

Assessing Climate Finance Readiness in Asia-Pacific

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Climate Finance Architecture

LANDSCAPE OF CLIMATE FINANCE IN 2015/2016

Global climate finance flows along their life cycle in 2015 and 2016. Values are average of two years' data, in USD billions.

410 BN USD ANNUAL AVERAGE



SOURCES AND INTERMEDIARIES

Which type of organizations are sources or intermediaries of capital for climate finance?

INSTRUMENTS

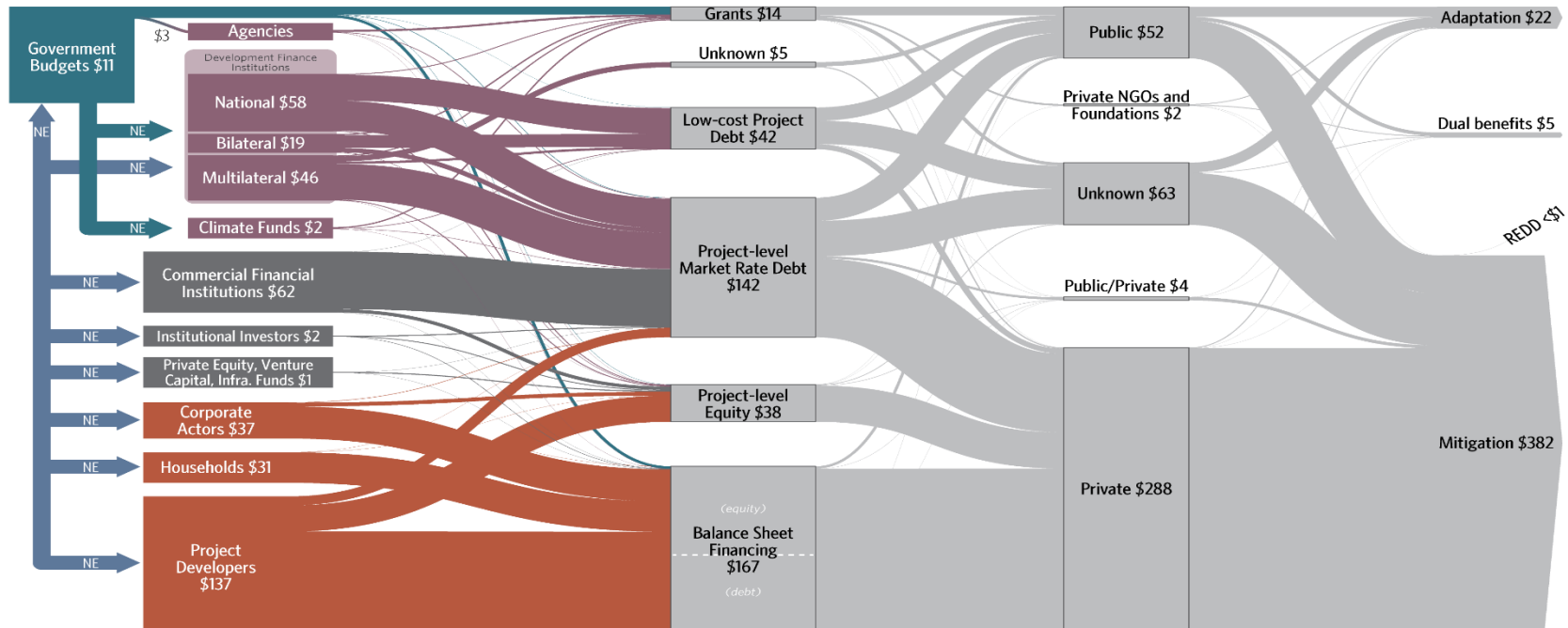
What mix of financial instruments are used?

RECIPIENTS

Does climate finance go through public or private channels?

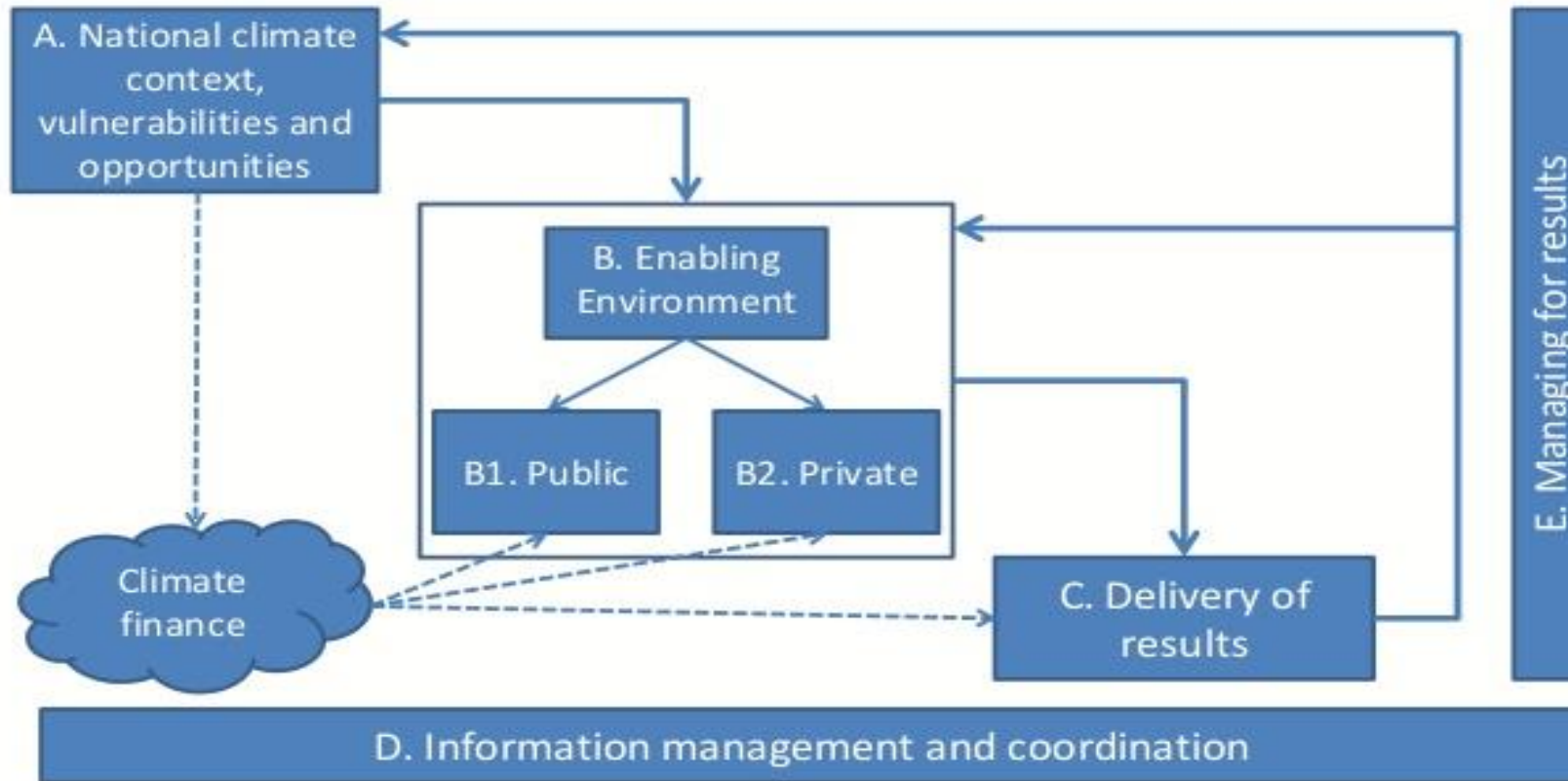
USES

What types of activities are financed?



KEY PUBLIC MONEY PRIVATE MONEY PUBLIC FINANCIAL INTERMEDIARIES PRIVATE FINANCIAL INTERMEDIARIES FINANCE FOR INVESTORS & LENDERS NE: NOT ESTIMATED

Conceptual Framework



Climate Finance Readiness

Capacities to Plan

Capacities to access different type of finance

Capacities to deliver finance and implement activities

Capacities to monitor, report and verify financial expenditures and associated results

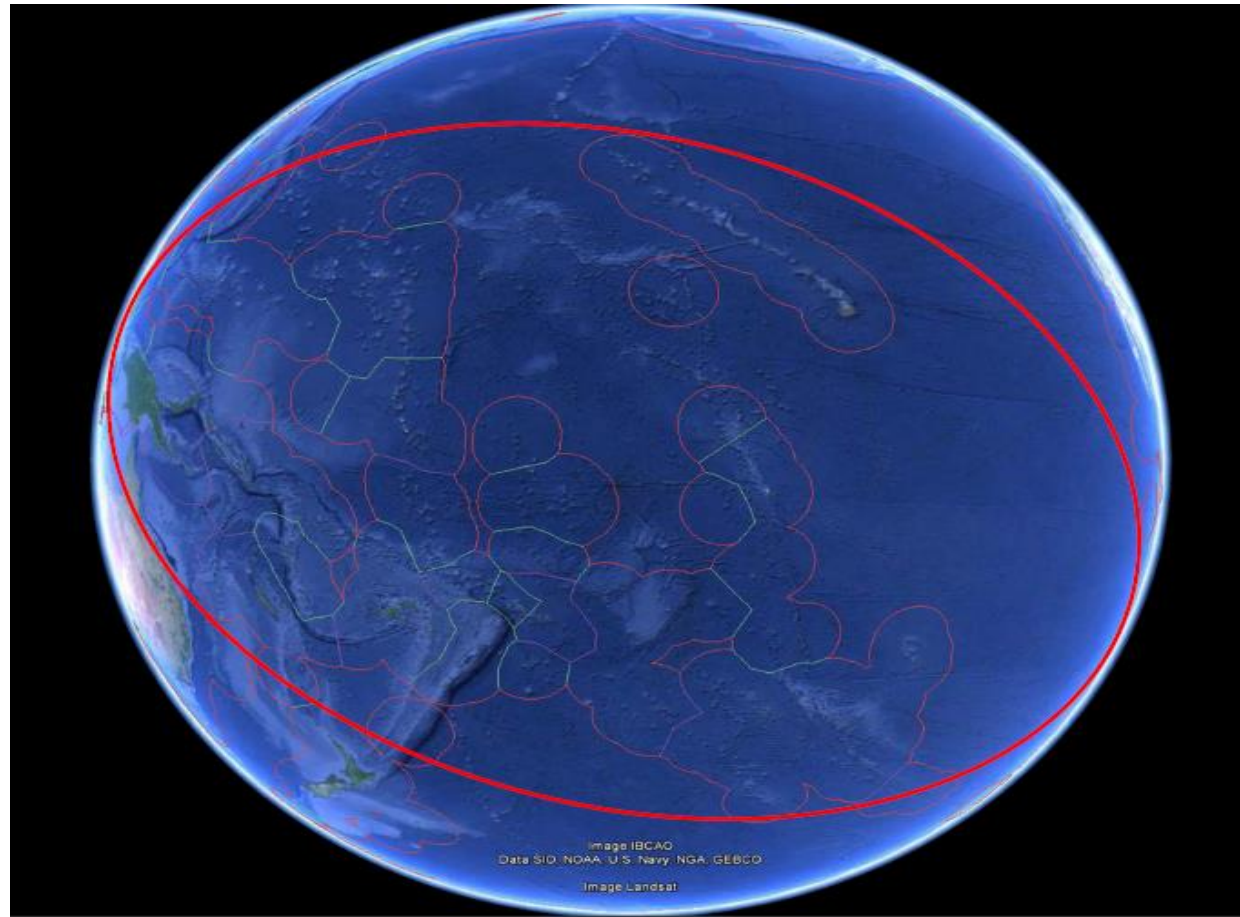
Current observed trend of readiness focus in the Asia Pacific

- Accreditation Race
- Heaving focus on accessing multilateral sources eg. GCF
- Growing emphasis on role of private finance (catalyzing properties) [see Outcome Statements of the 2016 Pacific Energy Conference]
- Readiness is becoming synonymous with creating 'attractive investment environment'

Purpose of the Study

- Develop an appraisal framework for readiness
- Knowledge Gap
- Practical contributions

Asia-Pacific (Most Vulnerable region)



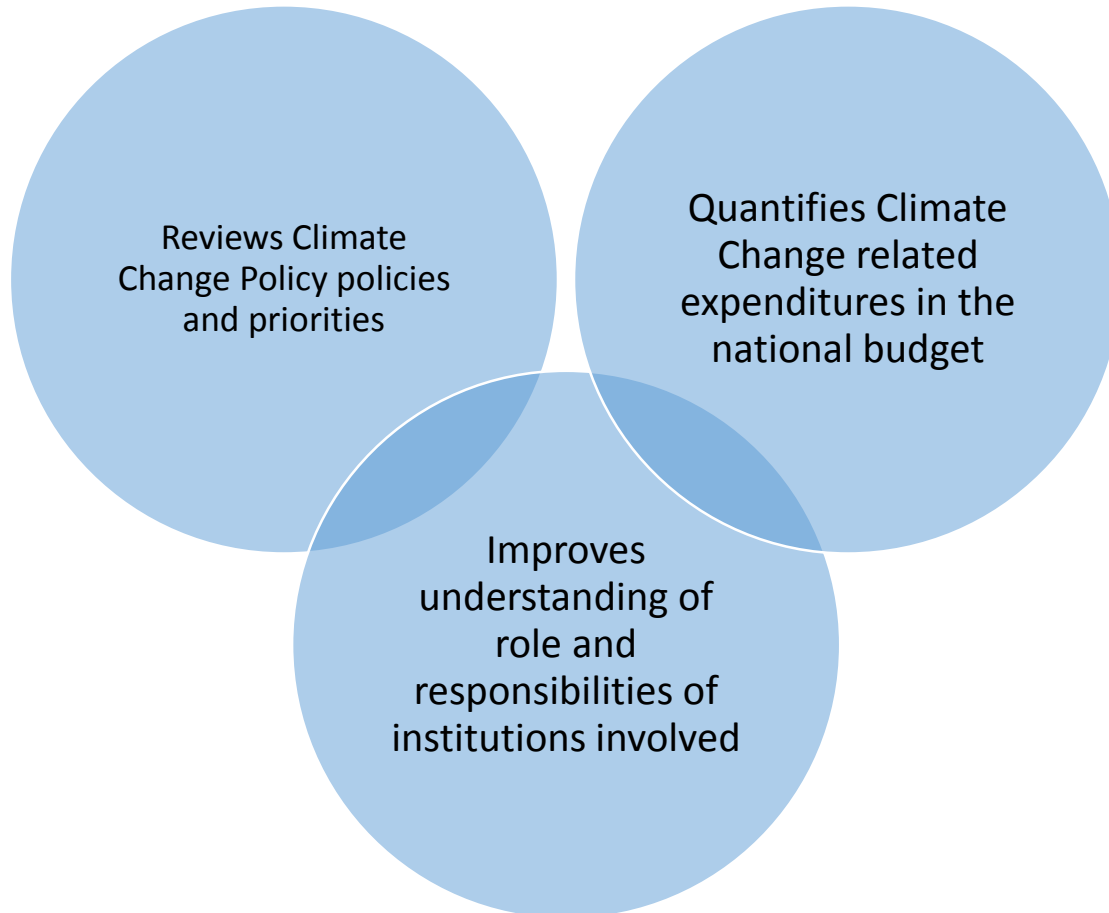
Summary of Climate Finance Flow in the Region

- More than 21 dedicated climate funds are active in the region (Schalatek et al., 2012)
- Largest recipient of -climate finance (Barnard et al 2015)
- Asia (mixed modalities) vs Pacific (Mainly Grants) (OECD, 2018)
- 67% mitigation (Barnard et al 2015)
- 4-6% goes to the Pacific sub-region (Barnard et al 2015)
- Climate finance delivered outside national systems
- Readiness activities in the region is increasing (eg. Of the USD 748 million to the Pacific 42% → enabling environment (Atteridge & Canales, 2017))

The Method

- 3 phased structured approach (mirrored the works of Michalena & Hills 2018)
- Phase 1: Determine a Common Scale
- Phase 2: Determine the Readiness Dimensions
- Phase 3: Linking Readiness Progress to Climate Finance Assessed

Climate Public Expenditure Institutional Review (CPEIR)



- Closely related to the issue of readiness
- 12 countries in the region have completed a CPEIR
- Share common principles and structures
- Assessments is carried out in partnership with external reputable organizations
- Publically available

Table A1. Common climate finance readiness problems derived from the CPEIRs.

<i>Policies/Laws/Regulation</i> Delays in CC related policies / plans/strategies being endorsed and approved by cabinet.	<i>Inclusive Decision Making</i> Minimal engagement/consultations with private sector, civil societies, and communities.	<i>Power Structure</i> Fragmented institutional settings.	Weak fiscal policy environment.
CC policies/plans/strategies are still being developed or in draft.	Lack of structured systems/processes in place to engage all relevant stakeholders.	Uncertain institutional arrangement due to volatile political environment.	Lack of long term budget projection.
Existing CC related polices/plans/strategies are too broad and unclear.	Non-traditional stakeholders no adequately represented in the decision making bodies.	Weak institutional links between central line ministries and other bodies.	Weak of accountability mechanism in place.
Existing CC related polices/plans/strategies are out of date.	CC-related materials are not easily accessible by the public.	Over-governance: too many committees with similar roles and responsibilities	Lack of a structured approach to holistically capture and classify CCE in national budgets.
Key CC policies/legislations missing.	<i>Coordination</i> Inconsistent flow of information amongst key line ministries.	Lack of clear mandates on roles and responsibilities.	<i>Evidence based decision making</i> Lack of reliable, complete, and up to date data.
<i>Knowledge Management</i> Lack of technical and specialized knowledge at in line ministries and agencies.	Critical CC policies/plans/strategies not harmonized and linked.	Existing CC related decision making bodies' lack leadership and political backing.	Lack of a formal data management system to support evidence-based policy making.
Lack of systematic training needs assessment within line ministries and agencies.	Mainstreaming/integrating of climate change into existing strategies/plans/policies is difficult.	<i>Public Finance Management</i> No/narrow national definition of climate finance.	Lack of a formal procedure on data sharing amongst government, donors, and other stakeholders.
High staff turn-over.	Lack of a formalized planning process.	Lack of budget support received.	Lack of systematic M & E systems and established indicators at all levels to assess performance of projects.
Heavy reliance on international consultants.	Misalignment between CC policies and its allocated resources.	Heavily dependent on single bilateral donor.	Lack of formal data management system to capture and store funding from other sources.
Lack of human capacity within key line ministries and agencies.	Lack of coordination amongst central CC line ministries during CC project life cycles.	Weak PFM in place.	Responsibilities of M & E not clear amongst line ministries.
Lack of long-term plan and financial commitments to build capacity at all levels.	Lack of awareness across line ministries on CC related issues.	Frequent delays in disbursement of funds through national systems.	Disparate collection/storage of data and monitoring amongst key line ministries and agencies.
Lack of knowledge at the community level.	Infrequent & inconsistent meetings of key national CC committees responsible for coordinating CC issues.	Fragmented budgeting structure and process.	Unclear and broad CC related targets being set.

Table 1. Readiness Themes and Progressive Indicators.

Readiness Dimension	Proposed Indicator
Institutions and Policies	1. A national entity has been accredited by the GCF or the Adaptation Fund.
	2. A coordination mechanism for development partners/donors for climate change related funding, dialogue, and programming exists.
	3. A coordination mechanism between other conventions relevant to Climate Change (CC) exists.
	4. A national strategy or plan to implement national climate change priorities exists.
	5. CC priorities are mentioned explicitly in the national climate policy.
	6. There is routine political engagement at national and provincial levels.
	7. There is a national strategy on how to meet the risks and opportunities of CC.
	8. There is a legal framework with incentives and compliance mechanisms that reflect CC priorities.
	9. The core functions and roles of national institutions relating to CC are explicitly mentioned.
	10. Collaboration with non-traditional stakeholders exists.
	11. CC related acts and policies have been passed and endorsed by parliament.
	12. A national climate change committee has been set-up.
	13. There is a formal mechanism whereby all relevant stakeholders meet to discuss a range of climate change issues.
	14. Climate change focal points have been established at national, subnational, and community levels.
	15. National guidelines, which advise planning authorities on how to integrate climate change in their planning process, have been established.
	16. A specialized climate change department has been set up.
	17. The climate change department is adequately funded and staffed.
	18. Long-term program and project planning mechanisms that can respond to the risks and opportunities of CC have been established.
	19. Frameworks to manage planning of CC programming at the national level exist.
	20. Frameworks to manage planning of CC programming at the provincial level exist.

**Knowledge
Management
and Learning**

1. CC knowledge is generated and codified at national and local levels.
2. CC knowledge is shared and accessible through appropriate media/platforms.
3. Local governments and stakeholders have access to national and/or regional sources of expertise on CC.
4. Global and regional learning have been adapted to the national context.
5. Global, regional, or national ‘good practices’ have been contextualized to address community context.
6. Government collaboration with research institutions to identify, apply, and institutionalize CC knowledge.
7. National and local technical capacities to analyze CC issues and plan, implement, monitor, and evaluate CC programs have been identified and strengthened.
8. Routine public awareness programs have been undertaken.
9. CC information can be accessed by the communities.
10. Environment-related education programs have been implemented at community level.
11. Local knowledge has been ‘scaled up’ at provincial and national level.
12. Specialized training is conducted in partnership with regional and multinational development partners.
13. Knowledge tools have been established in key ministries to link climate change in national budgeting planning cycles.
14. A standardized methodology and key performance indicators to evaluate adaptation/mitigation program’s effectiveness exists at the national level.
15. Budgetary allocation for human resources to manage national climate change programs has been made.
16. A national strategy is in place to guide capacity building in CC.
17. Existing planning process takes into consideration available evidence on CC and lessons learned from past CC programming.
18. Risk management, CC modeling, and CC scenarios inform planning at the national level.
19. Risk management, CC modeling, and CC scenarios inform planning at the local level.
20. A central data management system has been established at national level to track, store, and monitor climate change projects at national level and community level.

<p>Fiscal Policy</p> <p>Environment</p>	<ol style="list-style-type: none"> 1. Have routinely accessed climate finance from variety of sources. 2. An assessment estimating the total national climate financing needs has been undertaken. 3. CC policies have been costed. 4. A national climate fund has been established. 5. PFM performance scores favorably in PFM assessments reports. 6. Long-term financial commitments for CC-related investments have been made by government. 7. A national climate financing policy has been developed with international development partners. 8. Special market conditions have been created to incentivize private sector to invest in CC-related investments. 9. Constant budgetary support from donors for CC activities has been received. 10. A pipeline of national priority climate change projects exists. 11. Innovative financing options have been developed to respond to the challenges of CC. 12. There is sufficient financial resource mobilization for CC projects aligned to national priorities. 13. A functioning financial management and reporting systems are in place for CC financing. 14. Partnerships have been established between public and the private sector for CC programming. 15. MRV system for domestic climate finance exists. 16. MRV system for international climate finance exists. 17. Government budget allocation at the local level reflects CC priorities. 18. Non-traditional stakeholders including CSOs and private sector participate in CC program planning, implementation, and M & E. 19. Key fiscal information can be easily accessed by the public. 20. National audit reports are scrutinized by legislative bodies.
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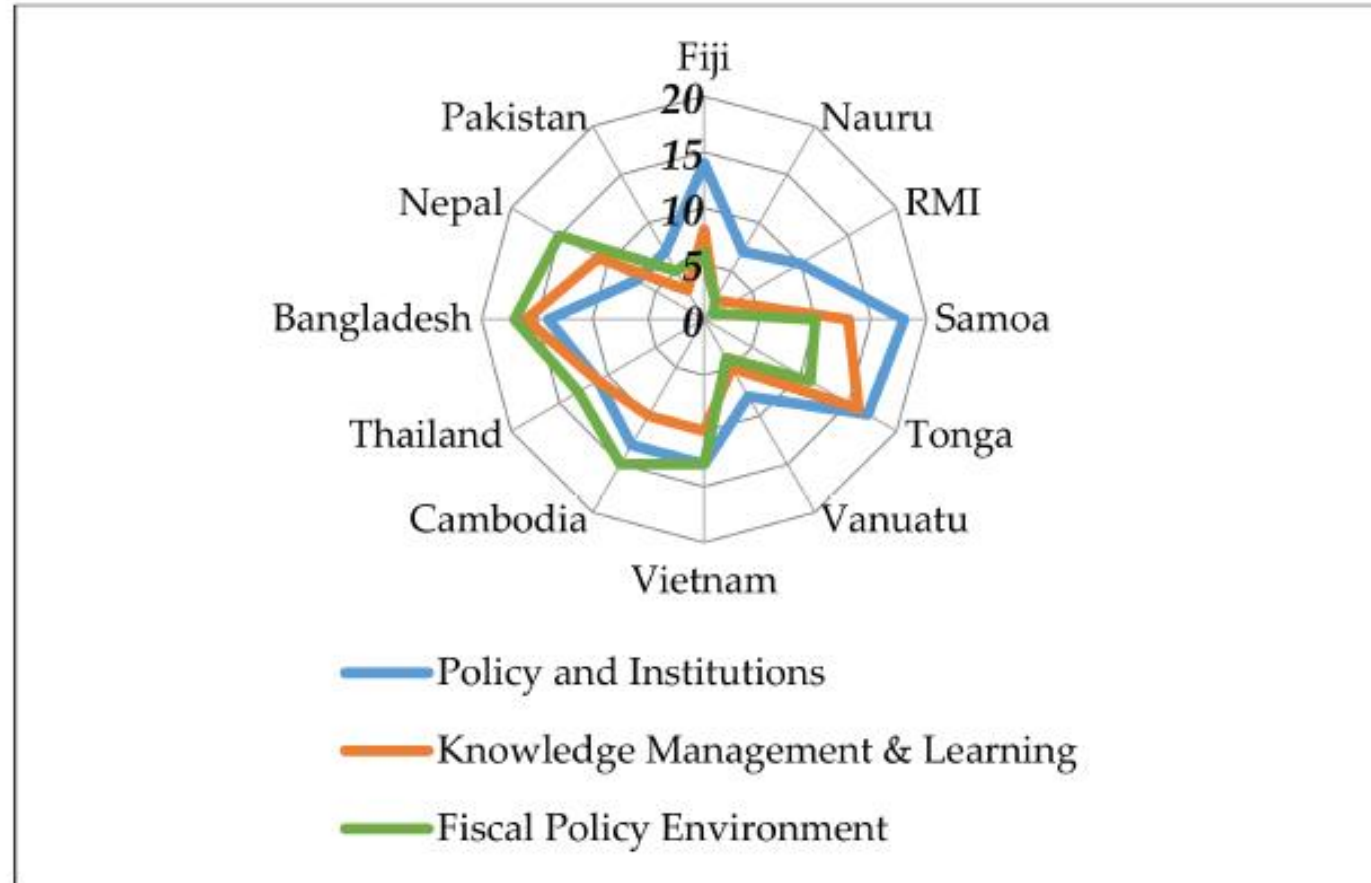


Figure 1. Indicative readiness progress of countries in the Asia-Pacific Region as per the study's framework.

Linking Readiness progress to finance accessed

$$CF_c = \beta_0 + \beta_1 RE_1 + \beta_2 GDPpc_2 + \beta_3 P_3 + \beta_4 G_4 + \varepsilon$$

- 2016 data was used
 - Variables
 - CF (OECD)
 - RE (score as per study's framework)
 - GDPpc (GDP per capita-World Bank)
 - P (Population-World Bank)
 - G (Quality of Governance-World Bank)
- (Alesina & Dollar, 2000; Halimanjaya, 2015;2016; Robinson & Dornan, 2016; Betzold & Weiler, 2017; Betzold, 2018)

Results

Table A3. Model summary results.

Model	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
			R Square Change	F Change	Sig. F Change
1	0.865	166.70143	0.902	24.425	0.000
2	0.922	126.50826	0.049	6.891	0.034

Table A4. ANOVA ^a results.

Model		Sum of Squares	Mean Square	F	Sig.
1	Regression	2,036,234.120	678,744.707	24.425	0.000 ^b
	Residual	222,314.930	27,789.366		
	Total	2,258,549.050			
2	Regression	2,146,518.663	536,629.666	33.530	0.000 ^c
	Residual	112,030.387	16,004.341		
	Total	2,258,549.050			

^a Dependent Variable: CF; ^b Predictors: (Constant), Govern_quality, GDP_pc, Population; ^c Predictors: (Constant), Govern_quality, GDP_pc, Population, Readiness.

Results Continue...

Table A5. Coefficients ^a results.

Model		Unstandardized Coefficients		Standardized Coefficients	<i>t</i>	Sig.
		B	Std. Error	Beta		
1	(Constant)	-106.652	101.086		-1.055	0.322
	Population	3.145×10^{-6}	0.000	0.468	1.919	0.091
	GDP_pc	-333.058	165.896	-0.244	-2.008	0.080
	Govern_quality	0.352	0.177	0.487	1.989	0.082
2	(Constant)	-349.370	120.142		-2.908	0.023
	Population	4.002×10^{-6}	0.000	0.596	3.112	0.017
	GDP_pc	-370.269	126.693	-0.271	-2.923	0.022
	Govern_quality	0.218	0.144	0.301	1.514	0.174
	Readiness	24.492	9.330	0.247	2.625	0.034

^a Dependent Variable: CF.

Discussions

- Readiness is predictable but have a small effect on CF accessed
- Readiness does not exist in a vacuum
- Current readiness focus does not distinguish between adaptation and mitigation
- Decision 1/CP21 para 53 (Mitigation is the FOCUS)
- Private sector finance (post Paris Agreement)
- GCF: 41% Mitigation vs 26% Adaptation
- Imbalance on adaptation finance accessibility

Bilateral and Remittances- An alternative?

- Good track record of external finance flows to PSIDS
- Largely insensitive to the quality of the investment environment
- Pacific SIDS 'moral argument' for continued access to bilateral finance
- South-south climate finance flows are increasing
- Remittances – 40% of external finance to SIDS (eg. Samoa 23% of GDP)
- 5% are channeled to productive investments (Bendadi & Pauw, 2016)
- Remittance met the characteristics of climate finance (Bendadi & Pauw, 2016)
- See case study of Senegal (Scheffran et al 2012).

Conclusion

- Big readiness gap between Asia and Pacific sub region
- Readiness is only a piece of the puzzle of the solution to PSIDS finance access conundrum
- Pacific needs → adaptation
- Pacific → small economies [questions on economies of scale]
- Need for a rethink to PSIDS current readiness approach?
 - Re-orient current readiness approach?
 - Expand to include bilateral and remittances?

Limitations of the Study

- Small sample size
- Bootstrap analysis varies
- Readiness effects may be too recent to capture
- Offers the first critical insights in of how readiness has progressed in the region. [building block for further studies]