

Pacific Climate Change Finance Assessment Framework

FINAL REPORT

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PACIFIC ISLANDS FORUM SECRETARIAT

**Australian
AID** 

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Executive Summary

Forum Leaders have directed the Pacific Islands Forum Secretariat (PIFS) to assist in improving Forum Island Countries' (FICs) access to and management of climate change resources. The assessment framework presented in this report is part of several initiatives being coordinated and/or supported by PIFS in response to this direction. These initiatives broadly include: development of this climate change finance (CCF) assessment framework, including piloting this methodology in Nauru; compilation of practical experiences in different financing modalities relevant to climate change; development of a Regional Technical Support Mechanism (RTSM); and ongoing support to effectively access and manage international climate change funding.

The Pacific Climate Change Finance Assessment Framework (PCCFAF) has been developed in response to the need to approach climate change financing in an informed way, commensurate with the specific circumstances and challenges of FICs. While existing global approaches are being developed and trialled, they do not always consider aspects that are particularly relevant to the situation of small island developing states. Rather than developing a parallel framework the PCCFAF blends Pacific relevant aspects, especially climate change sources and capacity, into existing assessment approaches. This approach has emanated from, and has been piloted and refined through a case study of Nauru.

The PCCFAF guides assessment of FIC ability to access and manage climate change resources across six interrelated dimensions, as listed below, and the potential of the country to utilise various modalities to assist in these efforts. The recommendations emerging from this analysis enable development of a CCF Action Plan. This Action Plan would outline a series of actions to guide efforts by national governments and development partners to improve a country's approach to climate change financing.

Dimensions of Climate Change Financing

1. Funding Sources
2. Policies and Plans
3. Institutions
4. Public Financial Management and Expenditure
5. Human Capacity
6. Development Effectiveness

The framework assesses efforts being made at the national level by governments, donors and development partners and acknowledges the role played by sub-national governments, communities, civil society and the private sector, and efforts being made at the regional and international level.

The PCCFAF focuses on efforts to meet the challenges of climate change; however these assessments are intricately linked to and provide the opportunity to take a renewed look at the effectiveness of overall development efforts. The cross-cutting nature of climate change requires national responses, which can bring together efforts focussing on specific sectors or issues.

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Acronyms

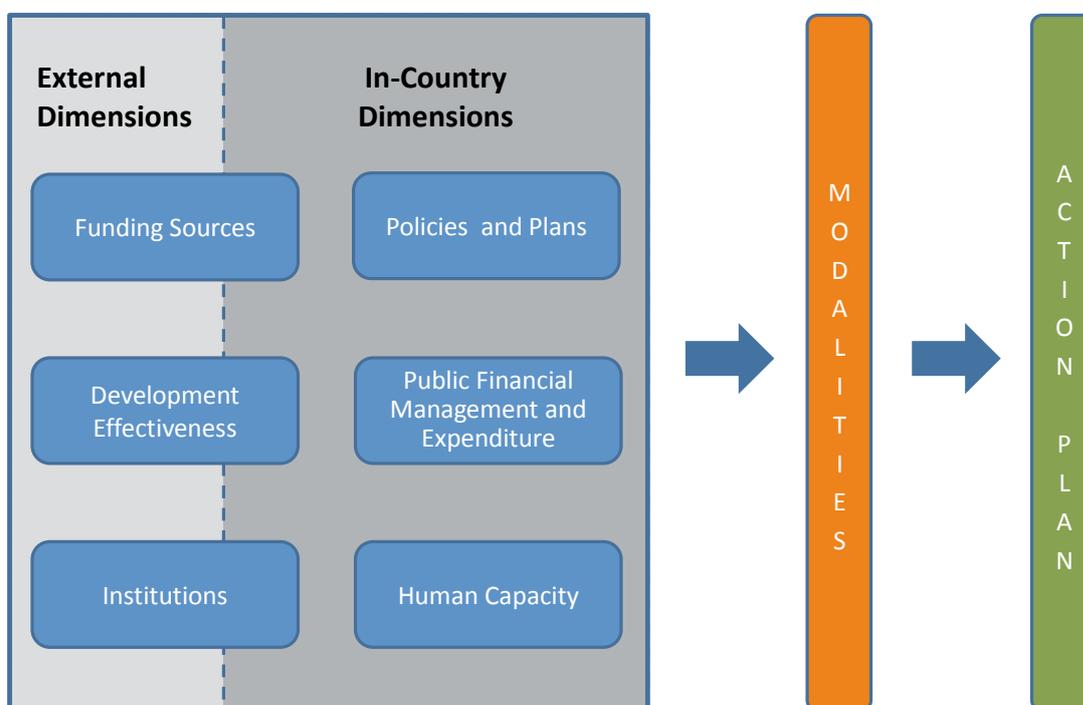
AusAID	Australian Agency for International Development
AOSIS	Alliance of Small Island States
CCF	Climate Change Finance
CDDE	Capacity Development for Development Effectiveness Facility for Asia and Pacific
CPEIR	Climate Public Expenditure and Institutional Review
DAC	Development Assistance Committee
EU	European Union
FIC	Forum Island Country
GEF	Global Environment Facility
IUCN	International Union for Conservation of Nature
JICA	Japan International Cooperation Agency
JNAP	Joint National Action Plan on Climate Change Adaptation and Disaster Risk Management
KfW	Kreditanstalt für Wiederaufbau
KGQ	Key Guiding Questions
NAPA	National Adaptation Programme of Action
NCSA	National Capacity Self Assessments
NDBP	National Development Bank of Palau
NIE	National Implementing Entity
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PCCFAF	Pacific Climate Change Finance Assessment Framework
PEFA	Public Expenditure and Financial Accountability
PIFS	Pacific Islands Forum Secretariat
PIFACC	Pacific Islands Framework for Action on Climate Change
PFM	Public Financial Management
SPC	Secretariat of the Pacific Community
SPREP	Secretariat for the Pacific Regional Environment Programme
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States dollars

1 Purpose of this Report

The purpose of this report is to outline an assessment framework that will assist Forum Island Countries (FICs) make informed decisions on measures to improve access to management of climate change resources. It will also contribute to building development partner appreciation of the challenges faced by FICs in dealing with issues related to climate change financing.

The framework, termed the Pacific Climate Change Finance Assessment Framework (PCCFAF), will guide assessment of a country's ability to access and manage climate change resources across six interrelated dimensions, as presented in Figure 1, and to utilise various modalities to assist in these efforts. The recommendations emerging from this analysis will enable development of a CCF Action Plan. This Action Plan would outline a series of actions to guide efforts by national governments and development partners to improve approaches to climate change financing.

Figure 1 Pacific Climate Change Finance Assessment Framework



The framework assesses efforts being made at the national level by governments, donors and development partners and acknowledges the role played by sub-national governments, communities, civil society and the private sector, and efforts being made at the regional and international level.

The PCCFAF focuses on efforts to meet the challenges of climate change; however these assessments are intricately linked to and provide the opportunity to take a renewed look at the effectiveness of overall development efforts. The cross-cutting nature of climate change requires

2 Background

In 2011 Pacific Leaders emphasised the need to secure appropriate governance arrangements, disbursement modalities and procedures which accommodate the particular constraints of FICs in the development of climate change financing opportunities. To advance this process, Leaders tasked the Pacific Islands Forum Secretariat (PIFS) to set out the detail of how the national and regional options could work in practice for appropriate consideration at relevant regional meetings. In undertaking this work, Leaders indicated that PIFS should assess the feasibility of the options and associated risks and benefits, taking into account as appropriate, the specific capacities and needs of respective countries and the potential in possible combinations of various national and regional options.

PIFS are coordinating or supporting several initiatives in response to this direction from Leaders. These initiatives broadly include: development of the PCCFAF; compilation of practical experiences in different financing modalities relevant to climate change; development of a Regional Technical Support Mechanism (RTSM); and ongoing support to effectively access and manage international climate change funding.

Development of the PCCFAF builds on efforts made in the Pacific region over recent years to improve access to and management of climate change resources. This includes studies undertaken by SPREP and PIFS in 2011 and 2012. One key lesson from these studies is that it is difficult to link specific country needs, funding sources and modalities, without country-specific analyses.

As outlined in Section 1, the PCCFAF will assist FICs make informed decisions on measures to improve access to management of climate change resources. It provides the framework for countries to undertake tailored, country-specific assessments of climate change financing issues, in response to the limitations of more general approaches.

Nauru has played a significant role in global climate change discussions on behalf of the region, through its role as Chair of the Alliance of Small Islands States (AOSIS), and played a pioneering role in the Pacific region's efforts to improve development effectiveness, through undertaking the first Peer Review under the Forum Compact. Nauru has continued this leadership role by being the first country to undertake a national climate change finance assessment in line with the PCCFAF. This enabled refinement of the PCCFAF following distribution of the Preliminary Report at the 2012 Pacific Islands Forum.

3 Definition of Climate Change Financing

There is no internationally recognised definition of 'climate change financing' and therefore no clear framework when considering issues related to accessing and managing these resources. Different organisations have developed definitions for various purposes, however, these definitions do not necessarily align, which makes it difficult to compare information across sources. The terms 'finances' and 'resources' are used interchangeably throughout this document as is common practice. The terms are intended to capture all efforts made to take action on climate change, whether this be financial resources, human resources or goods and services provided in-kind.

Definitional issues have implications on both the supply and demand side of climate change financing. On the supply side, potential funding sources may have specific requirements regarding what does and does not qualify as a 'climate change' activity or may have specific requirements relating to how alignment with this definition is demonstrated. The differentiation between mitigation activities and adaptation activities also impacts the way donors allocate and deliver resources. On the demand side, country-specific definitions of 'climate change' will affect how the issue is addressed in policies and plans, how roles and responsibilities are allocated and how funds are sourced and tracked.

A common understanding of climate change financing is that it refers to financial flows for 'mitigation' and 'adaptation' related activities. The definitions for climate change mitigation and adaptation presented in Box 1, developed by the OECD (2011), provide a useful starting point for discussion. More specific, country-focussed definitions should be developed following consultations with stakeholders, and review of national policies and plans, project documents and other relevant material. This will help to ensure more coherent and comprehensive climate change financing assessments are undertaken.

Box 1 OECD Definitions of Climate Change Adaptation and Mitigation

Climate Change Mitigation

An activity should be classified as climate change mitigation related if it contributes to the objective of stabilisation of GHG concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration.

Climate Change Adaptation

An activity should be classified as climate change adaptation related if it intends to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience.

This encompasses a range of activities from information and knowledge generation, to capacity development, planning and the implementation of climate change adaptation actions.

Bird et al (2012) build on the OECD definitions and provide a more detailed, subjective classification of activities based on their relevance to climate change mitigation or adaptation as presented in Table 1.

Table 1 Classification of Climate Change Relevant Activities

High relevance	Rationale	Clear primary objective of delivering specific outcomes that improve climate resilience or contribute to mitigation
	Examples	<ul style="list-style-type: none"> • Energy mitigation (e.g. renewable energy, energy efficiency) • Disaster risk reduction and disaster management capacity • The additional costs of changing the design of a programme to improve climate resilience (e.g. extra costs of climate proofing infrastructure, beyond routine maintenance or rehabilitation) • Anything that responds to recent drought, cyclone or flooding, because it will have added benefits for future extreme events • Relocating villages to give protection against cyclones/sea-level • Healthcare for climate sensitive diseases • Building institutional capacity to plan and manage climate change, including early warning and monitoring • Raising awareness about climate change • Anything meeting the criteria of climate change funds (e.g. GEF, Pilot Programme for Climate Resilience)
Medium relevance	Rationale	Either secondary objectives related to building climate resilience or contributing to mitigation, or mixed programmes with a range of activities that are not easily separated but include at least some that promote climate resilience or mitigation
	Examples	<ul style="list-style-type: none"> • Forestry and agroforestry that is motivated primarily by economic or conservation objectives, because this will have some mitigation effect • Water storage, water efficiency and irrigation that is motivated primarily by improved livelihoods because this will also provide protection against drought • Bio-diversity and conservation, unless explicitly aimed at increasing resilience of ecosystems to climate change (or mitigation) • Eco-tourism, because it encourages communities to put a value of ecosystems and raises awareness of the impact of climate change • Livelihood and social protection programmes, motivated by poverty reduction, but building household reserves and assets and reducing vulnerability. This will include programmes to promote economic growth, including vocational training, financial services and the maintenance and improvement of economic infrastructure, such as roads and railways
Low relevance	Rationale	Activities that display attributes where indirect adaptation and mitigation benefits may arise
	Examples	<ul style="list-style-type: none"> • Water quality, unless the improvements in water quality aim to reduce problems from extreme rainfall events, in which case the relevance would be high • General livelihoods, motivated by poverty reduction, but building household reserves and assets and reducing vulnerability • General planning capacity, either at national or local level, unless it is explicitly linked to climate change, in which case it would be high • Livelihood and social protection programmes, motivated by poverty reduction, but building household reserves and assets and reducing vulnerability. This will include programmes to promote economic growth, including vocational training, financial services and the maintenance and improvement of economic infrastructure, such as roads and railways
Marginal relevance	Rationale	Activities that have only very indirect and theoretical links to climate resilience
	Examples	<ul style="list-style-type: none"> • Short term programmes (including humanitarian relief) • The replacement element of any reconstruction investment (splitting off the additional climate element as high relevance) • Education and health that do not have an explicit climate change element

Source: Bird et al 2012

4 Development and Use of this Assessment Framework

The PCCFAF has been developed with consideration of existing frameworks relating to climate change, development effectiveness, public expenditure, financial accountability and capacity, and has been tailored to meet the unique challenges faced by FICs and the unique requirements of climate change financing. Some examples of relevant frameworks and mechanisms are presented in Box 2.

A key framework that has informed development of the PCCFAF is the Climate Public Expenditure and Institutional Review (CPEIR) framework developed by the Capacity Development for Development Effectiveness Facility for Asia and Pacific (CDDE). CPEIRs assess country policies, institutions and the management of public finances as they relate to climate change. The UNDP have commenced CPEIR pilots in Bangladesh, Thailand, Nepal, Cambodia and Samoa that will inform implementation of CPEIRs in the future. While this methodology covers several aspects of climate change financing in significant detail, it is a global methodology and was not designed to take into account the unique challenges and priorities of FICs. In particular, the CPEIR was not designed to comprehensively assess the sources of financing available or the necessary in-country capacity to effectively access and manage these resources. Detailed analysis of these two issues is critical in the Pacific context, where limited capacity, particularly human capacity, requires countries and their development partners to focus their efforts and explore innovative ways of dealing with funding arrangements.

Another area not specifically addressed in the CPEIR, but extremely important in the Pacific context, are the links between climate change and development effectiveness. Efforts to improve development effectiveness consider issues such as leadership, ownership, alignment, harmonisation, achieving results and accountability, which are critical to effective responses to climate change. Pacific Leaders have highlighted the importance of integrating climate change into broader development efforts, and there are established international and Pacific-focussed mechanisms that guide efforts in this area and facilitate dialogue between development partners. The PCCFAF seeks to draw from and build on these efforts.

Box 2 Existing Frameworks and Mechanisms to Assess Country Performance

Climate Public Expenditure and Institutional Reviews

Climate Public Expenditure and Institutional Reviews investigate how climate change related expenditure is integrated into national budgetary processes. The analysis is set within the context of the national policy and institutional arrangements that exist to manage the response to climate change. The objectives of CPEIRs are:

- To achieve a better understanding of the rationale and approach in identifying and formulating climate change policy and its linkages to expenditure;
- To achieve a better understanding of the role, responsibilities and functions of different institutions responsible for managing the response to climate change; and
- To show the level of integration of climate change related expenditures in the national budget, and provides a baseline for future trend analysis.

National Capacity Self Assessments

The primary objective of NCSAs is to identify country level priorities and needs for capacity building to address global environmental issues, in particular biological diversity, climate change, and land degradation, with the aim of catalyzing domestic and/or externally assisted action to meet those needs in a coordinated and planned manner.

Forum Compact Peer Reviews

Pacific Leaders agreed through the Forum Compact in 2009 (see Section 5.6) to establishment of a process of regular peer review of Forum Island Countries' national development planning and budget processes to:

1. Promote international best practice in key sectors;
2. Improve effective budget allocation and implementation to achieve national development priorities; and
3. Guide support from development partners.

The objective of the peer review process is also to guide improvements in development coordination, through reviews of coordination at a country level. Peer reviews are an opportunity for mutual learning between FICs and between FICs and other development partners about how best to address development challenges.

Public Expenditure and Financial Accountability Assessments

PEFA Assessments provide detailed analysis of the strength of a country's public financial management systems across six aspects: credibility of the budget; comprehensiveness and transparency; policy-based budgeting; predictability and control in budget execution; accounting, recording and reporting; and external scrutiny and audit.

This report provides a general overview of the PCCFAF methodology; however, it does not attempt to capture the unique needs and challenges of all FICs. Accordingly, any assessment must be tailored to suit local conditions and resource constraints, and consider previously completed studies, prior to commencement of any assessment. The suggested process for implementing the PCCFAF are presented in Box 3.

Box 3 PCCFAF Process

Step 1: Desk review of background information

- Relevant government and development policies and plans
- Previous assessments (national, regional, sectoral, issue-based etc)
- Development partner policies and plans
- Existing project/program documentation
- Funding sources
- Existing documentation on institutional arrangements

Step 2: Tailoring of PCCFAF methodology

- Developing an initial country-specific definition of "climate change finance"
- Identification of key issues to be addressed under each dimension of climate change financing
- Identification of information gaps based on findings of the desk review
- Refinement of Key Guiding Questions
- Development of an assessment plan (e.g. list of consultations, additional research required etc)

Step 3: Review of new information

- Undertaking in-country consultations
- Further discussions with donors and development partners
- Review of annual budget documents and expenditure information
- Completion and review of targeted analysis to address specific issues (e.g. completion of a Peer Review if not yet complete)

Step 4: Assessment of overall performance against each dimension of climate change financing and identification of potential areas of improvement

- Identification of challenges, gaps and opportunities based on the information gathered under each dimension of climate change financing.
- Identification of existing or planned initiatives that will address these issues.
- Identification of new actions that may be required.

Step 5: Assessment of modalities

- Assessing the potential for specific financing modalities to address the challenges, gaps and opportunities identified in Step 4.

Step 6: Development of the CCF Action Plan

- Overall assessment of possible options and combination of options
- Presentation of a proposed action plan including specification of timing, milestones, roles and responsibilities, and estimated costs.

5 Outline of the Assessment Framework

The PCCFAF assesses a country's ability to access and manage climate change resources across six interrelated dimensions:

1. *Funding Sources* – The Funding Source Analysis provides a comprehensive understanding of the CCF landscape. It will assist a country to determine how much and what type of support is available from the range of global, bilateral and regional funding sources, and ultimately help determine their eligibility to access these funds.
2. *Policies and Plans* – The Policy and Planning Analysis provides an understanding of the mix of policies and plans a country has developed to guide its climate change work program. It considers the strength of the existing policy mix, and processes for development, review and implementation of these policies and plans.
3. *Institutions* – The Institutional Analysis assesses the rules, organisations and social norms that facilitate progression toward a country's climate change goals. The analysis considers issues such as: organisational structure and processes; political, legal and cultural frameworks; coordination and collaboration with external stakeholders; clarity of roles and responsibilities; and infrastructure.
4. *Public Financial Management and Expenditure* – The Public Financial Management and Expenditure Analyses consider the strength of a country's public financial management systems and the extent to which fiscal policy is sustainable, whether expenditure is having the desired effect on achieving policy objectives and whether there is value for money in service delivery.
5. *Human Capacity* – The Human Capacity Analysis assesses: the ability of individuals to manage programs and projects; individual attitudes, knowledge, behaviour and actions; and how a country manages and develops the awareness, understanding and skills of its human resources.
6. *Development Effectiveness* – The Development Effectiveness Analysis considers the link between climate change and broader development effectiveness efforts. It considers issues such as ownership, leadership, alignment, harmonisation, managing for results and mutual accountability.

The analysis for each dimension will be guided by a series of Key Guiding Questions (KGQ) and will draw from previous analyses as outlined in the sections below. A summary of the PCCFAF is presented in Figure 1 and Table 2.

5.1 Funding Source Analysis

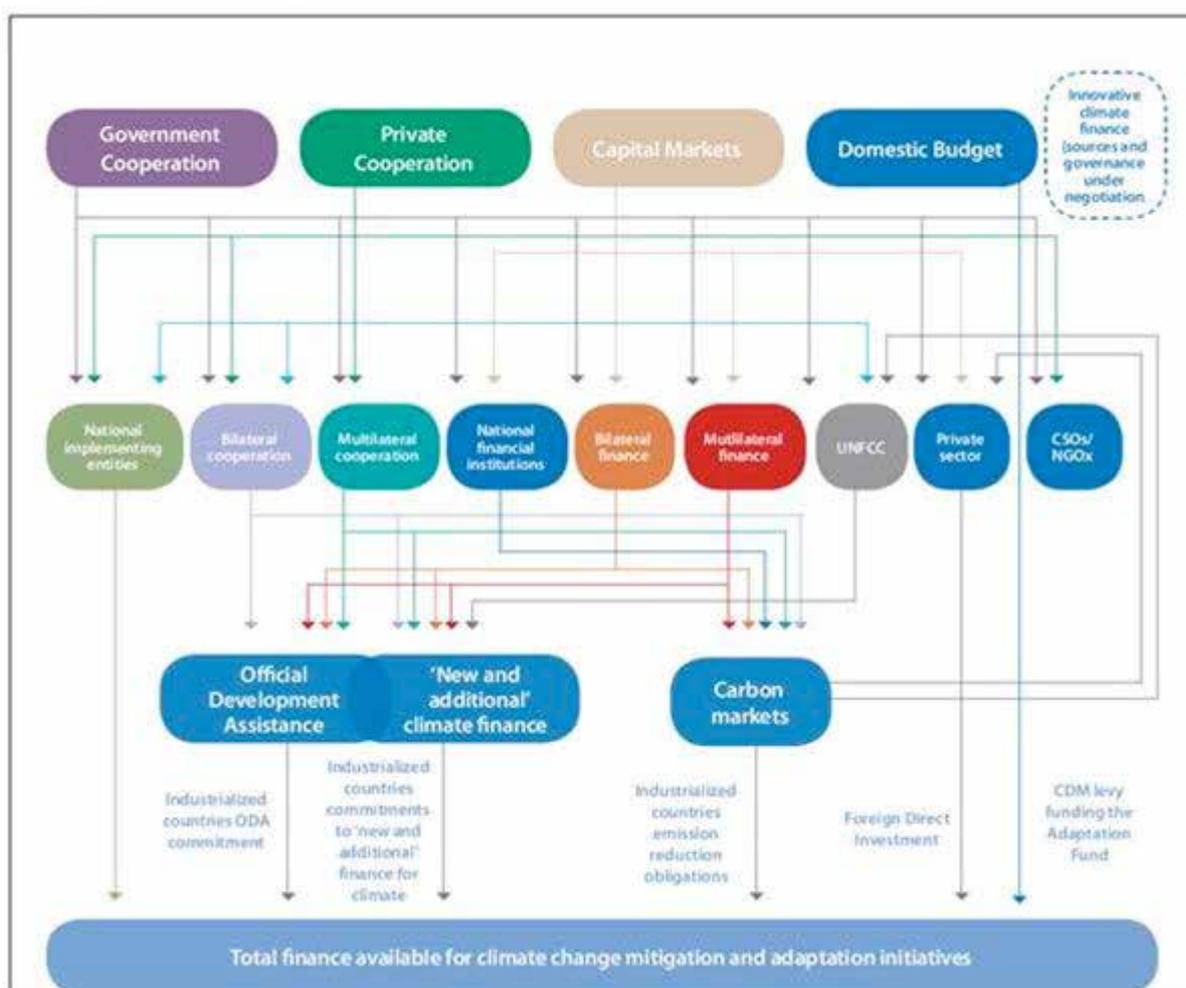
At the 2009 United Nations Climate Change Conference, developed countries committed to providing “new and additional resources” approaching USD 30 billion for the period 2010 to 2012 with balanced allocation between adaptation and mitigation. For the longer term, developed countries committed to jointly mobilising USD 100 billion dollars a year by 2020, to address the needs of developing countries. This funding was envisaged to come from a wide variety of sources: public and private, bilateral and multilateral, including alternative sources of finance. These pledges have been accompanied by an increase in private funding outside of the UNFCCC process, offering countries new resources to take action on climate change (Flynn 2011). However, this dramatic increase in funding opportunities has been matched by an equally dramatic increase in complexity (see Figure 2). UNDP estimates there are already more than 50 international public funds, 45 carbon markets and 6000 private equity funds providing CCF (Flynn 2011).

Each of these public, private, bilateral and multilateral sources requires an investment of a country’s limited resources in the work necessary to access funding (e.g. consultations, proposal writing) and manage funding (e.g. reporting requirements).

Table 2 Pacific Climate Change Finance Assessment Framework

Dimensions of Climate Change Financing						
	Funding Sources	Policies and Plans	Institutions	Public Financial Management and Expenditure	Human Capacity	Development Effectiveness
Issues to consider	<ul style="list-style-type: none"> Domestic and international funding sources Scope of the funding source <ul style="list-style-type: none"> CCF General development assistance available Volume of funds Access requirement Management requirements (including monitoring and reporting) Modalities utilised Flexibility of the funding source Capacity of donors to engage bilaterally or regionally. 	<ul style="list-style-type: none"> Articulated needs and priorities <ul style="list-style-type: none"> Including climate change integration Mix of policies, strategies and action plans <ul style="list-style-type: none"> National and sub-national General and sector-specific Linkages between policies Policy development processes Processes for review of policies Processes for monitoring and evaluation of policy implementation Engagement in global processes 	<ul style="list-style-type: none"> Central and line ministries Sub-national government Private sector organisations Civil society organisations <ul style="list-style-type: none"> Community awareness, support and engagement Academic and research organisations Development partners Organisational structures and processes <ul style="list-style-type: none"> Political, legal and cultural frameworks Coordination and collaboration between stakeholders <ul style="list-style-type: none"> Internal and external coordination mechanism Roles and responsibilities Infrastructure (e.g. financial management information systems) 	<ul style="list-style-type: none"> Public financial management <ul style="list-style-type: none"> Credibility of the budget Comprehensiveness and transparency Policy-based budgeting Predictability and control in budget execution Accounting, recording and reporting External scrutiny and audit Expenditure <ul style="list-style-type: none"> Sources Sectors Modalities Climate change and related expenditure Alignment with policies and plans Tracking mechanisms Procurement processes Project management processes 	<ul style="list-style-type: none"> Technical skills and knowledge Participation, attitudes and behaviours Volume and allocation of human resources Human resources development Performance management Capacity building and supplementation 	<ul style="list-style-type: none"> Ownership and leadership Alignment and harmonisation Managing for results and mutual accountability Coordination <ul style="list-style-type: none"> Development coordination Aid coordination partner coordination
Related assessment frame-works/information sources	<ul style="list-style-type: none"> Climate Funds Update Donors for Climate Change Adaptation in the Pacific Synthesis of Development Partners Reporting on Aid Effectiveness in FICs 	<ul style="list-style-type: none"> National Communications NCSA Forum Compact Peer Reviews CPEIR NAPAs 	<ul style="list-style-type: none"> PEFA Assessments NIE Capacity Assessments CPEIR Forum Compact Peer Reviews 	<ul style="list-style-type: none"> PEFA Assessment NIE Capacity Assessments CPEIR Forum Compact Peer Reviews OECD Methodology for Assessment of Procurement Systems (MAPS) 	<ul style="list-style-type: none"> NCSA 	<ul style="list-style-type: none"> Forum Compact Peer Reviews Paris Declaration Monitoring surveys Tracking the Effectiveness of Development Efforts in the Pacific Reports

Figure 2 Climate Change Finance Flows



Source: Flynn 2011

The Funding Source Analysis aims to provide a comprehensive understanding of the CCF landscape. It will assist a country to determine how much and what type of support is available, and is a critical step to determining how to target efforts to improve access to and management of climate change resources. The analysis will inform decisions regarding the internal structural and policy changes that may be required, and also inform country decisions on how to engage in international negotiations to influence the design of emerging funding mechanisms.

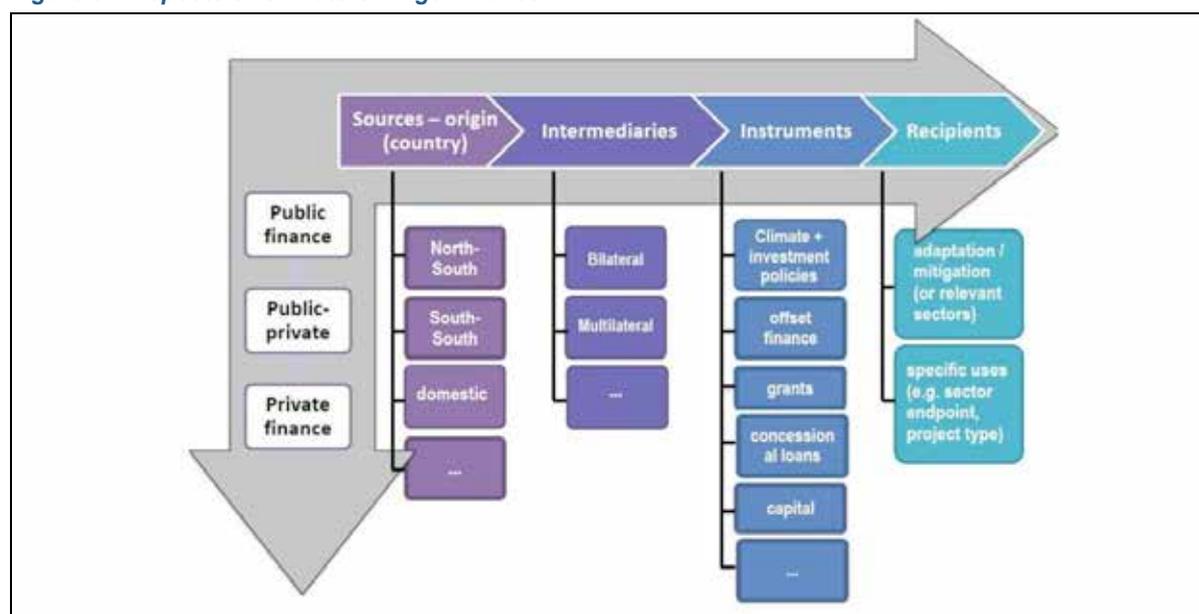
Several organisations and researchers have tried to undertake similar analyses and have identified common challenges as outlined below. These should be considered prior to commencing the analysis and when utilising information and conclusions from previous studies.

- *Lack of agreed definitions* – Inconsistent definitions may lead to discrepancies when collecting information from different sources.
- *Different objectives* – Various goals and objectives of efforts to track CCF often require specific methods of analysis.
- *Coordination and gaps* – While there is a wealth of data on elements of the CCF landscape, limited coordination between those undertaking these analyses and gaps in data gathering has affected data quality.

As part of the Funding Source Analysis, countries should gather information from a wide range of sources including existing databases, tracking initiatives and studies compiled by various organisations, supplemented with in-country consultations and discussions with key development partners. Buchner et al (2011) propose that information on CCF should be gathered along several vertical and horizontal aspects as presented in Figure 3. The vertical aspects track the type of financial flows (ODA, private capital etc). The horizontal aspects track CCF from source to recipients, as defined below:

- *Origin of sources* – Where resources currently come from and where additional resources could come from. This includes sources such as carbon market revenues, tax revenues, and voluntary/philanthropic contributions.
- *Intermediaries* – Most CCF is not channelled directly by governments to recipient countries, but is distributed through intermediaries such as government agencies (including donor agencies) and multilateral agencies.
- *Instruments* – The mode by which climate change projects and programs are supported (e.g. policy-based incentives, financial mechanisms such as grants and loans etc).
- *Disbursement channels and recipients* – The organisations and mechanisms used to distribute resources within recipient countries and the end uses of CCF.

Figure 3 Aspects of Climate Change Finance



Source: Buchner et al 2011

The PCCFAF considers the aspects proposed by Buchner et al; however, the analysis has been tailored to suit the needs of the Pacific region and the scope of the PCCFAF assessments. Issues relating to uses of the funding are addressed under the Public Financial Management and Expenditure Analysis. The KGQs framing the Funding Source Analysis focus on two broad, interrelated aspects of climate change financing:

- *Sources* – The stakeholders directly engaged by the recipient country to access resources and the volume of funding available from each source. For example, bilateral donors and financial institutions such as AusAID, JICA and KfW, and multilateral financial institutions and intermediaries such as the World Bank, Asian Development Bank and UNDP. Issues relating to

the origin, type and focus of funding should also be considered where they impact on engagement with these stakeholders and volume of funds available to the country.

- *Instruments* – This analysis focuses on the mode by which climate change projects and programs are supported (e.g. grants, loans etc)

Box 4 Key Guiding Questions – Funding Source Analysis

1. What sources of climate change financing are available and what is the estimated volume relevant to the focus country (e.g. donor funds, GEF, Adaptation Fund, Least Developed Countries Fund, private finance etc)?
2. Who manages these funding sources?
3. How are funds allocated from these sources?
 - Are funds appropriately distributed geographically?
 - Are there indicative allocations or is it first come first serve?
 - Are funds appropriately distributed across themes or sectors?
4. Do organisations have access to funding from these sources?
5. What are the requirements for accessing funding from these sources?
 - Application requirements?
 - Management requirements?
 - Monitoring and reporting requirements?
 - Special eligibility criteria (focal sectors/themes, policy requirements, institutional requirements etc)?
6. What influence does the focus country have on management of these sources (e.g. membership on governing bodies, relationship with bilateral donor)?
7. What assistance is available to access funding from specific sources (preparation grants, technical support etc)?
8. In what form(s) is funding delivered from each source (grants, loans etc)?
9. What modalities of disbursement are possible for each source?
10. Which sources has the focus country accessed to date?
11. Which sources could the focus country access, or increase their access to, assuming current conditions (policies, institutions, capacity etc) remain the same?
12. What measures must the focus country implement to access, or increase their access to, specific sources?
13. What new sources of funding are emerging?
14. Can the focus country influence decisions regarding design of new funding sources?

5.2 Policy and Planning Analysis

Pacific countries have increased their efforts to integrate climate change considerations into policies, plans and programs, and develop climate change specific policies, plans and programs (Hay 2009a; Hay 2009b; Hay 2011; Lal 2011). This has largely been driven internationally by the UNFCCC, which has framed much of the policy discourse at the international level and provided support for development of National Communications, National Adaptation Programmes of Action (NAPAs); and regionally by SPREP and SPC, which have coordinated action under regional frameworks such as the Pacific Islands Framework for Action on Climate Change (PIFACC) and the Disaster Risk Reduction and Disaster Management Framework for Action, and supported development of national frameworks such as Joint National Action Plans for Climate Change Adaptation and Disaster Risk Management (JNAPs).

Clear articulation of a country's climate change priorities will strengthen their ability to develop effective projects and programs as well as better direct their own limited resources. It will also guide development partners in formulating their own programs of assistance.

Using the KGQs suggested in Box 5, this analysis aims to provide an understanding of the mix of policies and plans a country has developed to guide its climate change work program. The analysis considers the strength of the existing policy mix, and processes for development, review and implementation of these policies and plans.

Box 5 Key Guiding Questions – Policy and Planning Analysis

1. What are the key climate change priorities for the focus country, including mitigation and adaptation and where are these priorities articulated?
2. What level of engagement does the country have with the international policy discourse within the UNFCCC?
3. What level of engagement does the country have with the regional policy discourse?
4. Does the country have an effective mix of policy instruments to cover climate change?
 - Is climate change integrated into national and sectoral policies and plans?
 - Is climate change integrated into sub-national policies and plans?
 - Is the overall policy response to climate change consistent, coherent and efficient?
 - Does the country have a national climate change policy?
 - Are climate change priorities supported by scientific evidence?
 - Are climate change priorities consistent with broader development goals?
5. What legislative instruments are in place?
6. Do climate change policies and plans recognise the role of communities, private sector, civil society and other stakeholders?
 - Are non-government stakeholders involved in decision making processes?
7. Are roles and responsibilities for implementation of policies and plans clearly defined?
8. Are suitable mechanisms in place to monitor, review and evaluate progress on implementation of policies and plans?
9. Is expenditure consistent with policies and plans?

5.3 Institutional Analysis

Effective institutions are critical to driving a country's response to climate change. A term commonly applied to the rules, organisations and social norms that facilitate coordination of human action, institutions are a key factor in determining how effectively a country identifies needs, makes decisions and implements agreed actions (World Bank 2003). Experience in the Pacific region has shown that technical frameworks may often be readily transferrable to specific countries (i.e. legislation, financial management reform or principles of regulation) but implementation has been weak where the capacity of institutions is limited. Capacity at the institutional level focuses on overall organisational performance and functional capabilities, as well as the ability of an organisation to adapt to change.

Mapping of the institutional arrangements for addressing climate change is a vital part of the PCCFAF. The Institutional Analysis should consider a variety of stakeholders, including: national and sub-national governments; donors; regional and multilateral organisations; civil society organisations and the private sector. The analysis should consider issues such as: organisational structure and processes; internal coordination and integrated decision making platforms, political, legal and cultural frameworks; coordination and collaboration with external stakeholders; clarity of roles and

responsibilities; and infrastructure (e.g. financial management information systems). The suggested KGQs in Box 6 provide a guide to undertaking this analysis.

Box 6 Key Guiding Questions – Institutional Analysis

1. Which institutions have primary responsibility for climate change issues?
 - Government departments, civil society organisations etc
2. Which other institutions have a role in a country's response to climate change?
 - Other government departments, donors, regional organisations etc
3. Are roles and responsibilities clearly delineated between and within these institutions?
4. Are institutional structures compatible with policy objectives and legal mandates?
5. Are there gaps in the existing institutional structures and coordination mechanisms to address climate change issues?
6. Do institutions have sufficient technical, financial and human capacity (see also Section 5.5) to undertake their responsibilities?
7. Is there effective communication and collaboration between institutions?
 - For example, between: individual government departments, government departments and civil society, government departments and donors, individual donors, individual regional organisations, individual civil society organisations etc.
 - Are there coordination mechanisms in place (e.g. aid coordination, interdepartmental coordination mechanisms, climate change-specific coordination mechanisms etc)
8. Are decision making processes efficient and effective at all levels?
 - Are decision making processes transparent and inclusive?
 - Is there sufficient ownership of decisions?
9. What support is provided to strengthen institutional capacities to integrate climate change into policies and programs?
10. How do bilateral, regional and multilateral organisations engage with the focus country?
 - In-country presence?
 - Short-term or long-term engagement?
 - Climate change related support and broader development assistance

5.4 Public Financial Management and Expenditure Analysis

Public Financial Management Analysis

A good public financial management (PFM) system is essential for the implementation of policies and the achievement of development objectives, including climate change objectives, by supporting aggregate fiscal discipline, strategic allocation of resources and efficient service delivery (PEFA 2011). It also facilitates increased support from development partners and the use of more flexible modalities. The method adopted by the PCCFAF for assessing a country's PFM systems is based on the Public Expenditure and Financial Accountability (PEFA) Framework but focuses on climate change financing. This is reflected in the suggested KGQ in Box 7. The PEFA Framework was developed by PEFA partners¹, in collaboration with the OECD-DAC Joint Venture on PFM, as a tool to provide reliable information on the performance of PFM systems, processes and institutions over time. The information provided by the PEFA Framework also contributes to government reform processes by determining the extent to which reforms are yielding improved performance and by

¹ PEFA partners are the World Bank, International Monetary Fund, European Commission, United Kingdom's Department for International Development, French Ministry of Foreign Affairs, Royal Norwegian Ministry of Foreign Affairs, and Swiss State Secretariat for Economic Affairs

increasing the ability to identify and learn from reform success. It also facilitates dialogue between governments and donors around a common framework measuring PFM performance. The focus of the PEFA Framework is PFM at central government level.

The PEFA Framework identifies the following critical aspects of PFM system performance:

1. Credibility of the budget;
2. Comprehensiveness and transparency;
3. Policy-based budgeting;
4. Predictability and control in budget execution;
5. Accounting, recording and reporting; and
6. External scrutiny and audit.

Several Pacific island countries have already reviewed their public expenditure management systems using the PEFA Framework, which provides good baseline information for the PCCFAF.

While the focus of this analysis is on public expenditure and financial management, it does not negate the importance of private sector flows. However the influence that governments have over the private financing of climate change is largely indirect. Government policy instruments can shape the direction and magnitude of private finance flows, but government will not typically access those flows directly (Miller 2012).

Box 7 Key Guiding Questions – Public Financial Management Analysis

1. Credibility of the budget – Is the budget realistic and implemented as intended?
2. Comprehensiveness and transparency – Are budget and the fiscal risk oversight comprehensive and is fiscal and budget information accessible to the public?
3. Policy-based budgeting – Is the budget prepared with due regard to government policy?
4. Predictability and control in budget execution – Is the budget implemented in an orderly and predictable manner and are there arrangements for the exercise of control and stewardship in the use of public funds?
5. Accounting, recording and reporting – Are adequate records and information produced, maintained and disseminated to meet decision-making control, management and reporting purposes?
6. External scrutiny and audit – Are arrangements for scrutiny of public finances and follow up by executive operating?

Expenditure Analysis

The PEFA Framework does not include an expenditure analysis, which would determine whether fiscal policy is sustainable, whether expenditures incurred through the budget have their desired effect on achieving policy objectives, or whether there is value for money achieved in service delivery. The PEFA Framework focuses on assessing the extent to which the PFM system is an enabling factor for achieving such outcomes.

The PCCFAF Expenditure Analysis aims to identify the scale, trends and patterns of planned and actual expenditure on climate change related activities. Issues relating to the definition of climate change financing (Section 3) are critical to determining which funds are included in this analysis. Frameworks such as the CPEIR provide a useful starting point for undertaking the expenditure analysis. Suggested KGQ for this analysis are outlined in Box 8.

Box 8 Key Guiding Questions – Expenditure Analysis

1. What is the state of the government's overall financial position?
 - Is there fiscal space to support allocation of resources towards climate change actions?
2. What are the trends in public expenditure generally and specifically for climate change actions?
 - How is expenditure allocated across government departments?
 - Are trends in expenditure consistent with climate change policies and plans?
 - What is the balance between adaptation and mitigation?
 - How is climate change related expenditure distributed across sectors?
What sources are used to support specific components of the government's climate change program?
3. What level of expenditure is directly related to delivery of climate change objectives?
4. What level of expenditure is indirectly related to delivery of climate change objectives?
5. What is the level of local government expenditure for climate change activities?
6. What is the level of private sector and community financing for climate change actions?
7. What are the trends in private sector and community financing for climate change actions?

5.5 Human Capacity Analysis

Accessing and managing climate change financing depends heavily on the capacity of the recipient country to develop and implement various activities and projects. In 2011, Pacific Leaders recognised the unique capacity constraints facing FICs, noting that capacity supplementation was critical to ensure they are able to effectively and sustainably respond to climate change (PIFS 2011b). Limited national capacity is often cited by donors as the main reason for not allocating greater volumes of assistance or delivering assistance through a limited range of modalities. Hence, an assessment of national capacity, building that capacity and, in some cases, supplementing that capacity is critical to improving access to and management of climate change resources. Capacity development is supported by key initiatives to strengthen development effectiveness as part of an overall process that seeks to improve ownership, alignment, harmonisation, results focus and mutual accountability (see Section 5.6).

As outlined in Box 9, capacity analyses focus on capacity issues at three levels: individual, institutional and systemic. The PCCFAF addresses all these aspects of capacity. The elements of systemic capacity are assessed as part of the PCCFAF Policy and Planning Analysis (Section 5.2) and Institutional Analysis (Section 5.3), and institutional capacity is assessed as part of the Institutional Analysis. The PCCFAF Human Capacity Analysis focuses on understanding capacity issues at the individual level.

Box 9 Aspects of Capacity Development

At the **individual level**, capacity development aims to:

- Improve the ability of individuals to manage programs and projects, working as individuals, within organizations and within the larger society;
- Change individual attitudes, knowledge, behaviour and actions, through increasing their awareness, understanding and skills on relevant to FICs; this is often done through awareness-raising, education, training, learning-by-doing and peer learning;
- Improve individual performance through promoting greater participation, ownership, motivation, incentives and morale; and
- Improve individual performance through better human resources development, performance management and accountability systems.

There are also a capacity constraints associated with many development partners engaged in the region, including donors, regional organisations and international organisations. Capacity constraints of development partners are considered as part of the Institutional Analysis (Section 5.3).

At the **institutional level**, capacity development aims to:

- Clarify and improve organizational structures and processes, such as mandate, mission, responsibilities, accountabilities, communications, and deployment of human resources;
- Improve an organisation's performance and functioning to make it more effective, efficient and responsive to change; this includes management, strategic planning, and implementation of programs and projects;
- Increase coordination and collaboration among groups or departments within the organization;
- Build better relationships with the 'outside environment' (other organizations within or outside the country); and
- Provide better information systems, infrastructure and equipment to support the organisations work.

At the **systemic level**, capacity development aims to:

- Create 'enabling environments' (i.e. societal support) for better performance in all sectors of society;
- Improve the overall political, economic, legislative, policy, regulatory, incentive and accountability frameworks within which organizations and individuals operate;
- Improve formal and informal communication and collaboration among organizations and individuals; and
- Promote the participation of all sectors of society in reaching development goals, through improved awareness, education and involvement and increased government transparency and accountability.

Source: Adapted from GEF Global Support Programme 2005

The Human Capacity Analysis assesses the ability of individuals to manage programs and projects; individual attitudes, knowledge, behaviour and actions; and how a country manages and develops its human resources. The suggested KGQ outlined in Box 10, provide a guide to undertaking this analysis.

Box 10 Key Guiding Questions – Human Capacity Analysis

1. How much of the focus country's human resource budget has been allocated to management of its climate change program?
 - Volume of funds
 - Number of people
 - Number of senior and junior staff
 - Specific climate change positions and climate change related positions
2. Is the range and quantity of technical skills available in-country to implement the focus country's climate change program appropriate and are resources appropriately allocated?
 - Government officials
 - Advisers
 - Consultants
 - Government organisations and other organisations
3. How does the country's human resource allocation for climate change compare with resources allocated for other priorities (e.g. health, education etc)?
 - Are resources appropriately allocated across line ministries?
 - Are resources appropriately allocated across sections/activities?
4. What funding sources have been accessed to provide human resources for the focus country's climate change program?
 - Government budget
 - Donor funded
 - Project funding
 - Climate change funding and general ODA
5. What capacity development activities have been implemented in the focus country?
 - Government funded activities
 - Activities funded/implemented by development partners
 - Type of activities (tertiary training, exchanges, workshops, short courses etc)

6. What processes are in place to build capacity within the focus country?
 - Government officials
 - Career development
 - Training opportunities
 - Exchange programs
 - Broader community
 - Awareness raising
 - Scholarships
7. Are the processes in place to manage human resources appropriate?
 - Appropriate salaries and incentives
 - Opportunities for training and career progression
 - Consistent and transparent performance management systems

5.6 Development Effectiveness Analysis

Climate change and development are inseparable. Climate change has the potential to exacerbate existing development challenges and reverse development gains made in recent decades. While additional funds to address these challenges are becoming available, a proliferation of standalone climate change specific programs could lead to increased aid fragmentation and undermine existing development efforts. In recognition of this, FICs and donors have been delivering climate change assistance through existing programs, and have increased efforts to mainstream climate change into existing policies and programs. In this context, efforts to improve development effectiveness will be central to improving access to and management of climate change resources.

In response to evidence that aid was not delivering the results anticipated, the OECD have convened High Level Forums on Aid Effectiveness in 2003, 2005, 2008 and 2011. At these forums, a growing group of key stakeholders – including the international donor community, developing countries and civil society organisations – meet to agree on the most effective ways to manage the aid process.

At the High Level Forum in March 2005, over one hundred ministers, heads of agencies and other senior officials met in Paris, and committed their countries and organisations to the Paris Declaration on Aid Effectiveness (Paris Declaration). The Paris Declaration outlines five principles for making aid more effective, as outlined in Box 11. Subsequent High Level Forums were convened to review progress in implementation of the Paris Declaration and determine how to maintain the relevance of the aid effectiveness agenda in the context of the evolving development landscape. Key outcomes from the High Level Forums are outlined in Box 11.

Of particular relevance to the PCCFAF are the outcomes from the 2011 High Level Forum. The Busan Partnership for Effective Development Co-operation specifically recognises the link between climate change and development effectiveness. The partnership recognises that CCF brings with it new opportunities and challenges. There is a need to promote coherence, transparency and predictability across approaches for effective CCF and broader development cooperation.

Box 11 Global Initiatives to Improve Aid Effectiveness

Paris Declaration (2005)

Beyond its principles on effective aid, the Paris Declaration (2005) lays out a practical, action-oriented roadmap to improve the quality of aid and its impact on development. It puts in place a series of specific implementation measures and establishes a monitoring system to assess progress and ensure that donors and recipients hold

each other accountable for their commitments. The Paris Declaration outlines the following five fundamental principles for making aid more effective:

1. *Ownership*: Developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption.
2. *Alignment*: Donor countries align behind these objectives and use local systems.
3. *Harmonisation*: Donor countries coordinate, simplify procedures and share information to avoid duplication.
4. *Results*: Developing countries and donors shift focus to development results and results get measured.
5. *Mutual accountability*: Donors and partners are accountable for development results.

Accra Agenda for Action (2008)

Designed to strengthen and deepen implementation of the Paris Declaration, the Accra Agenda for Action (AAA, 2008) takes stock of progress and sets the agenda for accelerated advancement towards the Paris targets. It proposes the following three main areas for improvement:

- *Ownership*: Countries have more say over their development processes through wider participation in development policy formulation, stronger leadership on aid co-ordination and more use of country systems for aid delivery.
- *Inclusive partnerships*: All partners - including donors in the OECD Development Assistance Committee and developing countries, as well as other donors, foundations and civil society - participate fully.
- *Delivering results*: Aid is focused on real and measurable impact on development.

Capacity development to build the ability of countries to manage their own future also lies at the heart of the Accra Agenda for Action.

Busan Partnership for Effective Development Co-operation (2011)

The Busan Partnership for Effective Development Co-operation is intended to expand the commitments of the Paris Declaration to accommodate new actors and contexts. In particular:

- It attempts to broaden the application of Paris Principles beyond aid to development cooperation;
 - It considers how aid can be used as a catalyst with other types of finance including climate change financing
- It considers partnerships with developing countries beyond the traditional donors, including south-south cooperation and the private sector.

Sources: OECD 2012 and OECD 2012a

The Pacific Principles on Aid Effectiveness and Cairns Compact on Strengthening Development Coordination in the Pacific (Forum Compact), adopted by FICs and development partners in 2007 and 2009 respectively, translate global aid effectiveness initiatives to reflect the unique conditions of the Pacific. These initiatives are summarised in Box 12.

Box 12 Pacific Initiatives to Improve Aid Effectiveness

Pacific Aid Effectiveness Principles (2007)

Principle 1: Country leadership and ownership of development through an accountable and transparent national development planning and financial management system/mechanism which is adequately resourced from the national budget - including longer term operation and maintenance of donor sponsored development.

Principle 2: Multi-year commitments by development partners and countries aligned nationally identified priorities as articulated in national sustainable development strategies, or the like, with agreement on performance indicators and monitoring and evaluation mechanisms.

Principle 3: Greater Pacific ownership of regional development, Development Partners' Pacific Regional Strategies designed and formulated with the Pacific Plan and other Regional Policies as their corner stone.

Principle 4: Pacific Development Partners and Countries pursue a coordinated approach in the delivery of assistance. Encouraging harmonization will be a priority for both.

Principle 5: Strengthened institutional mechanisms and capacity in countries to enable increased use of local systems by development partners.

Principle 6: (i) Provision of technical assistance (TA), including in aid coordination/management, in such a way that ensures that capacity is built with tangible benefits to the country to support national ownership. Provision of an appropriate level of counterpart resources through established procedures and mechanisms.

Principle 7: Use of an agreed monitoring and evaluation framework that will ensure joint assessments of the implementation of agreed commitments on aid effectiveness.

Cairns Compact on Improving Development Coordination (2009)

Principle 1: A recognition that broad-based, private sector-led growth was essential to achieving faster development progress and that donors should encourage the private sector, including through micro-finance and support for larger-scale private sector projects.

Principle 2: A recognition that improved governance and service delivery are essential to achieving faster development progress.

Principle 3: A recognition that greater investment in infrastructure would underpin greater economic development.

Principle 4: An acknowledgement that country leadership, mutual accountability and mutual responsibility between Forum Island countries and their development partners are fundamental to successful development outcomes.

Principle 5: The need to draw on international best-practice as expressed in the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action.

Principle 6: A revitalised commitment to the achievement of the MDGs in the Pacific.

Sources: PIFS 2009 and PIFS 2007

In 2010, recognising the links between climate change and development effectiveness, Pacific Leaders endorsed a set of principles to guide FICs and development partners in the implementation of climate change actions. These principles, outlined in Box 13, are consistent with the initiatives to strengthen development effectiveness discussed previously and regional efforts to address climate change.

Box 13 Pacific Principles to Promote More Effective Coordination and Implementation of Climate Change Actions

Principle 1: Sufficient and sustainable resources, based on existing and predicted impacts, should be mobilised and made available as a matter of priority.

Principle 2: These resources should be timely, easily accessible, and commensurate with administrative and absorptive capacities of FICs and their systems.

Principle 3: Climate change adaptation and mitigation should be integrated into broader national development efforts.

Principle 4: Adaptation and mitigation measures should be country-led and supported, in a coordinated way by development partners.

Principle 5: As far as practicable, support for these measures should be provided through FIC systems and processes including where appropriate, regional systems.

Sources: PIFS 2010

The PCCFAF draws on the significant work undertaken to improve development effectiveness in the Pacific and globally, to assess a country's climate change program. As highlighted previously, development effectiveness is an issue that cuts across all the PCCFAF Dimensions. Information from analyses focussing on development effectiveness, which is relevant to specific PCCFAF Dimensions, will be considered under those dimensions. The PCCFAF Development Effectiveness Analysis focuses on issues not covered under other dimensions, as outlined in Box 14.

Box 14 Key Guiding Questions – Development Effectiveness Analysis

1. Ownership and leadership – Does the country drive its own climate change policies and programs?
 - Does the focus country take the lead role in establishment of priorities?
 - Is there demonstrated commitment at the highest decision making level to established processes?
2. Alignment and harmonisation – Do development partners align with country objectives and use local systems?
 - Do development partners adopt the objectives and performance indicators incorporated into country

- policies and action plans?
- Do development partners use country structures, systems and mechanisms?
 - What portion of development assistance falls outside the direct purview of national systems?
 - Are programs well coordinated to prevent duplication and fragmentation of efforts?
3. Managing for results and mutual accountability – Does the country focus on development results and are results measured?
- What are the mechanisms, processes and frameworks for monitoring the implementation of climate change policies and plans?
 - Are there collective mechanisms (i.e. involving government and development partners) for monitoring implementation of climate change policies and plans?

6 Potential Modalities

Potential modalities to improve FIC access to and management of climate change resources have been discussed in publications recently released by PIFS (2011 and 2012) and SPREP (2011). Summaries of the general merits and cautions associated with several modalities relevant for decision makers at the national level are presented in 0. These options include:

- *Direct general budget support* – Channelling international donor funds through the national budget using national systems for its delivery as well as for the evaluation of its effectiveness.
- *Direct sector budget support* – Channelling international donor funds through the national budget, focussing on a specific sector, using national systems for its delivery as well as for the evaluation of its effectiveness.
- *National funds including trust funds* – Trust funds support a country to manage their engagement with donors by facilitating the collection, blending, coordination, distribution and monitoring of resources and reporting to donors and other stakeholders.
- *Community based funds* – Trust funds established for a specific purpose, in this case for community level programs.
- *National Implementing Entities* – A National Implementing Entity (NIE) provides direct access by a recipient country to the financial resources of a global fund.
- *Multilateral or Regional Implementing Entities* – Funding from a global fund is channelled to a recipient country through a third-party Multilateral Implementing Entity (MIE) or Regional Implementing Entity (RIE).
- *National Development Banks* – National Development Banks provide financial services that focus on developing key emerging industries often seen as facing higher risk than other sectors of the economy where commercial finance could normally be obtained. These banks are often guaranteed by the national governments, permitting cheaper borrowing costs and a tolerance for lower than commercial returns.
- *Regional and sub-regional funds* – Trust funds established to support a group of countries.
- *Regional capacity support facility* – A mechanism to facilitate access to technical assistance for development and implementation of projects and programs.

Following review of the experiences of FICs and development partners with implementing several modalities relevant to climate change financing, including some of those listed above, PIFS (2012) provided the observations outlined in Box 15.

Box 15 Observations on Implementing Modalities Relevant for Climate Change financing

- Implementation of climate change financing through any modality depends heavily on capacity available in-country in particular to implement and manage activities and projects. This is often the reason donors cite for not allocating more climate change financing to FICs through national systems. Sustainable capacity building and effective capacity supplementation are critical to facilitate consistent access to climate change financing as well as its successful implementation in this region.
- Sound fiduciary management (including financial investment) is a requirement across all modalities of access and management, and can be outsourced for some modalities including, national trust fund arrangements (e.g. Tuvalu Trust Fund), regional fund arrangements Micronesia Conservation Trust and project based implementation (e.g. through Multilateral Implementing Entity or Regional Implementing Entity).
- Trust Fund arrangements vary in nature (true endowment, revolving and sinking funds) and a combination of different types, similar to Tuvalu's experience, could provide an option to augment existing trust fund arrangements (national or regional level) to channel climate change funds.
- Trust fund arrangements are a modality of fund management which can also support delivery through a range of other delivery modalities including budget support and project approaches.
- National Development Banks provide a good modality to leverage a number of climate change financing sources and blend these, including multilateral global sources, private sector, government and donor assistance e.g. Palau's experience. This modality can implement climate change financing in a number of innovative ways including concessional grants, co-financing development, and transformational change approaches to development.
- Gaining direct access to global climate change funds, through the National Implementing Entity (NIE) approach under the Adaptation Fund, seems to be the optimal modality to access global climate change funds at present. This could also provide a sound approach for delivering other sources of funds through national systems in line with aid effectiveness principles.
- Accrediting a Regional Implementing Entity in the Pacific such as SPREP would be an ideal step to assist FICs gain greater access to and ownership of climate change funds at least until all FICs have attained NIE status.
- Multilateral Implementing Entities still provide a very useful conduit and option for countries to access global funds, particularly if countries are still working towards NIE accreditation. They can also provide good support to FICs in assisting them to gain NIE accreditation with Technical Assistance (e.g. UNDP's support to the Cook Islands).

Source: PIFS 2012

These previous studies highlight the challenges in linking specific country needs, funding sources and modalities, and the need to undertake thorough, country-specific analyses under each dimension of climate change financing to inform decisions on climate change financing.

The PCCFAF provides a set of matrices to assist with the assessment of options to improve access to and management of climate change resources. These are presented in 0 and include an *Assessment of Modalities* matrix. Using this matrix, decision makers should provide a qualitative assessment of key modalities against each dimension of climate change financing. The National Development Bank of Palau has been used as an example for completion of the matrix. The information for this example has been drawn from the publication on *Pacific Experiences with Modalities Relevant for Climate Change Financing* (PIFS 2012).

7 Assessment of Options

As presented in Figure 1, the results of the analyses undertaken under each dimension of climate change financing must be considered together to determine: which sources of climate change financing the country should target in the short and long term, given their climate change priorities

and capacity constraints; where to focus efforts to strengthen country systems and processes; and what mix of modalities could assist the country access and manage climate change resources. Box 16 provides some suggested KGQ to consider when undertaking this assessment of options. A set of matrices to assist with this assessment is also presented in 0. Using these matrices, decision makers should provide qualitative assessments of the challenges, gaps and opportunities under each dimension of climate change financing, and the benefits and costs of potential modalities.

The recommendations emerging from these analyses enable development of a CCF Action Plan. A template for this Action Plan is presented as Table 4 (see Appendix 1). This Action Plan maps out a series of priority actions to guide efforts by national governments and development partners to improve a country's access to and management of climate change resources. This Action Plan should clearly outline priority actions, timelines, milestones, implementation arrangements and estimated costs.

Box 16 Key Guiding Questions – Assessment of Options

1. What additional funding is potentially available to the focus country?
 - Currently accessible sources?
 - New sources?
 - Climate change financing and climate change related financing?
2. What measures are necessary for the focus country to become eligible for funding, or additional funding, from each source (e.g. improved policies, strengthened public financial management etc)?
 - What improvements are necessary to existing structures and processes?
 - What new structures and processes, including new modalities, could be utilised?
3. What are the options for implementation of these measures?
 - Strengthening of existing programs (e.g. additional resources to accelerate progress or minor amendments to scope)?
 - Development of new programs?
4. How much will it cost to implement these measures?
5. Does investment in these measures represent good value for money?
6. How could development partners improve how climate change funds are managed to increase funding to the focus country?
 - Streamline application and reporting requirements?
 - Increased provision of technical assistance?
 - Improve program flexibility?

8 Conclusion

The PCCFAF provides a comprehensive framework for assessing country systems and formulating options to improve access to and management of climate change resources. The PCCFAF has been developed with consideration of existing frameworks relating to climate change, development effectiveness, public expenditure, financial accountability and capacity, and has been tailored to meet the unique challenges faced by FICs and the unique requirements of climate change financing.

The framework utilises information and recommendations from assessments undertaken using existing frameworks as the starting point for a CCF assessment, thereby preventing duplication and fragmentation of efforts. It enables analysis of this information from a climate change perspective and provides guidance for collection of any additional, climate change specific information. The



resulting CCF Action Plans provide clear guidance to national governments and development partners to improve a country's access to and management of climate change resources. By consolidating information from a range of previous assessments, the PCCFAF also provides the opportunity to take a renewed look at the effectiveness of development efforts more broadly.

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Appendix 1 Options Assessment Matrices

Table 3 Assessment of Modalities

Modalities	Climate Change Financing Dimensions					Overall Assessment	
	Funding Sources	Policies and Plans	Institutions	Public Financial Management and Expenditure	Human Capacity		Development Effectiveness
National Development Bank ³	<ul style="list-style-type: none"> • Current funding includes: <ul style="list-style-type: none"> ◦ Energy Efficiency Subsidy Programme supported by the Governments of Italy and Austria, managed by IUCN. ◦ Renewable Energy Subsidy Programme supported by the GEF. ◦ RETRO-Energy Efficient Subsidy Programme supported by the EU, managed by SPC. • Funds provided by donor partners (multilateral, regional and multilateral sources) were blended through one modality. 	<ul style="list-style-type: none"> • The NDBP conducts its activities within the framework of the government's economic plans, policies and priorities. • Palau Energy Policy • National Development Bank Act 	<ul style="list-style-type: none"> • National Development Bank of Palau (NDBP) • Palau Energy Office • Banks are seen as trustworthy agents of government and private sector representatives. • Incorporating energy efficient measures into the NDP's policies created a market for energy efficient products that would not have otherwise competed against existing products. • The NDP's energy programs raised public awareness on the benefits of energy efficiency. • Government and development banks can compete for donor funds, which causes friction between the two institutions. 	<ul style="list-style-type: none"> • Banks usually follow business style operations and are efficient and effective at program delivery. • Development banks specialise in policy-based financing and already have existing programs that could readily incorporate energy efficiency measures. 	<ul style="list-style-type: none"> • Lack of local technical expertise in the area of energy efficiency and renewable energy. Still requires capacity supplementation during program development. • Training of local contractors, partners and bank staff was needed prior to program implementation. 	<ul style="list-style-type: none"> • Sustainability of programs is dependent on development of in-country technical expertise. • Measures are needed to sustain the programs after grant and donor funds are exhausted. 	<ul style="list-style-type: none"> • National development banks provide a good modality to leverage a number of climate change financing sources and blend these to reduce burden on recipient systems. This modality can implement climate change financing in a number of innovative ways including concessional loans, co-financing development and transformational change approaches to development. • Development banks specialise in policy-based financing and often already have existing programs that could readily incorporate climate change measures. • Supplementation of technical capacity in the short term and building capacity in the medium to long term are key to ensuring effective implementation and sustainability of programs.

³ Information for National Development Bank of Palau example drawn from PIFS 2012.

Recommendations	Relevant Dimensions ³	Priority ⁴	2013			2014			2015			Indicative Outputs	Lead Organisation, Possible Partners, Implementation Mechanisms and Other Comments
Specific Initiatives													
1.													Lead Organisation Comments
2.													Lead Organisation Comments
3.													Lead Organisation Comments
4.													Lead Organisation Comments
5.													Lead Organisation Comments
Ongoing Efforts													
6.													Lead Organisation Comments
7.													Lead Organisation Comments
8.													Lead Organisation Comments
9.													Lead Organisation Comments
10.													Lead Organisation Comments

⁴ Level of priority from 1 – “implement immediately”, to 3 – “implement as opportunities arise and resources become available”.

⁵ Funding Sources (FS), Policies and Plans (PP), Institutions (I), Public Financial Management and Expenditure (PFME), Human Capacity (HC), Development Effectiveness (DE), Relevant to all dimensions (All)

Appendix 2 General Assessment of Climate change financing Options (Extract from PIFS 2011a)

Direct General Budgetary Support

Merits

- Facilitates a predictable and strategic approach to planning, implementation and sustainable capacity development at the national level.
- Reduces the significant administrative burden of multiple project development, reporting and monitoring.
- Delivers assistance directly against FICs' own identified priorities within the context of their development objectives.
- Aligns FIC and donor visions adding more focus to the partnership and harmonising delivery and monitoring indicators.
- Delivers additional resources to fund required institutional, structural and human capacity of public services, strengthens and builds on FICs' own financial systems, promotes governments dealing with climate change.
- Ensures proper monitoring and evaluation processes are institutionalised into country systems and policies.
- Consistent with international best practice on aid effectiveness.
- Donors are using and committing to use this modality at the same time as supporting FICs' ability to meet their criteria for budget support.

Cautions

- Applicable mostly to bilateral assistance sources of funding only (as opposed to accessing global funds).
- May result in developing a deeper dependence on aid and thus reduce a move to increased economic self-reliance.
- May not give the necessary timeframes of commitment for longer term implementation (e.g. data capture).
- Donor receptiveness to this modality is heavily dependent on confidence in transparency and accountability around national systems. Some smaller FICs are unlikely to meet the requirements of budget support in the short to medium term.
- Normally considered only where donor has long standing relationship with FIC and requires significant donor capacity to develop.
- Requires a robust national planning process with sound public financial management systems.
- Criteria for direct budget support for some donors may not be applicable to some climate change initiatives (EU expressed this during GCCA meeting, Vanuatu, March 2011).

Direct Sector Budget Support

Merits

- Targets specific goals and objectives common to FIC governments and development partners and enables funds to be targeted at priority areas including social sectors and vulnerable groups.
- Enables direct application of resources or TA to specific sector need.
- Provides clear agreement and expectations on roles and outcomes expected between FIC governments and their development partners.
- Can provide a useful mechanism for donor harmonisation at the national level in key sectors such as energy, infrastructure, health, and education.
- Helps to reduce administrative burden of separate project development and reporting and strengthens sector systems for monitoring and reporting.
- Donors may be inclined to begin with sector budget support, and work their way towards general budget support.
- Donor coordination may be more difficult at the national level.

Cautions

- Most of the overarching requirements and mechanisms of general budgetary support are required.
- Unless set within a sound national framework it runs the risk of piecemeal development with donors focusing their support on a “favourite” sector and can result in “orphan” sectors.
- Depending on resource size it can skew holistic approaches to sector or national development e.g. heavy donor interest in renewable energy, may detract from core energy priorities of security and efficiency through supporting existing energy infrastructure.
- Climate change is such a cross cutting issue, it may fragment a holistic approach to climate change prioritisation for FICs.
- National government and planning have less ability to reallocate funds to other priority sectors particularly if funding support is longer than three years.
- In the absence of a good sector plans including targets/priorities and a resource envelope, it can be difficult to account for funds and their contribution to outcomes.

National Funds including Trust Funds

Merits

- Provides a good mechanism for sustainable, long term, transparent and predictable sources of resources.
- Provides a good mechanism to harmonise many different sources of funds and accommodate “one off” contributions and non-traditional partners’ without significant disruption.
- Can be planned and blended with national and sectoral budgets or project based for other stakeholder access e.g. NGOs, communities and others.
- There are less time constraints forcing utilisation of resources, providing flexible timelines for implementation commensurate with the absorptive capacity of recipients.
- Can be accessed/delivered through a variety of instruments e.g. projects, budget support, loans, incentive grants.
- Provides for the ability to quarantine a proportion of windfall gains for future generations, this may also facilitate securing adaptation fund allocations for use over the long term and thus avoid losing out on these funds altogether.
- Accumulation of funds over time, can act to provide security and reduce risk from the impacts of increased frequency and intensity of climate disasters into the future.
- Transparency and accountability are typically provided by the requirement for annual reporting to parliament including independent auditing and for all key documents and performance monitoring information to be posted on the fund’s website.
- Climate change funds can be matched with core development activities of governments against their own timeline of implementation and availability of budget resources e.g. building a road with national budget resources could draw from a national trust fund with climate change resources to ensure climate proofing.
- The national trust fund concept and purpose aligns closely with the to Paris and Accra accords by strengthening the ability of the Government to manage the economy by augmentation of the recurrent budget without dictating how this should be done.
- Management, legal structures, governance arrangements can all be varied over time to reflect changes in capacity of the country and the level of confidence that donors and development partners have in reforms to climate change strategies and public financial management systems.

Cautions

- Depending on type of Trust Fund, it can require high initial investment, or if contributions are drip fed will take time to operationalise.
- Requires significant donor engagement and consultation to begin with.
- Requires clear objectives, a governance structure that protects the investments, and measures to ensure volatile returns are managed.
- When combined with budget support, requires disciplined budgeting by the government to ensure distributions are directed to high priority areas and not misallocated.
- Delayed ability to utilise funds (until sufficient capital base is built) often deters donor and country interest.
- Any funds investment portfolio is subject to fluctuations in market returns.

Community Based Funds

Merits

- Provides a sustainable and readily accessible source of finance for community based projects and program aimed at strengthening the community and creating an enabling environment for personal initiative.
- Allows local communities to direct the funds to their own development priorities rather than having national or international initiatives directed to them.
- There is an opportunity for such funds to mainstream climate change practice and awareness into community development program if that is a priority of the community.
- Allows communities time to draw down on funds at their own absorptive capacity.
- Unused funds accrue over time and can provide a means to respond to some of the disasters likely to increase due to climate change.
- Accommodating climate change funds in existing community based funds should not be too difficult.
- Smaller start up funding volumes may be required to operationalise such funds.

Cautions

- There must be an on-going commitment to capacity building as there is often a high turnover of people in key positions.
- All aspects of the project cycle need constant reinforcement, monitoring and evaluation which can be particularly challenging at the community level.
- If other sources of funding are available there may be a tendency for communities to hoard the proceeds from their funds rather than use them.
- Poor objectives and weak community interest/ownership may see the fund fail to produce sound outcomes.
- Multiple community funds may be a large administrative burden to national or international partner agencies

National or Multilateral Implementing Entity

Merits

- Direct access to finance through a NIE can ensure proper fund access and harmonisation with national systems, plans and priorities.
- It can increase the speed of delivery of desired outcomes.
- Cut transaction costs by domesticating core activities.
- Potentially achieve better targeting of local priorities (Adaptation Fund Board 2009).
- The logic behind direct access is to increase the level of country ownership, oversight and involvement in climate change activities, and to create stronger accountability of the recipient country to the funding source.
- It removes the intermediary role of a MIE by transferring the implementing agency functions from it to the beneficiary country itself.

Cautions

- Direct access is resource intensive requiring a high level of technical expertise not available in many SIDS.
- Only a few FICs are likely to be successful in attaining NIE accreditation given their capacity constraints.
- The smaller FICs might best continue to utilise the services of a MIE or a regional implementing agency (RIA).

National Development Banks

Merits

- There is already a link between community interests and the banks operations.
- Communities and governments are more likely to be committed to supporting the operation of local banks.
- Profits can be used to benefit the community.
- Provides a mechanism to engage private sector partners through loans and grants.

Cautions

- There is a potential for political interference and this may mean the bank is unable to direct loans to specific entities. This also reduces donor confidence.
- Incorporating an understanding of climate risk into loan products requires the development of specific commercial skills.

Regional/Sub-regional fund

Merits

- A regional Trust Fund has many of the same benefits of a national Trust Fund and some additional potential.
- It has the potential to ensure funds made available do not get reallocated to another region because FICs are not currently able to access them.
- Funds can be accessed when countries are ready, which may be within a short period for specific program or may be slowly built up over a sustained period through national systems.
- It could also provide a harmonisation point for the array of existing bilateral donors who have relatively little capacity and understanding of FICs and for which building many individual bilateral relations may not be possible.
- Regional funds could be easier for FICs to direct and access rather than competing with the rest of the world under existing global funding governance arrangements [Possibly Global Health Fund model].
- Develop a pipeline of eligible projects.

Cautions:

- If direct disbursement from global funds to country program is possible then it would seem more efficient than imposing another layer of bureaucracy through a regional trust fund.
- A clearly negotiated policy of scope, objective and guidelines for equitable allocation and distribution, may take some time to negotiate amongst FICs.
- If not directly accountable to the UNFCCC process, it may not provide a conduit to global funds.
- Donors perceive an opportunity cost of having funds invested in financial instruments when there is an unfulfilled global demand to implement climate change programs and projects.

Regional Capacity Support Facility

Merits

- FICs increasing demands for technical, project development and implementation support from available external stakeholders could be supported by such a facility.
- Such a facility could draw on, and connect, the existing array of climate change experts in the region (including CROP, NGOs, UN agencies, MDBs and financing institutions).
- If designed appropriately, could provide a less expensive alternative to developing a regional fund.

Caution

- Models vary between small scale technical support mechanisms to staffed secretariats.
- This is very much at a concept phase and needs to be explored more thoroughly before an assessment of its potential can be made.



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