

## **BACKGROUND PAPER**

### *CAPACITY BUILDING FOR RESILIENT DEVELOPMENT IN THE PACIFIC: IMPROVING THE USE OF COST-BENEFIT ANALYSIS (P-CBA INITIATIVE)*

#### **Purpose**

This background paper describes a collaborative effort by CROP and international development partners to respond to demands for improving economic assessment of policies and related interventions that have implications for natural resource planning, budgeting and management. It seeks expressions of interest to participate in a proposed strategic capacity building program as a way to support Pacific island governments achieve informed decision making.

#### **Background**

Over the past decade, the use of Cost-Benefit Analysis (CBA) to inform the design of projects that aim to develop or protect natural assets in the Pacific region has increased. There has also been a significant increase in the use of cost benefit analysis and, supporting this, economic assessments of the impacts that different policies or activities have on natural assets. The adoption of such economic analysis is contributing to the effectiveness of project and policy design and implementation in the region. In the context of climate change and disaster risk reduction being mainstreamed as a national priority and increasing flows of climate change finance to the region cost-benefit analysis can provide a framework to help determine the most effective adaptation and mitigation options.

To date, a considerable degree of the economic analysis conducted has been delivered through non-national entities (CROP organizations, development partners, consultants and so on). This reflects the fact that PICs face differing levels of in-house capacity to conduct the analysis. While some PICs have administrations with experience in the conduct of economic analysis, many (particularly those with smaller administrations) have limited expertise and remain, at best, reliant on external support or, at worst, lacking in economic analysis of projects and policies.

Many officials in PIC governments recognize the value of economic analysis to shape and assess their work. Recently, several countries have specifically sought out capacity building assistance in cost benefit analysis to inform project design and selection, including projects aiming at enhancing resilience to climate and disaster risks. An initial CBA work programme has been delivered through the Pacific Adaptation to Climate Change (PACC) project involving 14 PICs and further ad hoc training has recently been conducted in Fiji, Tuvalu, Kiribati and Vanuatu. An evaluation report of the PACC CBA work programme is available at <http://www.pacificclimatechange.net/index.php/eresources/documents?task=view&id=737&catid=121>.

The demand for capacity building in cost benefit analysis specifically has been driven in part by donor demands that new projects are economically robust and that climate change funds are assigned to the projects that are demonstratively the most valuable. National governments are also requesting support to be able to apply a cost-benefit analysis framework to the project development and appraisal process. The lack of expertise to address these demands can then hamper access to or delivery of nationally and externally financed development projects.

Several CROP and international development agencies have now formed a Working Group to jointly address capacity building in a collaborative, consistent and strategic manner. For

the last 15 months, the Working Group (SPC, SPREP, PIFS, GIZ) have been collaborating on the design and delivery of training courses in-country, development of a guide to cost benefit analysis and now, a proposal for strategic capacity building in economic analysis, with the assistance of the UNDP.

## Issues

In terms of accessing and managing donor funds and climate change finance, PICs have previously identified that they would prefer national systems to be considered in the first instance by development partners. Improving the use and quality of cost-benefit analysis undertaken by PICs can help identify all the possible impacts (positive and negative) of a policy or programme and provide a systematic framework to consider how risks (including climate and disaster) may affect the realization of potential future benefits.

A concept proposal is being developed that targets enhanced national capacity among PICs to analyze policies, projects and impacts. Ongoing support through capacity building, mentoring and supplementation will enhance national systems to meet current and future requirements. The work will focus on two streams of work with PIC governments.

Stream 1 focuses on capacity enhancement in the conduct of cost benefit analysis at project level and includes:

- i. Training provided through a formal education institution (such as the University of the South Pacific (USP)).
- ii. In-country training and work-planning through workshops with interested PIC.
- iii. Learning-by-doing through mentoring of government officials to conduct a cost-benefit analysis on project proposal(s) currently under development.
- iv. Communication of results to aid effective decision making.

Stream 2 focuses on selected national sectors to inform adaptation, including:

- i. Identification of three to four pilot countries and sector cases.
- ii. In-country training and work-planning in the pilot countries.
- iii. Learning by doing by assessing the underlying economics of a particular sector (e.g. water) and the impact climate change and disaster risks have on the sector.
- iv. Communication of results for informed decision-making.
- v. Establishing a training course at a recognised tertiary institution. Short courses will be produced using the pilot case study examples and will be directed at both students and technical government officials.

The capacity support activities are envisaged to be delivered principally through in-country training and tailored mentoring processes, supported through regional meetings and web-based forums for exchange on lessons learnt and experience. Anchoring to a regional education institution will support the longer term sustainability of the training programme.

As this program of training progresses, it is expected that PICs will be better equipped to:

- Undertake and use systematically CBAs in the project and sector levels;
- Incorporate climate and disaster risks into project and sector-level CBA processes;
- Increase the use of CBA in mainstream Government budgetary, planning and decision-making processes, and to reinforce climate and disaster risks; and,
- Improve pre/post project assessment that will assist in PICs efficiency to access existing and emerging climate change finance mechanisms.

## **Next steps**

To help establish the type and level of (economic) technical assistance and training required, PICs are encouraged to submit an Expression of Interest (EOI) letter to the P-CBA Working Group.

EOI letters can be submitted through national Ministries of Finance, who will be the lead co-ordinating agency for this initiative within PICs. Alternatively, EOI letters can be submitted through SPC or SPREP focal points.

Appendix A outlines the basic information to be included in EOI letters.

Please submit any EOI letters by end August 2013.

If you have any further questions in regards to the development of the proposed P-CBA Initiative or the associated EOI letter, please feel free to contact any of the below P-CBA Working Group members:

- i. Scott Hook (PIFS), [scotth@forumsec.org.fj](mailto:scotth@forumsec.org.fj)
- ii. Aaron Buncle (SPREP), [aaronb@sprep.org](mailto:aaronb@sprep.org)
- iii. Paula Holland (SPC/SOPAC), [paulah@sopac.org](mailto:paulah@sopac.org)
- iv. Marita Manley (GIZ), [marita.manley@giz.de](mailto:marita.manley@giz.de)
- v. Anna Fink (SPC), [AnnaF@spc.int](mailto:AnnaF@spc.int)
- vi. Gabor Vereczi (UNDP), [gabor.vereczi@undp.org](mailto:gabor.vereczi@undp.org)
- vii. Pradeep Kurukulasuriya (UNDP), [pradeep.kurukulasuriya@undp.org](mailto:pradeep.kurukulasuriya@undp.org)

## **APPENDIX A: Information to be include in Expression of Interest (EOI) letter**

Subject: Participation in P-CBA Initiative

The Expression of Interest (EOI) letter should provide basic information to help establish the type and level of (economic) technical assistance and training required.

Information included in the EOI letter should consist of, but is not necessarily limited to:

- A brief description of current practice by your Government agency (and other agencies if submitting a combined EOI) in using cost-benefit analysis to provide policy analysis and advice (if at all);
- Names and positions of Government officials in your Department or elsewhere that have the time and energy to commit to being trained in economic analysis and/or working on cost benefit analyses;
- If interested in participating in Stream 1 of the P-CBA Initiative (i.e. project-level CBA capacity-building); summary information on the project proposal(s) which could be the focus of the practical, learning-by-doing component of the initiative;
- If also interested in participating in Stream 2 of the P-CBA Initiative (i.e. sector-level economic analysis); specification of the sector that would be the focus of this component as well as summary information on strategies, plans and policies relating to this sector;
- Description of data that is available to input to the proposed cost-benefit analyses;
- Timeline for project/policy/plan formulation and decision-making, if applicable; and
- Other funding available (if any) to support cost-benefit analysis training and mentoring.