TECHNICAL ASSISTANCE REPORT

REPUBLIC OF PALAU

Mainstreaming Climate Change into Public Financial and Investment Management

December 2025

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ADB
Asian Development Bank

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Abbreviations and Acronyms

ADB	Asian Development Bank
BNT	Bureau of National Treasury
CCP	Climate Change Policy
CIP	Capital Improvement Projects
COFA	Compacts of Free Association
EFU	Economic and Fiscal Update
EIA	Environmental Impact Assessment
EQPB	Environmental Quality Protection Board
FAD	Fiscal Affairs Department (International Monetary Fund)
FMIS	Financial Management Information System
FRDMA	Fiscal Responsibility and Debt Management Act
FY	Fiscal Year
GDP	Gross Domestic Product
IMF	International Monetary Fund
INDC	Intended National Determined Contribution
MAFE	Ministry of Agriculture Fisheries and Environment
MoF	Ministry of Finance
MPII	Ministry of Public Infrastructure and Industries
MSP	Marine Spatial Planning
MTFF	Medium-term Fiscal Framework
NDBP	National Development Bank of Palau
NDRMF	National Disaster Risk Management Framework
NEMO	National Emergency Management Office
NIIP	National Infrastructure Investment Plan
NWS	National Weather Service
OCC	Office of Climate Change
OEK	Olbiil Era Kelulau (Congress)
PALARIS	Office of the Palau Automated Land and Resources Information System
PCC	Palau Community College
PDM	Public Debt Management
PDP	Palau Development Plan
PEFA	Public Expenditure and Financial Accountability
PEWA	Palau Energy and Water Administration
PFM	Public Financial Management
PFTAC	Pacific Financial Technical Assistance Center
PNC	Palau National Code
PPP	Public Private Partnership
PPUC	Palau Public Utilities Corporation
SIDS	Small Island developing states
SNG	Sub-National Government
SOE	State Owned Enterprise

Preface

In response to a request from the Ministry of Finance (MoF) of the Republic of Palau, a capacity development mission of the International Monetary Fund's (IMF) Fiscal Affairs Department (FAD) and Pacific Financial Technical Assistance Center (PFTAC) visited Koror and Ngerulmud during the period March 31–April 11, 2025. This mission was led by Ms. Ozlem Aydin (FAD) and comprised Mr. Paul Seeds (PFTAC PFM Resident Advisor) and Messrs. Kris Kauffmann and Murray Petrie (both IMF Short-term Experts). The mission prepared an analysis on integrating climate change into public financial management (PFM) processes using the IMF's Green Public Financial Management Framework.

The mission met His Excellency Surangel S. Whipps, Jr., the President of the Republic of Palau to present the mission's preliminary findings and recommendations and held the mission's introductory meeting and the wrap up meeting with Special Advisor Kaleb Udui Jr. and Director Elway Ikeda. The team had fruitful discussions with senior officials from the Bureau of Budget & Planning, Bureau of National Treasury, Office of Climate Change (OCC), Legal Counsel to the Office of the President of Palau, Palau Public Utilities Corporation (PPUC), Ministry of Agriculture, Fisheries, and Environment (MAFE), the Office of the Palau Automated Land and Resources Information System (PALARIS), National Emergency Management Office (NEMO), National Weather Service (NWS), Ministry of Public Infrastructure and Industries (MPII), Koror State Government, and Economist Georgina Conway, ADB Palau Resident Country Economist. The mission also held productive meetings with Alfonsa Koshiba, Asian Development Bank (ADB) Senior Country Representative.

The mission would like to thank the authorities for open and candid discussions and for the excellent cooperation over the course of its work. The team is especially grateful to Ms. Andrea Dukor Ngirarois and Ms. Leony Christman for their outstanding logistical support in coordinating the meeting schedule, handling data and document requests, and for their hospitality and dedication throughout the mission.

Executive Summary

Palau is experiencing climate change effects which are impacting on the environment and the economy, and the policy responses are placing new demands on its fiscal policy. Rising temperatures, increasing sea levels, ocean acidification, and intensified rainfall events threaten biodiversity, fisheries, and tourism, posing macro-critical risks. Without adaptation, sea-level rise could cost Palau up to 4 percent of GDP annually by 2040. Effective adaptation requires integrating climate change considerations into development planning, prioritizing key areas, and ensuring efficient resource allocation in the context of the budget. Palau also has ambitious mitigation targets including increasing the share of renewables to 45 percent energy generation and improving energy efficiency by 35 percent by 2025.

The country has started to implement several green public financial management (PFM) initiatives that support climate-sensitive fiscal policies. These include the establishment of the Climate Resilience Fund, which addresses climate-related events and natural disasters; the Fiscal Responsibility and External Debt Management Act (FRDMA) 2021, which mandate managing reserves and insurance coverage to offset the costs of natural disasters and the impact of climate change. The Palau Development Plan 2023–26 covers planned responses to climate change and support for climate action is a key feature of the support delivered by development partners. An Office of Climate Change (OCC) was established in 2015, and coordinates climate policies within the government.

The 2023–2036PFM Roadmap, aiming to strengthen the core PFM processes, also creates an opportunity to further mainstream climate considerations into the PFM cycle. This involves incorporating climate change context and risk into the Economic & Fiscal Update, developing agency corporate plans with climate responses, and tracking climate-related projects using tags/markers. The roadmap also emphasizes incorporating climate criteria into public investment project design, screening, appraisals, and selection.

Embedding Green PFM practices requires a strategic approach tailored to Palau's unique conditions and capacity levels. This report provides a selective approach based on the existence of prerequisites for basic PFM practices, ongoing initiatives, reform interests, and capacity constraints. The selected key entry points include medium-term fiscal strategy, climate-related fiscal risk management, priority setting and climate tagging during budget preparation and public assets management.

Incorporating climate change into the medium-term fiscal strategy is a crucial entry point for green PFM. The Fiscal Strategy (required under the FRDMA) at the start of each administration, outlines Palau's fiscal goals and adherence to fiscal responsibility principles, including managing natural disaster costs and climate change impacts. The initial 2021–2024 Medium-Term Fiscal Strategy included limited references to climate change, mainly focusing on the Climate Resilience Fund. To make this process realistic and manageable given Palau's size and capacity, the Fiscal Strategy should focus on a small set of priority climate adaptation goals that are most relevant to national development. These goals should be aligned with the Palau Development Plan and supported by practical actions to manage fiscal risks from climate change. Rather than aiming for a comprehensive overhaul, Palau can take incremental steps—such as gradually expanding climate adaptation considerations in fiscal planning and leveraging external support where needed. Developing a Disaster Risk Financing Strategy to assess the fiscal impacts of past disasters and

establish appropriate protection mechanisms can be phased in over time, ensuring reforms are achievable and do not overwhelm limited resources.

Setting national strategic policy goals at the start of the budget cycle is crucial for coordinating responses to climate change across government. Some key actions, including investment in renewables, would benefit from enhanced coordination. Early engagement with ministries during the budget process can identify opportunities and challenges to achieving the climate goals, including areas where prioritization and sequencing are required. Agency-level performance planning should include basic climate impact assessments, with performance reports linking to national climate policies. Budget submissions should elaborate on how changes in policies and funding impact climate goals, with the budget circular including climate strategy considerations. A policy focal point within the Ministry of Finance (MoF) could lead this coordination, involving the Office of Climate Change and other key agencies.

While the likely increase in the incidence and severity of climate-related disasters is widely recognized in Palau, the understanding of how existing and planned public infrastructure is exposed to these risks remains limited. Palau lacks established Public Investment Management (PIM) procedures. Establishing these procedures and integrating climate considerations can enhance climate aware investment planning and project selection. Additionally, asset registers should contain information on climate exposure (including geospatial mapping) and resilience standards**.** Knowing which assets are vulnerable to climate change and adjusting maintenance planning and funding on that basis can have significant impact on reducing the long-term maintenance costs of infrastructure assets while increasing the life of the assets.

The Green PFM entry points and action plan suggested in this report are prioritized based on alignment with ongoing reforms, capacity constraints, and reform interest. The Green PFM Action Plan suggested in this report **(Annex A)** does not cover all entry points presented in the PFM Roadmap as it aims to avoid overloading capacity in the short to medium term. As a small island developing state (SIDS), Palau should select a small list of priorities aligned with their national objectives and capacity levels, identify key stakeholders, plan and monitor implementation, and address capacity development needs with support from development partners. Therefore, recommendations (Table 0) are designed to align with Palau's ongoing PFM reforms and capacity constraints, ensuring that they are practical and achievable. Some recommendations are low-hanging fruits that can be implemented quickly, while others require more substantial efforts.

It is crucial for Palau to improve the foundations of PFM and enhance human capacity to implement these reforms. The implementation of PFM Roadmap reinforces the basic reforms and provides a solid foundation for the more advanced climate-related reforms outlined in this report. Although there is a relatively good level of awareness on climate change considerations within the public sector, capacity to assess and analyze climate impacts of fiscal policies and investment decisions should be also developed. Reforms and capacity building will also require strong coordination among the budget, planning, and climate change offices.

Recommendations

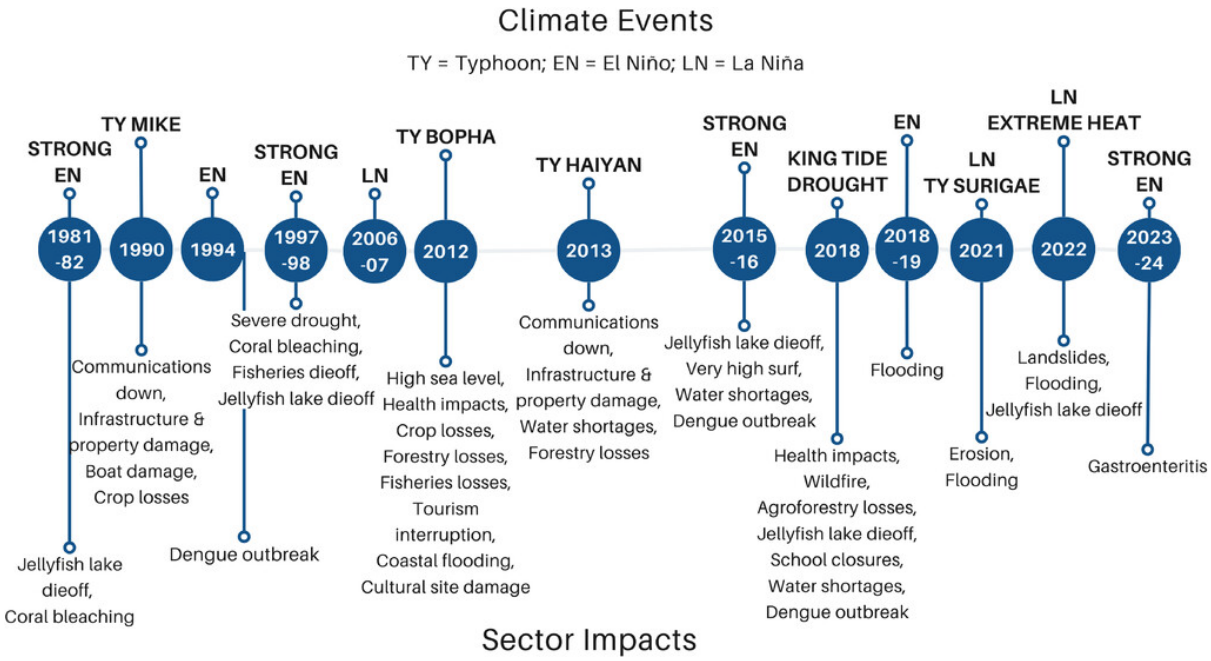
Incorporating climate considerations into medium-term fiscal strategy and fiscal risk management			
1		Focus on a small set of priority climate adaptation goals most relevant to national development, aligned with the PDP, and integrate them gradually into the Fiscal Strategy.	**High Priority**
2	2.1.	Introduce an annual contingency line in the annual national budget to meet unexpected and unavoidable expenditures introduce.	**Medium Priority**
	2.2.	Develop a phased Disaster Risk Financing Strategy, starting with assessing fiscal impacts of past disasters and progressively introducing protection mechanisms, leveraging external support.	
3		Seek external support for the design of an effective and efficient policy package to steer the current transition to renewable electricity.	**Medium Priority**
Incorporating climate considerations into planning and budget decision making			
4	4.1.	Require that annual performance reports (plans) articulate how the planned activities of each agency will contribute to the goals outlined in the PDP and the national climate change policy and impacted by the climate change.	**High Priority**
	4.2.	Amend budget call circular and forms to require that submissions articulate how prospective new policies and projects will impact on agency performance, including impacts on climate change policy.	
5		Expand the coverage of the budget (and associated consideration of climate impact) by mandating that all new funding requests (involving all prospective funding sources) be assessed through the budget submission process according to the budget calendar.	**High Priority**
6	6.1.	Implement a basic system of climate budget tagging by keeping a spreadsheet which assigns a tag based on an assessment of the impact of individual projects on climate change goals.	**Medium Priority**
	6.2.	Prepare and publish a green budget statement, and a budget book with details of agency-level goals and spending, which articulates the governments climate change policy goals.	
Incorporating climate considerations into public investment management			
8		Consider augmenting the Environmental Impact Statement Regulations by introducing a requirement to demonstrate the resilience of a proposed project to natural disasters.	**Medium Priority**
Incorporating climate considerations into asset management			
9	9.1.	Develop and implement a climate-aware asset management framework.	**High Priority**
	9.2.	MPII/CIP should plan the implementation of an asset registry and management system.	

Annex- A "Green PFM Action Plan" provides a more detailed presentation of these recommendations with a timeframe.

I. Introduction

1. Palau faces significant climate change impacts, including warming, sea-level rise, ocean acidification, and heavy rainfall events. These changes threaten biodiversity, fisheries, and tourism, and pose macro-critical risks (see **Figure 1**). The IMF estimates that without adaptation, sea-level rise could cost Palau up to 4 percent of GDP annually by 2040.[1] However, an adaptation strategy could cut this cost to approximately 1 percent of GDP. Effective adaptation requires integrating climate change considerations into development planning, prioritizing key areas, and ensuring efficient resource allocation.[2] Additionally, by 2025, the country's 2015 Intended National Determined Contribution (INDC) aims to reduce energy sector emissions 22 percent below 2005 levels, increase renewable energy share to 45 percent and improve energy efficiency by 35 percent. Achieving these ambitious targets requires significant investments in renewable infrastructure and complementary policies, such as carbon pricing and green public procurement strategies.

Figure 1. Timeline of Historical Climate Events and Sector Impacts in Palau since 1980



Source: Bulletin of the American Meteorological Society 105, 8; A Climate Services Dialog to Build Sector-Based Climate Early Warning Systems in the Republic of Palau in: Bulletin of the American Meteorological Society Volume 105 Issue 8 (2024)

2. In response to these challenges, Palau is planning to integrate climate-sensitive policies into its Public Financial Management (PFM) practices. The 2023 PFM Roadmap, informed by the Public Expenditure and Financial Accountability (PEFA) assessment, already includes green PFM actions aiming to incorporate climate considerations into budget decision-

[1] IMF Staff Country Report: Republic of Palau – Selected Issues (IMF Country Report No. 23/431, December 2023).

[2] Republic of Palau: Selected Issues in: IMF Staff Country Reports Volume 2023 Issue 431 (2023).

making, fiscal risk management, project selection processes, and climate reporting to ensure that climate adaptation and mitigation efforts are actively considered in resource allocation decisions.[3]

3. This report assesses PFM and public investment management (PIM) practices in Palau from the perspective of their responsiveness to climate change. It takes stock of current PFM practices and identifies the opportunities to integrate an environmental- and climate-friendly perspective into these practices, particularly within the budget cycle, drawing on the IMF Green PFM Framework. The report is organized into three main sections. Following this introductory section, Section II offers an overview of the IMF's Green PFM framework, examines existing Green PFM practices in Palau, and links Green PFM with the PFM Roadmap. Section III assesses selected Green PFM practices in Palau by identifying potential entry points in the budget cycle, including public investment and asset management. It then discusses capacity and coordination issues to implement Green PFM practices in Palau. Annex A presents a Green PFM Reform Action Plan, while the remaining annexes offer practical tools for implementing various recommendations from the report.

[3] Republic of Palau Public Financial Management Reform Roadmap and Action Plan 2023.

II. Green Public Financial Management

A. Green PFM Framework

4. Fiscal policies are a key element of governments' integrated strategies to combat climate change and should be supported by sound PFM processes and frameworks. To be implemented efficiently, NDCs resulting from the 2015 Paris Agreement should be translated into precise and granular government policies. Similarly, adaptation policies are needed to enable countries to build resilience and reduce vulnerability to weather hazards and climate change. Climate dimensions of the Sustainable Development Goals (SDGs) should also be reflected in countries' development priorities and be incorporated into medium-term planning and annual budget allocation decisions. Integrating climate change adaptation and mitigation in the development policy is paramount given the criticality of climate risks for Palau.

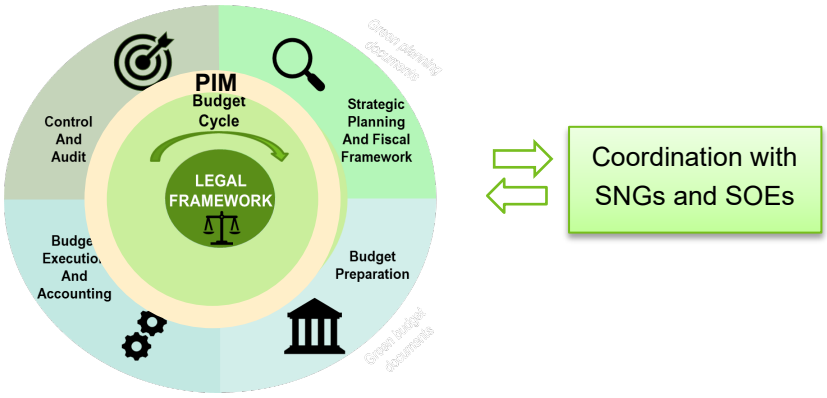
5. The importance and specificities of climate change call for the gradual adaptation of existing PFM systems to make them environmentally and climate sensitive. The concept of "green PFM" refers to the integration of an environmental or climate-friendly perspective into PFM practices, systems, and frameworks—especially the budget process—to promote fiscal policies that respond to climate concerns.[4] Implementing green budgeting does not require new and distinct PFM systems, but rather aims to leverage existing systems and fiscal policymaking tools to achieve climate commitments and other green priorities.

6. Green PFM's holistic approach aims to provide a comprehensive picture of entry points within and beyond the budget cycle. The budget cycle can be defined as comprising four steps, namely: (i) the setting of strategic and fiscal policy goals and targets; (ii) the preparation of the annual budget and its approval by the legislature; (iii) the execution of the approved budget, and the production of accounts and financial reports; and (iv) the independent oversight and audit of the budget—anchored by a legal framework. The public investment management is also integrated with the budget cycle, following a similar pattern—planning, allocation, execution, and control. As a complement to the budget-cycle-based approach, a few PFM areas with broader scope are also important in the context of a successful green PFM strategy. This includes aspects such as coordination with state-owned enterprises (SOEs) and with subnational governments (SNGs) (see **Figure 2**)

7. Although Green PFM reforms constitute a whole-of-government undertaking, the Ministry of Finance, as the custodian of public resources, should be the primary driver. However, given that MoF often has limited technical expertise on climate issues—especially in smaller countries—it is also essential to draw on sectoral knowledge from institutions such as the Ministry of Environment, meteorological agencies, and other relevant bodies. The holistic approach involves engaging various stakeholders, including subnational governments and state-owned enterprises, to achieve environmental goals and support sustainable development. Implementing Green PFM reforms require sequenced action plans that can be updated over time based on actual progress, opportunities, political willingness, and capacity level.

[4] Green PFM" is a concept similar to "green budgeting" but with a broader scope, as it considers broad PFM functions that cut across or go beyond the scope of the budgetary cycle, such as coordination with other public sector entities or fiscal transparency.

Figure 2. A Holistic Approach to Green PFM



B. Existing Green PFM Practices in Palau

8. Several green PFM initiatives have been launched in Palau in recent years supporting the implementation of climate-sensitive fiscal policies, and further green PFM reforms are underway. As summarized in **Box 1,** green PFM reform actions span across fiscal strategy, budget preparation, budget execution, and coordination of climate policies across government. A PFM Roadmap endorsed by the Minister of Finance in 2023 (see below section) plans to introduce climate considerations into the budget process, add information on climate policies in the Economic and Fiscal Update (EFU) and budget documents; and include climate-sensitive approaches in PIM processes for. Green fiscal plan and policies that have been implemented include periodic national State of the Environment Reports that were drawn on in preparation of the Palau Development Plan, 2023 to 2026 (PDP).[5] These include a 'Pristine paradise Environmental Fee' payable from 2017 by international tourists to finance marine conservation. The pricing policies of the Palau Public Utilities Corporation (PPUC) has shifted to full cost recovery in conjunction with government subsidies targeted at supporting low-income households.

[5] State of the Environment Report, Republic-of-Palau, 2019. The report conveys trends of key natural resources and environmental indicators and analyses their most recent conditions and grades in relation to local and global goals and standards. Climate Change is addressed as a pressure in multiple sectors, and sea-level rise is recognized as one of the particular areas of concern.

Box 1. Green PFM Reforms Introduced or Underway in Palau

Fiscal strategy and fiscal policy goals and targets

- The President's four-year Fiscal Strategy is required to demonstrate adherence to the principles of fiscal responsibility, which incorporate natural disasters and climate change.
- The Fiscal Responsibility and External Debt Management Act (FRDMA) 2021 stipulates that governments will manage reserves and insurance coverage to offset the costs of natural disasters and the impact of climate change.
- The FRDMA established the Climate Resilience Fund, earmarked to address climate related events and natural disasters, with an annual contribution rate of 1 percent of domestic revenues.
- The PPUC's Statement of Corporate Intent 2021-2024 includes a target for renewable electricity generation that is the same as the government's target in Palau's Nationally Determined Contribution (NDC).

Budget preparation and approval

- The annual EFU contains a discussion of actions the government is taking to manage risks prudently including risks from natural disasters.
- The PFM Roadmap endorsed by the Minister of Finance contains plans to introduce climate considerations into the budget process and budget documents, and to include climate change adaptation considerations in the processes for public investment management.

Public Investment Management

- The PDP includes a pillar on protecting the environment and countering climate change that covers policy and management measures in addition to targeted programs. It prioritizes increasing climate resilience and adapting infrastructure assets for conditions under climate change.
- Bureau of Public Works construction standards for new public buildings incorporate higher wind-resistant standards related to increased typhoon strength.

Budget execution and reporting

- Palau maintains access to the ADB's Disaster Resilience Program, which currently allows drawing up to $20 million in the event of a qualifying natural disaster.

Cross-government coordination

- The Climate Change Office, first located in the MoF in 2015 and transferred to the President's Office in 2023, was established in part to improve coordination with the budget process.
- A Climate Finance Expert position in the CCO is planned to be operational in October 2025 to provide technical support for reviewing sectoral budgets and create a financing plan for implementing adaptation and mitigation objectives.
- The Office of the Palau Automated Land and Resources Information System (PALARIS), which provides geographical information systems (GIS) mapping services and information across the public and private sectors, was transferred to the MoF in 2018 in part to provide closer support to budget planning.

C. Linking Green PFM with the PFM Roadmap

9. To ensure Palau's fiscal framework supports climate resilience and sustainable development, the PFM Roadmap 2023–2036 integrates climate-related priorities alongside core

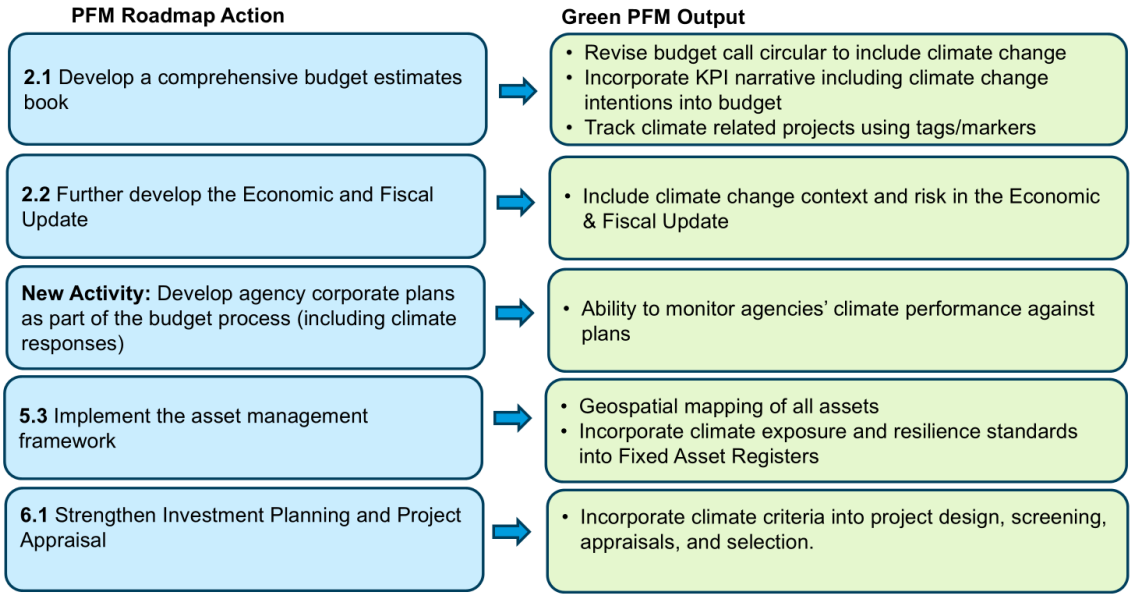
public financial management reforms. The PFM Roadmap 2023-2036 was developed in 2023 and formally endorsed by the Minister of Finance in November 2024. The roadmap with a detailed and timebound action plan was formulated using the findings from the PEFA assessment undertaken in September 2022. A workshop was convened with various stakeholders in Palau to discuss and agree the underlying strengths and weaknesses in the PFM system and the priority reform areas. The roadmap took on board considerations for implementing the PDP and the 7 core principles of the FRDMA.

10. **As well as strengthening core PFM processes, the roadmap was used to initiate the mainstreaming of Green PFM and climate considerations into the PFM cycle.** The action plan picked up several key areas where a climate lens could be taken to ensure that policies, budget allocations, and utilization of funds appropriately reflect the true additional costs of climate change to provide better environmental outcomes and a more resilient future. These areas include:

- **Planning and budgeting:** Including climate change context and risk in the EFU; incorporating climate change intentions into the budget call circulars and submissions; developing agency corporate plans as part of the budget process (including climate responses); include a statement on climate responses in enhanced budget documentation; and tracking climate related projects using tags/markers.
- **Public Investment management:** Incorporating climate criteria into project design, screening, appraisals, and selection.
- **Asset Management:** Expanding asset registers to identify existing climate exposure and future vulnerability (using geospatial systems) and recording of resilience standards (e.g., building typhoon rating).

The connection between PFM Roadmap actions and the Green PFM action plan is stronger in the two priority areas of (i) fiscal risk management, in connection to disaster risk management strategy, and (ii) Medium-term Fiscal Framework (MTFF). **Figure 3** below further highlights the linkages between the roadmap and Green PFM intentions.

Figure 3. Green PFM Linkages in the PFM Roadmap



III. Selective Entry Points for Green PFM in Palau

11. Successfully embedding Green PFM practices requires a strategic approach, especially in small island developing states (SIDS) with limited capacity. It requires prioritization as integrating climate priorities into the budget process involves numerous entry points. Leveraging all these entry points simultaneously is impractical for SIDS like Palau. Government should focus on a small selection of priority areas aligned with their national priorities and capacity levels, identify key stakeholders, plan and monitor implementation, and address capacity development needs with support from development partners.

12. This report strategically selects a limited number of entry points for Green PFM reforms. The suggested Green PFM Action Plan (Annex A) does not cover all entry points from the PFM Roadmap to avoid overloading capacity in the short to medium term. While the development of the EFU and corporate plans are recognized as important initiatives, this report prioritizes specific entry points for Green PFM that are tailored to Palau's unique condition.

A. Strategic Planning and Fiscal Framework

13. A strategic planning process is required to make budget and fiscal policy decisions remain consistent with long-term strategic development plans. This includes setting environmental objectives, identifying relevant indicators to measure progress towards their achievement, and developing a clear understanding of the underlying conditions, risks, and opportunities along the way. To ground environmental and climate commitments on sound assumptions and overall expectations for a country's development, the pursuit of these objectives should be in alignment with fiscal sustainability considerations.

14. The main strategic planning document in Palau is the 2023–2026 Palau Development Plan (PDP). It is the most comprehensive and detailed of the planning instruments and builds on and updates all prior national and sector plans. The PDP contains development strategies for 16 sectors and identifies risks from climate change. The Plan discusses adaptation, mitigation and disaster risk management responses within key sectors with the aim of improving climate resilience of existing stock and future investments in infrastructure. Within each sector, the Plan presents the overall sector goal and discusses the current status and trends. It also presents priority programs and projects for 2023–2026 with a one-page summary of the performance monitoring and financing plan including planned expenditures on annual recurrent and capital programs. A section on financing the PDP discusses details of domestic and external financing and lists priority individual capital projects and priority areas of recurrent expenditure. However, effective linkages between the PDP and the budget process are not yet in place *(as discussed in "Priority Setting at the Start of the Budget Process"* below). There are in addition several national policy documents and strategies, including the NDC 2015, the 2015 Climate Change Policy (CCP), the 2016 National Disaster Risk Management Framework (NDRMF), and the 2022 Renewable Energy Roadmap. The Government of Palau's national adaptation plan (NAP) process is underway, with a current focus on baseline assessments and stakeholder engagement, as well as the development of the communications and outreach strategies. **Table 1** lists the main climate change strategy and planning documents and the climate-related responsibilities of key institutions.

Table 1. Climate Change Plans and Institutions in Palau

Key Strategies and Plans	Coverage
2015 Intended Nationally Determined Contribution	Palau's conditional NDC targets are: 45% renewable energy target by 2025; 35% energy efficiency target by 2025; 22% energy sector emissions reductions below 2005 levels by 2025. A draft NDC 2025-2030 is in preparation with revised conditional mitigation and adaptation commitments. One key update to the Policy is to localize the impacts and adaptation actions from national to state level.
2023–2026 Palau Development Plan (PDP)	A development strategy for 16 sectors that presents the overall sector goal, discusses the current status and trends, and presents priority programs and projects.
Climate Change Policy 2015	It addresses risks, current activities, and strategic priorities in Climate Change Adaptation, Disaster Risk Management, Mitigation, and Low Emission Development. It also covers Institutional Mechanisms and Financing Needs for Policy Implementation. The Policy is currently being updated, and the new Climate Change Policy (2025-2035) along with an Action Plan is under review.
National Infrastructure Investment Plan 2021–2030	Outlined government policies, priorities and plans for major infrastructure investments over the next ten years. Included a means to prioritize projects, with a prioritized list and a funding strategy.
National Disaster Risk Management Framework 2010 as revised in 2016	Outlines the institutional arrangements for coordination and collaboration in disaster preparedness, response and recovery and with respect to disaster risk reduction.
Renewable energy roadmap 2022–2050	Analyses Palau's current power sector and provides a pathway for achieving a fully decarbonized, least-cost power system.
National Environmental Management Strategy 2022–2030	Highlights interrelated national policies, environmental actions, and targets in eleven thematic areas including climate change.
The Marine Spatial Planning (MSP)	The plan requires a rigorous process of data collection for establishment of an evidence-basis to guide the management of the vast marine. The MSP enables climate-sensitive, integrated management of the ocean territory to ensure safeguarding of livelihoods with consideration to projected climate changes and their impacts on marine health.
Institutions	**Climate-Related Responsibility**
Ministry of Finance Budget and Planning Department	The Bureau is mandated to formulate the annual national budget in line with approved developmental plans including the compilation of relevant economic and social statistics, geographic information, climate change impact, and project monitoring and evaluation to support policy development and implementation, and to certify the availability of funds for expenditures.
Climate Change Office, President's Office	Originally established in the MOF in [2016], transferred to the President's Office in 2023. Responsible for coordination of information, efforts, and activities on climate change between and amongst stakeholder (both government and non-government entities), being Government's climate change technical and political focal point, and developing, updating, and facilitating the mainstreaming of the Palau Climate Change Policy.
Environmental Quality Protection Board	Responsible for the conduct of Environmental Impact Assessments required for all projects (public and private sector and development partner projects).
National Emergency Management Office	Responsible for the coordination and implementation of preparedness, response and the immediate post-disaster relief arrangements, and working closely with all stakeholders.
Ministry of Agriculture, Fisheries and Environment	Responsible for policy advice and implementation in agriculture, fisheries, and environment.
Ministry of Public Infrastructure and Industry	Division of Capital Improvement Project (CIP) within the Bureau of Public Works

Palau Energy and Water Administration (PEWA)	Located within the MOF, regulates Palau's energy sector and responsible for ensuring safe water access. PEWA is also responsible for policy advice and is the project management unit for a number of renewable energy and energy efficiency projects.
State governments	States are the constitutional resource owners of all land and waters to 12 nautical miles and have the sole responsibility for land use planning. Priorities from state master plans, some of which are outdated (e.g., that for Koror State is from 1976) were incorporated in the PDP.

Source: Mission Team.

15. An important entry point for green PFM is incorporating climate change in the medium-term fiscal strategy. The President is required by law to submit to the Congress (Olbiil Era Kelulau—OEK) at the start of each administration – or as circumstances dictate – a Fiscal Strategy that outlines Palau's fiscal goals and policies and that clearly demonstrates adherence to the principles of fiscal responsibility. These principles are laid out in the FRDMA including managing the costs of natural disasters and the impact of climate change. Palau's first Medium-Term Fiscal Strategy for 2021–2024 contained references to climate change that were largely confined to the Climate Resilience Fund and the operation of the fiscal responsibility principles.[6]

16. The first step should be extending the limited discussion of climate change in the Fiscal Strategy. The Fiscal Strategy could usefully discuss key climate adaptation and mitigation goals and targets, their relationship with the government's economic growth strategy, its links to the PDP, how government intends to align budgets with plans, and actions it will take to reduce and manage the fiscal risks from climate change. would help ensure and highlight that macro-critical environmental considerations have been incorporated sufficiently in the analysis of the economic and fiscal outlook and in fiscal strategy. **Box 2** discusses the integration of climate change in medium term fiscal strategy in in Bangladesh.

Box 2. Integration of Climate Change in Fiscal Strategy Documents: Bangladesh

Two documents of special relevance and visibility, both published each year in June (the Bangladesh fiscal year is from July 1 to June 30), provide detailed information on the macroeconomic and macro-fiscal framework for the upcoming budget. Both documents integrate climate change concerns:

The Medium-Term Macro-Economic Policy Statement (MTMPS) covering the fiscal years 2023–2024 to 2025–2026 highlights in a section called "Mainstreaming Climate Change Issues" (pages 18–21) the vulnerability of Bangladesh to climate change and summarizes the main policy actions taken by the authorities in accordance with their updated NDC and NAP and discusses reforms to energy subsidies. Summary data is also presented on government spending on climate change adaptation, drawing from Bangladesh's climate budget tracking system.

Published at the same time as the MTMPS, Bangladesh Economic Review presents in more detail the macroeconomic scenario and a series of deep dives into specific sectoral issues. Chapter 15 on "Environment, Climate Change and Development" discusses the economic and fiscal policy rationale for climate action, as well as the overall government strategy and specific sectoral actions.

Source: Bangladesh Medium-Term Macroeconomic Policy Statement, 2023–2024 to 2025–2026 (June 2023) and Bangladesh Economic Review 2023 (June 2023).

[6] The second principle of the fiscal responsibility framework requires government to achieve rising real national net worth over time in part through investment in infrastructure. Principle 5 stipulates the government will manage reserves and insurance coverage to offset the costs of natural disasters, and the impact of climate change. Principle 7 stipulates that fiscal risk be managed prudently.

The Analysis of Climate-related Fiscal Risks

17. Palau is subject to periodic and significant climate-related disasters (see *supra* Figure 1). Disasters include sudden impact disasters (e.g., typhoons), slow onset disasters (e.g., sea level rise, saltwater intrusion, ocean acidification), and compound disasters, where the effects compound across more than one event e.g., typhoon, storm surge, and high tide.[7] Since 2012 there have been three major Typhoons: Hayan in 2012, Bopha in 2013, and Surigae in 2021. Surigae damaged critical water and power infrastructure. Other climate-related events include an El Nino drought in 2016, tropical storms (such as tropical storm typhoon Man Yi in November 2024), and floods and landslides. With respect to slow onset disasters, increases in sea temperatures are a major risk to coral reefs, with potential impacts on Palau's macro-critical tourism industry.[8]

18. The NDRMF covers disaster management and response as well as disaster risk reduction (DRR), but in practice the focus has been more on disaster response. The NDRMF 2010, as updated in 2016, sets out processes for post-disaster damage assessments, including comprehensive damage assessments covering impacts on public infrastructure. Such assessments are available for Typhoons Bopha (2012) and Hayan (2013) and provide useful inputs into estimating the fiscal impacts of past climate-related disasters.[9] The Bureau of Budget and Planning is tasked with ensuring that disaster risk reduction (DRR) is mainstreamed in planning and budgeting, but the requisite processes are not in place to ensure this (see also discussion below of public investment management).

19. An important gap in Palau is limited awareness of the wide range of sources of fiscal risks created by climate change. Risks relate not just to government spending but also to revenues and to the value of assets and liabilities. These fiscal risks are significant for macro-fiscal policy. Infrastructure assets are exposed both to physical risks from climate-related disasters and to transition risks. Transition risks are those risks arising from the shift to a low-carbon economy due to policy changes (e.g., carbon pricing), technological changes, and changes in consumer and investor preferences. Climate change also creates upside opportunities (positive risks), such as new technologies and the potential utilization of green financing. **Box 3** further elaborates on the wide range of fiscal risks from climate change.

20. With respect to transition risks, the transition to increased renewable energy production in Palau entails significant fiscal risks. The PPUC adopted the government's objective of generating 45 percent of electricity from renewable sources by 2025.[10] To that end in 2023 it signed a 20-year Power Purchase Agreement (for the private design, construction, financing, operation and maintenance of solar power infrastructure intended to increase renewable energy generation levels from 6 percent to a minimum of 20 percent. The contract includes a fixed tariff and a 'take or pay' clause. Constraints in integrating renewables into the electricity network (including lack of battery storage, lack of smart meters, reconfiguring the diesel generator distribution systems to safely take on additional renewable energy) have resulted in PPUC being able to utilize only a little over 50 percent of the contracted power supply. A further issue is the design of electricity tariffs—the

[7] Compound disasters may also involve interconnected risks due to physical interdependencies. For instance, it has been suggested that increasing electrification of the economy may increase the fiscal risks from damage to electricity infrastructure (OBR 2021)

[8] In the 2025 INFORM Global Risk Index Palau had an overall risk of 2.2, which INFORM categorizes in the low-risk class. Palau's score for hazard and exposure was 2.3m for vulnerability was 2.7, and for lack of coping capacity was 3.3.

[9] See for instance Bopha Catastrophe Relief Committee Final Report, on the NEMO web site.

[10] PPUC Corporate Plan 2021–2024.

responsibility of PEWA in the MOF—which presently do not require small scale solar electricity (e.g. household rooftop solar) to contribute to the costs of PPUC's distribution network. The government provides a budget subsidy to PPUC to reduce the cost of electricity to low-income households, and the National Development Bank of Palau (NDBP) provides low interest loans for households to install solar power (which result in further reductions in PPUC's revenue base).

21. The government needs an effective and efficient whole-of-government policy package to steer the transition to renewable electricity. The range of instruments and policies required to steer an efficient transition to renewable electricity is a major challenge for any government. There is no Energy Ministry in Palau, nor is there a specialized entity responsible for overseeing the activities of SOEs. The PFM Reform Roadmap Action Plans requires Government to strengthen SOE oversight and reporting including monitoring and overseeing SOE compliance, analyzing SOE performance/risk, and preparing annual report on SOE portfolio. In the short term, consideration should be given to obtaining expert advice for the Minister of Finance (the Responsible Minister for PPUC) on the design of the current policy mix and the effective mix and design of instruments and interventions to achieve an efficient transition to renewables while managing fiscal risks.

Box 3. The Wide Range of Sources of Fiscal Risks from Climate Change

Climate change creates fiscal risks through *physical risks* and *transition risks*.

Physical risks include:
The costs of adapting to climate change due to the likely increased incidence and severity of natural disasters and the increased exposure of assets to disasters e.g., preventive costs (such as building protective infrastructure such as flood barriers, retrofitting or building new infrastructure to higher standards) and recovery costs (such as replacing damaged infrastructure). The additional upfront costs of building more resilient assets depend on the asset, the hazard, and the country, and could subsequently be offset by lower maintenance and repair costs - although the upfront increase in cost must be financed in the meantime (Hallegatte, et al., 2019).

The costs of *maladaptation* to climate change, such as continuing to construct public infrastructure in, and to allow private investment in, areas highly exposed to climate-related disasters.

The costs of mitigation of GHG emissions. Building new low carbon infrastructure generally entails higher initial capital outlays, although the cost of renewables has fallen, and operating costs may be lower. Governments may need to part-finance the transition to a low carbon economy to meet their international and domestic climate commitments e.g., investments in the electricity network to accommodate renewables, public transport, and fiscal support to de-risk private investment.

Transition risks are the risks arising from the shift to a low-carbon economy due to policy changes (e.g., carbon pricing), technological changes, and changes in consumer and investor preferences. Transition risks include:

- loss of revenues derived from fossil fuels, including taxes and excises on fossil fuels as the energy and transport sectors electrify.[11]
- the loss of value of public fossil fuel power stations (and other carbon-based infrastructure) as carbon prices increase—these assets, particularly those recently or newly constructed, risk becoming 'stranded assets;'
- side effects for a given country of measures adopted by other countries (e.g., impact of a possible carbon border tax on exports to important trade partners, or of restrictions or taxes on air travel in the tourism sector);
- changes in climate-related consumer or market preferences that can impact on demand for a country's exports of goods and services, such as tourism;

[11] In the UK the potential loss of fuel and excise revenues has been estimated at 1.5 percent of GDP, a key component of the fiscal cost of getting to net zero emissions. See OBR 2021, Box 3.2.

- delayed or poorly designed transition that results in inefficient and ineffective public spending or additional macroeconomic impacts.

Source: Mission.

22. Palau has several financial mechanisms in place to manage the fiscal impacts of major disasters. The FRDMA 2021 authorized the establishment of a Cyclical Reserve Fund to offset shortfalls in local revenue and to serve as a reserve for declared national emergencies. The Act provides that not less than 2 percent of unrestricted local revenues be appropriated annually to the fund.[12] The FRDMA also created a Climate Resilience Reserve Fund intended to provide cover for small to medium-sized disasters. However, both funds are short of their targets, and the 2024 EFU indicated that funds will be allocated to the reserves in coming budgets. No target has been set at this stage for the level of reserves in the Climate Resilience Reserve Fund. Finally, the government has subscribed to an ADB Disaster Resilience Program with immediately available loan funding of up to $20 million. The 2024 EFU indicated that potential climate events might require greater funding and that additional insurance options need to be examined.[13] The Cook Islands provides an example of a layered approach to disaster risk financing, starting with an annual budget contingencies appropriation and with additional financial reserves as well as risk transfer (insurance) instruments. **Box 4** describes the arrangements in the Cook Islands along with that country's other disaster risk financing mechanisms. Countries are increasingly assessing the adequacy of their financial protection against disasters of varying severity through preparation of a disaster risk financing strategy based on a review of the fiscal impacts of past disasters, assessment of future risks, mechanisms to meet regular in-year demands on the budget, and an analysis of the fiscal exposure to major disasters and effective and efficient levels and types of financial protection.[14] The World Bank is currently updating earlier estimates for Palau of exposure to damage from disasters, which would be an important input to an exercise to develop a disaster risk financing strategy for Palau.

23. Mechanisms for financing the costs of climate-related disasters in Palau do not include an annual contingency appropriation in the national budget to meet the costs of smaller regular disasters. Because budgets represent plans for the upcoming year, and some events are uncertain, governments should establish practices to deal with contingencies. In Palau there is a revolving Road Maintenance Fund but no general contingency line.[15] The budget should have adequate allocations for contingencies that arise during budget execution.[16] For instance, an annual budget contingency line enables rapid response to smaller scale and possibly regular disasters, allowing faster restoration of infrastructure and resumption of service delivery compared to resorting to virement between budget heads that can disrupt other activities or waiting for a supplementary budget. It is important that contingency lines be designed in ways that retain budget discipline and.

[12] Appropriations and spending for the three years 2019/20–2021/22 were approximately 1 percent of the general fund expenditure for the emergency reserve, meeting the 2 percent of domestic revenue target in each year. PEFA Performance Assessment Report 2022, p. 21.

[13] The Palau National Preparedness Baseline Assessment 2023, prepared by the Pacific Disaster Center, recommended assessing the need for additional disaster risk financing and insurance options.

[14] See Disaster Risk Finance: A Primer, World Bank Group 2018, Core Principle 3: Disaster risk layering: No single financial instrument can address all risk.

[15] At the state level, Koror State has a small annual budget contingency line that is available to meet unforeseen events including the costs of repairs following localized disaster events.

[16] See the IMF's Fiscal Transparency Code (2014) 3.2.1.

Box 4. A Layered Approach to Disaster Risk Financing in the Cook Islands

The Cook Islands has an annual contingency appropriation available to meet the costs of small disasters and additional ex ante financing mechanisms in place to meet the costs of larger disasters including risk transfer (insurance) instruments.

Under the Cook Islands Government Financial Policies and Procedures Manual a budget general contingency line is available, amongst other purposes, to meet operating costs due to smaller more frequent climate-related damage to public infrastructure. In practice this is one of the main uses of the appropriation, the size of which has varied, and which was $100,000 in 2022/23. There is also contingency funding in the Ministry of Infrastructure's budget of $200,000 which can meet costs from disaster-related damage to roads.

There are additional layered ex-ante financing mechanisms to finance the costs of major disasters. These include market indemnity insurance against disaster damage for some government and SOE infrastructure assets e.g., electricity generation assets; a disaster emergency trust fund established in 2017; a Disaster Recovery Mechanism loan from the ADB of $30.3 million, triggered in the event of a catastrophe; and parametric insurance coverage since 2014 under the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) for cyclones with a 1-in-10-year probability of occurrence with pay-out based on the assessed severity of a specific cyclone.

Source: Mission.

accountability, as outlined in **Box 5.** Amongst Pacific Island countries those that have contingency lines include Fiji, Tuvalu, and the Cook Islands.

Box 5. The Design of Budget Contingency Appropriations

The size of the contingency reserve should not be so large as to undermine budget discipline or accountability to the legislature nor so small as to be consistently exhausted part way through the year. In most countries, this implies a contingency appropriation of between 1 percent and 3 percent of total budgeted expenditure, but the size should be determined by country circumstances. In this region spending from the contingency line in Fiji averaged 0.3 percent of total expenditures over the three years 2020–2021 to 2022–2023, while in Tuvalu spending averaged 1.1 percent of total expenditures in the period 2021–2023.

A "contingency reserve" can take several forms. In many countries, it is an unallocated appropriation in the annual budget law, access to which is regulated based on certain criteria and requires the approval of the ministry of finance. In other countries, it is a fund with an appropriate amount of financing authorized under the legal framework and replenished at the beginning of each fiscal year, depending on the drawdown during the previous year.

Contingency reserves should be presented clearly in the budget, with transparent criteria in place governing the circumstances under which they can be used, and expenditures should be reported in budget execution and year-end reports. Any unused contingency appropriation should lapse at the end of the budget year and not be carried forward to the next financial year.

The criteria for access to a contingency appropriation might include that the expenditure must be urgent and cannot reasonably be held over for consideration in a supplementary budget or the next annual budget cycle; it must be unforeseeable; it must be unavoidable; and it cannot be absorbed from within existing budget appropriations. It is sometimes easier for contingency spending to be defined by what it is not rather than what it is, an approach adopted by South Africa.

Source: 2018 Fiscal Transparency Handbook, pp. 112-114; and Mission.

24. There is insufficient discussion in the EFU of the actions Palau has taken or has underway to reduce and manage the fiscal risks from climate change. As required by the 2023 FRDMA, the 2024 EFUs contained analysis of Palau's exposure to natural disasters and of the finances of the cyclical and climate reserve funds. Recognized good practice for governments when publishing information on fiscal risks is to state how the risks are being managed, including actions being taken on ex ante disaster risk reduction as well as ex post financial protection. For example, in the Turks and Caicos Islands, the fiscal risk assessment section of the Fiscal and Strategic Policy Statement lists natural disasters resulting from climate change as a primary source of fiscal risks and identifies risk reductions (e.g., improving building codes and monitoring, strengthen reefs), risk financing (e.g., catastrophic risk insurance and mandatory private insurance), as well as possible post disaster/catastrophic event responses (e.g., contingency fund, budget reallocation, national wealth fund) - although there is as yet limited analysis and discussion of the risks and risk mitigation. Quantifying the fiscal risks from climate change is a medium- to long-term analytical challenge where additional assistance will be required. Countries typically expand and deepen the discussion of fiscal risks over time, focusing on areas of most significance as capacity allows. The Philippines is considered as a good example.[17]

Recommendations

Issue: There is limited discussion of climate change in the 2021–2024 Fiscal Strategy, largely confined to the Climate Resilience Fund and the operation of the fiscal responsibility principles.

- **Recommendation 1:** Focus the 2025–2028 Fiscal Strategy on a small set of priority climate adaptation goals that are most relevant to Palau's national development objectives. These priorities should be aligned with the Palau Development Plan (PDP) and supported by practical, phased actions to manage fiscal risks from climate change. Rather than attempting a comprehensive overhaul, adopt an incremental approach—for example, gradually integrating climate considerations into fiscal planning and leveraging external technical and financial support where needed.

Issue: There is no annual contingency appropriation in the national budget to meet the costs of smaller regular disasters and there are potential gains from analyzing the level of protection in place to meet the fiscal impacts of major disasters and the interactions between the different instruments.

- **Recommendation 2.1:** Establish a small annual contingency line in the budget to meet unexpected and unavoidable expenditures.
- **Recommendation 2.2:** Develop a phased Disaster Risk Financing Strategy, based on a review of the fiscal impacts of past disasters, mechanisms to meet regular in-year demands on the budget, and additional layers of financial protection including reserves and risk transfer instruments. Ensure that reforms remain realistic and do not overwhelm limited institutional capacity.

Issue: The transition to increased renewable energy production in Palau is creating significant fiscal risks that require a whole of government policy response that includes electricity sector regulation, investments by PPUC, public investment spending, subsidies, and the activities of the NDBP. The government can benefit from external support in developing a policy package.

[17] https://www.treasury.gov.ph/?page_id=7376.

- **Recommendation 3:** In the short term seek external TA support for the design of an effective and efficient policy package to steer the current transition to renewable electricity.

B. Budget Preparation and Approval

Priority Setting at the Start of the Budget Process

25. The setting of national strategic policy goals at the start of the budget cycle is a key entry point for the consideration and articulation of green priorities. Climate change is a cross-cutting goal requiring responses that are coordinated across government. There is no single ministry or single-ministry-led strategy that can encompass a complete response to climate change. It is not possible that individual ministries, operating alone within their own sphere, can propose a full set of responses to climate change that enables realizing of the government's climate goals. Coordination across government is required. It is therefore recommended that a policy focal point within the MoF be established to lead this coordination—which must necessarily include engagement with the Climate Change Office—to provide advice to the Minister of Finance and the President on how to shape Palau's climate resilience.

26. Engagement should be undertaken with ministries early in the budget process to capture emerging issues that are impacting the ability to realize climate change policy goals. This engagement should occur while agency level reviews of performance are being done at the start of the budget process. Such engagement should be led by the focal point in the MoF but must necessarily involve engagement of the Climate Change Office and key agencies such as Ministry of Agriculture Fisheries and Environment (MAFE).

27. Agency-level performance planning is an existing element of the performance management framework, but it does not currently require assessment of impacts on climate change. The FRDMA[18] requires each agency to prepare an annual Performance Report which is both a backward-looking report on prior performance and a forward-looking statement of objectives, goals and performance targets. In this respect, the performance reports are intended to be akin to both a performance report and a short-term plan with performance targets. Performance reports are intended to support the resource allocation decisions and the oversight function of the OEK in the context of the budget. The requirements for preparing performance reports are set out in a directive issued in January of each year (as set out in the budget calendar), which mandates that reports be submitted to the President, the OEK, and Public Auditor by the 15th of April each year, prior to OEK hearings which assess agency performance. The content and nature of such reports is elaborated in significant detail in a Medium-Term Strategic Planning Manual. This manual describes the annual performance report as "the linkage through which the goals and strategic objectives identified in the MTSP are translated annually into cost-estimated, prioritized and policy-consistent programs and projects." However, the planning and budgeting framework outlined in the Medium-Term Strategic Planning Manual includes references to many features which do not exist in practice, such as a MTSP (this has been replaced by the PDP), and a medium-term expenditure framework that incorporates a programmatic approach to budgeting that is yet to be realized. Retaining these features without clarification creates confusion and weakens the Manual's relevance. To ensure the Manual remains practical and credible, references to obsolete instruments should be removed, and aspirational elements clearly identified as future goals. Additionally, the Manual should be updated to incorporate climate change considerations

[18] Subchapter IV, section 371.

within development planning, reflecting current priorities and aligning with the PDP. Importantly, the development plans referenced in the plans do not include a focus on climate change.

28. Agency-level annual performance reports are however a potential entry point for green PFM in Palau but the linkages with the planning framework and to the budget process need to be strengthened. The preparation of the performance reports in the context of the budget preparation could provide a stronger link to the PDP and include a specific focus on planning to support climate change related goals. In order to promote consideration of the potential impact of agency plans on climate policy goals, the forward-looking aspect of the plans needs to be strengthened and must include consideration of national climate policies such as the Climate Change Policy, and the upcoming NAP. The performance reports would be more effective as a planning tool if they describe how the work of each agency is planned to evolve to respond to opportunities and threats in the pursuit of target outcomes set out in the PDP. The FRDMA contains provisions which enables the President to expand the required content of the performance reports. To promote a focus on climate action in agency planning, it is recommended that the President require performance reports to articulate how the planned activities of each agency will contribute to the goals outlined in the PDP and the national climate change policy.

29. Capacity development is required to ensure that performance reports become an effective tool for planning climate action, During the mission, both the MoF and agencies expressed concern that the performance metrics included in the performance reports were not meaningful, in the sense that they often do not align with existing development plans, baselines levels of performance are not agreed, and targets identified often do not reflect limitations on the availability of resources. A key prerequisite for this entry point for green PFM in Palau is to build awareness of how performance reporting should inform decision-making, to facilitate the development of sound performance metrics with realistic baselines and support an understanding how the design of policies, programs and projects can impact on national performance in attaining climate change related goals.

30. The budget submissions should be a mechanism for elaborating potential changes in performance outcomes, including for realizing climate policy. Whereas the performance report published at the start of the budget process reflects existing resources, the budget submissions should provide an opportunity for the respective agencies to describe how changes to policies and funding may impact on their performance. The budget circular should be expanded slightly to include an elaboration of the government's strategy and priorities for addressing climate change and request that all new revenue, policy and projects proposed in the budget are in line with climate changes policies and plans. Suggested changes to the call circular are set out in **Annex B**. Changes to the development project budget submission forms are proposed which require consideration of how the project would impact on agency level performance metrics, including climate change policy goals. The same form should also be used for changes in recurrent spending which expand the total level of spending by an agency. The existing form, with proposed changes marked, is set out in **Annex C**. To the extent that the allocation of resources to new projects or recurrent activities would impact on planned performance, a draft revised performance report should be included with the respective budget submission. If such changes in funding are approved, a revised performance report should be published by the respective agencies upon approval of the budget.

Budget coverage and presentation

Expanding Budget Coverage

31. The budget process provides a mechanism for strategically prioritizing climate actions but needs to cover all funding sources. Currently, the budget process is used as a mechanism primarily for allocating domestic revenues. Historically, domestic revenues have been used almost exclusively for recurrent spending, with development projects funded by borrowing, PPPs or external sources (the largest of which are the Compacts of Free Association (COFA) with the US). Processes external to the budget process are utilized for allocating external funding to development projects. Specifically, a budget submission form is not a prerequisite for gaining access to such external funding. In addition, the allocation of external funding to projects is not specified in detail in the budget, rather the budget law provides a generic appropriation for all external funding received. This poses a challenge for utilizing the budget process as an entry point for assessing projects for their alignment with climate change related goals and strategies – specifically because the analysis and performance frameworks associated with the budget process may be avoided via this alternative pathway to funding. The current practice is counter to international models of good practice, which favor maximizing the coverage of funding sources in the budget.

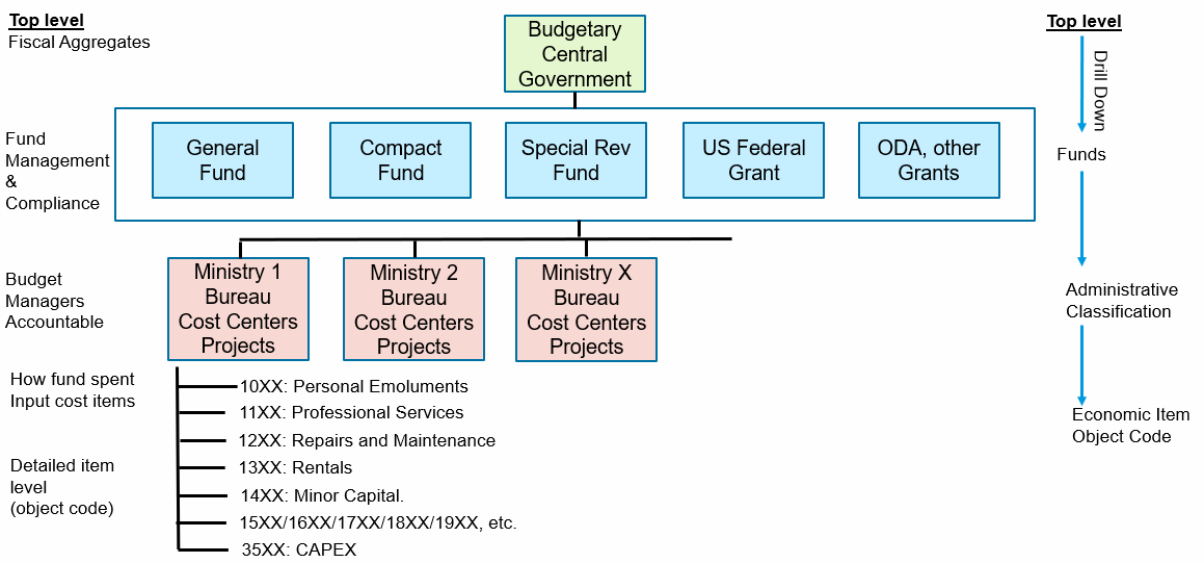
32. It is understood that there are no impediments to making all resource allocation decisions in the context of the budget process. From a legal perspective, the FRDMA (s.323 and 324) describes the budget process as including both “operating” and “capital improvement” elements, and providing for separate submissions for each, but a requirement for the budget documents to detail all expenditures (without making such distinction between operating and capital). From a practical perspective, Treasury systems effectively classify expenditures according to funding source and report on this basis during budget execution. Both the National Infrastructure Investment Plan (NIIP) and the PDP contemplate the allocation of funds to specific projects via the annual budget process. The Compact Agreement with the US also explicitly describes the Annual Implementation Plan being developed in conjunction with the budget process. The current practice of appropriating grant and development assistance grants to the extent that they are received (without limit) could continue. However the budget process would be more robust, and the entry point for consideration of climate response more consistently applied via the budget submission process, if the budget included a list of projects for which such external funds may be appropriated, and the budget law reflected such a requirement.

Strengthening Budget Disclosure

33. One key aspect of the Green PFM reform agenda is to include additional information on climate responses in the budget documents, but these are currently very limited. Currently there is no budget estimates book or other budget document in which to present these narratives. The sole budget document is the annual Appropriation Act. The absence of a budget estimates book is recognized in the PFM Roadmap 2023–26, (Activity 2). Activity 2.1 aims to develop a comprehensive budget estimates book, which presents the budget in various levels of aggregation and granularity, starting with the fiscal aggregate tables, leading down to granular presentation of the budget for each ministry by the lowest level of the chart of accounts (CoA), i.e., by Fund, Department, Program/Project, and economic item (Object Code). Most countries globally publish their budget estimates books, and this is viewed as good PFM practice. The regional examples include budget

estimates books produced by Cook Islands[19] and Fiji.[20] **Figure 4** below shows the hierarchy of budget tables to be presented in the budget estimates book. It should be noted that whilst this level of detail is proposed for the budget estimates book, the format of the Appropriation Act will not change.

Figure 4. Suggest Structure of Budget Tables



34. The proposed budget estimates book would present a suite of summary tables and detailed schedules for each ministry. Examples of these tables could include:

- Fiscal Aggregates (possibly in Government Finance Statistics format).
- Total budget by ministry by fund.
- Total budget by ministry by economic item (object code).
- Projects supported by the budget (all funding sources)
- Detailed line-item schedule of budgeted expenditures in separate sections for each ministry.

It is important to note that adding additional details to the budget estimates does not imply that the budget should be appropriated at a higher level of detail. Our recommendation is to continue to structure the appropriations in the annual Budget Law according to existing practices, with the additional information in the budget being used for explanatory purposes, to enhance transparency and budget execution management purposes. As projects are listed in the estimates, with associated funding sources, it will be possible to identify in advance local budget funds (domestic revenue sources) to be appropriated for capital projects when such possibility arises.

35. Whilst this "off budget" practice has some measures of convenience, it represents a weakness from a budget planning perspective. Under current practice grant-funded expenditures are essentially "off-budget." In accordance with the Appropriation Act these expenditures are considered to be appropriated automatically upon receipt of the grant[21]. There is no budget document showing the totality of planned budget spending for the coming financial year. Furthermore, when

[19] https://www.mfem.gov.ck/_files/ugd/7896aa_75cfb6ae8bda4ba8a8e760002fd01afe.pdf.

[20] https://www.finance.gov.fj/wp-content/uploads/2024/07/Final-Budget_2024-v2-3.pdf.

[21] Section 20 states that all external funds received from development partners and donors, including, but not limited to the US Federal Program Grants, Japan Grant Aid, and other countries, organizations, or individual donors, are hereby authorized to be appropriated and are appropriated for Fiscal Year 2025 in the amounts received for those specific programs or projects for which they are granted, donated, or otherwise contributed.

projects are appropriated automatically, they are appropriated in the full amount of the grant, whereas in many instances the project funds may be expended over multiple years. Typically, in many other countries, the budget estimates book presents the total cost of each project with a breakdown of planned spending by financial year. As outlined above, it is recommended that all project funding be brought on-budget, with the budget estimates book listing the projects planned to be delivered by each agency (split out by funding source). Also as set out above, it is recommended that there be an open-ended appropriation for donor-funded projects (what is received is automatically appropriated) but that only projects listed in the budget estimates book may be allocated such appropriation.

36. PFTAC plans to provide CD support to the development of the budget estimates book. Given current timing in the budget cycle, it is unlikely that the budget estimates book could be prepared to support and accompany the Appropriation Bill for FY2025/26. However, it is feasible to prepare the book retrospectively. This could be undertaken as a learning exercise using the completed fiscal year FY2025/26 and for the new budget year (albeit after the budget is approved) for FY2026/27. The aim will then be to embed the formulation of a comprehensive budget into the annual cycle for FY2026/27, planning expenditures from all funding sources, and presenting the budget estimates book with the Appropriation Bill. This would then inform the approach and methodology for preparing the FY2026/27 estimates book. Grant funded project agreements could be analyzed to determine the responsible ministry, expected disbursement profile by financial year, and break down of input costs by economic item.

37. The development of the budget estimates book provides the opportunity for ministries to present narrative on their climate intentions. The section header for each ministry could provide a brief summary of the total budget, including budgeted expenditures from all sources, including a list of all projects (from all funding sources), which are under the control of the ministry. The header could also incorporate a short narrative on planned climate-related activities and outputs. The header section would also be useful for briefly describing the linkages to the PDP indicators. **Box 6** below shows an indicative proposal for the header section.

Climate Budget Markers

38. Effective climate budgeting requires keeping track of budget allocations and policy decisions which are intended to impact on climate policy goals. “Tagging” is a mechanism within the PFM system for identifying and tracking governmental budget interventions that impact on climate goals and utilizing this information in budgeting. Climate tags label budget items that are expected to contribute to mitigating or adapting to climate change. After identifying interventions which are expected to impact on climate outcomes, tagging allows for tracking such interventions across the budget cycle.

39. Climate markers serve three key purposes, which all promote effective policymaking. Firstly, markers identify climate-responsive elements of the budget (the catalogue of markers can be used in preparing budget policy statements). Secondly, markers enable the tracking of elements of the budget which are identified as contributing to the response to climate change during budget execution. Thirdly, markers support the development of new policy and specific supporting initiatives in the context of the budget.

Box 6. Indicative Example of a Header Section

Section X.X Ministry of Agriculture, Fisheries and Environment (MAFE)

General Fund		
Minister		58,000
Bureau of Fisheries		835,900
Bureau of Agriculture		776,800
Bureau of Environment		257,900
	Total GF	**1,928,600**
Grant Funded Projects		
US Federal Grants		627,550
Other Grants		14,507,404
Total Ministry		**17,063,554**

Linkages to PDP

- *Brief narrative….*
- *…….*

Planned Climate Outputs

- *Brief narrative…*
- *……*

Note: Data from 1st Quarterly Report 2025. Further analysis of projects would be needed to determine all those under control of MAFE.

40. Marking is desirable because the existing chart of accounts does not consistently identify or track climate-related initiatives. A key reason for climate tagging is to gain the capacity to systematically identify and track government interventions in the economy and society that impact on this policy goal in situations where the traditional budget classification does not effectively capture such information. The organisation classification structures can be used as a starting point to identify some activities that are intended to impact climate change outcomes, for example by tracking spending of the Climate Change Unit, but this is insufficient to inform exhaustively on the broader efforts across government to address the climate change challenge. This is notably because many of the activities which impact on climate outcomes are embedded within entities which have a broader policy purpose. As an example, if the Hospital in Koror is relocated to mitigate the potential impact of sea level rise and coastal inundation, this is an initiative that is worth identifying but this would not be possible if we can only see it as spending by the Ministry of Health.

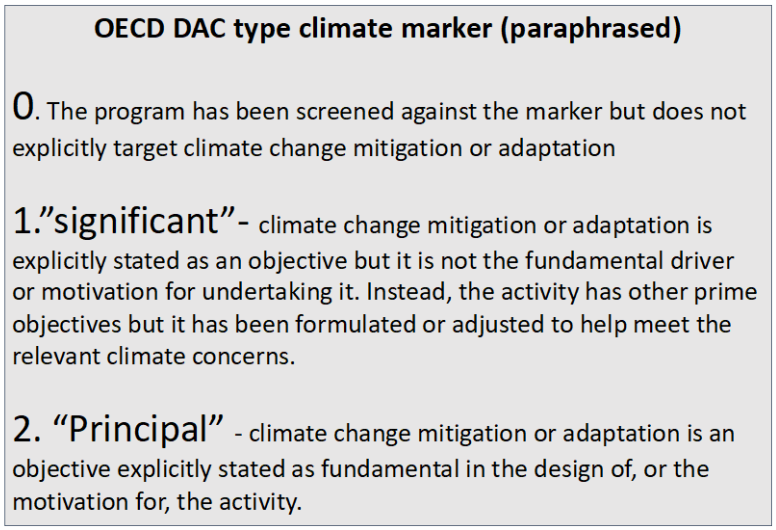
41. A key decision when undertaking tagging is to determine what to tag. It is logical to apply tags to an existing segment of the chart of accounts as budget submissions, decisions regarding resource allocation (which in turn reflect policy decisions), legal authorisations, budget controls and reporting are all defined according to the CoA classification. Tags could be applied to the organization segment, but this is too general and does not provide much detail on the nature of the policy or activity that is identified as impacting on climate change. It is suggested that the existing project segments be tagged for intended climate impact. However, it is recommended that the use of the project segment be expanded to include projects of a recurrent nature (being activities which are planned to operate within a defined time period to produce a specific output). See **Table 2** below.

Table 2. Example of Table Applying Markers to Project Codes

Project Code (FMIS)	Project name	Tag	Comment
123456	Renewables project xyz	2	Mitigation - GHG reduction
234567	School ABC	1	Adaptation - location of school chosen to avoid sea level rise. Construction to withstand hurricane force winds.
345678	Tokyo embassy reno.	0	No assessed impact on climate goals

42. The tagging process seeks to identify those projects which have an impact on climate goals and the primacy of that impact. For those project that have intended impact, tags can differentiate between whether that intended impact is the primary purpose of that intervention or, alternatively, is an impact that is significant but not the primary reason for pursuing that initiative (that is, the impact is secondary). The OECD Development Assistance Committee (DAC) has elaborated a tagging regime for climate which reflects this approach, where a tag of "1" is applied for "significant" interventions which have an intended impact on climate goals, but these are not the primary reason for delivering that program and a tag of "2" is applied where the primary reason for pursuing a particular initiative is the impact directly on climate goals. This methodology is detailed in **Figure 5.**

Figure 5. OECD DAC Marking Regime



Source: Mission team summary of OECD DAC Rio Markers for Climate.

43. Tagging should ideally be done in the context of the budget cycle but may require a one-off exercise to cover existing projects. The budget submission forms for development projects can be expanded slightly to include some additional questions which identify the impacts of each prospective new project on climate policy goals. These questions can help to identify whether the project's impact would be considered a "significant" factor in the design of the project or the "principal" reason for the design of the project (or neither). This information can be used to determine an OECD

DAC type tag for the project. An excel spreadsheet can be maintained of the name of each project that is funded and what is the tag associated with that project. Once the project is approved for funding and funds are received, a project code will be assigned for the project in the FMIS and this project code can be added to the tagging spreadsheet. In addition, if time and resources are available a small working group could be assigned the task of reviewing all existing projects and assigning a tag to all projects which are assessed as having an impact on the delivery of Palau's climate change policy. This spreadsheet can be used like a mapping table to take project level data from the FMIS and convert these to reports which track the execution of all climate-relevant projects.

44. Care should be taken not to present aggregate spending associated with tagged projects as a "climate budget." It is important to recognise that, while a tagging table will logically identify the cost associated with specific tagged initiatives, it is quite problematic to seek to add up all expenditure on climate to present a climate budget as a single number. The reason why is that the size of the spending does not reflect the size of the impact. As an example, a decision to locate a new school away from the seaside may involve an unknown (small) incremental cost and should be tagged based on the enhanced resilience to sea-level rise, but it would not be appropriate to suggest that the entire project cost is "climate spending." In preparing a climate statement in the budget, rather than seeking to present the cost of all tagged projects, it is much better to describe existing policy problems, the nature of the government's policy goals and strategies and then elaborate how specific initiatives contained in the budget impact on those goals, informed by specific performance targets.

45. Tagging should ideally be done in collaboration between the respective program managers, the climate change unit and the Bureau of Budget and Planning in the MoF. Program managers have expertise regarding the design of their policy and program, and direct experience of how the program impacts might impact on climate goals, which is critical knowledge for tagging. The Climate Change Office can be expected to have knowledge regarding the nature of the policy problem, national policy commitments and be able to draw linkages across government and internationally. The MoF should have the capacity to define the budget process in such a way as to ensure that resource allocation decisions reflect adequate engagement and analysis regarding policy and performance. Each of these players is therefore required to participate in the tagging process. Training would be required for staff in each of these entities to engage in tagging effectively. In addition, a strong quality assurance process is required, to ensure that tagging decisions made by one of these three parties is systemically verified by peer review of the others.

46. Green budget statements help to build awareness of the policy issues associated with climate change and the associated responses by the government. The information presented with the budget is weak compared to most countries and not sufficient to transparently present a complete picture of Palau's response to climate change. As cross-cutting policies can have an impact on organizations across the government, it can sometimes be difficult to get a complete picture of the collective effectiveness by looking only at individual Bureaus and their performance reports. This is particularly the case where responses to climate are embedded within a project which serves a broader purpose. A comprehensive statement of cross-cutting green policies and impacts can provide an overview of government's climate policy priorities, the budget measures targeting this issue, and the overall impacts of the budget on achieving the government priorities. A template for a green budget statement is presented at **Annex D.** There are countries which publish information on climate change in their budget statements and the observed benefits are identified in **Box 7.**

Box 7. Benefits of Green Budget Statements

Signal government's commitment: A Green Budget Statement (GBS) highlights the government's dedication to environmental sustainability, marking this as top policy objectives.

Outline the methodology: Some countries include within their green budget statements information regarding the approach that is being taken. The statement can provide information on the emerging practice of green budgeting, including the processes and institutional arrangements but also challenges associated with data collection etc.

Strategic planning: It demonstrates how green strategies translate into specific policies, aligning with the resources allocated, ensuring effective implementation of priority areas. This often includes details of the specific measures taken in the budget to address climate change.

Support for budget preparation: GBS encourages line ministries to thoroughly assess and rationalize their proposals that address environmental issues, aligning budget requests with the associated priorities.

Transparency: By consolidating environmental policies at the whole-of-government level, the GBS enhances visibility and accountability. It allows external parties like parliaments, NGOs, and other stakeholders to monitor policies comprehensively, providing a clear, top-down view of environmental objectives and strategies across all sectors.

Source: Mission.

Recommendations

Issue: Climate change policy and associated goals are well developed but there is a challenge in progressing comprehensive integrated actions to realize these goals. Agency level planning processes and the annual budget process are not supportive.

- **Recommendation 4:** Articulate a short-term strategy on climate change at the start of the budget process to guide resource allocation decisions that align with longer term climate change policy goals.

Issue: The potential impact of various government initiatives (revenue, policy, spending initiatives) on climate change goals is not systematically assessed.

- **Recommendation 5.1:** Require that annual performance reports (plans) articulate how the planned activities of each agency will contribute to the goals outlined in the PDP and the national climate change policy.

- **Recommendation 5.2:** Amend budget call circular and forms so that both capital and recurrent requests articulate how prospective funding change for policies and projects will impact on agency performance, including impacts on climate change policy.

Issue: The limited coverage of the budget contributes to the weakness of the budget process in coordinating responses to climate change.

- **Recommendation 6: Expand** the coverage of the budget (and associated consideration of climate impact) by mandating that all new funding requests (involving all prospective funding sources) be assessed through the budget submission process according to the budget calendar.

Issue: The manner in which various actions are being coordinated (and funded from numerous sources) is not well articulated.

- **Recommendation 7.1:** Implement a basic system of climate tracking by keeping a spreadsheet which assigns a tag based on an assessment of the impact of individual projects on climate change goals.

- **Recommendations 7.2:** Prepare and publish a green budget statement which articulates the government's climate change policy goals, its approach to green PFM and elaborates on the polices, projects and any other interventions supported by the budget to realize these goals.

C. Public Investment Management (PIM)

47. Climate-aware public investment is key for the transformation to a more green and resilient economy. At every stage of the cycle, key public financial management practices can support the achievement of green objectives. Integrating climate considerations into public investment management should guide multiyear investment planning and project selection and appraisal procedures, including the assessment of climate risks and vulnerabilities. International experience indicates that countries are generally more effective at incorporating climate change considerations during the planning stage than during the implementation stage.

48. While the likely increase in the incidence and severity of climate-related disasters is widely recognized, the understanding of the exposure of existing and planned public infrastructure to these risks is less well developed. Public infrastructure is particularly exposed to climate change because of its long-lived nature.[22] **Annex E** explains the terms and concepts that are the core building blocks in assessing the risks to public infrastructure from climate-related hazards. While the 2023–2026 PDP and the 2021–2024 Fiscal Strategy refer to the need to improve future climate resilience in the existing stock and future investments in infrastructure, there has been limited progress in these areas with respect to domestic investment or investment financed from Taiwan grants and the new US Compact investment programs.[23] Several Development Partners have incorporated climate-sensitive procedures in the design of new public infrastructure projects in Palau, but there is no operational Public Investment Guide or instrument that regulates domestic public investment, and which could be adapted to incorporate climate-sensitivity. In practice it is the annual budget process where a climate perspective can at this point be introduced in the assessment of ministry bids for funding from the development budget—as discussed above.

49. There are no national building codes although the Bureau of Public Works (BPW) Capital Improvement Program (CIP) has promulgated higher wind-resistant construction standards that apply to the public sector. Following the typhoons in recent years CIP has promulgated higher wind-resistant construction standards that apply to the public sector (but not to the private sector).[24] The CIP also has a practice of ensuring new public infrastructure (e.g., roads, schools) that it is responsible for designing and constructing on behalf of national government entities meets a minimum standard for height above mean sea level, informed by projections of future sea level rise. However, national building codes are not in place.

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[22] In recognition of this the IMF developed the Climate Public Investment Management Assessment instrument (C-PIMA) in 2021, See https://infrastructuregovern.imf.org/content/PIMA/Home/PimaTool/C-PIMA.html

[23] The 2021-2024 Fiscal Strategy contained FS policy action 16: Public infrastructure management will be strengthened to facilitate timely and resilient investments.

[24] The standard is issued under an EO that empowers the Bureau of Public Works to issue an instrument regulating national government entities.

50. The Environmental Quality Protection Board (EQPB) is responsible for issuing permits to project developers after assessing potential impacts on the local environment. The Environmental Impact Assessment (EIA) regulations do not consider the potential exposure of projects to natural disasters (nor the impact of projects on GHG emissions).[25] Some countries have adapted their EIA regulations to include consideration of disaster resilience, and this could be considered in Palau. It would address the resilience of new projects put forward by the public sector, development partners, and the private sector. With respect to private projects, this would help address the implicit fiscal risk for governments i.e., potential pressure on government to provide fiscal support to businesses or households suffering losses from natural disasters. **Box 8** describes the incorporation of climate change adaptation in the Philippines Environmental Impact System.

Box 8. The Incorporation of Climate Change Adaptation in the Philippines Environmental Impact System (PEISS)

The incorporation of climate change adaptation and disaster risk reduction concerns in the PEISS is guided by EMB Memorandum Circular 005, 2011. With this issuance the EIS/IEE screening form used by the Bureau was modified to include Climate Change Adaptation (CCA) and Disaster Risk Reduction (DRR) concerns early in the EIA process.

Under the EIA DRR/CCA Technical Guidelines, the screening process is strengthened with the use of hazard maps generated by mandated agencies (e.g., PHIVOLCS, MGB) and climate change projections generated by PAGASA.

Project scoping stage: scoping must determine whether natural hazards and/or climate change is/are relevant and should be included in the EIA – whether in relation to potential changes to the environment, or in consideration of the effects of the environment on the project.

Scoping must consider both natural hazards and climate change in relation to:

- Project design criteria – review and justify current project design criteria and code-related issues (i.e., regulatory requirements such as safety, structural) with respect to predicted climatic changes and to the physical environment over the lifespan of the project. If necessary, amend the project design criteria appropriately and/or apply modified design factors to the project.
- The historical and projected occurrence of tropical cyclones and other extreme climate events in the proposed project location that may affect project design, construction, implementation or abandonment.
- Examination of the consequences of climate variability and changes as well as the effectiveness, costs and feasibility of adaptations that can reduce vulnerability at the project level.
- Possible adverse effects of the environment (in terms of natural hazards and/or climate change) on the project may include destruction of the project or components of the project; negative impact to the operation and productivity of the project; increase in cost of project development; revisions of project design; increase in maintenance frequency and costs; and requirement for future project modifications.

Source: EMB Memorandum Circular 005, 2011 (Incorporating Disaster Risk Reduction (DRR) and Climate Change Adaptation (CCA) concerns in the Philippine EIS System).

[25] Environmental Impact Statement Regulations (Chapter 2401–61), 1996.

Recommendations

Issue: Entities developing new projects are not required to demonstrate that they have considered the exposure and vulnerability of proposed projects to climate-related disasters.

- **Recommendation 8**. Consider augmenting the Environmental Impact Statement Regulations by introducing a requirement to demonstrate the resilience of a proposed project to natural disasters.

D. Budget Execution

Asset Management

51. Effective monitoring and management of non-financial assets is important for ensuring assets are kept in good condition and deliver the expected returns. Public infrastructure assets play a pivotal role in delivering public services. Without proper management and maintenance, assets may not realize their expected useful life and may require replacement or significant overhaul earlier than planned. All government agencies are required to maintain fixed asset registers (FARs) for stewardship, accounting and accountability purposes.

52. The requirements for maintaining FARs are set out in Section IV of the Property Management Policies and Procedures (Property and Control).[26] Each agency maintains their own FARs and ensures that they are consolidated into the fixed asset module of the Tyler Munis Financial Management Information System (FMIS). An inventory and assessment are undertaken of all assets, every other year, which includes an assessment of condition. The following data is maintained (as appropriate):

- **Identification:** Tag/ID#; Asset class; Asset description (short and detailed); Manufacturer; model; serial #; Vendor (acquired from); Purchase Order #.
- **Accounting:** Cost/Value; Valuation Method; life-to-date cost; depreciation; funding source; acquisition method; date of capitalization.
- **Accountability:** Location (custodian department); responsible organization; condition; date of assessment/inventory; date of next inventory.

53. However, the procedures above do not relate to infrastructure assets. They primarily relate to assets purchased through property and supply division. Currently, infrastructure assets are not included in FMIS FAR. CIP does not maintain any fixed asset systems, FARs or for broader life-cycle asset management, e.g., planning periodic and routine maintenance, life-time costs, details on asset performance, etc.

54. The PFM Roadmap (activity 5) proposes the development and implementation of a more comprehensive asset management framework. This is no small task, especially for infrastructure assets implemented and managed by CIP. Peer countries in the region, including Fiji and the Cook Islands, have made good progress with their asset management frameworks and there would be merit for CIP to reaching out to those counterparts as part of a lesson learning process. The asset management reforms set out below need to be guided by a properly documented framework, and a clear action plan, so developing and approving the framework will be the starting point.

[26] Issued under Executive Order No. 418, September 2018.

55. As part of strengthening the asset management framework, the roadmap proposes the incorporation of climate considerations into the fixed asset data. Climate change is likely to result in increased maintenance requirements in specific sectors while also resulting in increased incidence of disaster-related damage to infrastructure assets. Asset registers should contain information on the exposure of public infrastructure assets and networks to climate change (as well as actual damage to or impairment of assets due to the impacts of climate change) This would include data on the geo-location of assets; hazard mapping of those locations; resilience standard (e.g., Typhoon rating for buildings); replacement costs (including the on-cost of building resilience into assets); cost of climate-proofing assets; climate-aware maintenance costs; and impact of past climate and disaster events (including impairment of asset). Tagging hazards (based on geographic location) to assets can highlight individual assets which are at risk and may need adaptation measures to reduce vulnerability. It can also highlight the total overall value of assets in risk-prone areas, with analysis of assets with and without climate-proofing.

56. Typically, FARs maintain information of original historic cost, which may have little bearing on current replacement costs, especially when building back to resilient standards. Increasingly, countries are including replacement costs in their FARs. Palau will need to determine a methodology for estimating replacement costs, a task which will likely require external TA support. Annual routine maintenance costs should be captured into the FARs, which would provide a benchmark for assessing the adequacy of budget allocations. **Figure 6** below highlights the current data recorded in the FARs and additional data required for climate aware monitoring and management of infrastructure and other nonfinancial assets.

Figure 6. Fixed Asset Register Structure

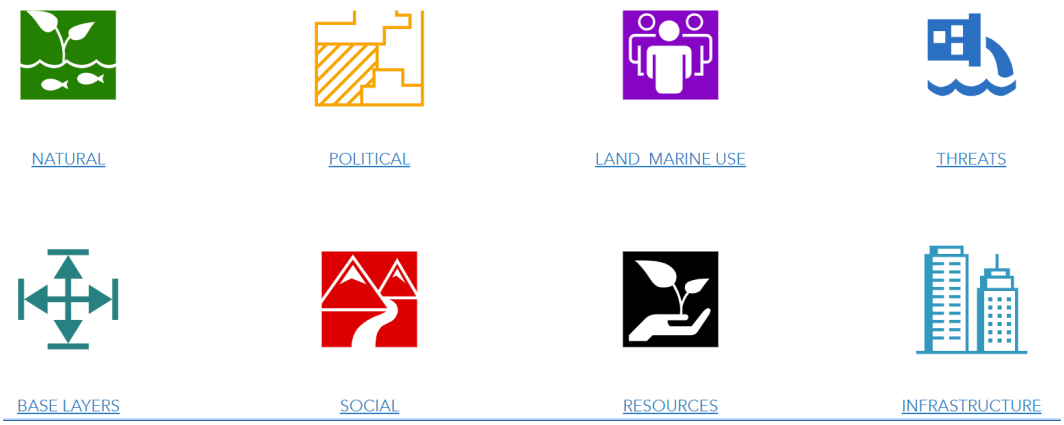
Identification	Accounting	Accountability	Asset Performance
Tag/ID#	Cost/Value	Location (custodian department)	Condition
Asset class	Valuation Method	responsible unit	Geo-location
Asset description	life-to-date cost	date of assessment /inventory	Elevation
Manufacturer	Asset Life	date of next inventory	Surge water levels
Model	depreciation		Hazard Rating
serial #	funding source		Resilience standard
Vendor	acquisition method		Replacement Cost
Purchase Order #	date of capitalization		Cost of Climate-proofing
			Maintenance Costs
			Past event damage

Source: Mission. Green denotes current data, red denotes proposed additional data fields.

57. Geospatial mapping of assets would be based on expanding the data coverage of the Palau Automated Land and Resource Information System (PALARIS). The system is based on the ArcGIS software platform from the Environmental Systems Research Institute (Esri). The Office of PALARIS is within the Bureau of Budget and Planning. A base layer map covering the whole of Palau has been developed with seven other data layers as highlighted below in **Figure 7** to support different user agencies.

58. The layers of primary interest to climate aware asset management are "Threats" and "Infrastructure." Work is still ongoing on data compilation for populating maps and data layers. Work on populating the underlying data is in its early stages. Some mapping of areas prone to sea level rises

Figure 7. Data Layers within PALARIS

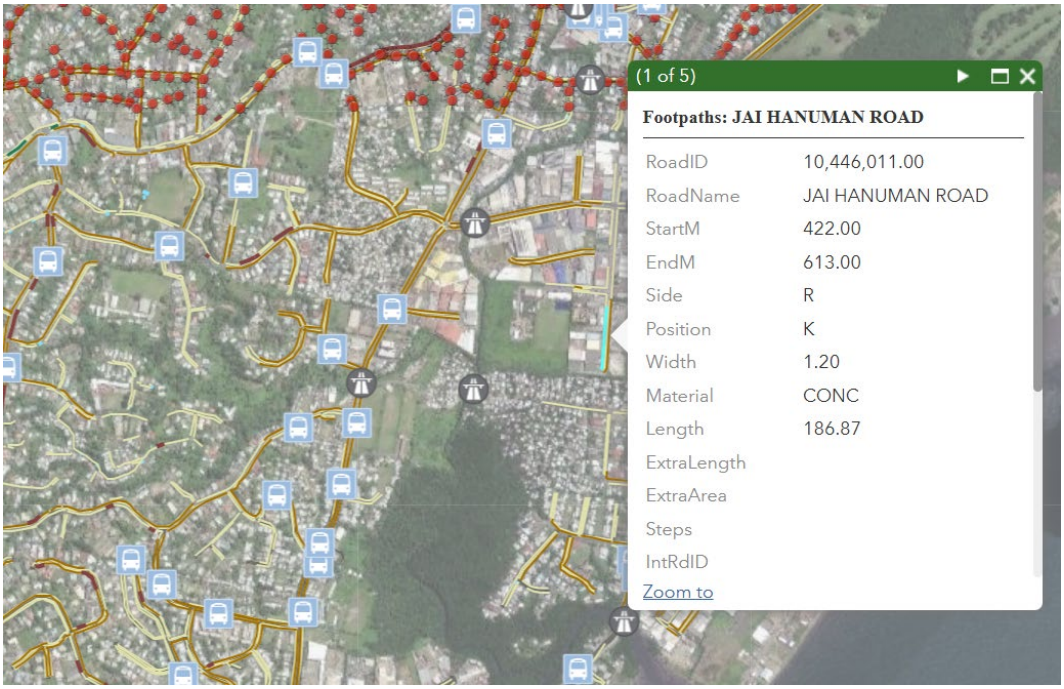


Source: PALARIS website.

has been undertaken but not for storm surges, landslides, and other threats. Little data has been collated and recorded on infrastructure assets. The Cook Islands has implemented LiDAR for mapping its infrastructure assets and has implemented the Roads Asset Management System (RAMS) – these reforms have proved very beneficial. Fiji has mapped its assets using the same ArcGIS software used by PALARIS and is developing an asset management system.

59. The Office of PALARIS is a service provider and is not the owner of the underlying data in the system. CIP will need to determine its own data needs—**Figure 6** gives indicative potential data to be incorporated into fixed asset registers and PALARIS. **Figure 8** below gives an example of how assets can be mapped and data attributes added using the ArcGIS software. PALARIS offers significant potential going forward if planned well and implemented effectively. It is important that this is seen as a shared resource.

Figure 8. Example of Infrastructure Mapping



Source: https://gis.fijiroads.org/portal/home/ (ArcGIS).

60. The next step should be for CIP to develop a climate-aware Asset Management Framework for managing infrastructure assets. PFTAC assistance could be provided to support this initiative. The Framework would encompass the following elements:

- Review all infrastructure asset categories and agree all the data attributes to be collated and recorded.
- Develop a plan for implementing fixed asset registry and management systems.
- Initiate geo-spatial mapping of all infrastructure assets in PALARIS.
- Overlaying climate and other disaster threats data onto the PALARIS infrastructure maps, and record agreed data elements into the system.
- Develop methodologies for asset valuation and determining replacement cost of assets.
- Develop standards and methodologies for calculating routine maintenance requirements.
- Procedures for periodic inventory and condition assessment.
- Continuous data review and quality improvement.

Once operational, this could be extended to cover all other assets.

61. The Asset Management Framework would inform the design of a comprehensive asset management system. CIP would need to clearly specify the system requirements including the data attributes as defined in the framework. PALARIS could be used to assist the stock take and geospatial mapping of assets. CIP would need to work closely with the Office of PALARIS to determine which data is to be maintained in the asset management system and which in PALARIS (or both). The ownership of the infrastructure data in PALARIS lies with CIP. However, CIP will need to work closely with PALARIS and other agencies when recording this data in the system and will likely require external support.

62. The National Disaster Preparedness Baseline Assessment (NDPBA)[27] includes extensive geospatial mapping of exposure of infrastructure assets to various threats. The threats presented include sea level rises; storm surges; tropical cyclones; earthquakes; tsunamis, and landslides. Assets covered in the report include airports; hospitals; power and water supply, communications; hotels; schools; and bridges (amongst others), although no data is shown on roads and culverts. There is a wealth of information in the report, and the data in the underlying geospatial databases would prove invaluable to CIP's efforts in establishing the proposed climate-aware asset management system. It will be important to coordinate all agencies undertaking similar geospatial mapping and work collaboratively, to share data as well as methodologies and approaches to data identification and collation. CIP should engage with PDC, PALARIS, National Emergency Management Office (NEMO), and MAFE, as a minimum.

Recommendations

Issue: Fixed Asset Registers (FARs) lack all the data elements required to manage infrastructure assets effectively.

- **Recommendation 9.1:** Develop and implement a climate-aware asset management framework, with expanded data attributes for effective management of infrastructure assets, including

[27] The NDPBA includes a Risk and Vulnerability Assessment (RVA) which examines several components of risk including hazard exposures, vulnerability, and coping capacity and provides essential tools and data for disaster risk monitoring and aligns recommended actions with the United Nations Sustainable Development Goals (SDGs) and the Sendai Framework for Disaster Risk Reduction 2015–2030.

geospatial mapping and climate exposure, replacement cost, required annual routine maintenance provision, additional costs for climate proofing, and resilience standards.

- **Recommendation 9.2**: MPII/CIP should plan the implementation of an asset registry and management system and engage with PALARIS to initiate geo-spatial mapping of infrastructure assets (starting with the largest asset categories, e.g., roads, bridges, culverts) and agree the data attributes to be tagged against the assets.

E. Capacity and Coordination

63. Climate change creates deep institutional challenges for governments. Climate change adaptation and mitigation impact across the whole economy and all of the public sector (national government, public corporations, state governments). Mainstreaming Paris Agreement adaptation and mitigation initiatives into fiscal policy, the annual budget and PIM cycle is a major challenge. Even within a MoF, complex coordination challenges arise between macro-fiscal policy, fiscal risk management, tax policy and administration, and public expenditure policy and management including PIM. There are new demands for staff capacity in climate change adaptation and mitigation policy design, information and data availability and management, modelling and forecasting, and IT systems. **Box 9** describes some international approaches to strengthening the role of MoF in climate change.

Box 9. Strengthening the Role of Ministries of Finance in Climate Change.

Enhancing engagement on climate change in ministries of finance requires reforming internal institutional and legal arrangements. It involves ensuring dedicated internal capacity and continuity of climate change expertise over time. Different ministries of finance have adopted various institutional approaches based on available resources and mandates. The minimum requirement is to have designated and qualified staff acting as focal points for climate change issues. Larger ministries may create dedicated climate units, while smaller ones may focus on coordination and focal point roles.

Dedicated climate change units within ministries of finance can serve various functions, including advising on policy reforms, coordinating efforts, serving as knowledge hubs, and engaging internationally.

To avoid gaps and ensure effective deployment of capacity, ministries of finance need to assign clear responsibilities for key areas of climate change work. Climate change should be a core responsibility of designated staff.

Ministries of finance need effective processes for internal and external collaboration to tap into relevant expertise distributed across different teams and external institutions. Collaboration is essential for a unified response to climate change. Some country examples include:

- **Fiji:** Set up a Climate Change and International Cooperation Division within the Ministry of Economy to spearhead climate initiatives despite resource challenges.
- **Chile**: Established a Green Finance Unit to drive investments into green assets, promote sustainable development, and advise on climate finance.
- **Uganda:** Established a climate finance unit to coordinate climate action across government ministries and explore financing possibilities.

Ministries of Finance can take specific actions to enhance climate engagement, such as developing explicit mandates, publishing internal strategies, designating clear responsibilities, determining necessary capabilities, and reforming internal institutional arrangements. Coordination with other agencies is essential.

Source: Mission, based on material in Coalition of Finance Ministers for Climate Action, 2023, Full Report, pp. 180–186.

64. It is crucial for Palau to improve coordination and enhance human capacity to implement these reforms. Although there is a relatively good level of awareness on climate change considerations within the public sector, there is a general lack of climate expertise. Noting that climate knowledge is currently concentrated in OCC, fostering climate awareness among agencies and institutions and developing the capacity to assess and analyze climate impacts of fiscal policies and investment decisions should be a priority to kickstart a green PFM reform process. Reforms and capacity building will also require strong coordination between MoF and OCC and with MAFE, MPII, NEMO, PALARIS more broadly. Training activities should be focused on increasing capacities to apply new regulations and guidelines. The use of external consultants should be carefully considered and always with a view to ensuring that new processes are internalized.

Annex A. Palau Green PFM Action Plan [28, 29]

Recommendations	Actions			Responsible Agency	Reform Priority	PFM Roadmap Action Plan ID
	FY 2026/2027	FY 2027/2028	FY 2028/2029 and beyond			
Issue: There is limited discussion of climate change in the 2021–2024 Fiscal Strategy.						
1. Incorporate key climate change priorities and strategies for achieving them in the 2025-2028 Medium Term Fiscal Strategy	Integrate in the current draft FS key climate change adaptation and mitigation priorities, goals and targets, their relationship with the government's economic growth strategy, and include discussion of the links to the PDP, how government intends to align budgets with plans, and actions it will take to reduce and manage the fiscal risks from climate change. Publish by 2026 Q-3			MoF OCC	**High**	New

[28] In addition to the Green PFM Action plan, it is recommended that Palau implement the remaining actions in the PFM Roadmap and Action Plan to underpin the climate-related reforms outlined in this report. Without progress on the fundamentals, the integration of more advanced climate change considerations into PFM and PIM procedures is unlikely to be successful.

[29] Capacity needs to be built in MoF, OCC, MAFE, MPII, PALARIS, and & other institutions prior to and during implementing these measures to allow efficient monitoring of proposed measures. These recommendations will require a significant effort in terms of capacity building for staff across government (particularly within the MoF and OCC), and in the development of new tools and methodologies. In some cases, this may require external technical assistance support. Overall, successful transformation of PFM and PIM processes to reflect the demands of a changing climate will require strong coordination between – and commitment from – the budget, planning, and climate change offices.

Issue: There is no annual contingency appropriation in the national budget to meet the costs of smaller regular disasters, while there are potential gains from analyzing the level of protection in place to meet the fiscal impacts of major disasters and the interactions between the different instruments.						
2.1. Introduce an annual contingency line in the annual national budget to meet unexpected and unavoidable expenditures introduce.	Analyze, design, consult, obtain necessary approvals to establish a small annual contingency line in the budget for the 2027/28 budget year.	Implement, and report on use		MoF	Medium	New
2.2. Develop a phased Disaster Risk Financing Strategy with external support.	Conduct the analysis and provide recommendations.	Make policy decisions and start implementing the strategy.		MoF	Medium	12
Issue: The transition to increased renewable energy production in Palau is creating significant fiscal risks that require a whole of government policy response that includes electricity sector regulation, investments by PPUC, public investment spending, subsidies, and the activities of the NDBP.						
3. In the short term, seek external TA support for the design of an effective and efficient policy package to steer the current transition to renewable electricity.	Prepare TOR and obtain expert report in FY 2025/26. Develop a policy package.	Assess and decide on recommendations and start implementing in 2025/26.		MoF PEWA	Medium	New
Issue: The potential impact of various government initiatives (revenue, policy, spending initiatives) on climate change goals are not systematically assessed.						
4.1. Require that annual performance reports (plans) articulate how the planned activities of each agency will contribute to the goals outlined in the PDP and the national climate change policy and impacted by climate change.	President issue a directive regarding the revised content of the annual performance reports, to include enhanced planning and consideration of PDP and climate change policy.	Agencies prepare annual performance reviews in accordance with budget calendar. Revised performance reviews to be included with budget submissions showing impact of proposed new policies and	Agencies prepare annual performance reviews in accordance with budget calendar. Revised performance reviews to be included with budget submissions showing impact of proposed new policies and projects on planned performance.	MoF OCC and all spending agencies	**High**	2.4, 2.5, 6.1

		projects on planned performance.				
4.2. Amend budget call circular and forms to require that submissions articulate how prospective new policies and projects will impact on agency performance, including impacts on climate change policy.	Amend call circular and use for the 2027–28 budget process	Ongoing	Ongoing	MoF	**High**	2.4, 2.5, 6.1
Issue: The limited coverage of the budget contributes to the weakness of the budget process in coordinating responses to climate change.						
5. Expand the coverage of the budget (and associated consideration of climate impact) by mandating that all new funding requests (involving all prospective funding sources) be assessed through the budget submission process according to the budget calendar.	Amend call circular to require all prospective funding of new activities and projects (from all funding sources) to be subject to the budget submission, review and approval process. 2027–28 budget process and beyond.	Ongoing	Ongoing	MoF	**High**	New
Issue: The manner in which various actions are being coordinated (and funded from numerous sources) is not well articulated.						
6.1. Implement a basic system of climate budget tagging by keeping a spreadsheet which assigns a tag based on an assessment of the impact of individual projects on climate change goals.	Undertake a preliminary tagging process involving a one-off review for tagging existing projects and ex-post review of projects funded in 2026/27 budget.	Building the tagging process into the budget process, based on information provided in budget circulars and analysis and discussions with OCC and respective budget activity.	Ongoing	MoF with OCC	Medium	New

6.2. Prepare and publish a green budget statement, and a budget book with details of agency-level goals and spending, which articulates the government's climate change policy goals, its approach to green PFM and elaborates on the polices, projects and any other interventions supported by the budget to realize these goals.	Include with the document published with the 2027–28 budget a simple statement of government climate change policies and the policies and projects funded in the budget – utilizing the ex-post tagging exercise. Prepare ex-post a mock-up of how a budget estimates book would be framed based on the approved 2026–27 budget (not published).	Further develop the content of the budget estimates book and the budget climate change statement to include all funding sources and drawing on the additional analysis (and tagging) done for the 2027–28 budget process.	Ongoing	MoF OCC	Medium	2.1
Issue: Entities developing new projects are not required to demonstrate that they have considered the exposure and vulnerability of proposed projects to climate-related disasters.						
7. **Consider augmenting the Environmental Impact Statement Regulations by introducing a requirement to demonstrate the resilience of a proposed project to natural disasters.**	Assess the merits of the proposal and, if warranted, consult and prepare an implementation plan.	Obtain necessary legal authority and prepare implementation plan for 2027/28 and beyond.	Implement	EQPB OCC	Medium	6.1.
Issue: Fixed Asset Registers (FARs) lack all the data elements required to manage infrastructure assets effectively within the context of climate change and natural disasters.						
8.1. Develop and implement a climate-aware asset management framework		Review infrastructure asset identification modalities	Contract assistance to value assets	MPII, PALARIS, MoF		5

		Establish methodologies for valuing asset replacement costs and climate proofing costs Develop a methodology for determining appropriate maintenance allocations Engage with PALARIS, NEMO, PDC for lessons learned in populating asset and threats data	Develop standards for determining appropriate maintenance allocations		**High**	
8.2. MPII/CIP should plan the implementation of an asset registry and management system.		Informed by the above, prepare system requirements for asset management system	Procure asset management system, initiate implementation Inventory of Assets - record: ▪ Asset ID# ▪ Geographic coordinates ▪ Elevation ▪ Asset condition ▪ Exposure to climate/disaster threats ▪ Additional costs for climate proofing assets ▪ Resilience standards (e.g., typhoon resistance ▪ Construction material Update data in Asset Management System and PALARIS	MPII, Bureau Public Works, CIP PALARIS		N/A

Annex B. Template for a Green Budget Circular[30]

REPUBLIC OF PALAU
OFFICE OF THE PRESIDENT

SURANGEL WHIPPS, JR.
President

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XXX, 2025
Serial No.: XXX

Fiscal Year 2026 Budget Call

In accordance with 40 PNC 922, as amended, the fiscal year 2026 Budget Call is hereby issued to all budget activities. The purpose of the Budget Call is to inform all budget activities to prepare and submit their fiscal year 2026 budget proposals. Budget activities to which this Budget Call applies are the three branches of the National Government including all Ministries, the Public Auditor, the Special Prosecutor, and all Boards, Commissions and Authorities. The minister or other official in charge of each budget activity is responsible for ensuring the completion and submission of budget requests.

All Executive Branch activities, including boards, commissions and authorities are hereby directed to develop fiscal year 2026 budgets at the fiscal year 2025 budget authority level. In that regard, budgeted activities are advised to prepare their budget requests only if they are requesting funding levels above their current budget authority or to reallocate their budget appropriation. It is not necessary to prepare budget requests if the same funding level and distribution is maintained. All budget activities are advised that fiscal year 2026 budget requests may still be subject to adjustments to align proposed expenditures with anticipated revenues. All proposed new projects that commence in fiscal year 2026, involving any potential funding sources and for which funds are yet to be appropriated, are to be included in budget submissions. Funding will be allocated to projects from various funding sources in the context of this budget process.

With so many uncertainties associated with global prospects for sustained economic recovery from the pandemic and the effect on our recovery efforts, the foundation for the fiscal year 2026 budget preparation is based on our ongoing efforts to contain our operating costs while at the same time undertaking economic recovery measures. This will help us improve our cash flow and maintain a budget reserve against emergencies and delayed economic recovery. We have exercised fiscal responsibility and made important structural adjustments that will position us to sustain our recovery efforts and we must hold steady. We are all committed to delivering a budget that will promote services responsive to the needs of our people within available resources.

Your prepared budgets must incorporate our vision of "A Kot a Rechad er Belau" that assures strengthened accountability and People-focused. It must reflect national priorities as identified in the National Master Development Plan (NMDP) including sector or program strategic plans ~~such as the National Climate Change Policy Framework (CCPF) Priority Interventions, Nationally Intended~~

[30] All text highlighted in red represents suggested additions to what the authorities already have in place.

~~Contributions (NDC)~~, Education Master Plan, ROP Non-Communicable Disease Prevention and Control Strategic Plan of Action, Disaster Risk Management Framework (DRMF), National Youth Policy and Implementation Framework, Koror Babeldoad Resilient Urban Development Strategic Action Plan (KBRUDSAP), Fiscal Responsibility Framework (FRF), Palau Development Plan (PDP), and the National Infrastructure Investment Plan (NIIP). These plans are aimed strengthening our Palauan workforce, protecting our livelihoods, ensuring our security and safety, investing in our children, and taking care of our health and social services and your budgets should allow for consistent implementation.

Climate Change is an issue on national significance, requiring particular attention in planning and budget preparation to ensure that all actions reflect National Climate Change Policy Framework (CCPF) Priority Interventions, and Nationally Intended Contributions (NDC) as well as prioritized climate actions identified in the Palau Development Plan. Budget submissions require analysis of the impact of all proposed new activities and projects, including those for which impacting climate change goals is not the primary objective. The Bureau of Planning and Budget and the Office of Climate Change are available to assist in assessing the potential impacts of new activities and projects on climate change goals.

Your prepared budget must also ensure that resources are directed toward the enforcement of applicable laws; improving communications and cooperation among agencies; enhancing facility and equipment maintenance capacity; and developing and establishing management information systems to provide outcome information in line with the performance reporting requirements of 40 PNC *371.

Your proposed budget must support defined priorities, restructure programs as necessary to improve services relative to those stated priorities, and improve efficiency. You must be aware of what you can do at your funding level. A current draft Performance Reports is required to be included with each submission. This requires that you clearly identify your fiscal year objectives including identifying what services and at what level, can be provided and what services that is not mandatory will not be provided in view of your funding resources. The fiscal year 2026 budget will continue to present us with tough choices and your cooperation in the next few months is essential to our success in developing a budget that assures meaningful efforts to achieve desired outcomes.

Ministries are directed to prepare their operating budgets at the bureau level. Ministries are also directed to submit separate budgets for any other on-going budget activities within the ministry that were separately funded. Ministries with new program areas or program initiatives may reallocate their budget resources as necessary provided that the total budget requested does not exceed the fiscal year 2025 budget allocation for the ministry and programs. All fiscal year 2026 budget submissions are required to use the budget preparation templates available from the Bureau of Budget and Planning ("Budget Office").

The Olbiil Era Kelulau and the Judicial Branch are requested to utilize the budget worksheet templates. Budget activities receiving grants or subsidies including State Governments and non-government organizations, and education assistance to Palau Community College and non-public schools, are requested to utilize the budget worksheet template as well for requesting additional funding support.

Budget submissions must be prepared electronically and can be submitted to Budget Office via email at delory@palaugov.org. Please call the Budget Office at 767-1269 if you need assistance in the completion of budget worksheet templates or for other budget information. The due time and date for submission of all completed budget requests is Thursday, 01 May 2025, by 5:00p.m. Any activity that fails to submit completed budget worksheet template by the deadline shall have its budget prepared by the Budget Office at the President's discretion, in accordance with 40 PNC 922, as amended.

Thank you for your cooperation and let us work together to ensure a budget that is responsive to the needs of our people and that keeps us on track toward long-term fiscal sustainability.

Annex C. Template for a Budget Submission Form Incorporating Green Considerations

Suggested changes marked in red

FY 2026 NEW FUNDING REQUEST

Budget Activity: _____

Date: _____

Please refer to the Medium Term Strategic Planning Manual and the Budget Manual for guidelines on completing this template.

Section A. Summary Information

Title & Contact Information	
Program/Project/Activity Title: _____ Submitted by: (Bureau/Division) _____ Program/Project Location: _____	Contact Name: _____ Phone: _____ Email: _____

Status (Carryover/Expansion/New)	Start – End Fiscal Year	National Priority Reference	FY2025 Estimated	FY2026 Request	FY2027 Forecast	Total Project Cost

Program/Project/Activity Description

Program/Project/Activity Justification
Program/Project /Activity Objective(s)
Program/Project/Activity Outcomes
Program/Project /Activity Outputs

Impact of project/activity on Agency-level performance goals

FY2025 Status (for ongoing Program/Projects)	**Expenditure Estimate in FY2026**
	Budget: _____ Expended: _____ Unused: _____
Outputs/Activities FY2025	Estimated Cost

Recommended Funding Sources (new projects)	FY2026	FY2027	FY2028	Total
Local				
COFA				
Taiwan				
Other Donor				
Debt				
PPP				
Total				

Expenditure Category	FY2026	FY2027	FY2028	FY2029	FY2030
Per Serv 10-11					
G&S 12-16					
Cap Exp 31					
[expand to include recurrent items]					
Total					

Status: Design, Scoping & Costing	Status: M&E Framework Design	Planned Implementation Timeframe

SECTION B: Outline of the Program/Project/Activity

1. Development Objective

1.1 What is the overall objective of the Program/Project/Activity?

1.2 What national priority does the Program/Project /Activity addressee?

2. Program/Project Description

2.1 How was the Program/project /Activity identified and designed? Who was involved in the planning?

2.2 Have Community representatives, technical advisors and other stakeholders of this Program/project/Activity been consulted?

2.3 What is the problem that the Program/Project tries to address? Are there other options to address this problem?

2.4 How will the Program/Project address the problem and achieve its objective? Describe in detail the:

1. Impact:
2. Objective:
3. Outcome:
4. Outputs:

3. Program/Project/Activity Benefits (Justification)

3.1 Who will benefit from the Program/project/Activity? (e.g. number of women, youth, community organisations, etc). How will they benefit (e.g. social, economic & environmental benefits)?

3.2 Does the Program/Project/Activity address national priority development priorities?

3.3 Does the Program/Project/Activity contribute to goals set out in the climate change policy, national adaptation plan and nationally declared contributions?

4. Technical Aspects

4.1 Have other alternative approaches been considered in delivering this Program/project/Activity? If not specify why this approach was chosen?

5. Project Sustainability (for capital projects only)

5.1 Who will own and be responsible for any assets (infrastructure, equipment & materials) that come out of the Program/project? Who will sustain the Program/project in the future?

5.2 What are the resourcing/cost contribution made by the budget activity?

5.3 Specify all operating costs (e.g. teacher's wages, routine road maintenance) that will be required to maintain goods and service delivery **after** Program/Project completion in the table below:

Component	FY2026	FY2027	FY2028
Personal Services			
Goods & Services			
Capital Outlay			

6. Risk Management

(a) What are the risks of the Program/Project/Activity? How can these risks be overcome or managed? (include any potential risks associated with climate change)

Risk	Likelihood: H/M/L	Risk Mitigation	Responsibility	Timeframe

7. Procurement

7.1 How will the Program/Project /Activity undertake procurement? Is public tender planned? Who will be responsible for the public tender?

7.2 Does the budget activity have capacity to implement?

8. Monitoring & Evaluation

8.1 Has the designs and scopes of the Program/Project/Activity been done?

8.2 Has a results framework been prepared and approved by Ministry of Finance?

9. Cross-cutting Issues

9.1 What impact will Program/Project/Activity have on the environment? Has an Environment Impact Assessment been undertaken for new capital projects and approved by the authorities?

9.2 Have the potential impacts of sea level rise and natural disasters been taken into account in the design of the program/project/Activity?

9.3 Will the program/project/Activity impact on the resilience of infrastructure or communities to the impacts of climate change?

9.4 Is the program/project /Activity expected to increase or reduce the greenhouse gas emissions of Palau?

9.5 Is climate change mitigation or adaptation the primary purpose of pursuing this project/Activity (yes/no)?

9.6 What impact will the Program/Project/Activity have on gender issues? Example, how will the women benefit? Are there any steps taken to encourage participation of women and men? Will the Program/Project /Activity have impact on youth? How will outlying and remote States benefit

9.7 Does the Program/Project/Activity address sustainable development issues? What is its impact to the beneficiaries and community as a whole?

Annex D. Template for a Green Budget Statement

Green Budget Statement

[The green budget statement should summarize the governments goals regarding climate change, the strategic policy goals it is pursuing in the current budget and identify the specific initiatives that are being supported by the budget, including a summary of relevant performance targets.]

Climate Change Commitments

[Outline of high-level policy and commitments, including international conventions and commitments]

Recent Performance

[What has been the highlights of the government's recent performance in addressing mitigating and adapting to climate change]

Climate Change Strategy

[What are the key policies and approaches that the government is pursuing within the timeframe of the budget to mitigate and adapt to climate change]

Initiatives 20XX/XX Budget

[Identify/list the key initiatives being funded in the budget to address climate change issues}

Planned Performance

[Nominate the key performance indicators related to climate change, this could include for example target levels of GHG for the government as a while and/or key sectors]

Annex F. Climate Change Adaptation: Key Concepts and Terms

All countries face significant costs of adapting to a changing climate to avert or reduce the impacts of future climate-related disasters – especially developing countries, which are more reliant than high income countries on nature and have lower adaptive capacity.[31] To manage these risks well, climate change adaptation should be an integral part of a country's sustainable development strategy, not a separate agenda.[32]

When assessing the risks to public infrastructure from climate-related hazards, the following terms and concepts are the core building blocks:

Adaptation to climate change: actions to reduce vulnerability to the effects of climate change.

Hazard: the potential occurrence of a physical event or trend associated with climate change. Hazards may include sudden impact events such as typhoons, heatwaves, floods, and droughts, slow-onset hazards such as sea level rise and increasing temperatures, or compound hazards e.g., typhoon, storm surge, high tide. Hazards can be described quantitatively by the likely frequency of occurrence of different intensities or above a certain threshold, for different areas, as determined from historical data or scientific analysis.

Exposure: the presence of physical infrastructure assets in places that could be adversely affected by climate-related hazards; and risks arising from interactions between physical public investment assets and climate-related events and disasters, e.g., the exposure of a highway to damage from flooding. Exposure is a necessary, but not sufficient, determinant of risk. One can be exposed to certain risks without being vulnerable, such as residing in a floodplain while possessing adequate flood defences. However, to be vulnerable to an extreme event, it is necessary to also be exposed.

Vulnerability: with respect to public investment, this refers to the characteristics and circumstances of a public investment asset that make it susceptible to the damaging effects of a hazard.

Resilience: with respect to public investment, the ability of an asset or network exposed to hazards to resist, absorb, accommodate, and recover from the effects of a hazard in a timely and efficient manner, including through the preservation and restoration of its essential basic structures and functions.

Risk mitigation: with respect to public investment and climate change, refers to actions to reduce the exposure of public investments to climate-related hazards, or to reduce the vulnerability of public assets to hazards. The process of identifying, analysing, and managing hazards, exposure, and vulnerability, tolerating, or transferring risks, and reporting.

Infrastructure: nonfinancial fixed assets, including economic and social infrastructure. Social infrastructure supports the provision of public services such as schools, hospitals, and public housing. Economic infrastructure supports economic activity with telecommunication networks, transportation assets (such as roads, railways, canals, ports, and airports), water and wastewater pipes and treatment plants, and electricity production and transmission.

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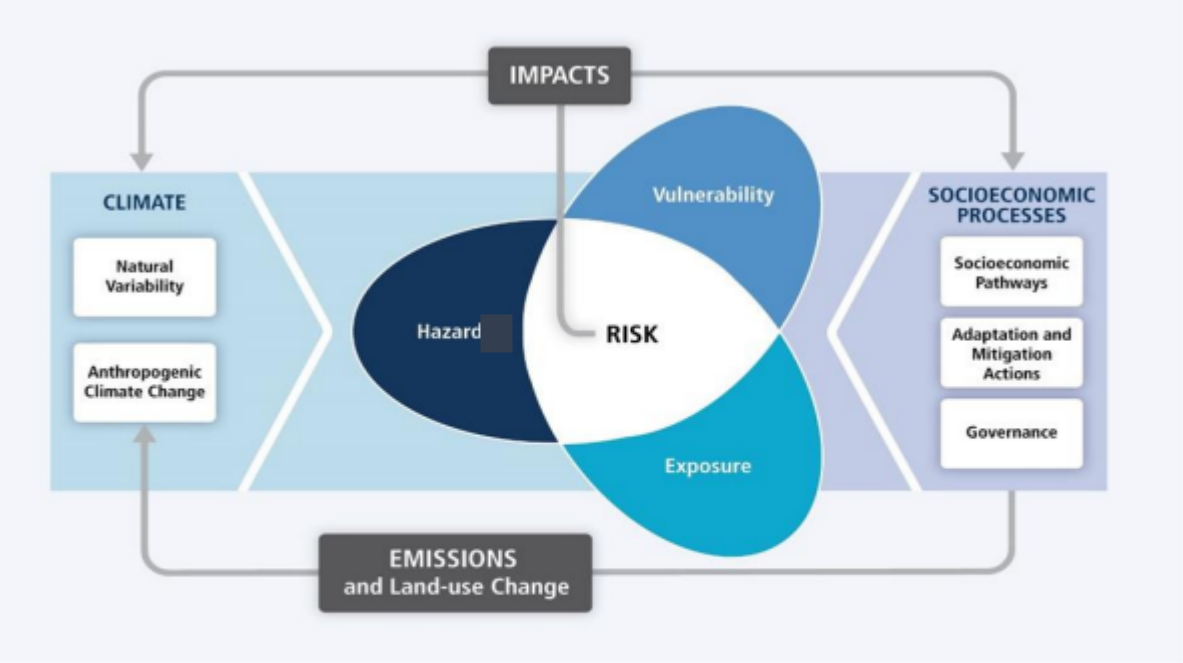
[31] H.M. Treasury, 2021. The Economics of Biodiversity: The Dasgupta Review. Final Report of the Independent Review on the Economics of Biodiversity led by Professor Sir Partha Dasgupta. 2 February 2021.

[32] H.M. Treasury, 2006. The Economics of Climate Change: The Stern Review. 30 October 2006.

Figure 1 illustrates these core concepts, and climate risk as the intersection between hazard, exposure and vulnerability.

Figure 1: Core Concepts of Climate Change Risk[33]



Source: Intergovernmental Panel on Climate Change (IPCC), Fifth Assessment Report (AR5) Climate Change 2014: Impacts, Adaptation and Vulnerability, Summary for Policymakers

Adaptation actions can be either *incremental adaptation* – actions where the aim is to maintain the essence and integrity of a system, e.g., retrofitting infrastructure to higher standards; or *transformational adaptation* – actions that change the fundamental attributes of a system in response to climate change and its impacts, e.g., relocating an infrastructure asset.

Note that adaptation costs may be the full cost of a new asset, or, more commonly, the *incremental cost* of building an asset that is more resilient to expected climate change. Some public infrastructures are pure adaptation projects: the total cost of building a new sea wall may be attributed to the need to adapt to rising sea levels. In most cases, however, adaptation costs are incremental (i.e. the additional costs of constructing more resilient infrastructure), not the full cost of the new asset. One estimate based on international research is that to climate proof existing and strengthen new exposed infrastructure adequately adds on average 15 percent to the cost, although the costs vary widely across asset types and countries.[34] It is important to recognize this, and to avoid counting the *total* cost of climate-related public investment projects as being due to climate change.

Care must be taken to avoid *maladaptation* – an action that may lead to increased risk of adverse climate-related outcomes, increased vulnerability to climate change, or diminished welfare, now or in the future (IPCC) e.g., building new public infrastructure in locations that are exposed to increased

[33] From Figure 3, p. 15, 'Accounting for the effects of climate change: Supplementary Green Book guidance,' May 2024. UK Department for Environment, Food, and Rural Affairs.

[34] Miyamoto International, 2019.

incidence and/or severity of natural disasters (and possibly thereby also encouraging new private investment in those locations). Maladaptation already exists with respect to the current climate in many (especially developing) countries e.g., failure to fully repair public assets from the impacts of past climate-related disasters.

There is growing consensus that the benefits of adaptation can be large, with benefit cost-ratios as high as 100–900 per cent.[35] Some analysis has also been conducted of broad adaptation strategies, for example, to expected sea level rise – no adaptation, building of protective infrastructure, or managed retreat from the coast.

[35] Bellon, M, and E. Massetti, 2022. Economic Principles for Integrating Adaptation to Climate Change into Fiscal Policy. IMF Staff Climate Notes, 1 March 2022.