and mechanisms and relax strict funding requirements, including eligibility to Official Development Assistance (ODA). At the national and regional levels, this should translate into supplementing capacity through training and embedding experts and practitioners in SIDS governments, institutions, and implementing entities.

2. **The effective prioritization of SIDS: SIDS should not have to compete in a *one-size-fits-all* system.** Most stakeholders consulted indicated that SIDS are trying to access climate finance through a de facto competitive process, wherein their projects are assessed on the same basis as larger developing countries. Although prioritization of vulnerable countries has been codified in COP guidance and climate fund policies, and specific “simplified” processes have even been put in place (GCF IEU, 2020), “effective prioritization” exists mostly on paper. For instance, an independent evaluation of GCF investment in SIDS found that many International Access Entities were reluctant to pursue “normal-sized” projects (e.g., US\$5 million–US\$10 million) in SIDS due to perceived high transaction costs and a preference for larger, more “transformational” projects in other country groups. This results in fewer funding opportunities for SIDS and a de-

prioritization of SIDS proposals among multilateral agencies (GCF IEU 2020). Limited human resource capacity also constrains SIDS in terms of developing projects and accessing finance through their direct access entities (DAEs), which further limits effective prioritization on the ground (GCF IEU 2020).

Fragmented development and climate finance architecture have proven slow, inefficient, siloed, and unequipped to grasp SIDS’ realities and needs. Against its own stated strategic priorities, the Green Climate Fund (GCF), the largest multilateral climate fund, is not meeting the needs for effective priority access to its funding, including adaptation funding, for SIDS (GCF IEU, 2021). Structurally, this leaves SIDS at a disadvantage compared to other country groups. In the case of the GCF, despite attempts to simplify the process and shorten the timeframe to access funding for SIDS, a variety of structural barriers, such as a lack of access to GCF secretariat support, cumbersome concept notes and proposal development processes, increasing preparation and transaction costs, and slow disbursement of funds for activities, still persist (GCF IEU 2022). These structural challenges extend beyond the GCF and to other multilateral funds; a failure to consider the unique obstacles that SIDS face will limit their ability to operationalize projects to combat the effects of climate change.

Over the years, there have been several attempts by SIDS leaders to establish a stand-alone special fund or

facility dedicated to SIDS. Such a facility could focus on providing development, disaster relief, and adaptation support that would embody the recognition of SIDS as a special case. SIDS leaders have also proposed creating dedicated windows, earmarking funds, and introducing allocation floors within existing funds, including during the operationalization of the GCF, where access procedures would be tailored to SIDS realities and circumstances. Although a SIDS fund or window was the preferred option to enhance access to finance, interviewed stakeholders recognized that the current international political context would not allow for an agreement in the short term.

This report seeks to respond to the guiding reflections detailed above by further assessing the challenges and identifying key opportunities and recommendations for enhancing climate finance access for SIDS, including the establishment of a dedicated funding envelope, the creation of a regional hub under the auspices of UN-OHRLLS, and building human and technical capacity in SIDS.

PART 1

Assessment of Challenges

Small Island Developing States continue to face multiple obstacles and barriers in accessing climate finance. These challenges are not only complex but often interconnected. Part 1 of this paper focuses on the four most critical challenges that were highlighted and validated through literature review and interviews with key stakeholders: (1) international climate finance flows to SIDS, (2) complexities in accessing the global climate funds, (3) project-level financing challenges, and (4) the lack of appropriate climate finance instruments and mechanisms. All these challenges either arise from, or relate to, capacity constraints that SIDS face.

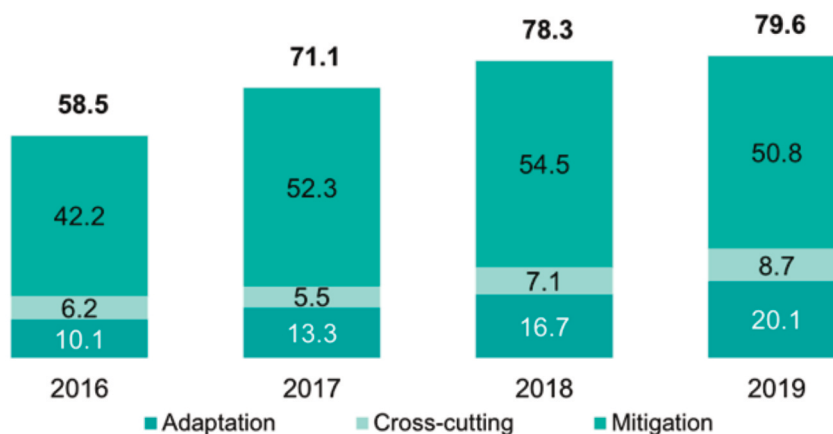
1. International climate finance flows to SIDS: a special case without special treatment

Quantity of climate finance flowing to SIDS

The first overarching challenge faced by SIDS, as with most developing countries, lies in the inadequacy, imbalance, and

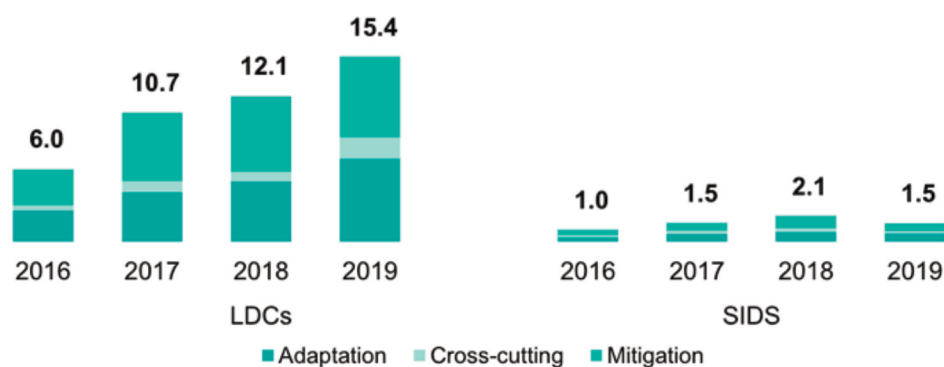
unpredictability of climate finance flows. Despite developed countries pledging at COP15 in Copenhagen to mobilize US\$100 billion per year by 2020 to support mitigation and adaptation in developing countries, the most recent OECD calculations put the tally at US\$79.6 billion in 2019—roughly \$20 billion short of the target. The adverse impacts of COVID-19 make it likely that the US\$100 billion goal was also not reached in 2020. Given time lags in official reporting, this will only be confirmed later in 2022. OECD forward-looking scenarios, taken onboard by the Climate Finance Delivery Plan (UK COP 26, 2021) indicate that the US\$100 billion per year goal could be met from 2023 onward. In the Glasgow Climate Pact, developed countries were urged to “urgently and through to 2025” deliver on the goal.

Figure 1. Thematic split of climate finance provided and mobilized to developing countries (billion US\$)



Source: OECD 2021a

Figure 2. Climate finance provided and mobilized to SIDS and LDCs (billion US\$)



Source: OECD 2021a

Despite not reaching the US\$100 billion goal, OECD data shows an upward trend in climate finance flows, including a steady increase of 27% for LDCs between 2017 and 2019. However, SIDS saw the level of climate finance directed to them peak in 2018 and revert to 2017 levels in 2019 (Exhibits 2 and 3). This specific decline in climate financing for SIDS needs to be directly addressed by donors and multilateral climate funds and greater efforts should be made to translate commitments and pledges into results for SIDS. The US\$1.5 billion mobilized for SIDS in 2019 is also not commensurate to SIDS' needs as already costed in their Nationally Determined Contributions (NDCs) at around \$92 billion (OECD, 2021a), knowing that a significant portion of SIDS needs (58%) are not even yet costed (UNFCCC SCF, 2021). Commitments to prioritize and scale up adaptation finance, particularly in the form of grants, made by developed countries at COP26 are positive developments but will have little effect if countries that face the greatest threat from climate change cannot access them.

Outdated rules in a changing climate

The current climate finance ecosystem still operates on a one-size-fits-all model that fails to take into account the unique needs of SIDS. Disasters and the slow-onset effects of climate change severely impact SIDS and their ability to achieve sustainable development. Many SIDS are both physically vulnerable and economically dependent on tourism, financial services, trade, migration, and remittances (Bishop, 2021). While concentrating economic development in key sectors has allowed many SIDS to graduate to or maintain a lower-middle-

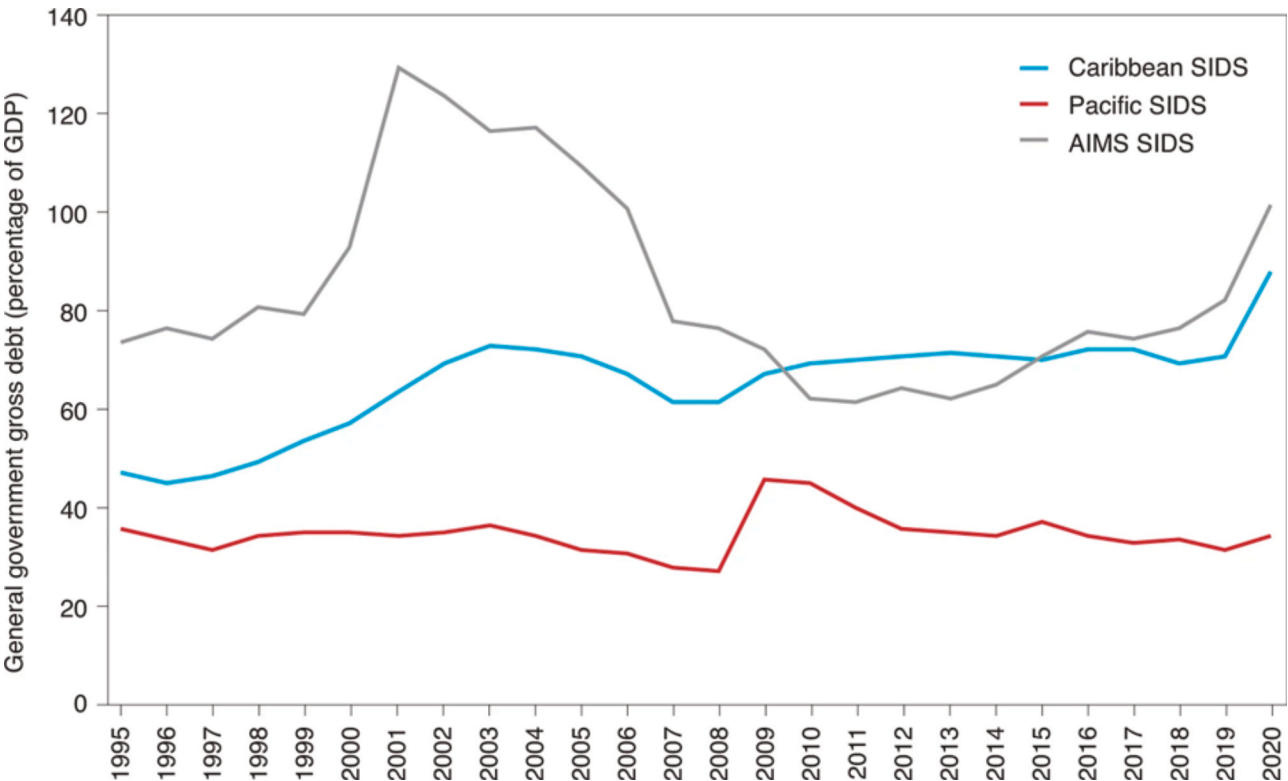
income or middle-income status, any exogenous shocks they experience "...can be disproportionately more destructive than in larger states, [and] their progress remains fragile and can be set back suddenly and dramatically." (Bishop, 2021, pg. 1.)

Despite these identified unique vulnerabilities, SIDS continue to face eligibility issues when it comes to receiving concessional finance and Official Development Aid (ODA) (UN-OHRLLS, 2020). The decision by OECD DAC Members to align ODA, and therefore multilateral development bank (MDB) priorities to the Paris Agreements goals, does not include more flexibility regarding SIDS eligibility taking into consideration their particular vulnerability to climate change. Many SIDS are not eligible for concessional financing due to their classification as middle or high-income countries although they still face many severe structural challenges. Despite SIDS moving higher up in the economic pecking order, they still rely heavily on development finance as they make this transition. To date, four SIDS (Cabo Verde, Vanuatu, Samoa, and the Maldives) have graduated from LDC status, with São Tomé and Príncipe and the Solomon Islands expected to follow in 2024. Yet each of these countries has continued to experience disasters, climate related shocks, and economic challenges post-graduation. Despite these vulnerabilities, SIDS continue to face eligibility issues when it comes to receiving concessional finance and ODA (UN-OHRLLS, 2020). As summed up by Ambassador Janine Coye-Felson of Belize in the UN negotiations "SIDS can graduate from LDC status, but they cannot graduate from being SIDS. And as of now, there is no pathway to graduate from extreme vulnerability."

In 2017–2018, around half of the climate finance received by SIDS was non-concessional, with nearly 50% of public finance coming through loans or non-grant mechanisms, while only 3% was bilateral climate finance (Oxfam, 2020). SIDS have subsequently been left with diminishing fiscal space and high debt burdens, as demonstrated in Exhibit 4. Yet the data in Exhibit 4 fails to capture the complete picture, as SIDS debt burdens are further exacerbated by compounding shocks as they are left to cope with both intensifying climate impacts and now, a global pandemic that has pushed many toward a solvency crisis (UN-OHRLLS, 2020). SIDS are caught in a catch-22 as they are forced to redirect budget earmarked for sustainable development, climate adaptation, and disaster risk reduction to service this debt (Thomas, and Theokritoff, 2021 and UN-OHRLLS, 2020).

Yet despite the acknowledgment that SIDS constitute a special case, they still have limited access to concessional finance and continue to struggle under high debt burdens (UN-OHRLLS, 2021; OECD, 2021b). Currently, concessional ODA financing for SIDS flows primarily after natural or climate-related disasters due to ad-hoc exceptions to the prevailing ODA requirements. But ad-hoc exceptions fail to address the systemic level issues at play at the scale of the reforms needed, and Blampied (2017) has argued that, “The very need for ad-hoc exemptions exposes the inadequacy of a framework that relies on national income per capita (alone) as an indication of a country’s need and its domestic capacity to respond to disasters and other challenges.”

Figure 3. Evolution of general government gross debt for SIDS regions.



Average general government gross debt as percentage of GDP for the three geographic SIDS regions: the Caribbean; the Pacific; and Africa, Indian Ocean, Mediterranean, and South China Sea (AIMS). Data retrieved from the World Economic Outlook Database (IMF).

Source: Thomas, A., Theokritoff, E., 2021

Table 2. SIDS countries GNI per capita (current USD)

| Pacific SIDS | | Caribbean SIDS | | AIMS SIDS | |
|---------------------------------|-----------------------|---------------------------------|-----------------------|-------------------------|-----------------------|
| Countries | GNI per capita in USD | Countries | GNI per capita in USD | Countries | GNI per capita in USD |
| Federated States of Micronesia* | 3,950 | Antigua and Barbuda* | 13,750 | Bahrain | 19,900 |
| Fiji* | 4,890 | The Bahamas | 26,070 | Cape Verde* | 3,060 |
| Kiribati* | 2,960 | Barbados | 14,350 | Comoros* | 1,400 |
| Marshall Islands* | 4,940 | Belize* | 4,110 | Guinea-Bissau* | 760 |
| Nauru* | 15,990 | Cuba * | 8,630 | Mauritius* | 10,230 |
| Palau* | 14,390 | Dominica* | 7,270 | Maldives* | 6,490 |
| Papua New Guinea* | 2,720 | Dominican Republic | 7,260 | Sao Tome and Principe * | 2,060 |
| Samoa* | 4,050 | Grenada* | 9,410 | Seychelles* | 12,200 |
| Solomon Islands* | 2,300 | Guyana* | 7,130 | Singapore | 54,920 |
| Timor-Leste* | 1,990 | Haiti* | 1,320 | | |
| Tonga* | 5,190 | Jamaica* | 1,320 | | |
| Tuvalu* | 5,820 | St. Kitts and Nevis | 19,080 | | |
| Vanuatu* | 3,190 | St. Lucia* | 8,560 | | |
| | | St. Vincent and the Grenadines* | 7,310 | | |
| | | Trinidad and Tobago | 15,420 | | |

(*) ODA ELIGIBLE

Source: World Bank national accounts data, accessed May 18, 2022

SIDS have limited eligibility when it comes to receiving concessional finance and overseas development assistance (ODA) (UN-OHRLLS2020) and a “missing middle” has begun to emerge as the decline in aid revenue outpaces domestic revenue generation (Blampied, 2017). Combined with the worsening impacts of climate change, this missing middle only exacerbates the vulnerability of SIDS. The Small Island Developing States Accelerated Modalities of Action (SAMOA Pathway) recognizes SIDS’ special case for sustainable development. It calls for expanding the criteria and measures for defining ODA, broadening the eligibility requirements for concessional finance and multidimensional assessments, and acknowledging the limitations of income-only development assessments (UN SAMOA, 2014).

The UNFCCC and the Paris Agreement also recognize SIDS and LDCs as particularly vulnerable to the adverse effects of climate change and acknowledge the need for public and grant-based resources for adaptation (UNFCCC, 2015; Art. 9.4). Furthermore, OECD DAC Countries and G7 members have agreed to align ODA and the Paris Agreement’s goals. The Glasgow Climate Pact agreed to at COP26 goes further and urges climate finance providers to incorporate considerations of vulnerability within the provision and mobilization of resources and other financial support to better enhance access to finance (UNFCCC2021a). Updating ODA eligibility rules to reflect distinct impacts of climate change on SIDS would not only present a shift in understanding country eligibility for concessional finance from a more inclusive lens, but also



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better align the global climate finance architecture with stated desires to adequately scale-up and mobilize support for the most vulnerable nations within the decisive decade (ibid). How climate finance and ODA can more effectively complement and supplement each other is an urgent discussion that needs to be had in preparation for the SIDS4 Conference.

Stakeholders consulted for this report saw the implementation of a Multidimensional Vulnerability Index (MVI), as recommended by the UN Secretary general in his report on the implementation of the SAMOA Pathway, as potentially playing an important role in addressing climate vulnerabilities. These are currently not captured by eligibility criteria based primarily on GNI per capita. A vulnerability index that reflects SIDS' structural handicaps to development will allow donors and International Financial Institutions to adopt vulnerability-based criteria for concessional finance to support SIDS. Some stakeholders posited that the MVI should be part of the wider development finance apparatus to broaden the scope of development finance and increase SIDS eligibility at a structural level. Such instruments and needs-based approaches could allow for effective prioritization for financing resilience in SIDS by helping remove barriers to eligibility.

Lastly, one of the bigger challenges of the current climate finance architecture is the climate versus development

rationale which often represents a false dichotomy for SIDS. It remains challenging for SIDS to differentiate between what is considered climate finance and what are simply underlying investments in development. The lack of clear definitions, guidelines, metrics, data, and methodologies to separately characterize and estimate development and climate benefits of the financing sought by SIDS puts them at disadvantage. While the separation of development aid from climate finance is rooted in valid transparency and moral concerns and reflects two distinct set of obligations and historical responsibilities, it is increasingly hindering SIDS progress toward sustainable development. Many SIDS see climate resilience as fundamental to their progress toward sustainable development, and as such argue that the co-benefits of climate adaptation cannot be easily separated from development finance.

Among the stakeholders consulted for this report, clear themes emerged around developing programmatic approaches to climate financing that link directly and explicitly with wider socio-economic agendas. It was recognized that the need for a clear climate rationale was necessary for accounting against the US\$100 billion goal, but that it also had the effect of artificially separating climate action from sustainable development. The separation becomes particularly challenging for countries that have been encouraged to take "whole of government" and "whole of society" approaches when developing their NDCs,

Low Emission Development Strategies (LEDS), and National Adaptation Plans (NAPs), and for which adaptation to climate change will be a key driver of socio-economic development. There was a recognition among interviewed stakeholders that while a solid climate rationale can still be made, it should be in service to, and not come at the expense of, a wider development agenda. Climate finance and ODA are not mutually exclusive. A more programmatic approach to their complementarity should be part of the discussions leading to the SIDS4 Conference.

Complexity in Accessing Global Climate Funds

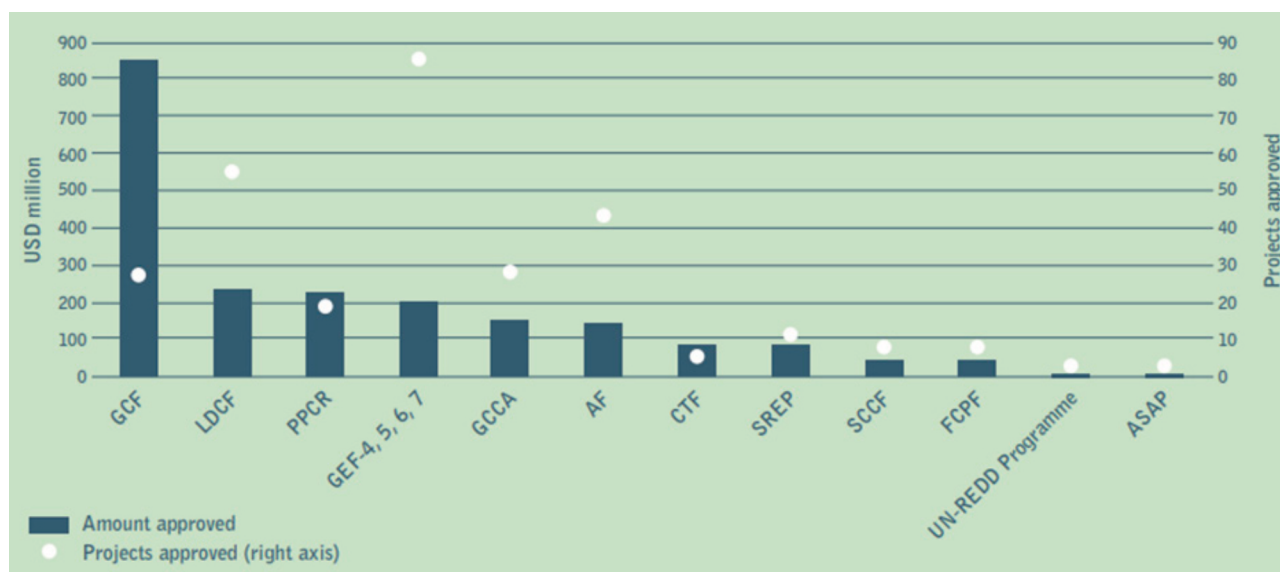
The current climate finance landscape is complex and fragmented and the harmonization across multinational funds is still nascent, making the process of accessing different sources of climate finance particularly onerous for SIDS. The multilateral climate funds were established to mobilize and channel public

and private finance for adaptation and mitigation action in developing countries. The major funds include the Green Climate Fund (GCF), the Global Environment Facility (GEF), the Adaptation Fund (AF), and the Climate Investment Funds (CIFs) of the World Bank and regional MDBs.

SIDS have had mixed experiences in accessing these funds. ODI's Climate Funds Update shows that between 2003 and 2019, 334 projects were approved in SIDS totaling US\$1,772 million. This funding comes predominately in the form of grants and spans 12 multilateral climate funds (Exhibit 6). The top three contributors are:

- Green Climate Fund (GCF)—US\$645.7
- 2. CIF's Pilot Program for Climate Resilience (PPCR)—US\$226 million
- 3. Least Developed Countries Fund (LDCF)—US\$194 million

Figure 4. Climate funds supporting SIDS (2003-2020)



Source: Watson, C., and Schalatek L., 2020

The Adaptation Fund, although smaller in size, also supports a robust portfolio of SIDS projects, with 20 percent of its programs in SIDS (Adaptation Fund, 2021). Yet despite being SIDS largest source of multilateral climate funding, as of March 2022, SIDS only have 45 approved GCF projects. Out of those 45, 7 are covered only by multi-country projects totaling US\$1.18 billion, which account for 12% of total GCF funding (GCF, 2022).

Due to their capacity constraints, SIDS find it particularly challenging to devise implementation funding strategies that can make the most of this fragmented and still largely uncoordinated architecture. In addition, each fund has its own evolving requirements, modalities, and strategic and operational priorities that have proven extremely difficult to master for SIDS institutions, access entities, and stakeholders.

Although multilateral climate funds are mandated to respond urgently to the needs of vulnerable countries such as SIDS, challenges remain.

Interviews conducted for this report highlighted that the accreditation process to the climate funds is strenuous, time consuming, and represents a missed opportunity for building capacity and expertise, particularly for smaller entities that have not gone through such processes previously (such as accreditation with the AF or with the GEF). Interviewees also cited frequent changes or additions to fund policies or requirements while the accreditation process is underway as a complicating factor. While none of these challenges are necessarily unique to SIDS, they are magnified by the limited availability of staff in SIDS' entities, often leading them to seek external expertise and consultancy support. The GCF Independent Evaluation Unit found that the median amount of time taken from an entity submitting an accreditation application to receiving Board approval has increased over time (GCFIEU, 2020).

Direct access is one of the distinctive features of the GCF, previously piloted by the AF, and is designed to increase country ownership. Like other recipient countries, SIDS can access the GCF through international, regional, or national access entities (AEs). However, direct access is generally low across the GCF and exceptionally low in SIDS, particularly for national direct access. Only four SIDS have access through national DAEs (GCFIEU, 2020). Two national DAEs have been accredited in the Caribbean region and three in the Pacific region, while there are currently no national DAEs in AIS SIDS. The limited number of SIDS DAEs leads to the majority of approved SIDS' projects being implemented through international access entities (IAEs). Direct access to the GCF and to climate finance in general by SIDS is therefore extremely limited, and SIDS DAEs are overwhelmed with requests due to limited staff.

Table 3. SIDS countries GNI per capita (current USD)

| Direct Access Entity (DAE) | Acronym | Size |
|--|----------|--------|
| Banque Ouest Africaine de Développement | BOAD | Medium |
| Central American Bank for Economic Integration | CABEI | Large |
| Corporación Andina de Fomento | CAF | Large |
| Caribbean Community Climate Change Center | CCCCC | Small |
| Caribbean Development Bank | CDB | Small |
| Department of Environment, Ministry of Health and Environment, Government of Antigua and Barbuda | DOE ATG | Small |
| Fiji Development Bank | FDB | Micro |
| Jamaica Social Investment Fund | JSIF | n/a |
| Korea Development Bank | KDB | Medium |
| Micronesia Conservation Trust | MCT | Micro |
| Ministry of Finance and Economic Management of the Cook Islands | MFEM COK | Medium |
| Sahara and Sahel Observatory | OSS | Micro |
| Pacific Community | SPC | Small |
| Secretariat of the Pacific Regional Environment Programme | SPREP | Medium |

Source: GCF (2021)^a

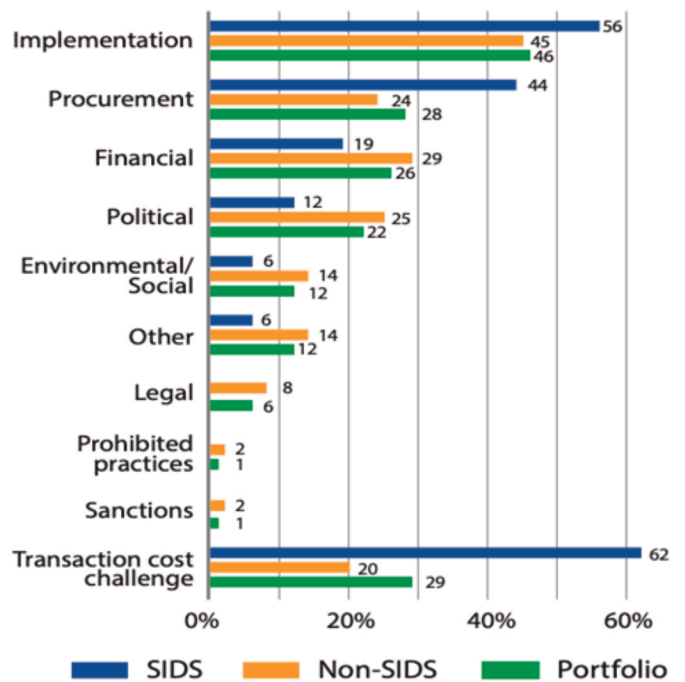
2. Project level financing

High transaction costs and small project sizes present unique barriers for SIDS

A recurrent theme evidenced in quantitative data, interviews, and external literature is that operating in SIDS is much more expensive than in most other developing country contexts (OECD, 2018; GCF IEU, 2020; UN-OHRLS, n.d.b). Due to their unique and remote geography, SIDS' markets are often too small to enable economies of scale and the exchange of goods and services is more costly due to limited production and manufacturing capacity, and high transportation costs for imports and exports. Both the literature (OECD, 2018; GCF IEU, 2020) and stakeholders consulted for this report cite that IAEs are unwilling to support relatively small-scale adaptation projects in view of the higher operating costs and time constraints at the project level.

The OECD (2018) concluded that higher transaction costs in SIDS can weaken prioritization by multilateral agencies and result in fewer funding opportunities. And even when SIDS do receive funding, high transaction costs rank as the top challenge in the disbursement and implementation phase of projects in SIDS. For example, IAEs have expressed a reluctance to pursue GCF resources for “normal-sized” (e.g., US\$5 million–US\$10 million) projects in SIDS, given the perception of high transaction costs when working with the GCF. Likewise, for energy projects, project developers tend to be small and poorly capitalized, increasing execution risks.

Figure 5. Green Climate Fund implementation challenges reported by SIDS and non-SIDS (percent of annual performance reports)



Source: Green Climate Fund Independent Evaluation Unit, October 2020.

In the absence of sufficient demand from international entities and project developers that understand and can work with SIDS' specific circumstances and realities, there is increased pressure on SIDS DAEs and direct access modalities for project development and execution in SIDS. However, SIDS DAEs are often severely constrained to meet national climate change needs through their low fiduciary and environmental and social safeguard accreditation level (GCF IEU, 2020). Few DAEs in the Pacific have gained access/accreditation levels to use non-grant instruments. As such, there are even fewer opportunities for nationally or regionally led direct access entities to employ the types of innovative financing instruments necessary to leverage increased private sector capital for climate investments in Pacific SIDS. Further compounding access challenges and small project size is that only two SIDS DAEs—CABEI and CAF (Exhibit 6)—are accredited for large projects under the GCF.

Data limitations, especially for adaptation projects, hinder climate rationale and project development

SIDS typically face data limitations when developing project proposals for climate funds and structuring investments for the private sector. Adaptation projects require significantly more data to prove climate vulnerability and SIDS typically lack the historical climatological, environmental, and socioeconomic data and sufficiently downscaled models necessary for analyzing climate trends. Previous assessments (GCF IEU, 2021) stress that it is challenging to identify and collect the correct data to prove climate vulnerability for adaptation projects, especially in SIDS and sectors with limited data availability and scarce data sources. Studies are disproportionately costly to conduct in SIDS, revealing why data and analysis are insufficient for SIDS generally (UN-OHRLLS, n.d.b). Increased global and regional cooperation is essential to address this challenge.

According to stakeholder interviewees and confirmed by prior assessments (GCF IEU, 2021), limited human resources to analyze and interpret data and to select and justify appropriate interventions, known as the project "climate rationale," poses another hurdle in developing feasibility assessments and convincing funders to approve projects. These challenges are often compounded by a lack of available historical climatological data, which increases the burden on project developers. Capacity and data limitations are especially constraining in SIDS microstates.

Funders do not offer clear enough guidance on the use of the concept of climate rationale. For example, the many withdrawn concept notes and project proposals show that project developers struggle to meet the expectations of GCF's

Independent Technical Advisory Panel (iTAP) regarding climate data interpretation, vulnerability assessment, and overall climate rationale as there are no systematic requirements or approaches for the review of the climate rationale (GCF IEU, 2021).

Across the multilateral climate funds, SIDS also face difficulties attracting AEs with the relevant technical strengths, limiting the availability of data for feasibility studies. Furthermore, insufficient scientific, environmental, and climate data and lack of ratings, indices, and listings discourage innovative climate finance instruments like green bonds and weather-indexed insurance (Rishikesh et al., 2021).

Limited capacity, expertise, and human resources make project development challenging

Small and narrow economies (further detailed in Section 4) present challenges to human resources in SIDS and their DAEs. The public and private sectors struggle to pay for specialized staff domestically (UN-OHRLLS, n.d.b). Low numbers of qualified staff working in key capacities in NDAs and DAEs, lengthy project approval processes (typically two years for GCF projects), and the multiple roles played by government staff in SIDS, do not allow for adequate time and specialization. These factors reduce the ability of SIDS to absorb development aid and climate finance and develop institutional capacity. Little climate and disaster resilience is channeled through SIDS institutions, trapping SIDS into a cycle of limited capacities and low use of country systems. SIDS institutions are substituted by project-specific systems, donors' own administrations, or NGOs hired to implement projects in SIDS. While this may increase the speed of delivery and results in the short term, it limits the long-term effectiveness and sustainability of development financing for resilience (OECD, 2016).

Stakeholders consulted for this report revealed that SIDS find it particularly challenging to deal with funder compliance and manage teams developing feasibility assessments to access different sources of concessional finance. Limited availability of trained staff also constrains SIDS climate finance absorption and implementation capacity (GCF IEU, 2020), leading to implementation and disbursement delays. Often for SIDS, the time and resources spent on applying for and managing development and climate projects alike are not proportional to the amount granted (UN-OHRLLS, n.d.b). Furthermore, stakeholders interviewed and multiple GCF IEU reports (2020, 2021) indicate that project preparation grants and readiness support are already a burdensome and insufficient step to meet the unique challenges faced by SIDS.



Photo: Department of Foreign Affairs and Trade, Australia. Flickr, (CC BY 2.0)

3. Accessing Climate Finance Instruments and Mechanisms

Indebtedness and fiscal space limitations are key considerations for SIDS

In part due to the systemic challenges outlined above, growth in SIDS was low from 2014 to 2018 (UN-OHRLLS, 2020) and growing debt and trade deficits have led to fiscal space restrictions. SIDS typically exhibit a lack of economic diversification and a large informal sector, making it more difficult to compensate for reduced income from one industry or sector and raise internal revenue. SIDS governments, therefore, have a narrower tax base and revenues are vulnerable to external shocks (UN-OHRLLS, 2020). As mentioned in Section 1, the economic downturn due to COVID-19 has compounded these problems. As fiscal space decreases and solvency issues become more pressing, there are few immediate opportunities to employ concessional finance and domestic revenue to crowd in international private capital for climate investments. Aligning with the literature, a resounding call from stakeholder interviews was for immediate increase in access to grant finance for climate investments.

SIDS struggle with debt sustainability, with 15% of primary income on average going to debt-servicing (UN-OHRLLS, 2020). Recognizing the significant debt stress of some countries at the onset of the COVID-19 pandemic in 2020, the G20 and the Paris Club initiated the Debt Service Suspension Initiative (DSSI) to suspend bilateral creditors of debt for the poorest countries. However, private creditors are not required to pause. There is no common framework to negotiate debt with private creditors, which would allow SIDS debt levels to become more sustainable in the long term. In fact, consultation with private creditors revealed that activating DSSI can become a “rating factor” and will result in a higher cost of additional borrowing from capital markets (UN-OHRLLS, 2020). As of December 2021, Fiji, Maldives, Papua New Guinea, Samoa, Sao Tome and Principe, St Lucia, and St Vincent and the Grenadines have participated in DSSI with a total value of approximately US\$360 million (WB, 2021a).

As noted in the previous section, another constraining factor for SIDS is that the graduation to higher income level status results in restrictions for access to concessional finance and development assistance. Since the great majority of SIDS run structural current

account deficits and are heavily reliant on external finance to support capital accumulation, implications of graduation for external financing are potentially critical (K4D,2019).

Credit worthiness and ratings present challenges for accessing finance on international and domestic capital markets

Some SIDS have limited access to capital markets given their credit rating. Furthermore, climate change and disasters have devastating impacts on SIDS debt sustainability and credit ratings, adding an average of 24% to debt to GDP ratios (Bonizzi, et al., 2017). SIDS often enter a spiraling debt trajectory after disaster events, with the use of public and renewed external borrowing leading to higher debt servicing costs, reduced creditworthiness and further constraints on development and resilience investment that slow the economic recovery.

SIDS climate vulnerability is coupled with SIDS structural and geographical circumstances. They cannot “upgrade” from small populations and small, undiversified economies, spatial dispersion, remoteness, and limited capacity to mobilize domestic resources. These characteristics create high perceived risks, large recurrent costs and, for some, narrow fiscal space (the ability of a government to service its existing debt obligations) and an inability to take on additional debt for climate and development investments (OECD,2018). Economies of scale, preferred by large international investors, are difficult to achieve in SIDS (UN-OHRLLS,2021) in absence of robust programmatic or regional planning and approaches. These claims are substantiated through the lower level of co-finance, particularly from international capital markets, catalyzed for SIDS compared to non-SIDS (OECD,2018).

Additionally, it is increasingly common that project sponsors prefer to source funding in local currency but are unable to meet the investment-grade credit requirements of domestic financiers. Where climate finance is available, lenders prefer to hold project revenues in offshore accounts priced in foreign currency (dollars, euros, or pounds); this antiquated legacy of the global financial system requires project sponsors to receive revenue in local currency but repay debt in hard currency (RMI,2021).

However, domestic capital markets are typically underdeveloped in SIDS. Creating access to long-term, local-currency finance for domestic climate investments requires capital markets that are deep, diversified, efficient, and well-regulated (WB,2020). These conditions are best nurtured through continuous monitoring and policy interventions due to changing market stages, often necessitating multilateral support to enhance financial market sophistication, transparency, enhancements to risk-taking capacity of market actors, and improved quality of human capital

or workforce (WB,2020). However, these conditions are difficult to achieve in SIDS domestic markets without deliberate and consistent intervention and external support.

SIDS’ shared challenges of debt sustainability are a systemic problem that reduces the ability of governments to invest in sustainable development and resilience, perpetuating the climate crisis and the ability of SIDS to service debt (UN-OHRLLS,2020). Without systemic approaches to solve debt distress, the challenge will persist. Many of those interviewed, alongside empirical evidence from GCF’s portfolio, suggest that while climate finance in SIDS has appropriately focused on grant-funded adaptation, to deliver results at scale the climate funds need to improve access modalities (such as GCF’s SAP and targeted RFP modalities) and take regional programmatic approaches to leverage international capital at scale, versus the current, less efficient project by project approach.

Private finance mobilization and blended finance options remain nascent and limited in many SIDS

Multiple barriers have impeded the mobilization of private finance to address climate change, particularly for SIDS that have data-constrained environments with small, undiversified economies. Foreign and domestic private sector investment has remained stagnant. Investors often lack quantifiable incentives and are unwilling to internalize environmental externalities unless tangible, financial returns to environmental, social, and governance (ESG) and climate aligned practices are evident. Common and systemic challenges characteristic of SIDS include remoteness, small economies, and limited capacity to mobilize domestic resources. These internal structural factors, combined with challenges in meeting creditor requirements and the burden of existing debt combined with vulnerability to environmental, economic, and other external shocks, are typically seen as high risk by commercial banks and other mainstream financiers. Given the severe data and capacity constraints discussed, there is often a lack of information to evaluate projects (OECD,2018).

There is also a mismatch between long-term payback periods associated with most climate change adaptation investments, the increased investment risk posed by inherent climate vulnerabilities of SIDS, and the short-term horizons and low-risk appetite of most private investors. There are also political, institutional, and legal/regulatory barriers to private investment, which may be even more profound in SIDS (OECD,2018; WB, 2021 b; UN-OHRLLS, n.d.b). These barriers may be magnified when policy coordination is lacking. As a result, there is typically a shortage of non-grant dependent and private sector-led low-carbon, adaptation, and resilience projects in SIDS

(OECD, 2018; WB, 2021b; UN-OHRLLS, n.d.b). The GCF IEU (2021) found that evaluations by the World Bank and ADB in the Pacific highlighted the need for a coordinated approach and closer linkages between public and private sector, especially in the smallest SIDS.

Multilateral funds with dedicated private sector windows, such as the GCF and CIFs, lack dedicated, experienced staff and a context-sensitive strategy for SIDS that aims to leverage private capital markets. The typical conception of multilateral funders of the private sector does not correlate well with the characteristically micro-scale, low capital base, and risk capacity of MSMEs and lenders in SIDS (GCF IEU, 2021). Furthermore, funds, MDBs, and development financial institutions generally do not have corporate level strategies or explicitly consider unique characteristics of the private sector in SIDS such as the prevalence of micro-sized businesses (GCF IEU, 2021). These factors are further impacted given the relative difficulty for SIDS to access a mix of non-grant instruments (such as debt, equities, and guarantees) through climate funds. The outcomes are evidenced in the fact that every \$1 of concessional finance

being provided to blend with private capital going to middle-income countries mobilizes just \$0.37 of additional capital (ODI, 2019). Furthermore, instead of addressing market failures and taking on more risk, the funds are directed toward relatively low-risk investments. If left unchecked, blended finance could end up steering aid away from where it is most needed. As such, there are renewed calls for major MDB reform.

Unsurprisingly, there is a particularly pronounced lack of private sector-led adaptation projects in climate funds' portfolios in SIDS. Causes of limited private sector engagement in adaptation include limited business models or products to promote adaptation, and the long-term and public good/non-rivalrous nature of adaptation investments which is compounded by limited return on investment and typically long investment horizons (OECD, 2018; WB, 2021 b; UN-OHRLLS, n.d.b).

Part 2:

Key Opportunities and Recommendations

1. A Dedicated Enhanced Direct Access Envelope for SIDS under the GCF

The complexity of the climate finance and sustainable development architecture has created barriers for SIDS to access multilateral funding. Given these barriers, there is a need for a dedicated funding mechanism that will also build countries' institutional capacity and strengthen their systems. The establishment of a SIDS fund or a SIDS dedicated window within existing funds was cited by the majority of interviewees as their preferred option for addressing the shortcomings of the current climate finance architecture. However, it was also acknowledged that the prospects for the establishment of a new financial vehicle under the UNFCCC are limited and not politically feasible in the short-term.

A proposed SIDS envelope under the Enhanced Direct Access (EDA) pilot under the Green Climate Fund (GCF) would be a pragmatic and readily available option to address this need. A dedicated SIDS envelope under the EDA pilot would provide an immediate-term solution for the need for a dedicated financing mechanism for SIDS, as it builds off the existing climate finance architecture and would not require a heavy technical lift. Given the EDA is an established mechanism, the GCF Board should prioritize approval for the new envelope before the end of 2022, allowing sufficient time for the design of the program, development of EDA proposals, and capacity building for DAEs before the SIDS Conference in 2024.

A decentralized approach

Scaling the Enhanced Direct Access pilot for SIDS through a dedicated envelope would allow SIDS to adopt a more decentralized and programmatic approach to climate and development financing. SIDS need dedicated support to establish or strengthen national entities, including DAEs, funds, and appropriate financial vehicles to enhance direct access to climate finance. There is demand and a clear need for those national funding entities and appropriate financing vehicles, which aim to develop innovative ways to link international

finance sources with national investment strategies and targets outlined in SIDS NDCs, NAPs, and LEDs.

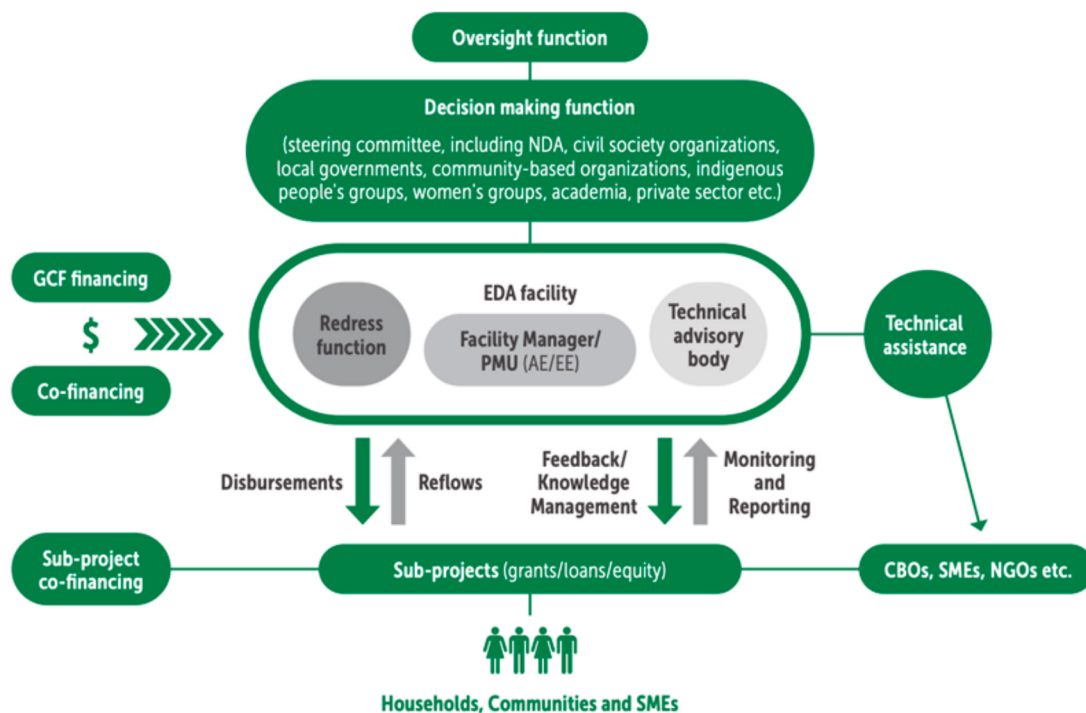
However, the implementation of the EDA pilot has had some challenges. To date, the pilot has approved three projects, two of which are in SIDS (FP061-Multi-country Caribbean and FP169-Federal States of Micronesia). Key challenges for implementing the DAE pilot have included unclear TORs and a lack of clarity around the definition or criteria for "devolving decision-making" (GCF IEU, 2021). The GCF independent evaluation unit also noted that the requirements for participation were high for accredited entities, with only 25 DAEs eligible to participate when it was first launched in 2017 (this number has since increased to 51 as of June 2021). Moreover, compared with the high transaction costs associated with accreditation and proposal formulation, the funding cap for EDA projects was low at only US\$20 million per project.

Yet while the pilot project has experienced slow growth and uptake due to the issues cited above, a recent independent evaluation of the pilot found the DAE model promising, particularly for decentralized local and grassroots adaptation in SIDS (GCF IEU, 2021). The GCF has since further invested in the EDA pilot by providing additional resources in the form of dedicated staff, who have undertaken an extensive consultation process and developed new operational guidelines for accessing the RFP. These guidelines aim to clarify the process for DAEs and the team in place have provided, "enhanced support to proponents, particularly to entities that are national, with capacity limitation" (GCF IEU, 2021; pg 56).

Built-in flexibility

A scaled-up dedicated EDA window for SIDS would devolve funding decision-making and processing of sub-projects to SIDS-owned regional and local level institutions, and address the need for flexibility in access modalities, regional programmatic approaches, and targeted requests for proposals. Being familiar with SIDS-specific challenges and realities, they can implement more flexible and context specific approaches

Figure 6. Enhanced Direct Access, GCF



Piloted by the GCF, EDA aims to boost direct access to GCF funding by enhancing access for sub-national, national, and regional, public and private accredited entities. EDA is structured such that DAEs accredited to the GCF can use GCF funding to establish or use existing financial vehicles (e.g., trust funds, funding facilities, country financing mechanisms, etc.) to directly finance sub-projects at the national and/or local level. Once an EDA project/program is approved by the GCF Board, the DAEs are empowered to directly approve any sub-projects to be financed through the established financing vehicle. This decentralized approach reduces many of the access barriers currently faced by SIDS (such as overhead, limited capacity, and lack of data), while the screening, assessment, and selection of specific sub-projects is made by DAEs at the regional, national, and/or subnational level (GCF, 2020).

Source: GCF, 2020.

and processes. SIDS entities and institutions have invested considerable resources to gain accreditation and align their standards to GCF and other multilateral funds' requirements. A scaled-up EDA program for SIDS would empower them and further build their programming and absorptive capacity. To maximize its effectiveness, a SIDS EDA window should be accompanied by rapid targeted capacity and technical support to SIDS entities engaging in the program.

The same independent evaluation found that the EDA pilot also led to more rapid disbursement timelines and significantly improved country ownership via devolved decision-making. Project implementation was considered to have much stronger

local ownership, to be well-aligned with subnational climate change policies and frameworks, benefit from more direct communication with local actors, and have robust monitoring and evaluation mechanisms (GCF IEU, 2021). Specifically, it found the EDA well-placed to support the kind of local adaptation that is effective for SIDS by working at the grassroots and local levels as well as by incorporating indigenous populations. Subsequently, DAEs expressed a strong appetite for the EDA, stating they were either considering or already pursuing the EDA modality. The assessment concluded: "EDA has considerable potential to deliver climate results at scale in a country-driven approach and to accelerate investments in SIDS" (GCF IEU, 2021; pg 50).



Photo: UNFCCC, Flickr, (CC BY-NC-SA2.0)

A dedicated funding envelope for SIDS in the context of a scaled-up EDA approach would also provide predictability to SIDS entities willing to mobilize significant resources to access the available funding. A SIDS EDA window represents a promising short- to medium-term practical solution that would not only utilize an established mechanism but also align with the GCF Independent Assessment Unit's recommendation that the GCF continue to use RFPs such as the EDA for targeted project and program generation (GCF IEU, 2021) and contribute to address the systemic capacity challenges faced by SIDS entities.

Next steps

Scaling up EDA in SIDS would require the GCF to set aside a significant new funding envelope, as the pilot phase earmarked only US\$200 million across at least 10 pilots globally. This new envelope should continue to build on the EDA's updated guidelines, allow for larger project funding caps, and include dedicated resources within the GCF secretariat for a fast-tracked and supportive process. It should also provide resources for capacity building and capacity supplementation in DAEs, which would help alleviate barriers to accreditation and post-accreditation. The targeted deployment of new GCF Secretariat staff in SIDS regions could provide additional guidance and support.

Establishing a SIDS EDA window by COP27 will demonstrate the responsiveness of the GCF to SIDS needs and embody the fund's operational priorities for the most vulnerable countries. It will also represent a key implementation mechanism for the commitments and pledges made at COP26 to significantly scale up adaptation finance and enhance access and quality of climate finance for SIDS.

- **GCF Board:**

- The recommendation for a **proposed SIDS envelope under the Enhanced Direct Access pilot should be pursued at the GCF Board level in 2022**, as the second phase of the EDA request for proposals will be up for discussion.
- Given that the EDA is an established mechanism, **the GCF Board should prioritize approval for the new envelope before the end of 2022, including a SIDS dedicated envelope**, allowing sufficient time for the design of the program, development of EDA proposals, and capacity building for DAEs before the SIDS Conference in 2024.
- Like minded board members from both developed and developing countries should work with the co-

chairs to **request the Secretariat to prepare TORs and a draft decision for board consideration by the third meeting of the board in 2022.**

- **Multilateral and bilateral agencies and donors:**

- National decision-making should not be mediated by a complex system of international actors, and countries should have the ability to act on their national climate strategies in a way that aligns with their individual needs and circumstances (RMI,2018). Projects and programs need to demonstrate stronger country ownership, and in particular, empower local stakeholders throughout the process by implementing a devolved decision-making process. That is, decisions on funding and project oversight can take place at the regional or national level, while mutually assuring the strengthening of national climate programs and supporting more meaningful engagement and ultimately buy-in with local stakeholders.
- Building alliances for support for a dedicated SIDS envelope under the EDA at the GCF board level will be key to investing in more programmatic approaches, enabling national level institutions, and supporting national and regional direct access entities to play a central role in coordinating climate finance flows.

- **SIDS Governments:**

- Alongside a new proposed funding envelope for SIDS under the EDA, **advocacy for dedicated medium- to long-term funding mechanisms can continue in parallel, including for loss and damage.** As cited above, the establishment of a SIDS fund or a SIDS dedicated window within existing funds remains the preferred option for many SIDS and DAEs.
- Gather interest from their DAEs to participate in a scaled-up EDA scheme and supply the SIDS representatives on the board with necessary information to build the case.

2. A Global Data Hub for SIDS

Reviewing literature and interviewing stakeholders in the preparation of this report, made apparent the lack of availability of quantitative and qualitative data, lessons, and SIDS experience with accessing climate finance. Much of this

information is scattered across the UN, donor agencies, and funds with inconsistent methodologies and periodicities.

As a special case for development and climate change finance, SIDS lack a coordinating body for their effective prioritization across systems, funding institutions, and agendas. **It is therefore proposed to establish a dedicated coordination and resource mechanism or “hub.” This hub should deliver on two main functions: 1) centralizing data on SIDS needs and access to climate finance and periodically report to the international community on their effective prioritization, and 2) addressing challenges around demonstrating a climate rationale in funding for SIDS.**

Increasing data accessibility

An empirical overview of SIDS challenges and successes in accessing finance (climate and development) often must be reconstructed and consolidated from wider datasets, as SIDS are often lumped into broader developing country categories or geographical groupings. SIDS have limited capacities and systems to gather, manage, and analyze information, leaving them largely reliant on either a fund’s own evaluations, assessments from independent organizations (such as NGOs), or hired consultants to produce analyses that inform their negotiating positions and demands to international funds.

The financial needs of SIDS are also not well documented. NDCs are usually used as the basis for calculating the scale of needs but many NDCs are not fully or adequately costed. Not having the full picture of financial needs, as well as the quantity and quality of financial flows to meet those needs, remains a major barrier for targeted resource mobilization and allocation strategies, including for donors and funds.

Moreover, a recent analysis (Kalaidjian & Robinson, 2002) has argued there is a need for metadata systems that accurately track the finance flowing to SIDS and vulnerable countries. Such systems should aim to not only standardize adaptation metrics, but agree on a comprehensive definition of adaptation and adaptation finance.

Similarly, specific data on climate impacts are still sparsely available for SIDS. Meteorological and climate data series, risks and impact projections, climate models, and methodologies for projecting loss and damages, are either not available or sufficiently downscaled or adapted to SIDS territories. Therefore, the appreciation of the multifaceted character of SIDS vulnerabilities and how they should be taken into consideration in policies and modalities of funds and funders are still partial. Vulnerability is increasingly regarded as a more

suitable criteria than GDP to guide the prioritization of SIDS to access finance, reflective of science and climate justice.

There is a clear need to address concerns about data inaccessibility becoming a temporary delay or complete barrier for project development and approval. The extrapolation of learning from other countries through regional knowledge and data sharing can help prevent data barriers, reinforcing the need for a regional and cross-regional approach that could also support the development of baselines and support data collection (GCFIEU,2020).

A Hub for SIDS under the UN would be in a unique position to coordinate with all key stakeholders to facilitate enhanced data collection, consolidation, and analysis that provides evidence of the vulnerabilities, needs, challenges, and barriers faced by SIDS and assess the effectiveness of support provided in addressing them. The Hub would monitor and assess SIDS access to climate finance and issue a *State of Climate Finance in Small Island Developing States* report annually on global trends, challenges, and progress by climate finance funds toward effective SIDS prioritization. The Hub should also contribute strongly to reflections and approaches to finance for loss and damages from climate change. Moreover, given its placement as a global data platform, the Hub could support the SIDS efforts in the implementation of the MVI by providing the data and inputs that measure vulnerability.

Demonstrating the climate rationale

The absence of a dedicated funding mechanism or special fund for SIDS, and the lack of a facility centralizing data and information related to SIDS access to means of implementation, makes the monitoring and measurement of SIDS progress toward the achievement of the SAMOA Pathway and their adaptation and mitigation goals challenging. Similarly, assessing the fulfillment of commitments, pledges, and policies of donors and funds to SIDS is not straightforward.

Stakeholders interviewed for this report stressed the need for flexibility in using alternative data sources to supplement existing climate data when making a case for the climate rationale of adaptation projects. Likewise, respondents to GCF IEU, 2021 (p: 59) surveys stated, "GCF has to be flexible on evidence-based demonstration of [the] climate rationale. This is unfair to countries who, for lack of financial resources to gather the required data, are not able to establish the linkages with data". Furthermore, to address data and capacity constraints, there is a need to support baseline data collection and develop systems for generating scientific data as well as local and regional impact data. There is also a need for technical

assistance to enhance the analytical capacity within SIDS and DAE to assess data and develop a climate rationale (GCFIEU, 2021).

The Hub will be well positioned to delve into the adaptation/development dichotomy debate and address specific challenges around demonstrating a climate rationale in funding for SIDS. It could highlight how practical solutions must be put on the table to ensure that the academic/technical debate does not continue to hinder SIDS' access to climate finance. This hub will improve the availability and quality of climate data that could be shared among SIDS, extrapolated, and emulated to support project proposal design, and outside the UN system with external scientific organizations.

Next steps

The activities, reports, and knowledge products developed by the Hub will feed into key decision-making processes, debates, and negotiations relevant to the effective provision of financial resources to SIDS. This would include climate funds replenishment processes, needs assessments, policies and modalities, delivery of the US\$100 billion pledge, the design of a New Collective Quantified Goal (NCQG) under the UNFCCC, the reform of Official Development Assistance (ODA) eligibility rules, and debt restructuring and debt swaps for climate.

- **SIDS governments and regional entities**

- SIDS governments and regional entities' input and buy-in will be critical in the design and establishment of the Hub. Preliminary consultations in the context of this report indicate interest in setting up a data, knowledge, and analytical center that could efficiently inform the policy and negotiation leadership of the Alliance of Small Islands States and work collaboratively to elevate trends, data, and lessons emerging from SIDS practitioners and implementers in the regions.

- **Donors and multilateral agencies**

- If established, the SIDS Hub will need to be adequately staffed and resourced. Its structure should remain agile and efficient. Representative and qualified staffing of the Hub will be critical, staff secondments and financial support will be needed to set up and operate the Hub.
- The Hub's success will depend on its connection to agencies, funds, and institutions. Donors' support in

granting access and facilitating collaboration will be critical.

- **UN system**

- The Hub could operate under the auspices of the UN. A placement under the current UN-OHRLLS seems to be a natural starting point, not pre-empting the outcome of the SIDS-4 Conference process that may decide on the establishment of new services and structures to support the implementation of the new action plan.
- The UN-OHRLLS should be tasked to further refine the possible mandate, deliverables, and scope of the Hub. To this end, UN-OHRLLS should initiate further stakeholder consultations and research to avoid duplication and maximize complementarity between relevant agencies, institutions, and initiatives and facilitate buy-in and engagement from SIDS governments and key stakeholders.
- Given its placement as a global data platform, the Hub could support the UN System in the implementation of the MVI by providing the data and inputs that measure vulnerability.

3. A Renewed Effort into Building Lasting Capacity and Programmatic Approaches

Systemic human and technical capacity constraints remain a key challenge for SIDS to unlock climate finance. Enhanced access for SIDS should be supplemented by technical accompaniment and lasting capacity building to be effective (OECD, 2018; GCF IEU, 2020; UN-OHRLLS, n.d.b). Human resources in SIDS are often severely limited by small public sector's low staffing in key climate finance roles, and limitations within existing staff capabilities and skillsets constrain the ability of countries to develop project pipelines that meet funder requirements. There is a critical need for dedicated and sustained investments in additional personnel, as well as a need to build the skills and capacity of existing staff.

Donors prefer stand-alone projects and time-limited readiness initiatives, rather than ongoing support, but that has proven inadequate to address systemic structural capacity issues surrounding long-term project preparation needs. Interviewees made a clear call for the development of more programmatic approaches and proposals by trained personnel who work alongside governments and DAEs to drive long-term capacity development. Furthermore, there is a growing body of

evidence demonstrating the benefits of regional climate finance efforts and coordination and capacity support that encourage cross learning and resource pooling.

Donors and implementation entities should shift away from stand-alone project-based approaches toward programmatic approaches focused on building long-term dedicated capacity within and between SIDS, with an emphasis on scaling up human resources and expertise.

A programmatic approach to project development and approval

Investing in programmatic approaches that align longer-term programming priorities with commitments laid out in SIDS NDCs, NAPs, LEDS, and SDG strategies, will help address SIDS' need for long-term in-country capacity support. Programmatic approaches reduce the resource burden (expert time and financial resources) of single project development for SIDS and help secure resources for SIDS long-term in-country capacity enhancement. The current model of investment in stand-alone projects means expertise is often siloed, opportunities for knowledge transfer are limited, and any technical capacity building is not guaranteed to remain after project completion. Studies have also shown that project-by-project approaches limit investment potential and expected transformative outcomes (ICF, 2018).

The GCF, GEF, and CIFs have all found that programmatic approaches promote country ownership, develop local capacity, improve access to financing by working with local financing systems, and are more readily scalable across market segments — creating lasting impact even after multilateral support has ended (GCF /B.23/17, 2019; ICF, 2018; GEF/ C.33/6, 2008). Notably, an independent evaluation of the CIF's programmatic approach found that it was most effective at the investment planning stage and when supported by a scaled-up, predictable, and flexible funding envelope that also provides resources for readiness and learning activities (ICF, 2018).

Donors and multilateral agencies should continue to develop, formalize, and invest in programmatic approaches, and for SIDS specifically, focus on enabling government ownership and capacity to lead and coordinate sustainable and long-term programs. Given their already limited capacity, implementing entities can actively support SIDS strategic planning, national coordination, consultation, and monitoring (ICF, 2018). Government ownership is also critical, and should be the foundation of any programmatic approach, to ensure full integration with national policies and frameworks and ensure the sustainability of results.



Photo: UN Photo/Logan Abassi

Embed and develop long-term capacity

However, it must be noted that without sufficient capacity, SIDS will struggle to adopt and reap the benefits of more programmatic approaches that require substantial upfront resources and preparation. An issue unanimously recognized during interviews with SIDS stakeholders is the severe capacity constraints faced by SIDS governments' and national and regional DAEs. These capacity gaps underlie and magnify the challenges to direct access, accreditation, and project design mentioned above. Donors and implementing entities should increase investment in human and technical capacity at the country level, including embedding capacity-building requirements in program and project design, including for project development, financial structuring, implementation, and monitoring and evaluation.

One way to develop capacity in SIDS to access climate finance is by addressing the lack of human and technical capacity at the country-level through training, human resource development, talent retention, and additional expert staff resourcing/placements. Both training and rapid deployment of supplemental human capacity in critical ministries and entities in SIDS, preferably hired locally or regionally, was recognized by SIDS stakeholders as an efficient and expeditious way to increase the number of project proposals being developed,

as well as their quality and success rate. In addition, programs can focus on embedding climate finance experts within relevant ministries for long-term engagement in countries. Through discussions with stakeholders and from analyzing the portfolio of the GCF, it appears that SIDS with the most success in securing climate finance had a head start on their DAE accreditation and project development processes when benefiting from embedded technical support within their National Designated Authority (NDA) or Project Units.

The Climate Finance Access Network (CFAN) conducted a demand assessment in 2019, interviewing 100 representatives of 45 developing countries from both the public and private sectors. The assessment revealed resounding demand from countries, with 98% stating they would be interested in receiving a climate finance advisor (CFAN, 2019). Unsurprisingly, long-term embedded advisory support has increasingly been recognized as an effective solution to improving access to climate finance and several initiatives have emerged to support countries in achieving their climate investment objectives,² and many have done so through embedded climate advisors. Investing in and scaling embedded support models that focus on building capacity and providing additional human resources in SIDS is a key short term and pragmatic intervention that can help donors and funders increase their impact.

In addition to long-term staffing and advisory support, there is demand for multilateral agencies and funds to enhance short-to medium-term access to experts with deep knowledge of donor fund rules and processes, including access to GCF, Adaptation Fund, and GEF Secretariat staff, for specific assignments. The GCF, for example, can build on the approach it has taken under the Project Preparation Facility (PPF) and readiness by enhancing its regionally focused support by seconding or embedding personnel alongside national staff for longer periods. For example, as part of the suggested EDA expansion, GCF could provide internal consultants to entities on a short-term basis to support concept note development and on a longer-term basis for proposal development (WRI, 2020). Such proximity would be beneficial for building on-the-ground expertise and support, especially for smaller, newly accredited entities. In turn, the approach will familiarize fund staff with DAEs and their operational context.

There is also a clear call for multilaterals to continue support to project/program concept and proposal development by providing end-to-end support mechanisms, from conceptualization to design and development through to the operational phase. These end-to-end support mechanisms, such as the Climate Investor One project (GCF FP099), work alongside governments and DAEs to build long-term capacity development — especially for smaller entities with limited resources — helping overcome the often-protracted process of syndicated financing after projects have been awarded to project developers.

Finally, funds and donors should increase their support to strengthen institutional memory and knowledge management in SIDS, as well as support national and regional organizations in collecting and managing data and knowledge through more systematic approaches such as regional knowledge hubs and networks. Likewise, implementing entities should seek to support and design initiatives that embed capacity building in program and project design that can share lessons and skillsets regionally.

Next Steps

Capacity building requires concerted efforts from a variety of actors, including financial institutions at all levels of decision-making. Given the emphasis on training programs, embedded capacity considerations in program and project design, and end-to-end support to enhance and build long-term capacity within SIDS, the roles and responsibilities of different stakeholders (e.g., UN-OHRLLS, donors, multilateral funds, the private sector, etc.) need to be clearly defined and articulated.

- **Donors:**
 - Donors should **continue to develop and invest in programmatic approaches**, and for SIDS specifically, focus on building government ownership and capacity to lead and coordinate sustainable and long-term programs.
 - Donors could invest further in **scaling embedded support models and existing mechanisms that focus on training and building capacity and support the deployment of supplemental human resources** to SIDS. This is an increasingly proven method for enhancing in-country human resource capacity, accelerating project and proposal development, and increasing ambition and the quality of proposals and can help donors leverage additional impact in-country.
 - Donors should increase their **support to strengthen institutional memory and knowledge management** in SIDS, as well as **support national and regional organizations in collecting and managing data and knowledge**.

² These initiatives include the NDC Partnership Economic Advisory Initiative, the Tony Blair Institute for Global Change Advisory Support, the Commonwealth Climate Finance Access Hub, the Climate Finance Access Network, and others.

- **Multilateral and bilateral agencies:**

- These agencies should continue to develop and invest in programmatic approaches, and for SIDS specifically, focus on enabling government ownership and capacity to lead and coordinate sustainable and long-term programs. **The GCF board should finalize and approve the policy on programmatic approaches, with due consideration for SIDS** (IEU, 2018) to ensure project developers have sufficient understanding of the rules and regulations needed to guide their implementation and accountability. Programmatic approaches should include single- and multi-country programs and include provisions to streamline sub-project approval processes.
- They should also explore **providing short- to medium-term access to experts with deep knowledge of donor fund rules and processes, including access to GCF, Adaptation Fund, and GEF Secretariat staff, for specific assignments.** Funds could provide internal consultants to entities on a short-term basis to support concept note development and on a longer-term basis for proposal development.
- The agencies should continue to support project concept and proposal development by **providing end-to-end support mechanisms, from conceptualization to design and development through to the operational phase.**

- **Implementing entities:**

- Given their already limited capacity, **implementing entities supporting SIDS should strategically assess and plan their capacity and expertise needs over the next climate fund replenishment cycles.**
- They should actively **support SIDS strategic planning, national coordination, consultation, and monitoring for programmatic approaches**
- Implementing entities should seek to support and design initiatives in SIDS that **embed capacity building in program and project design, and that place a strong emphasis on knowledge management and monitoring and evaluation.**

- **SIDS Governments:**

- Government ownership and political leadership has proven critical to the successful development and implementation of programmatic approaches. **National governments play a critical role in ensuring full integration of these approaches with national policies and frameworks.**



Conclusion

The latest IPCC Assessment Report stressed the urgency of action by major emitters to curb global emissions and keep the Paris Agreement 1.5°C goal within reach. The IPCC also acknowledged that a certain avoidable level of warming and therefore of impacts, loss, and damages is locked into the climate system for decades to come. For SIDS, the question is not whether they will be affected by climate change impacts but whether their economies, societies, and systems will have built sufficient resilience to not only survive but also thrive and keep reaching for their development goals and priorities.

Access to international finance at speed and at scale is a key enabler to the implementation of resilience building strategies, complementing sustainable recovery post-pandemic efforts, all converging toward the helping SIDS achieve their sustainable development goals. However, the current financial architecture is complex, fragmented, and does not accommodate SIDS special circumstances and vulnerabilities nor meet their unique needs. Despite being hailed as a priority on paper, SIDS funding efforts fall through the cracks of the one-size-fits-all burdensome and uncoordinated bureaucratic processes of most climate funds. In the absence of a financial mechanism or vehicle dedicated to SIDS, the treatment of SIDS as a special case continues to be ineffective.

While facing a complex and competitive international finance architecture, SIDS are at a disadvantage due to human and technical capacity constraints in their governments and national and regional institutions, including their direct access entities to develop and implement high quality and impactful projects.

This report outlined three key areas of recommendations on how relevant stakeholders can work toward addressing these challenges to both respond with urgency to the climate crisis and to make the necessary structural changes in the long term:

1. **A dedicated Enhanced Direct Access (EDA) envelope for SIDS under the GCF:** A dedicated EDA funding envelope will not only facilitate access through increased ownership and alignment with countries' priorities and needs but will

also strongly contribute to build robust country systems and strengthen institutional capacity. A proposed SIDS envelope under the EDA pilot under the Green Climate Fund (GCF) would build on an already existing mechanism currently reviewed.

2. **A Global Data Hub for SIDS:** To address the immediate barriers around data availability and make the case for the climate rationale, a global resource hub could facilitate the collection, analysis, and management of finance and climate data for SIDS. The Hub would report periodically on the translation of commitments and pledges by funds and donors to SIDS prioritization and on progress made by SIDS in accessing means of implementation.
3. **A renewed effort to building lasting capacity and programmatic approaches in SIDS:** to better assist SIDS in addressing their systemic challenges, donors and implementation entities should rethink how capacity and expertise support is delivered and transferred, shifting away from project-based approaches toward programmatic approaches focused on building long-term capacity in SIDS.

Important announcements and pledges were made at COP26 in Glasgow to scale up adaptation finance and improve access to finance for the most vulnerable. However, SIDS will not be able to take advantage of these pledges if the above-listed three areas of needed improvement are not considered. These announcements and commitments will be best realized through mechanisms that already exist, have been tested, and can deliver on both the quantity and the quality of these enhanced financial flows.

We have a limited but critical window to boost catalytic support to Small Island Developing States. Action should be taken at the GCF board level, through scaling existing capacity-building initiatives and mechanisms, and by mobilizing the whole UN system in the lead up to the preparation of the SIDS 4 Conference. The system needs to be ready for the next global

SIDS blueprint, including New Collective Quantified Goals on climate finance that align with the needs and priorities of SIDS. This paper aims to provide policymakers and leaders engaged in these upcoming discussions with realistic, concrete, and actionable recommendations.

Annex 1

Methodology

Literature review

A literature review analyzed a wide range of documents. This included existing data and reports on climate finance access in developing countries, SIDS and LDCs, existing data and reports on financial flows in SIDS, and analysis of major funds' SIDS portfolios. The literature review also considered fund policies, board decisions and annual performance reports. SIDS country-level climate change strategies and plans, including national adaptation plans (NAPs), nationally determined contributions (NDCs), were also taken into consideration. This report drew lessons from past reports, evaluations, reviews, and studies. It focused on the findings, conclusions, recommendations, and scenarios presented in these documents to draw overall lessons and highlight key emerging patterns. See a full reference list for literature review in Annex 3.

Stakeholder interviews

The report also included consultation with multiple stakeholders through semi-structured interviews and written statements. A total of 22 interviews were conducted among various stakeholders, including:

- (5) Caribbean SIDS: Antigua and Barbuda, Belize, Grenada, Saint Lucia, Suriname;
- (4) Pacific SIDS: Kiribati, Samoa, Solomon Islands, Vanuatu;
- (2) African Indian Ocean and South China Sea SIDS: Comoros, Maldives;
- (1) Donor countries: Canada;
- (10) International and UN Organizations: Acclimatise, Alliance of Small Island States, The German Agency for International Cooperation, Global Green Growth Institute, Green Climate Fund, NDC Partnership, Pacific Community, RMI, United Nations Development Programme, and the United Nations Framework Convention on Climate Change.

See Annex 2 for a detailed list of stakeholders interviewed.

Synthesis and analysis of outcomes from COP26 and relevance for SIDS:

Outcomes from the COP26 that took place in Glasgow between 31 October – 12 November 2021 were taken into consideration when drafting the report, specifically outcomes that are significant to SIDS. Documents that were consulted related to COP26 outcomes were submissions and statements from parties the sessions, negotiations between Parties, and Glasgow Climate Pact, COP and CMA Decisions. The SIDS solidarity package submitted by AOSIS during the UN Secretary-General's Climate Action Summit in 2019 was consulted as well. Major high-level announcements and financial commitments from relevant stakeholders that took place during COP26 were also considered.

Peer Review

The report has undergone an extensive peer-review process, soliciting feedback from organizations and governments. Peer reviewers were asked to complete a standardized, peer-review template. This review was consolidated and systemically addressed before report finalization. Peer reviewers include: Chavi Meattle, Fani Geromin, Francis Pigeon, Jan Sindt, Katerina Syngellakis, Kelly Sharp, Lano Fonua, Paolo Cozzi, Phonesavanh Latmany, Sandra Guzman, Shelveen Kumar, Walter Malau, and Vikram Singh.

Annex 2

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