Policy Brief on Lessons Learnt from the Climate Change Finance Tracking Prototype for Solomon Islands and Vanuatu

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Solomon Islands. Photo: SPC

List of Abbreviations

CCDRM	Climate Change and Disaster Risk Management
COA	Chart of Accounts
COVID-19	Coronavirus Pandemic
CPEIR	Climate Public Expenditure and Institutional Review
DAC	Development Assistance Committee
DRM	Disaster Risk Management
FMIS	Financial Management Information Systems
ICT	Information and Communication Technology
ISACC	Institutional Strengthening in Pacific Island Countries to Adapt to Climate Change Project
OECD	Organisation for Economic Co-operation and Development
PCCFAF	Pacific Climate Change Finance Assessment Framework
PEFA	Public Expenditure and Accountability Review
PICTs	Pacific Island countries and territories
PIFS	Pacific Islands Forum Secretariat
PFM	Public Financial Management
SPC	Pacific Community
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States Dollar

Children of Choiseul in Solomon Islands. Photo: SPC

1. Background

Climate change continues to pose serious threats to developing economies and livelihoods on a global basis. For Pacific Island countries and territories (PICTs) the impacts of climate change on key livelihood sectors, services and ecosystems are already evident. While nations are struggling to cope with the impacts of climate change, another unprecedented situation of international concern has emerged, which demands an even greater collective action – the COVID-19 (coronavirus) pandemic. The impacts of COVID-19 have further exacerbated existing climate change concerns and brought about significant challenges to economies and livelihoods in PICTs. For PICTs, long-term impacts of climate change cannot be overlooked, and countries are being reminded to rise up to both challenges and invest in green, healthy and more resilient initiatives as part of the COVID-19 recovery.[1]

Simplified access to climate change finance for PICTs is a key priority in light of previous commitments that have been made, at the global level, by developed countries to jointly mobilise USD 100 billion per year by 2020 for the needs of developing countries. Now that the milestone year has been reached, recent negotiations have shifted towards a "new quantitative goal" for post-2020. Given the emergence of COVID-19 and its impacts on global economies, there are increasing uncertainties surrounding commitments to deliver the USD 100 billion or any new quantitative goal. While shifts in international priorities and commitments influence development planning and support at the national level for climate change, the need for countries to have a centralised system for tracking climate change finance flows is of significant importance. This is crucial considering the lack of an internationally agreed definition for climate change finance. Without a centralised tracking system, efforts to accurately account for, and report on, climate change finance flows (support provided and received), as required under the Paris Agreement, will continue to be elusive.

Following directives by the Forum Economic Ministers in 2018 and 2019, and building on specific recommendations from national climate change and disaster risk finance assessments, which have been conducted in 10 PICTs to date, an online climate change finance tracking system was developed, where the prototype utilised data from Vanuatu and Solomon Islands. The concept for this work was built on progress that had already been made to track flows by using different tools, approaches, methodologies and coding procedures. Tools such as the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) Creditor Reporting System, Climate Budget Tagging and other ongoing initiatives were taken into account.

This paper highlights the initial lessons learnt from the planning and development, and deployment and sustaining of the climate change finance tracking prototype, which could inform policy decisions by other PICTs that are keen to explore this option.

1.1 Purpose of this Policy Brief

This brief responds to the increasing need to implement a comprehensive and robust tracking system that enables systematic monitoring of public climate change finance flows across regional, national and sectoral scales. It is intended to inform governments, development partners, practitioners and other stakeholders on important decisions relating to climate change finance tracking, which will enhance transparency, accountability and reporting processes.

1. See call by the Secretary General of the Pacific Islands Forum: https://www.forumsec.org/2020/04/17/covid-19-and-climate-change-we-must-rise-to-both-crises/.

2. Rationale for Tracking Climate Change Finance

The need to develop systems to effectively track climate change and disaster risk finance has been a common finding of the Pacific Climate Change Finance Assessment Framework (PCCFAF) assessments.[2] The utility of a national climate change finance tracking system can be linked to the following uses.

i. Addressing current data gaps

Pacific Island Forum Leaders have emphasised the need for increased access to, and better management of, climate change finance as a key priority. Access to transparent and comprehensive information on climate change finance flows will assist PICTs to improve their awareness of how climate change funding is being delivered and programmed and to track trends over time in order to inform policy decisions. At the national level, Financial Management Information Systems (FMIS) in most countries are not set up to capture these allocations.

The climate change finance tracking system is therefore developed to assist governments to clarify issues such as the quantity of finance being accessed and disbursed/expended; how much is being delivered through the national budgets; specific beneficiary sectors; providing a breakdown between multilateral and bilateral sources of funding; and providing a breakdown between adaptation, mitigation and disaster risk reduction/management.

ii. Enabling informed decision making

At the national level, tracking climate change finance is important for allowing policy makers to plan more effectively on how to use climate change and disaster risk finance – particularly when making decisions about funding allocations in line with national policy priorities, monitoring the effectiveness of initiatives, and verifying the support that is being provided by development partners and donors. Better and accurate financial data can also help decision makers to identify gaps and subsequently improve coordination and management, and plan for investments in sectors and areas that are at the greatest risk of being affected by climate change.

iii. Promoting greater transparency

Comprehensive tracking of climate change finance enables countries to verify information that is reported by providers of climate change financing. At the international level, it would contribute towards improving accountability and transparency of financial flows that are related to commitments that have been made under the United Nations Framework Convention on Climate Change (UNFCCC) and, most recently, the enhanced transparency framework for action and support, and ongoing work that relates to the modalities for the accounting of financial resources that are provided and received under the Paris Agreement. For providers of climate change finance, a comprehensive picture of financial flows and investments would build confidence that funds are being used effectively and efficiently. For PICTs, comprehensive financial information would enable better and more accurate reporting. This would also support PICTs to provide specific reporting to the UNFCCC Standing Committee on Finance's biennial assessment of global climate change finance flows, where the next report is due at the end of 2020.

iv. Complementing other existing initiatives and approaches

The development of a climate change finance tracking system would complement and build on existing work that is related to climate change finance; particularly the PCCFAF assessments and the strengthening of national Public Financial Management (PFM) systems in relation to climate change finance readiness and direct access. There are also synergies between previous work and efforts to promote integrated reporting as part of the Pacific Roadmap for Sustainable Development. Strengthening whole of government approaches; fostering private sector and civil society engagement; and facilitating knowledge exchange and integrating reporting on development outcomes remain key aspects and central to the successful tracking of climate change and disaster risk finance.

The usefulness of the Pacific Climate Change Portal as a regional repository for climate change information can be complemented and enhanced by the climate change finance tracking system, in order to aid analysis and reporting.

2. Refer to Section 3 of this document for further detail on the PCCFAF.

3. The Pacific Climate Change Finance Assessment Framework (PCCFAF) as a Guide to Tracking Climate Finance in Solomon Islands and Vanuatu

3.1 The PCCFAF

The PCCFAF assesses climate change and disaster risk finance based on seven (7) pillars (see Figure 1 for the pillars of the framework)[3].

Figure 1: Seven Pillars of the PCCFAF.

3. See link for PCCFAF Report: https://unfccc.int/files/cooperation_support/financial_mechanism/long-term_finance/application/pdf/pacific_climate_change_finance_assessment_framework_final_report.pdf/.

The Funding Sources, and the PFM and Expenditure (Budget) analyses make up the quantitative assessments of the PCCFAF that were primarily used to gather data to track climate change finance flows in Solomon Island and Vanuatu. The Funding Sources analysis involves the review of national development and recurrent budgets, project databases, development partners' information as well as conducting stakeholder and development partner interviews and discussions. The PFM and Expenditure analysis, on the other hand, assesses government spending on Climate Change and Disaster Risk Management (CCDRM) activities.

The PCCFAF provides a multivariate and percentile methodology to allocate weightings to each project budget, depending on its primary objective and relevance to climate change and disaster risk reduction outcomes (see Table 1). In the absence of an internationally agreed definition for climate change finance, the tracking system applies definitions from the PCCFAF. It is important to note that the weighting is used as a proxy for estimation; the actual weighting is subjective to national contexts, interpretations (particularly for those involved in weighting) and how countries define climate change relevant projects.

Table 1: Weighting system used to quantify climate change finance for externally funded projects.

	Percentage Weighting	Rationale
High Relevance	80% of project budget is analysed	Clear primary objective for delivering specific outcomes that improve climate resilience and adaptation or contribution to mitigation. Example: – Anything that responds to recent droughts, cyclones or flooding, because it will have added benefits for future extreme events. – Energy mitigation (e.g. renewables, energy efficiency).
Medium Relevance	50% of project budget is analysed	Either (i) secondary objectives related to building climate resilience and adaptation or contributing to mitigation, or (ii) mixed programmes with a range of activities that are not easily separated but include at least some that promote climate resilience or mitigation. Example: – Water storage, water efficiency and irrigation that is primarily motivated by improved livelihoods because this will also provide protection against drought. – Forestry and agroforestry that is primarily motivated by economic or conservation objectives, because this will have some mitigation effect.
Low Relevance	25% of project budget is analysed	Activities that display attributes where indirect adaptation and mitigation benefits may arise. Example: – General livelihoods – motivated by poverty reduction, but build household reserves and assets, and reduce vulnerability in areas of low climate change vulnerability.
Marginal Relevance	5% of project budget analysed	Activities that have only very indirect and theoretical links to climate resilience. Example: Education and health activities that do not have an explicit climate change element.

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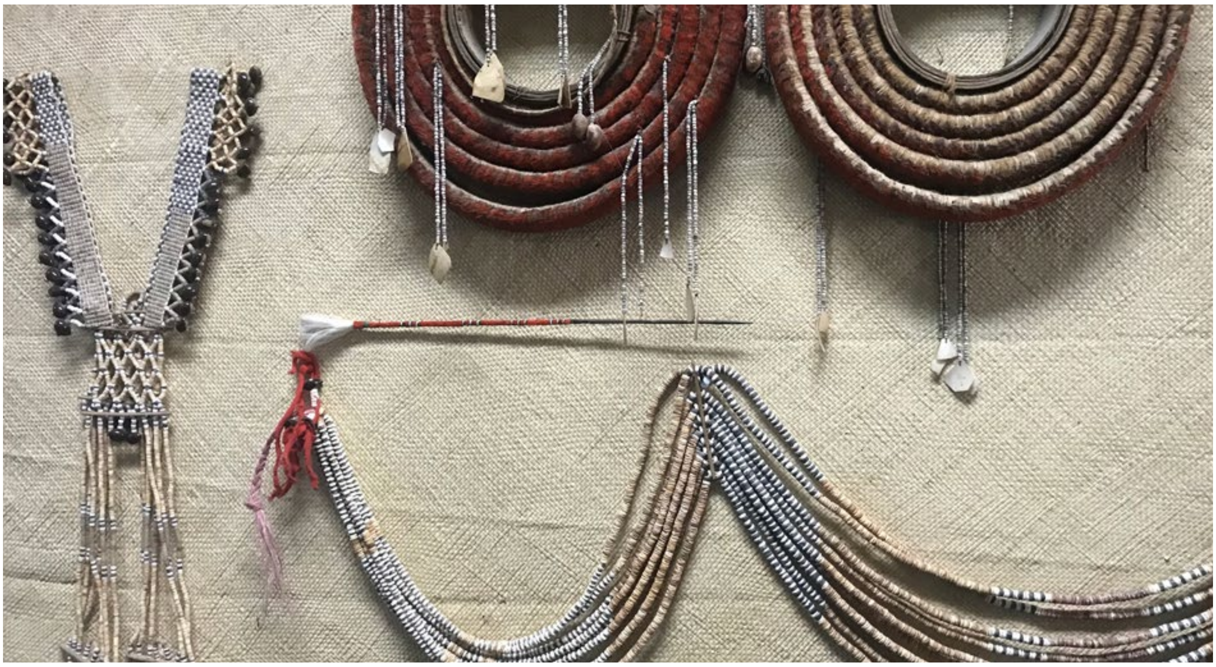

Traditional shell money from Solomon Islands. Photo: SPC

The weighting is benchmarked against key CCDRM priorities that are identified in appropriate national plans and policies. The tracking system estimates the total volume (as a USD value) of climate change and disaster risk related expenditure by weighting individual projects. This weighting is undertaken according to the proportion of expenditure that is considered relevant to CCDRM from a scale of 0–100%. This methodology is crucial for ensuring consistency with similar country assessments that have been completed in the region, avoiding inaccurate exaggerations of the amount of climate change and disaster risk finance being accessed, and acknowledging the definitional ambiguities surrounding climate change finance.

The weighting above is mostly useful for climate change finance. For disaster risk finance, most interventions were considered as high relevance (80–100%) of the budget. Gaps do, however, exist due to differences in funding sources, access procedures and the rationale associated with international structures – particularly the UNFCCC and Sendai Framework obligations.

3.2 Online Climate Change Finance Tracking Prototype for Solomon Islands and Vanuatu

By using data gathered from climate change and disaster risk finance assessments that were conducted in Solomon Islands and Vanuatu, an online system was developed to pilot the tracking process and enable users to view the data and information in more dynamic ways.

The online system currently serves as a prototype for tracking climate change finance in the region. Initial work and development of the online platform began in 2017 and was deployed for consultation in the two countries as pilot sites. Tracking is currently available only for externally funded projects that have been implemented in these two countries as part of the pilot process. Nevertheless, equal importance is placed on the need to be able to track domestic flows as part of the ultimate goal of having a centralised climate change finance tracking system. The online platform has undergone various modifications that are based on consultations and feedback from representatives within line ministries in the two countries. This process is important as it enables quick fixes to be made to the online tracking system, the development of a more flexible and dynamic system and allows for smooth integration into country Information and Communication Technology (ICT) systems while responding to more technical climate change finance needs of countries.

More updates and refinements to the pilot phase of the tracking system are envisioned as countries continue to undertake reforms to their PFM systems. Among other benefits, this will help facilitate the tracking of climate change finance flows at the national level.

4. Understanding Budget Planning Processes

Understanding national budget planning processes and stakeholder roles and responsibilities are central to tracking climate change finance and form an important component of the PCCFAF. Budget planning processes slightly differ from country to country.

In the case of Solomon Islands and Vanuatu, the budget operates on a calendar year basis. In both countries, initial planning is being done by ministries that are responsible for finance and planning before the budgets are developed by line ministries (in the form of budget bids), with further consultations with development partners and sector agencies, for subsequent approval by cabinet. Budget bids and budget utilisation reports that are submitted by line ministries and sectors provide an important point for identifying climate relevant activities that could inform the climate change finance tracking process at the national and sectoral levels.

Based on the findings of the national climate change and disaster risk finance assessments conducted so far, a considerable proportion of climate change finance flows is still not reflected in national budgets, which creates significant gaps when quantifying climate change finance at the national level. In addition, most countries in the region have highly centralised financial systems, which poses further challenges when quantifying flows at the sectoral level.

The PCCFAF funding sources analysis attempts to bridge these gaps with some countries that are implementing or are in the process of implementing reforms, which will allow for greater transparency and accounting of climate change finance.

For example, Solomon Islands is in the process of reviewing/reforming their FMIS towards a more decentralised system and moving towards a process whereby donors are requested to indicate clear allocations in the Chart of Accounts (COA).

Port Vila market in Vanuatu.

5. Lessons Learnt from the Process of Tracking Climate Change Finance in Solomon Islands and Vanuatu

In this section, preliminary lessons learnt and opportunities that other PICTs may take into account should they wish to implement similar tracking systems are listed.

5.1 Prior to Developing the Climate Change Finance Tracking Prototype System

- Gaining a clear understanding of stakeholders involved in climate change at the national level and their respective roles and responsibilities is important. A stakeholder mapping is therefore required.
- Clear decisions on institutions and actors that will be responsible for tracking and reporting climate change finance flows should be in place.
- It is important to understand policy landscapes and budgetary processes at the national level.
- It is important to perform a scoping exercise on possible options of an online system that will be compatible with national ICT systems, and one that will effectively track climate change and disaster risk finance (as required by national governments) before embarking on such work. This will also enable building on pilots or existing tools, rather that starting from scratch.
- Background research on similar systems and tools for tracking and monitoring financial flows should be conducted to determine what actions/lessons are worth pursuing.
- Clear and consistent definitions for climate change finance should be spelt out to avoid misinterpretations when tracking climate change finance. In doing so, it is equally important to recognise that some concepts are context specific and may differ across national scales.
- Consider conducting a needs assessment first (recommended) with support from the countries including soliciting support of partners if this is something that is aligned with their focus of bilateral/regional development cooperation.

5.2 During Piloting of the Climate Change Finance Tracking Prototype System

- The process that is involved in successfully tracking climate change finance relies heavily on proper coordination and effective communication at the national level. Coordination is necessary as comprehensive and detailed tracking requires various skills that are not always present in a single ministry/organisation. In addition to this, wider stakeholder consultations will be required as climate change finance flows through different channels at the national level.
- Tracking at national scales is not a one-off activity. The processes that are involved take time and require both technical and financial resources. Tracking is an ongoing process and hence needs the buy-in and support of all relevant stakeholders.
- Imprecisions may arise from the percentage weighting system as climate change and disaster risk finance may be subjected to different interpretation at the local level. Such a system will also rely on expert judgment in interpretations of certain types of activities.
- Data gaps remain for projects that may not directly reference climate change and disaster risk; however, they may have components that contribute to building climate change and disaster resilience.
- Understanding technical capacity in countries is important as it will ensure long-term updating, maintenance and functionality of the tracking system. User manuals will be required for those utilising and managing the tracking system.
- Capacity building of officials should be incorporated as part of the piloting exercise.

5.3 Post-Deployment: Sustaining the Climate Change Finance Tracking System

- Tracking climate change finance is an iterative process. For such a system to remain effective and provide up-to-date tracking, dedicated capacities will be required at the regional and national levels. Dedicated capacities will ensure continuous information management and updating of flows into country systems.
- Funding for continuous operationalisation of the system will be required, particularly if the online tracking system requires certain fees to be paid for its operationalisation. Additional resources will be needed to enhance the robustness of the current tracking system in order to fully capture climate change finance from both international and domestic sources.
- Creating an interface between the tracking system and national financial management systems will ensure sustainability of the tracking system and will enable flexibility and automatic transferability of climate change finance data from COA and FMIS on to the online tracking system. This will be possible if national systems are set up to be able to clearly delineate climate change finance from other development support and if existing government policies and guidelines support such transfers.

5.4 Limitations of the Climate Change Finance Tracking Prototype

- The weighting system that is used is subjective in nature; thus, identifying the correct technical people at the national level who will be able to carry out the weighting process by using available information and based on national policy priorities is vital.
- The current prototype does not track annual flows because it is based on projects that are approved, which are mostly within a five- to seven-year period. The online system currently tracks projects from 2010 to 2016 for Solomon Islands and from 2014 to 2016 for Vanuatu.
- There may be gaps in capturing projects between 2016 and when additional data is entered from 2020 onwards. Where there are differences in periods of tracking, caution should be taken when comparing across national scales.
- The current climate change finance tracking system captures only climate change finance in the form of grants.
- Values in USD have been converted from local currencies by utilising an exchange rate at the time the data was entered. Determining a fixed exchange rate is important although this will also mean inaccuracies in actual disbursements and expenditures – particularly for projects involving international currencies.
- The disbursement feature cannot be utilised with the weighted values. This will measure disbursement of the full project value.
- Regional projects are particularly challenging to quantify as country allocations are often not clear and not always made known to national governments. Hence, an approximated value is often used. Regional projects with no clear allocation are not measured.
- The climate finance tracking system is reliant on data from countries. Data used are therefore exclusive to sources that are publicly available, and those that have been provided by countries and those consulted. In most cases, national processes and systems (e.g. CoA/FMIS/PFMs) dictate the sort of data that is available to aid the tracking process.
- The tracking system does not measure the effectiveness of climate change finance. Determining the effectiveness of implemented activities will have to be done outside the tracking system. Nevertheless, measurements of effectiveness are an integral part of the climate change finance discussion in the Pacific region and there is an opportunity to strengthen monitoring and evaluation systems that bring these issues together.

6. Way Forward

Tracking climate change finance in PICTs is still in its infancy. The Pacific region, however, continues to demonstrate leadership in its efforts towards greater transparency and accountability for public finance. The piloting of the climate change finance tracking prototype in Solomon Islands and Vanuatu follows calls from Forum Member countries and contributes to a larger process around improved understanding of climate change finance in the Pacific region. The development and piloting of the tracking system prototype culminated from other work that was being undertaken in the Pacific region, including the PEFA and PCCFAF/CPEIR assessments and ongoing climate change finance discussions, and discourse at international, regional and national levels.

The current tracking processes have provided important lessons and presented opportunities to improve tracking of climate change finance in the Pacific region. The lessons learnt from using the climate change finance tracking system can be replicated for other sectoral activities and other instances where specific finance tracking is needed (e.g. recent COVID-19 support that is being provided in the region).

It is evident that more work will be needed in order to reach the ultimate goal of establishing national climate change finance tracking systems that are built on systematic and consistent approaches with clear guidelines, and linked to national public finance management systems that track both international and domestic flows from various sources (public and private).

The following points are important considerations surrounding tracking climate change finance and the prototype:

- The climate change finance tracking system now serves as a prototype for tracking climate change finance at regional and national scales. The preliminary lessons learnt from the piloting of the tracking system provide important lessons for other PICTs that are wishing to monitor domestic climate change finance flow as well as other finance flows (e.g. recent interest in tracking COVID-19 support).
- The tracking system will complement other similar work that is done in the region, including the following:
  - Progress being made on budget tagging in Fiji.
  - The review of the COA in Solomon Islands and ongoing efforts to decentralise the FMIS to provide more flexibility at the sector level.
  - The National Advisory Body (NAB) in Vanuatu, which provides a one-stop-shop for climate change as well as climate change finance information
- There is ongoing work by Pacific Financial Technical Assistance Center to incorporate climate change and climate change financing issues into existing Public Expenditure and Financial Accountability (PEFA) assessments.
- Accountability and transparency can be enhanced by following effective tracking of climate change finance flows. The proposed review of the Solomon Islands COA came about as part of the climate change finance assessment and the need to monitor climate flows in the country. Although the review will have wider implications, it will also ensure sustainability in tracking disaggregated climate change finance.
- Where countries wish to implement such a tracking system, utilising specific sectors as pilots using data from FMIS/COA is recommended and would allow for consistencies in reporting and quantifying national climate change finance flows.
- Establishing processes to track climate flows can help to strengthen coordination among stakeholders who are involved in climate change activities.
- Tracking will encourage the collection of disaggregated data for climate change, particularly in national budgets where most data exist in aggregate forms.